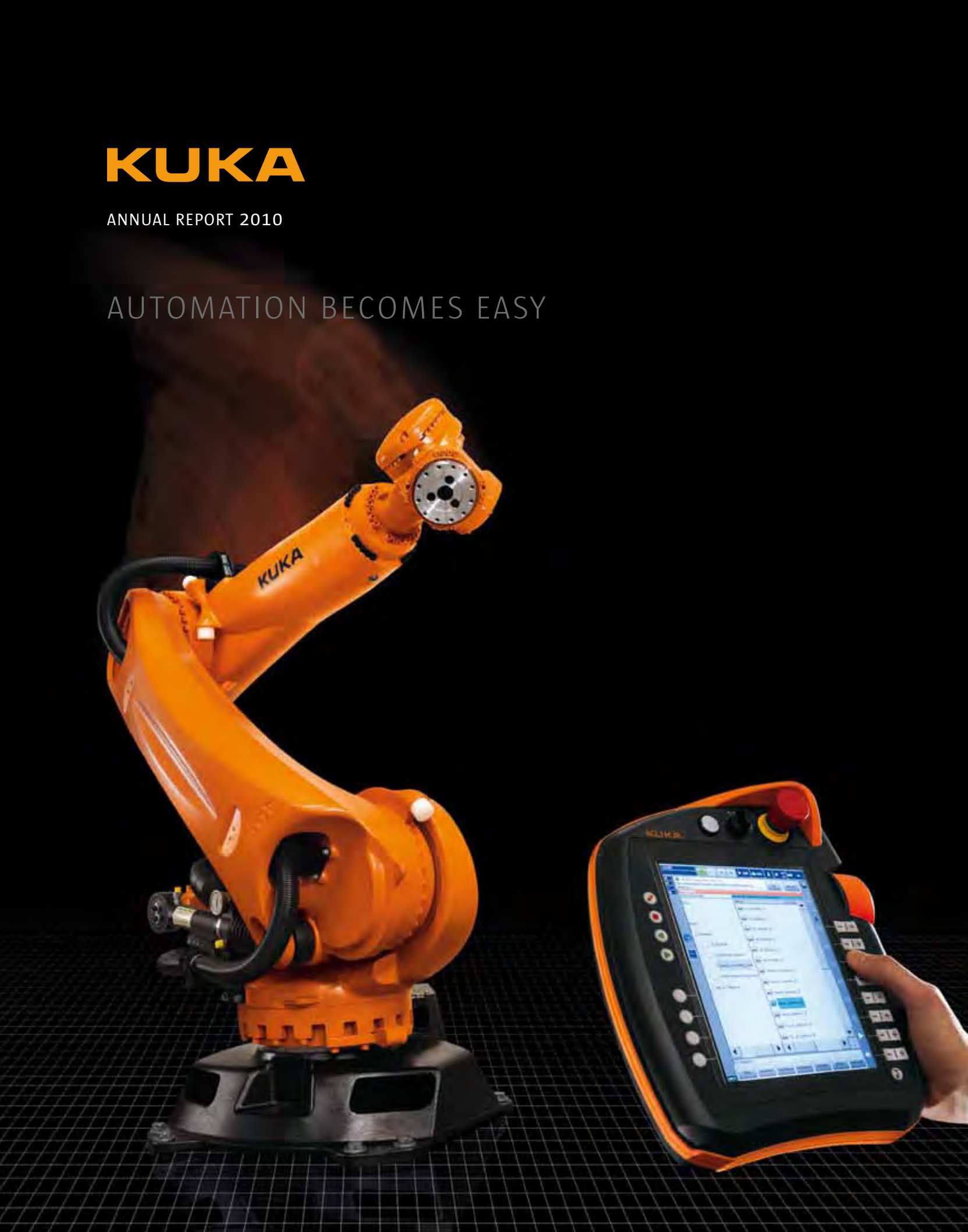
KUKA

ANNUAL REPORT 2010

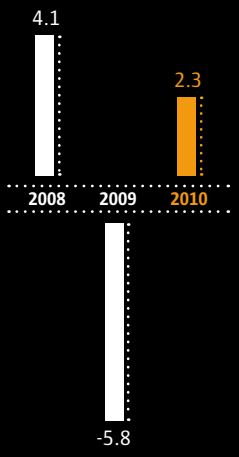
AUTOMATION BECOMES EASY



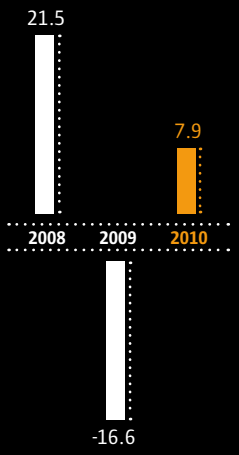
KEY FIGURES

in € millions	2009	2010	Change in %
Orders received			
Robotics	324.3	486.2	49.9
Systems	615.4	716.8	16.5
Group	903.3	1.142.3	26.5
Sales revenues			
Robotics	330.5	435.7	31.8
Systems	605.5	695.3	14.8
Group	902.1	1.078.6	19.6
Order backlog (Dec. 31)	**543.5**	**630.5**	**16.0**
EBIT			
Robotics	-11.5	20.8	–
Systems	-28.8	20.0	–
Group	-52.6	24.8	–
EBIT in % of sales			
Robotics	-3.5	4.8	–
Systems	-4.8	2.9	–
Group	-5.8	2.3	–
Earnings after taxes	**-75.8**	**-8.6**	**–**
Financial situation			
Free cash flow	-22.2	-37.3	–
Capital employed (annual average)	317.5	312.5	-1.6
ROCE (EBIT in % of capital employed)	-16.6	7.9	–
Capital expenditure	27.2	15.4	-43.4
Employees (Dec. 31)	5.744	5.990	4.3
Net worth			
Balance sheet total	726.2	984.7	35.6
Equity	160.8	198.1	23.2
in % of balance sheet total	22.1	20.1	–
Share			
Number of shares (in millions)	25.7	30.3	17.9
Earnings per share (in €)	-2.95	-0.28	–
Market capitalization (Dec. 31)	350.0	548.0	56.6

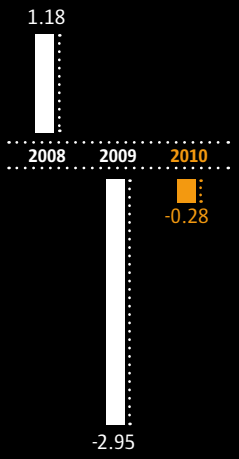
EBIT MARGIN in %



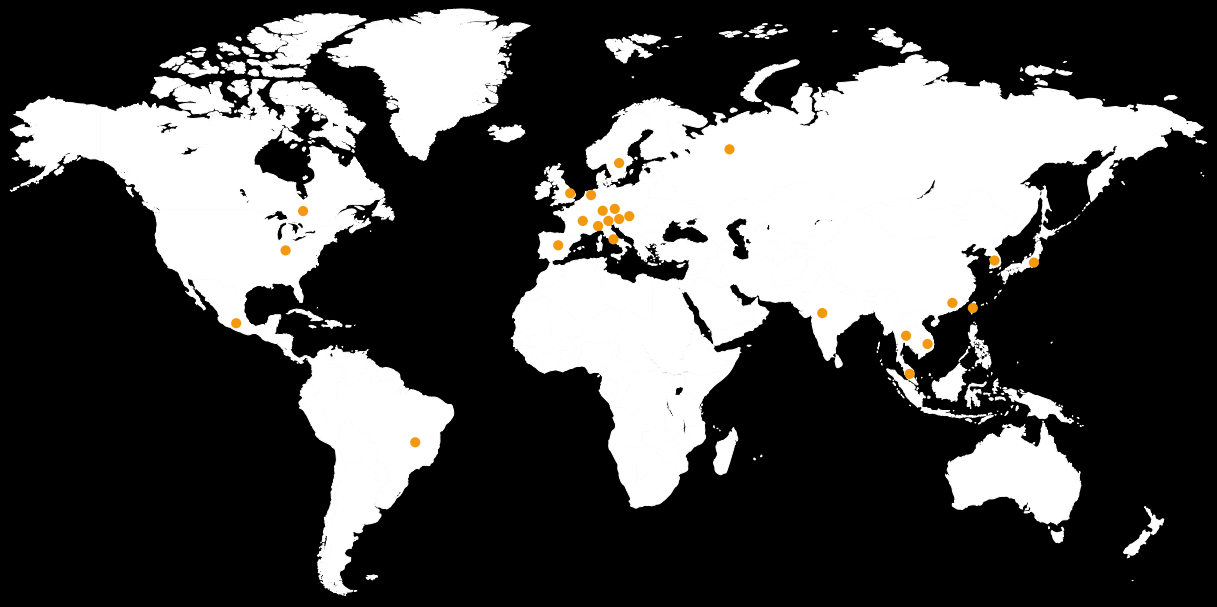
ROCE in %



EARNINGS PER SHARE in €



KUKA AROUND THE WORLD



NORTH / SOUTH AMERICA

Brazil
Canada
Mexiko
USA

EUROPE

Austria
Belgium
Czech Republic
France
Germany
Great Britain
Hungary
Italy
Russia
Slovakia
Spain
Sweden
Switzerland

ASIA

China
India
Japan
Malaysia
South Korea
Taiwan
Thailand
Vietnam

SALES REVENUES 2010

30 % AMERICA

57 % EUROPE

13 % ASIA

AUTOMATION BECOMES EASY

KUKA automates manufacturing processes. Using KUKA robots as a core component, we develop and market stand-alone machines, robot cells and entire robotic systems that help our customers achieve superior product quality and improve plant productivity. Our customer focus and innovation strength have made us the technology leader in our markets. Our aim is to grow profitably and enhance the value of the company, in both our core activity automotive, and especially in existing and emerging general industry markets such as solar and aircraft, as well as the medical systems, logistics, metals and plastics sectors.

KUKA

KUKA ROBOTICS

KUKA Robotics' core competence is in the development, manufacturing, sales and service of industrial robots suitable for any application and any industry sector, in addition to linear units, positioners and mobile platforms.

KUKA SYSTEMS

KUKA Systems offers its customers in the automotive industry and other sectors (general industry) robot-based automation solutions. As general contractor, the division designs and builds customized production lines. The division has core competencies in processes such as welding, gluing, sealing, converting, assembling, testing and handling of metals, glass and other materials.

DR. TILL REUTER
Chief Executive Officer

Dear Shareholders,

At the beginning of last year, it was very difficult to foresee how the economy would evolve. But one thing was clear: 2010 was to be a year of transformation for KUKA - a year in which the company would build a base for sustainable profitable growth. This is precisely what we achieved.

Outlook surpassed and costs reduced

The business numbers for the financial year just ended are quite impressive. Sales were up 19.6 percent, exceeded the € 1 billion mark and thus came in higher than had been forecast at mid-year. Earnings before interest and taxes (EBIT) increased and ended at € 24.8 million for the year overall. It thus beat the target range of € 10 to 20 million.

In parallel, we worked rigorously on cutting our costs. We took advantage of the market weakness of the past few years to examine our business processes and subsequently reengineered our organizations. Here too we were successful: Over the past two years we have been able to generate recurring savings of nearly € 70 million. We will see the full impact in 2011.

Financing now on solid ground

We injected over € 70 million of fresh capital into the company. This represents a milestone in securing KUKA's long-term financial independence. We recapitalized twice, in June 2010 and in November 2009, thus strengthening our equity position.

In addition, we were for the first time able to place a corporate bond in November 2010 – a clear sign that the capital markets continue to support us. We used the bond revenue of about € 200 million to refinance the still outstanding convertible bond, partly pay down the current Syndicated Senior Facilities Agreement and for investments in the operating business.

Automotive industry demand picks up first

In 2010, the operating business was dominated by the strong demand from the automotive industry, which recovered very quickly after the economic crisis. The robot business set a new orders received record. In the fourth quarter, KUKA Robotics exceeded the threshold of 10,000 industrial robots ordered, a number never previously achieved. For many years, we have been seen as a reliable partner by the major carmakers. We want to expand this position. The large number of planned new model vehicle launches in the coming years will stimulate our growth accordingly. We are also well prepared for future trends, such as electrically driven cars and vehicles based on lightweight concepts that require the use of new composite materials. This will not be possible without robotics technology.

In addition to the automotive industry, our core business, we have successfully penetrated sectors outside the carmaking sector: general industry. KUKA's expertise is in demand wherever robot-based automation solutions improve the efficiency and flexibility of manufacturing systems, whether it be for mechanical OEMs or the health care, aviation, food, solar or plastics sector.

BRIC nations' growth above average

Regionally, we are focusing on the emerging markets such as Brazil, Russia, India and China, the so-called BRIC nations. In the second half of 2010, we received, among other things, a series of large orders from the automotive industry, which is building new production systems there. We see great potential in these countries; also in general industry, because industrial automation is still in its infancy in all emerging markets. It is for this reason that we are expecting above average growth in the BRIC nations in the coming years, and are aligning our operational capacities accordingly.

Expanding technology leadership

We reinforced our technology leadership position with the market launch of the new generation of industrial robots, QUANTEC with KR C4, at the world's largest robot trade fair AUTOMATICA last year. The interplay between the mechanics, controls, user interface and programming of this series is unique. This product sets new standards, and our customers will reap considerable benefits. Already this year, we are planning to generate up to thirty percent of our industrial robot sales with this new generation of industrial robots.

In order to strengthen our innovative capability, we bundled certain research and development activities in the Advanced Robotics business unit last year. This unit, which has been working as an independent company since January 2011, is named KUKA Laboratories, or KUKA Labs, and will develop new applications and open the door to future markets.

The sensitive lightweight robot also represents a milestone in robotics. KUKA Labs is working toward getting it ready for market. Because it responds to touch it is not restricted to safety zones and is thus able to move about independently. The lightweight robot is thus suitable for use in cooperation with and on humans. In future, it will help us more and more, both at work and at home.

Robots are also performing new tasks in the health care field. They help perform diagnostics, treat patients and can be used for physiotherapy. KUKA has already established a name for itself in areas such as patient positioning and imaging while x-raying - with industrial robots. Together with research institutes, we are now working hard on developing new health care applications based on the new lightweight robot.

Divisions again contributing to earnings

One and a half years ago, we began to transform KUKA into an engineering company with a strong innovation capability and earnings potential. The strategic and operative directions have now been set: KUKA is focusing on its core strength, automation, in both the automotive sector and general industry. The Robotics division returned quickly to its growth track in 2010. We will continue to develop the Systems division so that it will make a greater contribution to the Group's earnings. In the past eighteen months, we demonstrated that we can quickly and systematically execute our strategy and achieve our targets. That is why KUKA is back on track and once again growing profitably. We want to harvest the fruits of our labors in the coming years.

This change process was and is a feat of strength for the company. Without the trust of our customers, business partners and shareholders, this progress would not have been as impressive. The strong commitment of our employees in particular deserves the highest recognition. For this I would like to thank all contributors, also on behalf of my Executive Board colleague Stephan Schulak. We all have reason to be optimistic about the future and will be happy if you accompany us on this journey.

Sincerely,

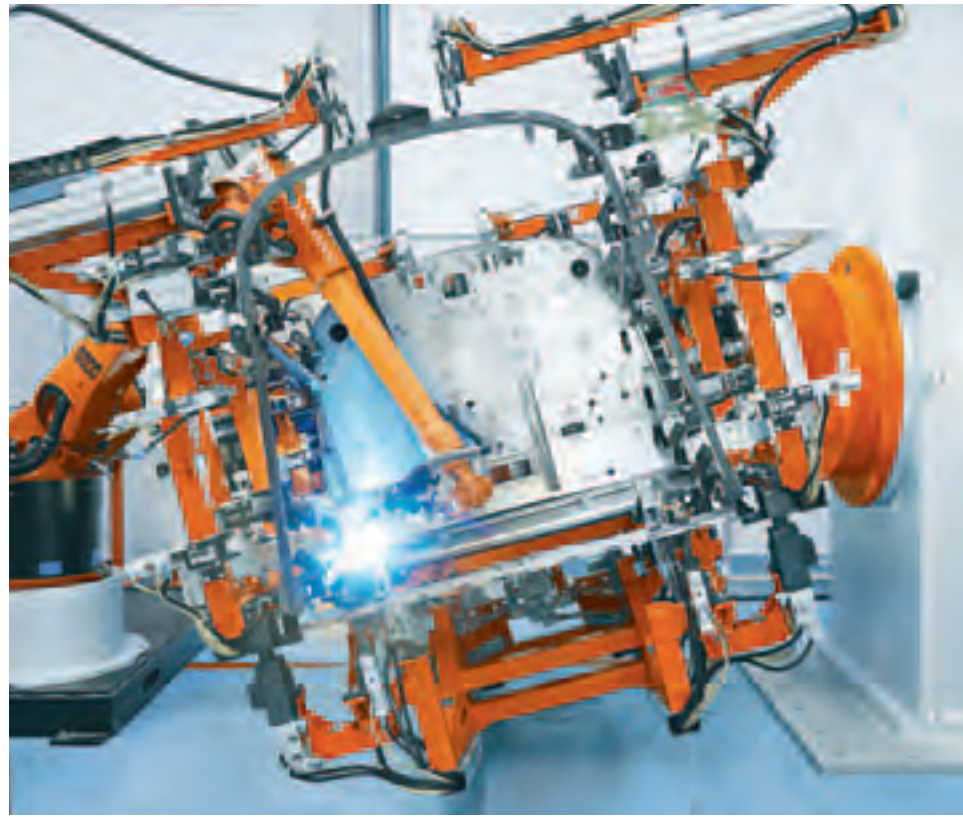
Dr. Till Reuter
CEO

DR. TILL REUTER
CEO

Dr. Till Reuter (born 1968) has been CEO of KUKA AG since 2009. Prior to that he worked as a lawyer and investment banker in Europe and the United States. In May 2008, he founded the holding company Rinvest AG, of which he is Supervisory Board Chairman.

STEPHAN SCHULAK
CFO

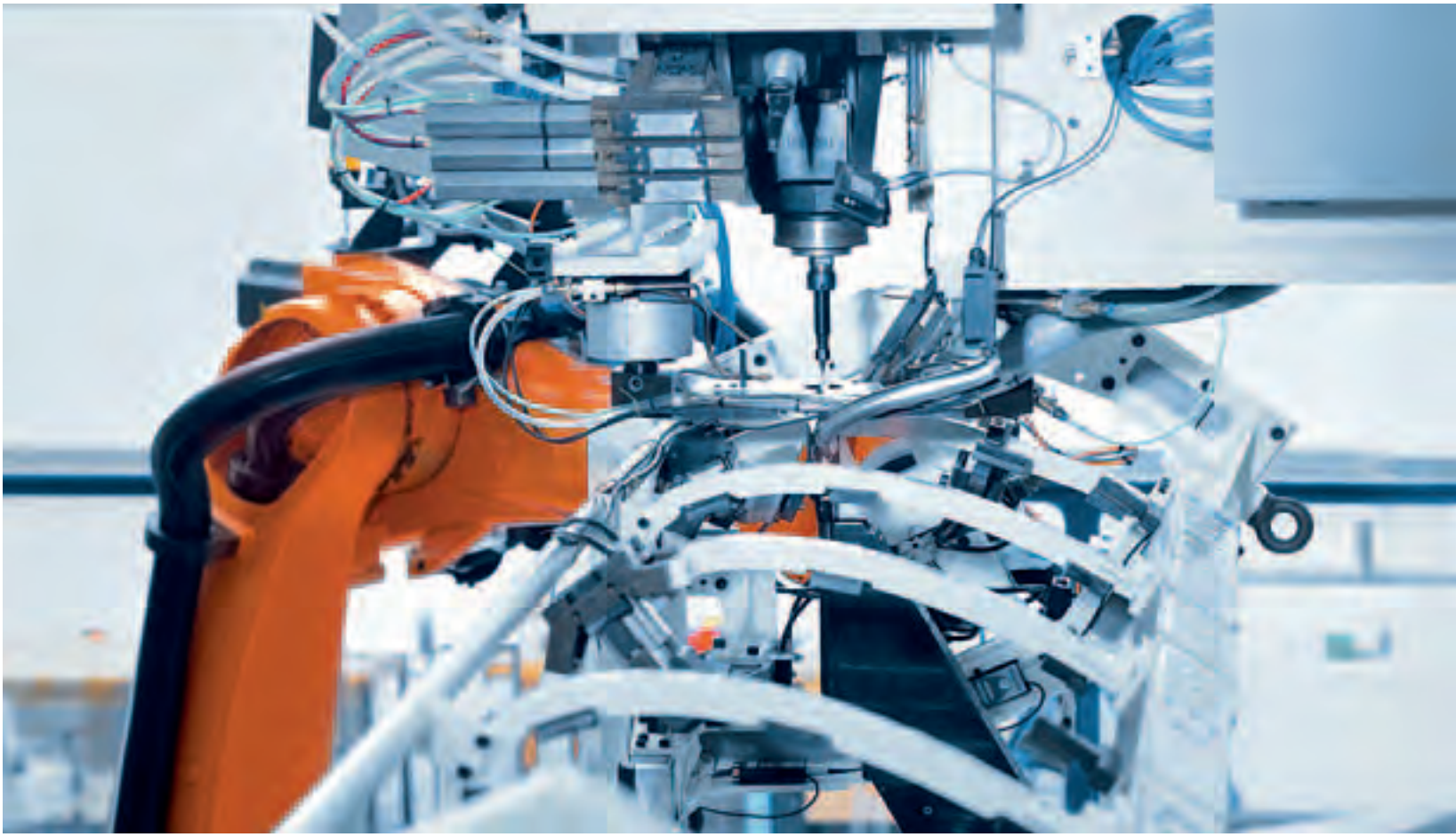
Stephan Schulak (born 1968) has been CFO of KUKA AG since 2009. Prior to that, he was a member of the Executive Board and held the same position at KUKA Roboter GmbH. He was previously Group auditor at Wacker Chemie AG and CFO of SÜSS Micro Tec AG.



LEFT: Robots can even safely pick up and move delicate or fragile items

ABOVE: Automated welding station for agricultural machinery operator cabs. Perfect weld seams, even in the furthest corners

BELOW: Automation in aircraft manufacturing – drilling and riveting wing components



ROBOTS PENETRATE GENERAL INDUSTRY

MULTITALENTED HELPERS IN MANY SECTORS

They weld, grind and glue. Sort, batch and assamble. Pack, stack and palletize. Robots are multitalented workers. They can help manage larger quantities, reduce costs and improve quality in comparison to using manual labor. More and more companies in sectors outside the automotive industry recognize the potential arising from increased automation and more intensive use of robots. The growth outlook for KUKA is delightful.

The automotive industry demonstrated how to systematically automate processes. Robot density there is ten times greater than in other manufacturing sectors. But many sectors are catching up – promising applications to which KUKA can apply its knowledge and experience; for example, in foundries, for machine tools, as well as in the plastics, food, aviation and solar industries.

Penetrating new markets using proven solutions
KUKA is well prepared for the many opportunities this creates. The company's business model aims to transfer its industrial robots and robotic systems to other sectors. The modular standard series can be quickly and flexibly configured for other applications. Thanks to application-specific supplementary tools, proven solutions can be applied in other sectors, enabling new markets to be penetrated. Manufacturing locations in Germany and China ensure short lead times in the key markets.

Sales network close to the customer: an ear to the ground
With a worldwide sales network, which is managed by the company's own subsidiaries in all key industrial regions, KUKA Robotics has across-the-board coverage and is close to its customers. Key account managers serve major international customers and closely manage their customer relationships. In addition, KUKA uses many qualified systems partners, robot integrators and plant assemblers, including sister company KUKA Systems. The two divisions take advantage of synergies when jointly developing systems solutions. All partners have specialized sector knowledge and are well embedded in their markets. KUKA multiplies its sales opportunities for its products with the help of these partners and puts ideas into practice. The result: custom solutions for many sectors and applications.

"Our partners have specialized sector knowledge and are well embedded in their markets. KUKA multiplies its sales opportunities for its products with the help of these partners and puts ideas into practice."

Plastics sector: 10,000th robot ordered by Yanfeng

Extracting completed plastic parts from an injection molding machine requires an extra long arm and sophisticated grippers and sensor technology. The current generation of KUKA robots is specially designed for this purpose. No wonder the largest European manufacturers of injection molding machines have placed frame contracts with KUKA to meet their needs. KUKA continues to expand this technology lead and very successfully presented its next generation robot family at the world's largest plastics industry trade fair last October. A milestone was the order of the 10,000th robot in 2010. It was delivered to the Chinese company Yanfeng PO in Shanghai, a joint venture between Yangfeng and the French specialist Plastic Omnium. The long-established customer purchased a KR 210 L100 K-2, currently the world's largest console robot. It will be used to extract bumpers from an injection molding machine.

Strong helpers for cold storage facilities and foundries

Special conditions may require custom designs. For example, a cold storage facility requires a frost-resistant robot and a foundry requires one that is heat resistant. When heavy material must be processed or transported under extreme temperature conditions during multiple shifts, robots are welcome strong helpers. This applies especially in environments that are very stressful to humans, are a health hazard or are simply an unpleasant place to work. KUKA has gained a foothold in these markets.

Construction machinery: welding robots for strategic systems partner in China

The collaboration that started three years ago with Huaheng, a strategic systems partner located in the Chinese province of Jiangsu, is developing into a successful venture. The leading Chinese integrator of automated welding systems for heavy metal plates supplies mostly Chinese manufacturers of construction machines. In 2010 alone, KUKA received a blanket order for 325 industrial robots from this partner.

LEFT: Handling engine parts from an aluminum pressure die casting machine

MIDDLE: Palletizing baked goods

RIGHT: Unloading an aluminum pressure die casting machine

THE MODULAR STANDARD SERIES CAN BE QUICKLY AND FLEXIBLY CONFIGURED FOR OTHER APPLICATIONS

Printing industry: working on innovation in partnership with manroland

Successful automation is always based on a harmonious interplay between mechanics, controls, control panel and software. This was demonstrated once again by a new, fully automated process developed for printing machine manufacturer manroland. In fall 2010, it was awarded the innovation prize presented by the German printing industry. It reduces the amount of time that was typically required to change printing plates to a fraction of what it was before. KUKA robot drive technology and KUKA robot controllers play an important role in the application.

Delicate hands for porcelain

An application in Europe's most modern porcelain making factory demonstrates that robots are also capable of finesse and can be used for delicate tasks. Since 1998, they have been producing, among other things, cups, plates and tureens at Christian Seltmann's factory in Erbendorf, Germany. The tradition-rich company even established its own training center, which has four KUKA robots, on the occasion of its 100th anniversary in summer 2010.

Palletizing: strong demand for this application from the food industry

KUKA's product range for palletizing is second to none. KUKA masters the art of housekeeping like no other robot manufacturer, with countless applications in the wood industry, construction materials sector and not least, the food and beverage industry. The trend toward increasing automation is particularly noticeable in the food industry. More and more goods are produced, packed, sealed and stored with the help of robots. Fast processing in compliance with the strictest hygiene and quality specifications is a must. Consumer-friendly prices are driven by tough competition, which can be decreased by the use of robots.

Processing new materials for lightweight construction in the aerospace sector

Carbon fiber reinforced plastics (CFRP), with their textile-like weave present unique processing, handling and assembly challenges. KUKA has mastered the innovative processes required for measuring, drilling, machining, seaming, sewing and riveting, as well as applying glues and sealers. This expertise is especially in demand by the aerospace industry; for example, for the Airbus. But the new lightweight processes are also being used for wind energy plants.

KUKA SYSTEMS IN THE PASSING LANE IN BRIC NATIONS

THE FANTASTIC FOUR

Four nations dominate global economic growth: Brazil, Russia, India and China, or BRIC for short. “Thank BRIC” that the world’s car market picked up speed again last year. Manufacturers and parts suppliers are investing there and heavily expanding their manufacturing plants. KUKA is reaping the benefits. Automotive projects are a door opener, particularly for the Systems division. This represents a huge opportunity, because the business of automating production processes is often in its infancy in these countries.

KUKA’s starting position in the growth markets is excellent. Wherever the major carmakers and their parts suppliers settle as they strive to be close to their customers in these markets, KUKA Systems is not far away. The division mainly supplies assembly lines for car bodies, engine and transmission assembly systems, as well as press tools for sheet metal processing. But KUKA Systems also bases its own expansion on this project business. As a result, a country subsidiary was established in Brazil in 1997, in China in 2000, in India in 2006 and in Russia in 2007. These locations are being expanded step-by-step. Here KUKA always follows the same principle: The company establishes a core team of qualified service and sales staff. Expertise and technology are transferred from Augsburg so that the responsibility can be transferred to a local manager as quickly as possible. Their job is then to win new customers locally and penetrate markets outside the automotive sector.

International value added

Typically, the value added is mainly in Germany for the first project orders in a new country. As follow-up orders are received, the local value added then steadily increases in the respective markets. Particularly large and complex projects are often still managed from Augsburg. Here core stations or entire assembly lines are built, tested and accepted by the client, before being transported to the customer site and started up. Teams made up of both German and local employees do the final assembly, whereby the percentage of local

LEFT: Manufacturing the legendary Jeep Wrangler's car body in Toledo, Ohio

ABOVE: Top precision for reliable joints – there is worldwide demand for KUKA quality body-in-white production lines

specialists increases in proportion to the number of projects completed. Many of these were trained in Augsburg. The more experienced the local teams are, the more independently they work. The goal is to have subsidiaries with local personnel and high value added.

China

Our subsidiary, based in Shanghai, belongs to both KUKA Systems and KUKA Robotics. It has been in operation for ten years and is now managed by a Chinese management. The growth potential is huge. The country has become the world's largest car market. KUKA has had a close business relationship with market leader VW for many years. One of the key orders received during the past financial year was for a body-in-white production line for the underbody of a new vehicle. A complete manufacturing system for the Ford Focus model body will be built at the Ford factory in Rayong in nearby Thailand by the end of 2011. The cars manufactured there are destined for Thailand and the entire Asian market. This major project is a good example of how international KUKA locations work hand-in-hand. The order was initiated by the Chinese sales team and supported by American colleagues in Detroit, Michigan, where Ford is headquartered. The project will be managed from there, while a Chinese team will be responsible for interfacing with the local customer. Systems engineers from Augsburg will provide technical support.

Brazil

KUKA received another major order from Brazil in 2010. The company is based at two locations in the country. KUKA is designing and building a complete body-in-white production line for an international carmaker on which several variants of the planned vehicle can be manufactured. The highly flexible production system will be used to make the model's underbody, side closures, frames and add-on parts.

India

KUKA has three centers in India. India is the fastest growing market after China. KUKA processed large automotive projects for VW and the Indian company Tata in recent years. Current projects are in the utility vehicle area, such as the Tata Penguin, a light truck. Another order is for a production line for a truck cab, which is being built for a European manufacturer. The automated main assembly line is being supplied from Germany. KUKA India is managing the overall project and supplying the mainly manual sections of the line. The entire system will first be assembled, and tested by KUKA India, before being installed at the customer's site.

"The emerging countries have become attractive markets. In addition to new assembly lines, the manufacturers are also counting on improving productivity through greater automation."

Russia

KUKA has two locations in Russia. The company was able to demonstrate that it is capable of handling large projects by pointing to its many automotive projects. As a result, KUKA achieved a breakthrough outside this sector when it landed a major rail vehicle manufacturing order. Last year, the company built a highly automated welding line for manufacturing rail vehicles for the Russian rail vehicle manufacturer TVSZ. The project was managed from Augsburg. The system is designed to produce about 10,000 wagons annually. A local service center is being established in conjunction with the project to ensure availability of original parts.

Driver for investments in automation systems

There is considerable evidence that the automotive sector will continue to grow in the coming years. In 2011, about 376 (2010: 310) new models are expected to roll off the assembly lines and the following year, the number is expected to be over 378. This model variety is driving the demand for flexible manufacturing systems on which several variants of a model can be assembled. KUKA Systems is a leader in this field. In the Western industrialized nations, regulatory requirements for more fuel-efficient and lighter vehicles are providing the market with a further impetus. This is good for systems builders, because new materials, electric and hybrid drives will drive the demand for changed processes and new manufacturing systems.

The major carmakers are currently significantly expanding their manufacturing capacities in the BRIC nations. The emerging countries have become important markets for selling vehicles. In addition to new assembly lines, the manufacturers are also counting on improving productivity through greater automation. Although manufacturing lines in the automotive sector are built according to the same principles the world over, in the emerging countries they are largely operated manually because of the comparatively low wage levels. But here too, rising pay rates are driving the trend to automate – a trend that suits KUKA.

New QUANTEC robot series

NEW GENERATION OF INDUSTRIAL ROBOTS

AUTOMATION BECOMES EASY

KUKA's new generation of industrial robots, unveiled in 2010, sets new standards: reduced complexity and manufacturing costs, new application potential and increased value for our customers. The underlying technology is geared towards future requirements and meets the needs of conducting business sustainably. In short: customers and the company benefit equally.

Visitors at the leading international robotics trade show AUTOMATICA, held from June 8 to 11 last year in Munich, were quite amazed when KUKA unveiled its new QUANTEC product family, an innovative technology that will radically simplify robotics. The interplay between the mechanics, controller, control panel and programming is trendsetting and triggered a great response from industry, the media and the capital market.

QUANTEC: the mechanics
The new generation of robots is already being serially produced for the automotive industry. Other sectors will follow one at a time. QUANTEC mechanics will replace those of the time tested, very successful "2000" and "comp" series over the course of the year. For good reason: A single family of robots now covers the entire key payload range of 90 to 300 kilograms with the reach of up to 3100 mm for the first time. QUANTEC's power density is thus higher than any other the market offers. The robot is one of the most compact in its class and requires significantly less space, which opens the door to many new application options in manufacturing. Lighter components result in superior dynamics and twenty-five percent shorter cycle times, with the same accuracy.

The smart common component concept, which reduces the number of motor and gearbox types to four, leads to greater flexibility. Customers have a choice of fifteen different robot types – the widest model range for high payloads in the market. The tool flange and drilling templates for mounting on the foundation are compatible with the previous generation. KUKA has been able to expand the application spectrum in the largest market segment while simultaneously cutting the number of robot types in half. This makes the company's manufacturing process and material scheduling more efficient.

KR C4: the robot controller
KUKA has applied all of its innovation strength to the robot controller – the key component when it comes to integrating new robots. In designing the KR C4, the company has completely done away with limiting hardware components and replaced them with smart software functions – a revolutionary approach. The result: thirty-five percent fewer modules and half as many plugs and cables. This helps optimize costs and reduce maintenance, which especially benefits users. More still: The virtually unlimited expansion possibilities for open interfaces and powerful industry standards based on software open up enormous potential for combining robots with other components. The intelligently linked data streams make it possible to quickly integrate future process improvements and new applications. This enables robots and movements, sequences and processes, which previously had to be controlled separately, to be managed by a system that uses common data and a common infrastructure. The complete safety control system is seamlessly tied in for the first time. It is based on multicore processor technology and thus has the necessary redundancy, particularly for safety-related applications. The combination of sophisticated sensors and data exchange in real time results in extremely short response times, which is a prerequisite for eliminating conventional safety measures in safety cells. This paves the way to implementing new applications, where humans and robots cooperate. The first automakers are already using KUKA's new generation of controllers.

smartPAD: the mobile control panel
KUKA has employed the latest developments for mobile radio devices, smart phones and tablet PCs in designing the robot control panel. The new smartPAD

LEFT: Showcasing the new QUANTEC series at AUTOMATICA 2010

AN INTUITIVE OPERATOR INTERFACE GUIDES USERS WITH THE HELP OF AN INTERACTIVE DIALOGUE

has a large, bright, high-resolution, non-reflective, sensitive touchscreen. The device has only a few buttons and a 6D mouse. An intuitive operator interface guides users with the help of an interactive dialogue.

WorkVisual: the programming environment

WorkVisual is a universal development environment and planning tool for cell configuration. The modular software architecture provides a common user interface for almost every stage of an automation project: from configuration, to loading, testing, diagnostics, editing and archiving. Catalogs and project data are available to all parts of the program, which ensures universality and consistency. The decisive advantage is that programs can be compiled and tested in virtual 3D robot cells, enabling possible conflicts and errors to be uncovered and eliminated right from the beginning. This results in faster startup and minimizes risk.

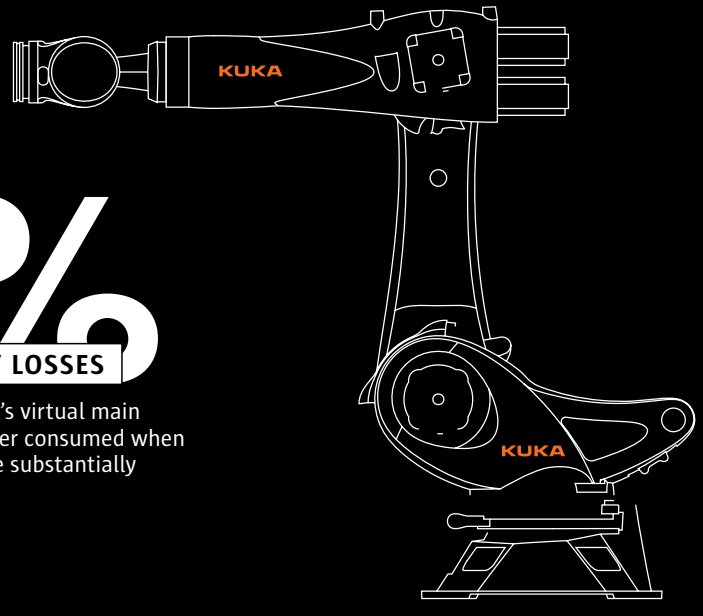
The new QUANTEC and KR C4 product generation makes automation easy: Easy to design, easy to integrate, easy to operate, easy to maintain – simply first-class.

THE NEW ROBOT GENERATION THINKS GREEN

Climate change, scarce resources, growing energy consumption and rising energy costs all mean that we need to rethink our manufacturing processes and how we automate our machines and plants. We need to become more flexible and use new materials and innovative joining technologies. KUKA's new QUANTEC robot generation puts energy efficiency front and center.

25%
LESS ENERGY

Fewer modules and a more passive cooling concept cut the new control system's energy consumption by about one quarter.



12%
LESS MASS

This robot family weighs up to 160 kg less, setting new standards in the energy consumption / payload efficiency.

95%
LOWER STANDBY LOSSES

The new control system's virtual main switch enables the power consumed when the robot is at rest to be substantially reduced.

EKOIQ

For this new robot generation, a large number of energy consuming add-on mechanical parts have been eliminated thanks to the intelligent software.

AUTOMATED MANUFACTURING PROCESSES

JUST JOIN IT FOREVER

Traditional processes such as welding are used to join materials. Combined with other machining, assembly and handling processes these production lines turned out to be highly sophisticated and therefore increasingly being automated. KUKA Systems delivers products and services that can be flexibly combined for such lines. The outcome of this liaison is custom system solutions, which, aside from benefiting from carmaking technology transfers, draw on years of automation project experience and robotics business synergies.

LEFT: Standard KUKA components at work: positioners, robots and welding packages to join metals perfectly

Welding has been used as a joining technology for years and KUKA's growth is closely intertwined with its evolution. Arc welding, a process that for the first time used electrical energy to melt metal, was introduced as early as the end of the 19th century. It was an important stimulus to the automotive industry. Friction welding followed in the 1950s. This method is based on pressing two workpieces, one of which is rotating, against each other. The heat caused by the friction initiates the welding process. To join the pieces together, the rotation is stopped and higher pressure applied. To this day, this method is an unbeatable way to join together a wide variety of components: quickly, reliably and cost effectively. These processes are increasingly being automated, and KUKA is seen as an innovation driver in this field. In 1956, the company built the first automated welding systems for refrigerators and washing machines and supplied the first multi-spot welding line to Volkswagen. In the 1960s, laser welding began to make inroads. Its high speed, precision and reduced material consumption were impressive. In 1966, KUKA established another milestone when it introduced Magnetarc welding, a pressure welding process that uses a magnetically controlled arc operating in an inert gas environment. It enabled a large variety of new hollow profile material combinations to be used, which resulted in savings of costly material. KUKA introduced the first welding machine of this type in 1972. A year earlier, the company built Europe's first robot-supported welding transfer line for Daimler-Benz in Sindelfingen, Germany. The use of PC technology to control machines and robots, another area where KUKA played a pioneering role, led to further progress: greater precision, higher quality, easier operation, flexible adjustments and shorter cycle times. In 1984, the company presented the first electronically positioned friction welding machine. The numerically controlled feed unit KUKA developed and introduced in 2002 can be used to manufacture components with strict quality and geometric tolerance specifications.

The spark has jumped the gap: technology transfer from carmaking to rail vehicle construction

Productivity and efficiency go hand-in-hand with intensive automation, which is advantageous when labor costs in the automotive industry and elsewhere are soaring.

For example, in the railway vehicle manufacturing sector, Bombardier, Siemens and the Russian rail vehicle manufacturer TVSZ have placed their trust in KUKA's expertise and experience. Last year, KUKA Systems supplied turnkey welding lines to the latter. Four different types of vehicles, for a total of about 10,000 per year, will be built using these systems. Each line measures 160 m by 15 m. They are used to manufacture the side walls, front walls and longitudinal members. The project scope includes among other things, sixty-four robots, fifty-four inert gas welding technology

„Productivity and efficiency go hand-in-hand with intensive automation, which is advantageous when labor costs in the automotive industry and elsewhere are soaring.“

EXTREME PRECISION IS MANDATORY IN THE AEROSPACE INDUSTRY

packages – a KUKA core competency – and integration of the submerged arc welding units and the positioners for the parts, which weigh up to twenty tonnes. The impressive dimensions of the 7,500 square-meter system astounded visitors at KUKA tecdays in Augsburg in summer 2010. Once again, KUKA has set a new benchmark with this large project: Neither in Russia nor in the rail vehicle manufacturing sector is any other welding line so highly automated.

Way ahead: innovations with new materials in the aerospace industry

KUKA has developed and tested joining processes for fiber-reinforced plastics (FRP) for use in the aerospace industry. For example, the company won an innovation prize for a process that enables parts with complex geometric shapes to be welded using this textile-like material. The expertise gleaned in the process is being transferred to carmaking; after all, the futuristic material is being increasingly used in this industry too.

Last year, KUKA delivered a fully automated tungsten inert gas welding system, which will be used in the manufacturing system for the upper stage nozzle of the Ariane 5 launch vehicle. The system produces 14,600 welds per jet along a 730-meter seam. Fortunately all manual production steps have been eliminated, because extreme precision is mandatory. Operators can monitor and watch the entire process live on a screen located outside the welding cell.

One thing after another: turnkey systems for making solar modules

KUKA Systems has demonstrated top-notch systems and integration expertise in the solar sector, which is being driven by the growing global energy demand and scarce raw materials. KUKA covers the entire spectrum when it delivers its turnkey photovoltaic module manufacturing systems: from design and development, to component assembly and system startup. KUKA leads the pack here because of its expertise and experience in the automotive sector, for example in process control and conveying, as well as material flow.

At the start of this sophisticated process, easily breakable silicon wafers must be sawed, handled, destacked and washed. It takes many steps to build solar cells and then finished modules from the wafers. Some of the technical highlights of the automated manufacturing process developed by KUKA include interconnecting and soldering the individual solar cells to make a cell string, positioning the strings on a glass sheet with millimeter-range accuracy, using robots for the cross-tie-soldering process, as well as cutting and handling the various supports and protective foil sheets. At the back end of the line, the modules are trimmed, taped and framed (laminate enclosed in an aluminum frame) and then tested at various test stations to ensure that the modules meet quality standards.

In 2010, KUKA supplied such a manufacturing line, which covers an area of 3,800 square meters, to SOLARWATT, a solar module manufacturer based in Dresden, Germany. The highly automated line produces a solar module every twenty-eight seconds in three shifts. Twenty-nine KUKA robots have been integrated in the line.

Last year, KUKA Systems also worked on building the first silicone gel-based sealing system, which will be installed in a photovoltaic fabrication facility. The line was ordered by Michigan-based GlobalWatt and will start production in the first quarter of 2011.

Onboard every time an Ariane 5 rocket is launched: the upper stage nozzle welded by KUKA deliver a powerful thrust

MEDICAL TECHNOLOGY: A MARKET WITH GREAT POTENTIAL

ROBOTS SERVING

Already today, robots help medical staff diagnose health issues, as well as plan and perform treatment. In the future, these mechatronics assistants could help improve the independence and life quality of patients and handicapped persons. This interview with Chief Technology Officer Bernd Liepert and Dr. Ralph Koeppe, Head of R&D at KUKA Laboratories, sheds light on the company's vision for the future, traditional processes, increased demands on medical-technical standards, demographic stimulus driving a growth market and responsibility toward humans.

HUMANS

Robots are moving into hospitals and retirement homes homes and may replace surgeons and nursing staff. Some people talk about “steel demigods”. How far is this image from reality?

DR. KOEPPE: People often overstate the capabilities of robotics. A robot, no matter what form it takes, is a machine that can help humans do their work. This applies especially to the field of health care. The responsibility for trustworthy reciprocal collaboration lies strictly with the participating humans.

In health care, robotics is a supplementary system that can serve mankind; in other words, it is a supportive system that can significantly improve peoples’ sensory perception and enhance the precision of their movements. This applies to robotics for medical diagnoses and radiation therapy, robotic systems that assist surgeons and rehabilitation and nursing applications.

LEFT: Highly precise radiation source positioning adds flexibility when irradiating tumors

RIGHT ABOVE: left: Bernd Liepert, Chief Technology Officer, right: Dr. Ralf Koeppe, Vice President R&D of KUKA Laboratories

LIEPERT: Medical robotics is still in its infancy, but the market potential looks very promising. KUKA’s position in this highly profitable segment is excellent thanks to a series of pioneering achievements, for which it has applied for over thirty industrial patents in the past few years. We have sold and installed over 500 systems since 2004; 130 last year alone. KUKA Labs is working with research and systems partners on further innovations and value-added medical technology applications.

> “Robotic technology makes surgeons’ hands very precise and shake-free, provides a microscopic eye with sharp vision and enables extended periods of concentration, even during lengthy operations. New therapeutic methods are made possible.”

These numbers seem to indicate we are talking about custom solutions. Can you give us a few specific examples?

DR. KOEPPE: KUKA developed the basic robot technology for the world’s first angiographic robot and together with our partner Siemens, set new benchmarks in the field of universal x-ray systems. The technology is integrated into the Artis zeego multi-axis system, which was introduced to market in 2008 by Siemens. It can make blood vessels visible. The robot has six axes of rotation and enables doctors to position a patient flexibly and in almost any position using a so-called C-arm, a C-shaped x-ray unit. The high-quality images delivered are comparable only to those achieved using computed tomography, but are generated much more quickly. Artis zeego robot technology enables doctors to move the C-arm around a patient’s body and position it almost at will. This enables angiography to be used during an operation without moving the patient. The surgeon is provided with a three-dimensional map, virtually in real time, that shows the position of the blood vessels, the instruments used in the operation or, for example, the stents to be implanted during the surgery.

LIEPERT: Accuray’s CyberKnife has proven itself in cancer treatment since 2001. It is the world’s first robotic radio surgery system. A high-energy radiation beam moved around by a robotic arm replaces the traditional scalpel. It is capable of precisely destroying a tumor without damaging the healthy tissue surrounding it, regardless of where in the body the tumor is located. The patient lies completely free on the operating table. A digital imaging system focuses on the position of the tumor and reports any movement – such as that caused

by the patient's breathing – to the robot, which then compensates accordingly. This leads to extremely high precision in the micrometer range. This type of surgery does not require overnight hospitalization.

The patient positioning system at the Heidelberg ion beam therapy center, which went into operation at the Heidelberg University Clinic in late 2009, made headlines.

DR. KOEPPE: This is a prestigious project, in which KUKA robots play a key role. The clinic uses particle beam generators to treat patients who have tumors –about 1,300 persons annually. This therapy boasts healing rates of up to ninety percent in certain cases. The positioning system for patients with tumors was developed jointly with Siemens and sets a new benchmark. A floor-mounted robot places patients on the treatment table, a robotic patient positioner, and moves them into the optimum position for the particle beam treatment with an accuracy in the micrometer range. In addition, a ceiling-mounted robot moves a C-arm around the patient, which prepares x-ray images of the target tissue immediately prior to the particle beam treatment. The system controller uses these images to compare the location of the tumor with the results of the previously prepared treatment plan and the actual position of the radiation source. The robotic patient positioner then corrects the position if there are any discrepancies, in steps of 1/10 of a millimeter.

All of these applications are based on modified industrial robots of the current generation. In these applications, humans and machines interact directly. In Heidelberg, there are even cooperating robots in play, which makes the whole situation even more complex. How do you ensure safety?

DR. KOEPPE: A key point. Our specially developed KUKA safety system enables the robot to independently monitor a prescribed spatial envelope, and in an emergency, this software safely shuts down the system in fractions of a second. In addition, a geometric analysis performed in real time integrated into the robot controller prevents the two cooperating machines from colliding.

KUKA's lightweight robot has a unique set of particularly sophisticated sensors. This attribute could be in very high demand in the health care field.

LIEPERT: Correct. Interaction between humans and machines and the integration of technologies such as sensors, visualization and not least, new materials, will in future define robotics. This applies especially to medical robots. The lightweight robot was designed to be able to move closer to people. It is sensitive, carefully approaches objects, can be gently moved aside by humans and automatically retreats when touched. It

ABOVE: Flexible C-arm x-ray system positioning for interventional radiology

is extremely movable, learns when guided through a task and conversely, is able to guide humans through complex motion sequences. It could therefore be used, for example, for therapeutic rehabilitation tasks. We are conducting research in this area together with RWTH Aachen and the Aachen University Clinic.

What are the greatest hurdles to overcome on the way from research project to marketable product?

LIEPERT: Medical technology is comparable to the professional league in any sport. The entry barriers are extremely high; almost no other sector has such stringent specifications in regard to quality, reliability, precision and safety. Compromises are unacceptable here, and quite rightly so. After all, peoples' lives and health are at stake. KUKA is already very familiar with the strictest hygiene standards based on experience in the food and pharmaceuticals industries. In addition, we are the world's only manufacturer of a complete line of clean room robots. Anyone who is familiar with the automotive industry specifications regarding quality management will recognize that we are extremely well-positioned in this area. In order to accelerate our medical equipment solutions' compliance with the health care industry's interminable and complex approval processes, we are aiming to be certified in accordance with the industry standard, ISO 13485, in 2011.

DR. KOEPPE: To successfully introduce robot supported health care systems into the field of surgery on a wide basis, robotic systems must be made transparent for surgeons. Robots must be perfectly integrated into the operating room as a member of the operating team, both from a safety perspective and functionally. This is our challenge: We must convince surgeons by providing proof that it works in the real world. This is an exciting task when you consider that the surgeon controlling the robot will then have a shake-free, highly precise hand and a microscopic eye with sharp vision, and will be able to maintain concentration even during lengthy operations. Under the preconditions already mentioned above, robotics can greatly simplify, or even make possible, new operating procedures such as minimally invasive, gentle surgery, which requires only very small incisions in the body. Instead of operating by hand, surgeons guide their instruments with the help of a robot. We are currently developing the required technical components related to tactile sensitivity and telepresence together with the German Aerospace Center (DLR).

Where is the greatest benefit from your perspective?

LIEPERT: Increasing affluence not only raises the bar when it comes to medical-technical standards, but demographic trends also present challenges. People are living longer and longer and because fewer babies are being born, the number of specialists available to treat the older generation will be inadequate in the foreseeable future. Robots would be one way to at least partly solve this problem.

Back to the initial question, put another way: Will robots ever be part of everyday life in hospitals, seniors' homes and private residences?

LIEPERT: Yes, because intelligent robots can save lives and help and relieve us in many ways. Combined with a mobile platform such as omnirob, the lightweight robot is a milestone on the way to service robotics. Already today, we are working on applications that provide fetch and carry services. It will take some time before robots become a household aid or replace nurses. KUKA is well-positioned to solve the technical challenges and play a pioneering role in these developments.

MOBILE ROBOTICS

DISCOVERING NEW TERRITORY

KUKA Labs' developers have a goal, which is that very soon, robots will be able to move completely autonomously in industrial plants without having to redesign the physical work environment. Floor markings, induction loops or magnets in the floor to guide the vehicle along a fixed route will be superfluous. The same applies to humans to steer the vehicle and machine. The mission is comparable to that of seafarers and cartographers during the 15th and 16th centuries. The task is to explore an unknown world and solve whatever problems are encountered.

TECHNOLOGY TRANSFER

KUKA works in close cooperation with the Institute for Computer Sciences at the University of Freiburg on the research and development of mobile robotics technology. Professor Dr. Wolfram Burgard is known the world over as a luminary in the field of autonomous intelligent systems. In 2009, he won the famous Leibniz prize for his work. KUKA has recruited some of the assistants from his research laboratory at the University of Freiburg.

When Christopher Columbus, Vasco da Gama and Amerigo Vespucci set out on their expeditions across the seas, they had only a vague idea of what the world looked like. They explored for new passages in faraway lands in order to find goods such as spices and gold. In doing so, they discovered new territories and continents and filled in many blank spaces on the world maps. Robots designed to autonomously carry out fetch and carry tasks must answer the same questions as those explorers from the former days. What does the world look like? Where am I? How do I get from A to B?

omniRob: moving along unknown terrain

omniRob – the concept study on mobile robots – knows the answers and has already proven it in practice. In contrast to existing solutions, this mobile robot must neither refer to predefined maps, nor rely on external measuring devices or structural modifications. Instead, the battery operated technology demonstrator uses the so-called SLAM technique (Simultaneous Localization And Mapping). This enables the vehicle to create maps and simultaneously determine its position in these maps. The robot plans its routes using these maps. During the entire time, the robot also ensures that it does not collide with obstacles.. This is a complex challenge, even in a small space. KUKA has demonstrated that the method can be used even in very large areas – with remarkably precise results.

KUKA's developers conducted an experiment in which the mobile robot omniRob autonomously navigated through three of the company's manufacturing halls. In an area of 30,000 square meters, it probed the industrial environment using laser range finders. These laser range finders delivered over 1,000 measuring points per cycle in a 360 degree radius. This information was used to quickly and easily create maps, which showed clear paths, walls and obstacles such as assembly stations, shelves and pallets. The position is determined based on a probabilistic estimating process, that alternately analyses the current laser measurements and signals from wheel encoders. The result: omniRob was able to dock within an accuracy of a few centimeters. The self-determined positioning errors were in the millimeter range. The mobile robot was able to flexibly plan its route. It used its laser scanners to detect obstructions and people to maneuver around them.

omniMove: mobile platform gets the hang of it

The mobile platform concept omniMove also offers precision and flexibility. Special omnidirectional wheels enable unrestricted maneuverability: forwards, backwards, around a bend, as well as sideways and diagonally. The vehicle can even turn on its own axis. Thus movement in a restricted or angular space, even on the spot, is no problem.

Application areas: from production assistant to service robot

The mobile platform opens the door to many areas of application in connection with lightweight robots and appropriate tools. omniRob is suitable for picking tasks in warehouses, handling and mobile assembly in industrial manufacturing facilities, up to and including fetch-and-carry services in workshops and automated laboratories. Later it may even be used to provide services in the hotel and catering industries, as well as in households.

Enhance crossover technologies

omniRob is still at the preliminary development stage. Experts are gathering valuable experience in real world environments for possible applications. In addition, it is being used to press ahead with and test new crossover technologies for future robotics systems. These include image-based gripping, mechanized docking as well as service and safety concepts. These new findings benefit other divisions in addition to KUKA Labs.

The same way the great explorers of the past changed the face of the world with their voyages, mobile robotics will revolutionize our business and open the door to new markets.

IN THE FOREGROUND:
Mobile omniRob robot

IN THE BACKGROUND:
Two-dimensional map of the KUKA manufacturing bay environment

SUPERVISORY BOARD REPORT

The Supervisory Board closely monitored KUKA Group's business activities during the financial year just ended. It was marked by a fast economic recovery, which benefited the company in various ways. The Supervisory Board paid particular attention in 2010 to the systematic execution of the ongoing restructuring program. The Supervisory Board was able to use its authority to set some key directions, such as permanently appointing Dr. Till Reuter to the position of CEO and approving various equity and financing measures to restructure the Group's financing. The strategic direction of the company was addressed at the Supervisory Board's meetings repeatedly.

The Supervisory Board had a busy year. KUKA Aktiengesellschaft's and KUKA Group's business situation required not only meetings, but also several telephone conferences, to discuss and make decisions about current developments. The Supervisory Board also supported the Executive Board on behalf of the shareholders and employees at other times throughout the year. In particular, it fulfilled its monitoring and advisory duties by meeting regularly with the Executive Board to examine in detail the company's business situation and financial position. Among other things, it received periodic reports on the Group's key figures (e.g., orders received, revenues, EBIT, staffing levels). The Chairman of the Supervisory Board kept in close contact with the Executive Board, particularly the CEO, in order to stay up-to-date on important business developments and pending decisions.

The Board also dealt with key issues related to the budget and planning, such as the financial, investment and staffing prospects. The Supervisory Board reviewed the Executive Board's explanations and reasons regarding deviations from business plans, targets and budgets. As stated initially, strategic topics were a major focus.

The Supervisory Board also dealt with risk and compliance management. The businesses subject to its approval as per the rules of procedure were presented to the Supervisory Board. At all times while fulfilling its monitoring obligations as a controlling body, the Supervisory Board considered whether the Executive Board was doing its work properly, legally and efficiently.

BERND MINNING
Chairman of the Supervisory Board

CHANGES TO THE EXECUTIVE BOARD AND SUPERVISORY BOARD

On April 26, 2010, the Supervisory Board held a telephone conference, during which it decided to appoint Dr. Reuter to the Executive Board and to the position of CEO of KUKA Aktiengesellschaft until December 31, 2013. Dr. Reuter had initially been appointed to the position of CEO for one year effective October 1, 2009 in accordance with section 105 paragraph 2 of the German Stock Corporation Act because the CEO position was vacant. His membership on the Supervisory Board was suspended in accordance with section 105 paragraph 2 sentence 3 of the German Stock Corporation Act. He resigned from the Supervisory Board position immediately prior to being reappointed to the CEO position.

At KUKA Aktiengesellschaft's Annual General Meeting of April 29, 2010, Professor Dr. Dirk Abel, Dr. Uwe Ganzer, Professor Dr. Uwe Loos and Guy Wyser-Pratte were elected to the Supervisory Board, after having been previously appointed by the Augsburg magistrate's court on September 18, 2009. In addition, Dr. Michael Proeller was appointed as a new member of the Supervisory Board to replace Dr. Reuter.

The term of Dr. Walter Bickel's appointment to the Executive Board was initially to end on November 16, 2010. In order to allow him to continue to help with the restructuring program in his position as COO until the end of the year, on November 7, 2010 the Supervisory Board extended Dr. Bickel's contract until December 31, 2010. Dr. Bickel left the Executive Board on December 31, 2010.

There were no conflicts of interest notified at either the Executive Board or Supervisory Board level during the reporting period (see also below).

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

During the 2010 financial year, the Supervisory Board held six regular meetings and one extraordinary meeting. Four telephone conferences were also held during which decisions were made, whilst one resolution was made in writing by way of circulation.

In an extraordinary meeting on February 4, 2010, the focus was on the budget for 2010 and the search for a CEO.

In telephone conferences on March 1, June 7 and November 7, 2010, the Supervisory Board dealt with the Group's financing. The discussion centered around raising equity by means of a capital increase with issuance of preemptive rights (4,655,441 new shares from authorized capital) with gross emission proceeds of € 45.4 million, a syndicated loan agreement (ultimately amounting to € 200 million) and the placement of a high yield bond worth € 200 million (with a total nominal value of € 202 million.)

During the Supervisory Board financial statements meeting on March 14 and 18, 2010, the agenda included mainly the financial statements of KUKA Aktiengesellschaft and KUKA Group for the 2009 financial year, the Annual General Meeting for 2010 and nomination of shareholder representatives to be elected to the Supervisory Board, and the final budget for 2010.

In a telephone conference on April 26, 2010, the Supervisory Board appointed Dr. Reuter to the Executive Board and to the position of CEO of the company until December 31, 2013.

In the Supervisory Board meeting on June 29, 2010, immediately before and after the Annual General Meeting, the Supervisory Board endorsed the recommendation Grenzebach Maschinenbau GmbH was expected to make to the shareholders at the Annual General Meeting to elect Dr. Proeller as Dr. Reuter's successor on the Supervisory Board and after his election, appointed him to all of the committees of which Dr. Reuter had previously been a member. In addition, the panel dealt with the global sales and marketing concept and received a verbal report given by the University of Witten/Herdecke in which the efficiency of the Supervisory Board's work was reviewed.

On April 29, 2010, the Supervisory Board met at its next regular meeting, which dealt with business performance, particularly in relation to the ongoing cost reduction program, project controlling and the solar industry business. Executive Board compensation was also discussed.

In its regular meeting on September 28, 2010, the Supervisory Board initially returned to the topic of Executive Board compensation and reached a decision on finalizing the Executive Board contracts. However, the main focus of the meeting was on strategy. The panel approved a recommendation by the Strategy and Development Committee to organize KUKA Group within its two divisions based on four pillars: Plant Engineering and Industrial Solutions within the Systems division and Industrial Robotics and Advanced Robotics in the Robotics division.

On December 14, 2010, the Supervisory Board held a meeting to discuss the budget for 2010 and mid-range plan to 2013. It heard reports from the other committees and resolved to establish diversity on the Supervisory Board.

All members of the Supervisory Board participated in at least half of the Supervisory Board meetings in 2010 during their respective terms of office (clause 5.4.7 of the CGC). Further details regarding corporate governance are included in the Corporate Governance report, which forms part of the annual report.

The Supervisory Board has established the following committees: Personnel Committee (chaired by Mr. Minning), Audit Committee (chaired by Dr. Ganzer), Strategy and Development Committee (chaired by Mr. Minning), Technology and Production Committee (chaired by Prof. Dr. Loos) and Mediation Committee in accordance with section 27 paragraph 3 of the German Codetermination Act (MitbestG) (chaired by Mr. Minning). A Nomination Committee has also been formed in accordance with clause 5.3.3 of the CGC (chaired by Mr. Minning).

The Personnel Committee met five times in 2010. It dealt with the appointment of Executive Board members Dr. Reuter and Dr. Bickel, prepared Executive Board contracts and discussed issues related to Executive Board compensation.

The Audit Committee met five times. It dealt mainly with the financial statements, addressed financing issues and heard presentations regarding risk management and compliance management.

The Strategy and Development committee also met five times and on September 18, 2010, held an all-day strategy session. It reviewed in detail the enhancement of the lightweight robot for its various applications. For example, in the medical technology area, these applications are used for biopsies and generally image recognition.

The Technology and Production Committee convened six times and dealt primarily with process optimization concerning production and purchasing management as relates to the so-called transformation program to reduce overall costs.

INDEPENDENCE AND DECLARATION OF COMPLIANCE

The Supervisory Board members complied with and continue to comply with the independency provisions outlined in clause 5.4.2 of the Corporate Governance Code. No notice of conflicts of interest as contemplated by clause 5.5 of the Corporate Governance Code was given during the reporting period. The Supervisory Board and the Executive Board submitted identical declarations of compliance in accordance with section 161 of the German Stock Corporation Act. The annual declarations were made on March 2, 2010 by the Executive Board and on March 5, 2010 by the Supervisory Board.

WORK WITH THE AUDITORS

The annual financial statements and management report of KUKA Aktiengesellschaft as of December 31, 2010, as well as the consolidated annual financial statements and Group management report as of December 31, 2010, including the bookkeeping, were audited by auditors PricewaterhouseCoopers AG (PwC), Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, who issued an unqualified audit opinion on them. KUKA Group's risk management system was also audited, as required by law. KUKA Group's mid-year report dated June 30, 2010 was subjected to a review by the auditors. KUKA Aktiengesellschaft's consolidated statements were prepared in accordance with section 315a of the German Commercial Code (HGB) based on the International Accounting Standards IFRS as adopted by the European Union.

The Audit Committee entrusted the external auditors as per the resolution at the Annual General Meeting of April 29, 2010. Prior to retaining the auditors of the financial statements of the company and the Group, the chair of the Audit Committee and the chairman of the Supervisory Board conducted an in-depth review with the auditors regarding major audit issues, scope and fees. The auditors agreed to immediately inform the chairman of the Audit Committee about any disqualification or bias issues encountered during the audit, provided such disqualification or bias issues could not immediately be corrected. The auditor also agreed to continually report all material findings and developments arising during the audit that were within the scope of the Supervisory Board's responsibilities. The auditors were also instructed to inform the Supervisory Board, or make a note in the audit report, if information was encountered during the audit that was contrary to the declarations released by the Executive and Supervisory Boards as per section 161, paragraph 1, sentence 1 of the German Stock Corporation Act (AktG). As a final item, the Audit Committee obtained the independence declaration of the auditor in accordance with clause 7.2.1 of the CGC and monitored the independence of the auditor. The committee also dealt with contracts with the auditor for services that did not relate to the audit itself. As in the past years – in each year different topics – the audit prioritizes a set of key topics. The key issues agreed with the auditor for fiscal 2010 included impairment tests and with respect to the AG financials compliance with the new German Accounting Law Modernization Act (BilMoG). The auditor had no major concerns regarding these items. In December 2010, the auditor gave the Audit Committee chair a detailed explanation of the preliminary audit results.

Because they had been contracted to review the June 30, 2010 mid-year financial report, the auditors attended the August 2, 2010 Audit Committee meeting.

In a joint meeting with the auditor on March 11, 2011, the Audit Committee reviewed the two annual financial statements, taking into consideration the auditor's reports. The Executive Board and the auditor presented the highlights of the annual financial statements to the panel. The questions posed by the Audit Committee members were answered, the documentation relating to the financial statements were reviewed, discussed and checked in detail with the auditor and the audit reports were discussed in depth with the auditor. The Audit Committee reported to the Supervisory Board on the results of its meeting and its discussions during the board's meeting on March 14, 2011 and recommended that the board approve KUKA Aktiengesellschaft's annual financial statements and KUKA Group's consolidated annual financial statements.

The Supervisory Board also reviewed the annual financial statements submitted by the Executive Board. It did not have to give an opinion on appropriation of net income. The audit reports provided by PricewaterhouseCoopers were made available to all members of the Supervisory Board. The auditor took part in the Supervisory Board meeting on March 14, 2011 regarding the annual financial statements in order to report on material findings in the audit and to provide additional information. The auditor explained in detail the asset, financial and earnings positions of the company and the Group. The auditor also reported that no significant weaknesses in the internal controlling and risk management systems as relates to the accounting system were determined. The auditor also advised that there are no circumstances that would affect the auditor's impartiality, and as to work required over and above the contracted auditing services. The auditor answered the questions posed by the Supervisory Board and the latter and its committees reviewed the financial statements in detail with the auditor, then discussed and checked them. The audit reports were discussed with the auditor and the auditor answered the questions that arose.

2010 FINANCIAL STATEMENTS ADOPTED

After completing its own review, and with full knowledge and consideration of the Audit Committee report, the auditor's reports and the explanations provided in the meeting of March 14, 2011, the Supervisory Board raised no objections to the results and concurred with the auditor's findings. In the opinion of the Supervisory Board, the auditor's reports comply with the legal requirements stipulated in articles 317 and 321 of the German Commercial Code (HGB).

The Supervisory Board is satisfied with the completeness of the management report and the management report for the Group. The assessments made by the Executive Board in the management report and the Group management report are in agreement with its reports to the Supervisory Board, and the statements made in the two reports are also in agreement with the Supervisory Board's own evaluations. At the conclusion of its review, the Supervisory Board found no cause to raise objections to the management report and the Group management report.

At its financial statements meeting on March 14, 2011, the Supervisory Board approved the annual financial statements of KUKA Aktiengesellschaft prepared by the Executive Board for the 2010 financial year. Thus the annual financial statements are adopted.

The Supervisory Board likewise approved the consolidated annual financial statements of KUKA Aktiengesellschaft for the year 2010 prepared by the Executive Board and adopted the corporate governance report.

THANKS TO THE STAFF

The 2010 financial year was one of transformation for KUKA. The extraordinary commitment of the employees in many areas contributed to the very satisfactory development of the company over the course of the financial year just ended. The Supervisory Board wishes to extend a special thanks to them, the members of the Executive Board, the management teams of the Group's companies and the elected employee representatives. You all stood by KUKA during a difficult phase. We are confident that the company will continue to deliver outstanding performance in the fields of robotics and automation in the future.

Augsburg, March 14, 2011

The Supervisory Board

Bernd Minning
Chairman

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 interaction between the Executive and Supervisory Boards.

DECLARATION OF COMPLIANCE

The declarations of compliance of the Executive Board and the Supervisory Board that have been issued for every financial year starting in 2002, have in each case been made available on the company's website at www.kuka-ag.de.

The identical declarations of the Executive Board dated February 16, 2011 and of the Supervisory Board dated March 1, 2011 in accordance with article 161 of the German Stock Corporation Act (AktG) and the German Corporate Governance Code read as follows:

"Since issuing the latest declarations of compliance of the Executive Board (March 2, 2011) and of the Supervisory Board (March 5, 2010), KUKA Aktiengesellschaft has complied with, and continues to comply with, the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 18, 2009 or respectively since its validity as amended on May 26, 2010, which were published in the electronic edition of the Bundesanzeiger (German Federal Gazette) dated July 2, 2010, subject to the following exceptions:

1. KUKA Aktiengesellschaft does not follow the recommendation for the Supervisory Board outlined in section 3.8, clause 5 of the CGC. The Group D&O insurance policy does not provide for a deductible for members of the Supervisory Board. In KUKA Aktiengesellschaft's view, the deductible for Supervisory Board members is not required to ensure they properly fulfill their monitoring role.

2. Contrary to section 4.2.3, clause 3 of the CGC, Executive Board member Dr. Bickel, who left the company on December 31, 2010, only received a fixed salary and no variable compensation component. The company did not consider a variable compensation component to be appropriate since Dr. Bickel's appointment to the Executive Board was for a fixed term right from the start. In KUKA Aktiengesellschaft's view, a variable compensation component for an assignment of such short duration will not produce any meaningful long-term incentive.

3. Contrary to section 4.2.3, clause 11 of the CGC, the contract of former Executive Board member Dr. Bickel did not include a severance cap. The company did not consider it necessary to include a severance cap in Dr. Bickel's employment contract because of the limited duration of the contract. Neither did the company initially consider it necessary to include a severance cap in Executive Board member Dr. Reuter's employment contract, because his appointment to the position of CEO was initially limited until April 25, 2010 in accordance with article 105, para. 2 of the German Stock Corporation Act.

4. Contrary to section 5.4.6, clause 4 of the CGC, the members of the Supervisory Board only receive a fixe compensation. After examining various compensation models, the Supervisory Board members unanimously agreed that only a fixed compensation model is appropriate for the Supervisory Board if it is to be ensured that it properly executes its monitoring duties and maintains the necessary independence and neutrality thereof.

KUKA Aktiengesellschaft adheres to nearly all other proposals contained in the code."

As of March 2, 2011, the identical declarations of the Executive Board and the Supervisory Board have been made available on the company's website at www.kuka-ag.de.

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. This legal structure also comprises KUKA Laboratories GmbH, in which the "Advance Robotics" section resides. Legally, KUKA Laboratories GmbH is a wholly-owned subsidiary of KUKA Roboter GmbH; however, coducts its business activities directly under the guidance of KUKA Aktiengesellschaft.

Similarities between the business divisions regarding market and production areas, customers 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 three persons from January 1, 2010; namely, the Chief Executive Officer (CEO) the Chief Financial Officer (CFO) and the COO, responsible for restructuring and organization. COO Dr. Bickel's contract was for a fixed term right from the start and ended on December 31, 2010.

Since January 1, 2011, the Executive Board of KUKA Aktiengesellschaft consists again of two persons; 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, section 1 of the Company's Articles of Association).

RESPONSIBLE COOPERATION BETWEEN EXECUTIVE BOARD AND SUPERVISORY BOARD

The common goal of the Executive Board and the Supervisory Board is to sustainably increase the value of the company. 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 Supervisory Board. The Executive Board reports to the Supervisory Board regularly, in a timely manner, and comprehensively regarding all planning issues, 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 the Executive Board and Supervisory Board can be found in the report of the Supervisory Board on pages 29 to 33.

In the financial year 2010, 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 was a member of the company's Executive Board until December 31, 2010 and is also a managing director of consulting company Alvarez & Marsal Deutschland GmbH, which is under contract to the company until March 31, 2011. 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 was obliged to give priority to the interests of KUKA Aktiengesellschaft. Dr. Bickel was thus not permitted to participate in any decisions as manager of Alvarez & Marsal Deutschland GmbH that involve KUKA Aktiengesellschaft.

EXECUTIVE BOARD

In the financial year 2010 the Executive Board had three members responsible for the following departments:

Dr. Till Reuter, CEO, is responsible for (i) investor relations (ii) strategic corporate development (iii) public relations (iv) top executive managers of the Group (v) internal auditing and (vi) legal / compliance.

Mr. Stephan Schulak, CFO, is responsible for (i) finances and controlling, which includes the accounting, controlling, treasury and tax departments and (ii) human resources. Mr. Schulak is also KUKA Aktiengesellschaft's director of labor.

Board member Dr. Walter Bickel, (COO) was responsible for restructuring and organization in the financial year 2010. In this function, Dr. Bickel was responsible for (i) risk management (ii) IT and (iii) facility management.

Following the departure of Dr. Bickel from the Executive Board of KUKA Aktiengesellschaft on December 31, 2010, Mr. Schulak took over Dr. Bickel's responsibilities on January 1, 2011.

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

In accordance with the recommendations of the CGC (section 4.1.5), the Executive Board takes into consideration diversity in choosing company managers and especially strives to include an appropriate number of women. To this end, the Executive Board launched a program called "Female Inspiration", which aims to continuously increase the number of women who play a leading management role at KUKA Group.

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 employee representatives were elected to the Supervisory Board 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.

After Dr. Rolf Bartke, Dr. Reiner Beutel, Dr. Herbert Meyer and Dr. Helmut Leube resigned from the Supervisory Board on September 18, 2009, Prof. Dr. Dirk Abel, Prof. Dr. Uwe Loos, Dr. Uwe Ganzer and Guy Wyser-Pratte were appointed to the Supervisory Board by a decision of the Augsburg District Court on September 18, 2009. In accordance with the decision of the Augsburg District Court, the terms of office of Prof. Dr. Abel, Prof. Dr. Loos, Dr. Ganzer and Mr. Wyser-Pratte ended upon adjournment of the 2010 Annual General Meeting. As a result, the aforementioned Supervisory Board memberships became vacant.

In addition, Dr. Reuter had resigned from his position as chair of the Supervisory Board on September 29, 2009 in accordance with article 105, para. 2 of the German Stock Corporation Act (AktG) on account of his having been appointed as CEO of the company. His mandate as a member of the Supervisory Board was initially suspended. In the extraordinary Supervisory Board meeting of April 26, 2010, Dr. Reuter was permanently appointed to the position of CEO until the end of 2013. Dr. Reuter therefore resigned from the Supervisory Board on April 26, 2010. A replacement was thus required for this Supervisory Board position, which is why Grenzebach Maschinenbau GmbH, after previously notifying the Company in writing and with the support of the Supervisory Board, nominated Dr. Michael Proeller to succeed Dr. Reuter at the Annual General Meeting of KUKA Aktiengesellschaft on April 29, 2010.

Shareholders at the Annual General Meeting on April 29, 2010 elected Prof. Dr. Abel, Prof. Dr. Loos, Dr. Ganzer, Mr. Wyser-Pratte and Dr. Proeller to the Supervisory Board effective as of the adjournment of the Annual General Meeting on April 29, 2010.

As per article 10, para. 4, sentence 1 of the Articles of Association, the term of office of the new members of the Supervisory Board elected at the Annual General Meeting on April 29, 2010, is to be for the remaining term of the previous members; i.e., up until adjournment of the Annual General Meeting in 2013.

In its meeting on December 14, 2010, the Supervisory Board examined in detail the requirements of section 5.4.1 of the CGC regarding diversity. In conclusion, the Supervisory Board established the following goals for the future composition of the Supervisory Board, which are also to be taken into consideration by shareholders making nominations at the Annual General Meeting.

(i) At least two Supervisory Board members are to have sector-specific experience.
(ii) At least one Supervisory Board member should have a considerable amount of foreign professional experience.
(iii) At least two Supervisory Board members should not be employees or consultants of, or members of the corporate organs of customers, suppliers, lenders or other business partners of the Company.
(iv) Normally, Supervisory Board members should be no less then 35 years old and no more than 72 years old.
(v) Appropriately qualified women are to be reviewed as candidates. Within two election periods, at least two Supervisory Board members should be female.

To the extent that members of the Supervisory Board were or are 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. As an independent member of the Supervisory Board and its Audit Committee, Dr. Ganzer has expert knowledge in the area of accounting standards and corporate audits.

There were no conflicts of interest at the Supervisory Board level during the financial year. Six committees consisting of Supervisory Board members were formed by the Supervisory Board. These are:

(i) the Arbitration Committee as per article 27 section 3 of the MitbestG (German Act on 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 related to the Supervisory Board's work that arise in the course auditing the financial statements. Finally, it has also been 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, 2010.

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 covered the 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, 2010.

COMPENSATION OF THE SUPERVISORY BOARD

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

SHAREHOLDINGS

Dr. Till Reuter, member of the Executive Board and CEO, has been allocated a total of 1.49 percent of the shares issued by KUKA Aktiengesellschaft. Details hereto can be found in the Management Report, (page 74).

Supervisory Board member Guy Wyser-Pratte has been allocated a total of 4.74 percent of the shares issued by KUKA Aktiengesellschaft.

The remaining members of the Executive Board and Supervisory Board hold less than 1 percent of the shares in circulation.

CORPORATE COMPLIANCE

KUKA has always applied a high standard of ethical principles. Essential components are strict obedience to the law and value-oriented conduct. 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 key contents of the Corporate Compliance Program are contained in the Corporate Compliance Handbook, which outlines several compliance related rules. The Corporate Compliance Handbook was revised and updated in financial 2010. The revised version will come into force on April 1, 2011.

According to a resolution of the Executive Board the CEO has final responsibility for the Corporate Compliance Program. The Corporate Compliance Program is led, implemented, governed and further developed by a Compliance Committee, consisting of persons employed by the Group. In addition, compliance officers grouped by divisions and regions and reporting to the compliance committee were assigned in the Group companies. The compliance officers are the employees' direct and first point of contact for compliance-related issues. The position of an external ombudsman has also been established. Training for managers and employees was enhanced and continued again in 2010.

ANNUAL GENERAL MEETING

The ordinary Annual General Meeting 2011 will take place in Augsburg on May 26, 2011.

Each share has one vote. No-par-value shares are issued and global certificates are created. The shares are bearer shares. The Executive Board makes it easier for shareholders to exercise their voting rights in the Annual General Meeting by offering them the right to issue powers of attorney to proxies who are appointed by the company and are bound by directives of the shareholder. Shareholders present at the Annual General Meeting will also be able to reach the proxies appointed by the Company at that meeting. It is also possible to issue powers of attorney to financial institutions, shareholder associations and other third parties.

ACCOUNTING AND ANNUAL AUDIT

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 public Group consolidated financial statements is performed by an independent auditor elected at the Annual General Meeting. At the recommendation of the Supervisory Board, shareholders at the Annual General Meeting 2010 elected PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, as auditor for the annual reports and Group auditor for financial year 2010 as well as for a potential review of the mid-year report for financial year 2010. The mid-year report for financial year 2010 was reviewed by the auditor based on the aforementioned resolution.

The review of the independence of the auditor, the issuing of the audit assignment to him/her, the determination of audit focuses and the agreement on the fee were undertaken by the Supervisory Board's Audit Committee in accordance with the provisions of the Corporate Governance Code.

OPPORTUNITY, RISK MANAGEMENT AND CONTROLLING

Opportunities including controlling and risk management at KUKA Group are described in the chapter on risk management of the annual report on pages 66 to 73. 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 2010. 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, mid-year statements, the Annual Report, the financial press conference reporting on the annual financial statements and the ordinary Annual General Meeting of shareholders. In addition, it issues the Annual Document in accordance with article 10 WpPG (Securities Prospectus Act), ad-hoc releases according to article 15 WpHG (German Securities Trading Act), notices according to article 15a WpHG (Directors' Dealings) and article 26 WpHG (Disclosure of Shareholders and Owners of Certain Financial Instruments), holds conferences with analysts, talks with analysts and investors in Germany and abroad, and issues other press releases.

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

COMPENSATION REPORT

The report on compensation forms part of the Corporate Governance Report and summarizes the basic principles used to establish the compensation of the Executive and Supervisory Boards of KUKA Aktiengesellschaft and explains the structure and level of remuneration of the members of the Executive and Supervisory Boards. The Executive Compensation Report is also an integral part of the management report.

COMPENSATION OF THE EXECUTIVE BOARD

KUKA Aktiengesellschaft's Executive Board compensation contains fixed and variable components. The latter consist of several variable compensation elements. The Executive Board compensation system thus conforms with section 87 of the German Stock Corporation Act and the requirements of the CGC regarding sustainable corporate performance. The variable components take into consideration both positive and negative business developments.

At its meeting on September 28, 2010, the Supervisory Board examined in detail the compensation of the Executive Board. It then modified the existing executive member contracts of Dr. Reuter and Mr. Schulak retroactively in accordance with the compensation model described in this section. This was partly due to the circumstances surrounding Dr. Reuter's appointment. Initially he had been appointed as CEO in accordance with section 105 para. 2 of the German Stock Corporation Act and only appointed as CEO and member of the Executive Board until the end of 2013 when the Supervisory Board reached its decision on April 26, 2010.

Because the term of Dr. Bickel's appointment from the start was for a short period and ended on December 31, 2010, Dr. Bickel's compensation for his work on the Executive Board of KUKA Aktiengesellschaft was purely fixed.

The fixed compensation consists of a base salary and payments in kind. The base salary is paid in twelve equal monthly installments. The payments in kind of the Executive Board members consist mainly of the use of company vehicles.

One half of the variable component is based on achievement of personal targets and, if an annual net profit was generated, the other half is dependent on the growth of key business indicators; namely, KUKA Group's EBIT and free cash flow. The associated details are established annually by mutual agreement. The variable compensation component is capped and achievement of the financial targets is coupled to business development over several years.

An additional variable compensation component for members of the Executive Board consists of annually recurring phantom share programs (hereinafter also referred to as programs) that aim to provide a long-term incentive. It was first established in 2006. Phantom shares are virtual shares that grant the holder the right to cash compensation at the level of the company's current share price. In contrast to stock options, income from phantom shares reflects not just the increase in share value, but the full value of the share. In addition, a dividend equivalent that mirrors the actual dividend distributed on real KUKA shares will be paid annually during the life of the plan for each virtual share held. There are no voting rights associated with phantom shares.

The term of each phase of the program is three calendar years. It was rolled out for the first time for the period from 2006 to 2008. At the beginning of the three-year period, the Supervisory Board establishes the amount to be allocated. A preliminary number of phantom shares is derived by dividing this number by the applicable starting price of KUKA's shares, which is determined by the average price of KUKA shares (opening price in XETRA trading on the Frankfurt Stock Exchange) between January 1 and the last trading day prior to the Supervisory Board's financial statements meeting in the first year of the respective program. The Supervisory Board also establishes an EVA (economic value added) for continuing operations (before taxes) at the beginning of the three-year performance period based on the operative plan for the three program years, which is based on the budget for the first financial year of the three-year period and the plan for the two subsequent financial years.

To determine a success factor, the actual cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operational planning for the three program years covered. The success factor can vary between 0 and 2.0. The final number of phantom shares depends on the degree of achievement of the success factor, which is multiplied by the preliminary number of phantom shares. At the upper limit, the number of phantom shares is doubled (this occurs when the success factor 2.0 is achieved). Payment is based on the final number of phantom shares at the closing share price (average price of KUKA shares between January 1 of the year following the three reference years (following year) and the day prior to the financial statements meeting of the Supervisory Board in the following year).

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

The phantom share program established as a variable compensation component in financial 2010 refers to the period 2010 – 2012. Executive Board members were allocated 30,436 preliminary phantom shares based on a starting value of € 11.50.

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

The objective of the program is to ensure that every member of the Executive Board is also a KUKA shareholder. It promotes share ownership among members of KUKA's Executive Board and thereby ties the interests of these corporate members more closely to the interests of the shareholders. Changing success targets or comparative parameters retroactively is prohibited.

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

COMPENSATION FOR 2010

Payments to members of the Executive Board during the 2010 business year totaled € 2,642,000. The following table outlines the compensation of the individual Executive Board members as well as the entire Executive Board.

in € thousand	Fixed salary including payments in kind*	Variable compensation for financial 2010	Phantom share program 2010 – 2012**	Total
Dr. Till Reuter	420	400	283	1,103
Stephan Schulak	324	299	212	835
Dr. Walter Bickel	704	The employment contract did not include a variable component	The employment contract did not include any phantom shares	704
Total	**1,448**	**699**	**495**	**2,642**

* Payments in kind consist of the use of company cars, payment of hotel costs at the company's headquarters, payment of return flights home and accident insurance premiums, depending on the contractual agreement with the individual Executive Board members.

The premium for D&O insurance, unlike that for accident insurance, is not included in the payments in kind because it cannot be allocated on an individual basis since the company pays a flat premium for the protected group of persons, which extends beyond the members of the Executive Board.

** Value as per accruals as of December 31, 2010

With a few exceptions, former Executive Board members were granted benefits from the company pension scheme, which include old-age, vocational and employment disability, widow's and orphan's pensions. The amount of accruals included for this group of persons in 2010 for current pensions and expected pension benefits totals € 10,095,000 (German Commercial Code), which compares with € 9,392,000 in 2009.

COMPENSATION OF THE SUPERVISORY BOARD

Compensation Structure

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

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

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

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

Compensation for the years 2009 and 2010

Note that for financial 2010, the Supervisory Board members volunteered to forego 10 percent of their compensation. Mr. Bernd Minning also voluntarily forfeited a further 50 percent of the special payments to which he was entitled as Chairman of the Supervisory Board.

The following table compares the compensation of the members of the Supervisory Board for the 2009 and 2010 business years.

	Payment in 2010 for 2009 in € thousands	Payment in 2011 for 2010 in € thousands
Bernd Minning Chairman of the Supervisory Board; Chairman of the Personnel Committee, Strategy Committee, Mediation Committee and Nomination Committee	50	113
Dr. Till Reuter (to Sept. 29, 2009) Chairman of the Supervisory Board and Chairman of the Personnel Committee	25	0
Dr. Rolf Bartke Chairman of the Supervisory Board and Chairman of the Personnel Committee (to Sept. 18, 2009)	106	0
Jürgen Kerner Deputy Chairman of the Supervisory Board	81	81
Prof. Dr. Dirk Abel	15	54
Dr. Uwe F. Ganzer Chairman of the Audit Committee	19	68
Walter Prues (to June 30, 2009)	27	0
Dr. Michael Proeller (from April 29, 2010)	0	37
Dr. Reiner Beutel (to Sept. 18, 2009)	39	0
Prof. Dr. Uwe Loos Chairman of the Technology and Production Committee	19	68
Dr. Herbert Meyer (to Sept. 18, 2009) Chairman of the Audit Committee	48	0
Pepyn René Dinandt (to April 29, 2009)	9	0
Helmut Gierse (to April 29, 2009)	9	0
Carola Leitmeir	27	54
Dr.-Ing. Helmut Leube (to Sept. 18, 2009)	19	0
Fritz Seifert	45	54
Wilfried Eberhardt	27	27
Siegfried Greulich	45	54
Thomas Knabel	45	54
Guy Wyser-Pratte	15	54

KUKA AND THE CAPITAL MARKETS

KUKA, with a market capitalization of about € 600 million and average daily trading volume of 110,000 shares, is one of the largest listed companies on the German SDAX index. The company reports in conformance with the international rules of Deutsche Börse's Prime Standard segment and regularly stages road shows and investor conferences, both at home and abroad.

ECONOMICALLY SENSITIVE INDUSTRIAL STOCKS RALLY

During the first nine months of 2010, worries about the debt loads of some European countries and whether the euro zone would continue to exist dominated investor sentiment. The DAX, the leading German stock index, trended sideways during this time. However, in the fourth quarter of 2010, good news on the economic front triggered a turnaround and economically sensitive industrial stocks began to rally. With its strong focus on exports, Germany benefited more than others from the fast economic recovery and over the course of the year, the euro zone's largest national economy drove the EU's growth. Due to the strong growth in the fourth quarter the DAX rose overall still 16.1 percent. Automotive stocks such as BMW and VW (preferred shares) especially spurred the year-end rally, rising more than 80 percent.

However, demand for small and mid-cap companies' shares listed on the SDAX and MDAX was specifically strong. Both indices include numerous economically sensitive industrial stocks of automotive parts suppliers, mechanical and plant engineering companies, the chemical industry and the logistics sector, all of which were able to respond quickly and flexibly to the global economic rebound. Overall,the small and mid-cap companies were the stars in 2010, with average growth rates of between 45.8 percent and 34.9 percent.

KUKA SHARES – KEY FIGURES

in € millions		2006	2007	2008	2009	2010
Number of shares	millions	26.60	26.60	25.82	25.67	30.33
Earnings per share	€	-2.43	4.43	1.18	-2.95	-0.28
Dividend per share	€	–	1.00	–	–	–
Dividend yield (Dec. 31)	%	–	3.85	–	–	–
High for the year	€	24.75	31.50	26.01	12.67	16.93
Low for the year	€	14.02	18.58	10.07	9.02	9.87
Closing price for the year	€	19.36	26.01	12.67	11.95	16.60
Change compared to prior year	%	6.10	34.30	-51.30	-5.70	38.91
P/E ratio	(Dec. 31)	–	5.90	10.70	–	–
Market capitalization (Dec. 31)	€ millions	515.00	692.00	337.00	350.00	548.00
Average daily volume	No. of shares	165,000	232,000	234,000	98,300	113,000

KUKA SHARES OUTPERFORM INDEX IN THE FOURTH QUARTER

During the first half of the year, KUKA's share price fell back compared to the SDAX as a result of the capital increase announced on March 10 and the subsequent lack of investor interest. However, after the company successfully completed the capital increase and raised its targets for the year in June and July 2010, the share price quickly took off and had reached € 16.60 by the close of the year, compared to € 11.95 at the end of 2009. Over the course of the year, the share price thus rose 38.9 percent, slightly less than the rise of 45.8 percent in the SDAX. KUKA's share price benefited especially from the unexpected quick recovery of the automotive business and the strength of carmakers' share prices, which rose between 36 percent (Daimler) and 85 percent (BMW). But peer mechanical and plant engineering companies' and automotive parts suppliers' stocks were also up between 30 and 90 percent in 2010. Comparing KUKA's closing share price to its low for the year of € 10.06 on the March 29, the stock was also up 65 percent. KUKA was thus one of the companies that outperformed the index, particularly in the fourth quarter of 2010.

In 2010, KUKA's market capitalization growth was 61 percent, stronger than the SDAX growth of 28 percent and that of most mechanical and plant engineering companies in its peer group as well as that of automotive parts suppliers (28 – 102 percent).

CAPITAL INCREASE AND DEBT RESTRUCTURING

The capital market activities focused on raising additional capital via a stock offering and restructuring its debt during the year. These initiatives were completed in November 2010 and at the end of the year, KUKA's equity ratio was over 20 percent. In addition, it had secured better financing conditions and extended the term of its credit lines.

KUKA had already raised additional capital in November 2009 excluding subscription rights. At that time, 2.66 million new shares were placed with institutional investors at a price of € 10.50. The total gross value of the new capital raised at that time was thus € 27.9 million.

There was a further capital increase in June 2010, this time including subscription rights in a ratio of six to one. In total, 4.66 million new shares were issued at a price of € 9.75, which added € 45.4 million in new capital. Within eight months, KUKA's equity position thus improved by € 73.3 million gross. These two capital increases met the covenants of the lending agreements the company had with the banks at that point in time.

FIRST CORPORATE BOND PLACED

Finally, KUKA placed a corporate bond valued at € 200 million (total nominal value € 202 million) with institutional and retail investors in Germany and abroad in November 2010. This bond has a coupon of 8.75 percent p.a. and was sold at 99.36 percent of face value. This KUKA AG corporate bond is traded on the Euro MTF segment of Luxembourg's stock exchange and comes due in 2017. The revenue from this bond will be used among other things to repay the convertible bond that comes due in 2011 and to pay off the borrowed cash from the current Syndicated Senior Facilities Agreement.

In parallel, KUKA reached agreement with its creditor banks regarding an anticipated redemption of the current syndicated loan worth € 336 million toward the current Syndicated Senior Facilities Agreement. The company now has available credit of € 200 million, consisting of € 150 million in working capital guarantees and revolving cash credit lines of € 50 million. The term of the new Syndicated Senior Facilities Agreement is until March 31, 2014.

CORPORATE AND BOND RATING

In November 2010, rating agencies Standard & Poor's and Moody's assigned KUKA AG an initial long-term Corporate Family Rating (CFR) of B and B2 respectively. Both ratings were assigned the outlook "stable". The high yield corporate bond was given an issue rating of B- and B3 respectively.

OVER 70 PERCENT OF KUKA SHARES FREE-FLOATING

Grenzebach Group, including the allocated voting rights portion of Rinvest Group, Switzerland, held 25.2 percent (as of latest report) of the total shares at the end of 2010. KUKA AG owns 3.9 percent. The remaining shares are free-floating. Major institutional investors include Oppenheim Asset Management Services Sarl, Luxemburg, with a 5.2 percent share (as of latest report) and the funds of Wyser-Pratte Group, New York, with 4.7 percent.

COMMUNICATIONS WITH FINANCIAL MARKETS INCREASED SUBSTANTIALLY

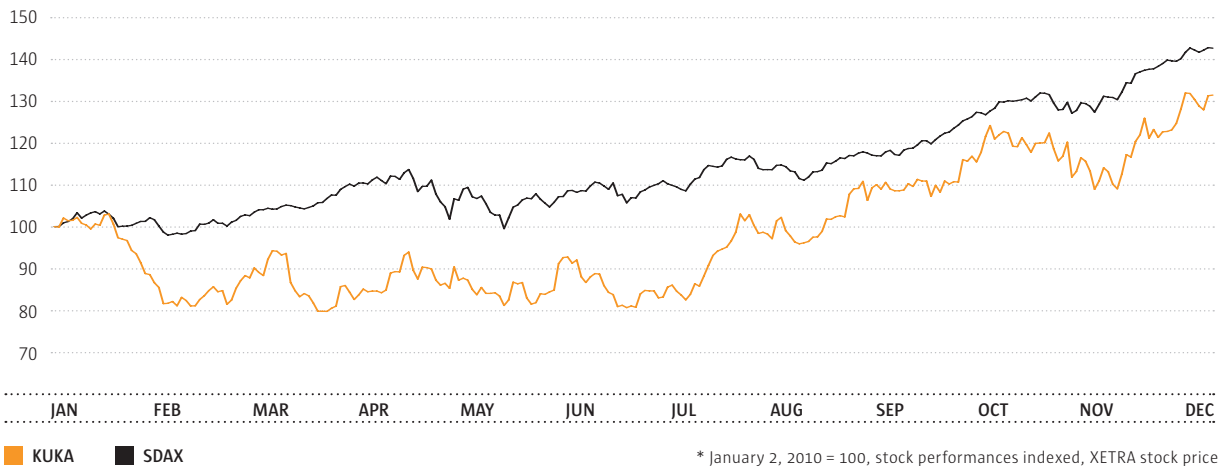
In view of the brightening economic environment, KUKA has significantly expanded its communications with the financial markets. The Executive Board and the Investor Relations Manager gave presentations about the company at twenty-nine road shows and investor conferences, compared to only twenty events the year before. In some cases this increased activity spanned multiple events in the western world's key financial centers: New York, London, Paris, Zurich and Frankfurt. In the rest of Europe, the team visited investors in Madrid, Milan, Brussels, Amsterdam and Vienna. In Germany, meetings were held in Stuttgart, Baden-Baden, Munich and Düsseldorf. KUKA gave a presentation in Tokyo, Japan for the first time. The number of individual meetings with investors went to 207 from 92 last year as a result of this increased communications activity.

KUKA Group also presented its financial statements at the DVFA Analysts' Conference in Frankfurt / Main on March 16, 2010. The annual Capital Market Day was held on June 8, 2010 in Munich in conjunction with AUTOMATICA, the international trade show for automation and mechatronics.

„BUY" RECOMMENDED BY MOST ANALYSTS

As the company's business situation began to turn around, the banks tracking the company's performance revised their investment recommendations. While at the end of 2009, six financial analysts were still issuing "sell" recommendations, seven a "hold" and four a "buy", the situation had reversed by the end of 2010. Eight were now calling for a "buy", four for a "hold" and only two were advising investors to sell. During this same period, the financial analysts' average price target rose from € 10.80 at the beginning of the year to € 15.92 at year-end, an increase of 47 percent.

KUKA SHARE PRICE PERFORMANCE FROM JANUARY 1, 2010 – DECEMBER 31, 2010*



* January 2, 2010 = 100, stock performances indexed, XETRA stock price

GROUP MANAGEMENT REPORT

BUSINESS AND BUSINESS ENVIRONMENT

BUSINESS ACTIVITIES AND GROUP STRUCTURE

KUKA AG is a stock corporation listed on the SDAX, the German index of small cap companies.

KUKA is an internationally active mechanical and plant engineering company focused on automating manufacturing processes using robots. The company's business model comprises a Systems division, whose mandate is to design and build automated systems, and a Robotics division, which supplies the core component of automated systems, the industrial robot. Customers can thus source the products, services and solutions they need from a single company and there is potential for cross selling between the two divisions.

The Robotics division develops, manufactures and sells industrial robots and is managed by KUKA Roboter GmbH. The Systems division primarily designs and builds automated manufacturing lines managed by KUKA Systems GmbH. The two management companies and the holding company KUKA AG are headquartered in Augsburg. The company has subsidiaries in its most important international markets, which help the divisions sell their products and services and provide assembly and field service locally. This ensures that the company has a global presence.

ROBOTICS DIVISION

The Robotics division supplies industrial robots, one of the core components of automated manufacturing systems. The division's product portfolio is modular. This enables the business unit to offer customized solutions based on a series of standard products with payloads ranging from 5 to 1,300 kg. The industrial robots are mainly developed and assembled in Augsburg. Control cabinet assembly, which is very labor-intensive, is carried out at two Hungarian factories. There is also a manufacturing facility in Shanghai, China, whose main purpose is to service the Asian market. In summer 2010, the division unveiled a new generation of industrial robots called QUANTEC, with fundamentally improved mechanics and controllers. These are to be introduced to the market over the course of the 2011 financial year. Among other things, QUANTEC robots weigh significantly less, which appreciably reduces cycle times while reach and payload stay the same. The new KR C4 generation of controllers offers enhanced motion control and sequencing, as well as software-integrated safety processes. This noticeably improves customer value added.

ADVANCED ROBOTICS

In spring 2010, KUKA established an Advanced Robotics section within the Robotics division, to enhance the lightweight robot (LWR) and expand the development of new applications and accelerate the company's entry into new markets. This business entity has been operating as an independent company, KUKA Laboratories, since January 2011. The segment's core responsibilities include research and development for both divisions, completing the development of the lightweight robot (LWR) to make it ready for market and developing products for industrial and nonindustrial market segments. Thanks to a unique combination of sensors and safety systems, the LWR will be usable in applications in which robotic solutions have to date not been possible; e.g., for reasons of safety. Advanced Robotics will also focus on increasing the use of lightweight and industrial robots in the health care market.

SYSTEMS DIVISION

The Systems division plans, designs and builds automated manufacturing systems. The range of products and services offered covers the entire value added chain of a plant – from systems components, tools and jigs to automated manufacturing cells, up to complete turnkey systems. The division's expertise is in automating individual production processes such as welding and soldering, processing a variety of materials (metals and nonmetals) and integrating various manufacturing steps in order to build a fully automated system (systems business).

The division mainly supplies automated systems to the automotive industry, including assembly lines for car bodies, engine and transmission assembly systems, as well as press tools for sheet metal processing. KUKA Systems also operates a Jeep Wrangler car body manufacturing line (KTPO), located at the Chrysler site in Toledo, Ohio.

The Systems division conducts business internationally and works with regional centers of expertise. Markets in Germany and Europe are serviced from Augsburg, North and South America from greater Detroit, Michigan and Asia from Shanghai, China. Other business segments include press tool manufacturing and automated assembly lines and test stands for engines and transmissions. These entities are located in Schwarzenberg, Erzgebirge and Slovakia as well as Bremen and greater Detroit, Michigan.

MARKETS AND COMPETITIVE POSITIONS

The automotive industry is the most important customer segment and generates almost two-thirds of total Group revenues. KUKA has been developing and implementing advanced automation solutions for this market segment for over thirty years. During this time, KUKA has become a recognized brand name for innovative automated manufacturing systems, because it has had to comply with the automotive industry's stringent productivity, quality and reliability specifications. KUKA Robotics is thus a market leader for industrial robots in Europe and is one of the world's three leading suppliers. KUKA Systems is number two in both Europe and North America in the area of car body manufacturing for the automotive industry. Both divisions regard themselves as the technology leaders in their respective markets.

To continuously expand its business, KUKA specifically targets sectors outside the automotive industry (general industry) in which it can take advantage of its leading automotive industry market position. KUKA Robotics has made the most progress in this regard. The division is one of the key global players in general industry markets such as metal processing, mechanical engineering, plastics, food and health care. The robots for general industry are mainly sold and serviced by systems partners that target specific markets. KUKA Systems is also expanding into related segments, including other vehicle manufacturing and the solar industry. It currently generates almost 20 percent of its revenue in these areas.

CORPORATE STRATEGY

KUKA's strategy is to grow profitably based on identified strengths such as the leading market positions of its divisions, as well as the company's innovation strength and strong customer relationships. Three strategic targets have been defined:

1. Expand KUKA's innovation and technology leadership
   For over thirty years, the KUKA brand has been associated with numerous innovations in the area of automotive plant construction and robot technologies. The automotive industry is generally playing a pioneering role in developing innovative manufacturing technologies. In order to maintain and expand its high level of innovation, the Robotics division employs about ten percent of its workforce in research and development at its Augsburg headquarters and invests between 6 and 8 percent of its sales revenues in this activity annually. Normally, the Systems division's R&D is conducted in conjunction with customer orders. The Advanced Robotics section plays a cross-functional role in the company by taking charge of technical developments for new applications and markets targeted by the two divisions.

2. Diversifying business activities into new markets and regions
   KUKA targets markets outside the automotive industry (general industry) on the basis of its strong automotive business. KUKA Systems does this by drawing on its automation expertise and applying it to related markets such as the aircraft and rail vehicle manufacturing industries, as well as the solar industry. KUKA Robotics works with sector-specific systems partners and develops new applications for industrial robots in target markets such as metal processing, mechanical engineering, plastics, food and health care. General industry markets have greater growth and profit potential than the automotive sector. In parallel, KUKA has established sales and service capabilities in the high-growth emerging markets of Asia and South America, in order to benefit from the increasing industrialization among others of the BRIC nations Brazil, Russia, India and China. KUKA often enters these markets via automotive projects, which have stringent quality and safety specifications, and subsequently expands by approaching customers in general industry markets.

3. Optimized cost structure and continuous efficiency improvement.
   As part of its cost-cutting program, KUKA has reviewed all of its internal processes and reengineered a number of them, especially in the area of supplier management and procurement in low-cost countries. This has enabled the company to significantly reduce its breakeven point.

The Robotics division's target EBIT margin is 10 percent, and the Systems division's is 5 percent. The Advanced Robotics section's medium to long range EBIT margin target is above 10 percent.

INTERNAL MANAGEMENT SYSTEM

The internal management system ensures that the Group's key indicators are transparent, which enables them to be systematically strengthened. KUKA AG's financial performance indicators measure factors that influence the company's enterprise value.

In order to determine return on sales, earnings before interest and taxes (EBIT) are compared to sales revenues. This gives EBIT margin. Free cash flow; that is, cash flow from operations minus investments, shows whether the investments can be funded from cash flow, and how much cash is available for payment of a dividend and debt servicing. EBIT is compared to the average amount of capital employed to determine the return on capital employed, or ROCE. EBIT and ROCE are determined for KUKA Group as well as the Robotics and Systems divisions.

An important early indicator of business performance for mechanical and plant engineering companies is orders received. Order backlog is determined by subtracting sales revenues from orders received. This indicator is reported at the close of each period. Order backlog is an important indicator of the loading of the operational capacities in the coming months. Orders received and order backlog are determined for KUKA Group as well as the Robotics and Systems divisions.

All key indicators are continuously tracked and reviewed by KUKA Group's corporate accounting and controlling departments. Management analyzes any deviations from plan and initiates the necessary corrective actions required to reach the targets.

2010 TARGETS ACHIEVED

At its financial results press conference on March 16, 2010, KUKA AG's Executive Board presented the following outlook for the current financial year: The 2010 financial year will be one of transformation for KUKA. The company is establishing a basis for sustainable profitable growth by cleaning up its cost structure and enhancing its strategy. Both the Robotics division and the Systems division should see sales growth during fiscal 2010. Overall, consolidated year-over-year Group sales revenue growth is expected to be in the medium single-digit percentage range. As a result, a positive EBIT before special items has been forcast for the KUKA Group in 2010.

Due to the fast recovery of the business, the company was able to raise its guidance when it presented its numbers at the half-year mark on August 3, 2010. The expectation was that KUKA would surpass the € 1 billion revenue mark during the financial year, provided that general conditions remained stable. KUKA Group's EBIT was thus forecast at between € 20 and 30 million. Restructuring costs of up to € 10 million were to be subtracted from this amount.

Because general economic conditions and worldwide demand, especially from the automotive industry, improved continuously over the course of 2010, the actual growth in KUKA Group's sales revenues exceeded the target and came in at € 1,078.6 million, up 19.6 percent. The Group's earnings before interest and taxes (EBIT) came in at € 24.8 million including one-time charges, and was thus above the range that had been forecast.

	Plan	Is
Growth in revenues (in %)	ca. 5%	19.6%
EBIT (in € millions) incl. one-time charges	10 – 20	24.8

ECONOMIC ENVIRONMENT

STRONG RECOVERY ON HEELS OF ECONOMIC CRISIS

Germany recovered from the economic crisis faster than any other developed nation. The main reasons were the market reforms and wage concessions of the past decade. Both these factors contributed to returning the German industrial based business model to a competitive position in world markets. The export oriented industry benefited mainly from the strong demand for capital goods and vehicles from the emerging markets in Asia and South America, which continued to grow. As a result, Germany was able to return to seventy-five percent of the level it was at prior to the most severe economic slump in eighty years. The German statistics office reported that overall, the nation's gross domestic product in 2010 was up 3.6 percent in real terms from the year prior, after declining 4.7 percent in 2009 (source: Handelsblatt dated January 13, 2011).

DEVELOPING COUNTRIES AND EMERGING MARKETS DRIVE GROWTH

The recovery was driven by German industry, which was especially successful in the BRIC markets – China, Russia, Brazil and India. German exports again were up 14.2 percent compared to the year prior. In 2009, exports dropped 14.3 percent (source: Handelsblatt dated January 13, 2011). Germany thus became the driving force behind the euro zone's economy. The emerging budget deficits of the EU-member nations Greece, Spain, Portugal and Ireland dampen the economic recovery in the rest of Europe. Overall, the economies of Europe's major industrial countries and North America grew by 2.8 percent year-over-year according to the World Bank. However, the growth was driven and continues to be driven by the developing countries and emerging markets, of which China grew by 10.3 percent according to the Chinese statistics office. The world economy recovered nicely in 2010 from last year's slump, with overall economic performance up 3.9 percent year-over-year (source: World Bank, January 13, 2011).

SUCCESSFUL YEAR FOR THE AUTOMOTIVE INDUSTRY

The international automotive industry was one of the sectors most severely impacted by the economic crisis. Accordingly, it recovered faster than the other sectors and at the end of 2010 could look back on a very successful business year again, thanks mainly to the strong demand from the key markets, China and the United States. According to figures published by the Center Automotive Research at the University of Duisburg - Essen, the markets in these two countries are now almost the same size at 11.4 million and 11.6 million vehicles sold (cars and light trucks). The Chinese market has reported double-digit growth for years, especially in the premium segment. For example, Mercedes doubled its sales in China in just one year. VW, the leading foreign manufacturer also reported a rise in sales of 35 percent over last year. Half of the additionally purchased cars from German manufacturers were sold in China (source: Handelsblatt dated January 10, 2011).

GERMAN PREMIUM SEGMENT MANUFACTURERS REPORT ABOVE-AVERAGE GROWTH

The premium segment is experiencing above-average growth again in the United States, which led to double-digit growth rates for German manufacturers in 2010. However, the turnaround for American manufacturers was even more remarkable, with General Motors reporting an increase in sales of 21 percent, Ford 16 percent and Chrysler 17 percent. Overall, the market grew only 11 percent. The domestic manufacturers were thus able to recapture some of their market share last year (source: Handelsblatt dated January 10, 2011).

On the other hand, in Europe, the world's third-largest market for cars, demand for private vehicles fell 5.5 percent after government programs, such as the scrappage program in Germany, expired. This was driven in large part by the significant decline in Germany, where sales were down 23 percent to 2.9 million vehicles. But other countries, such as Great Britain and Spain, reported slight sales increases. The total number of vehicles sold in Europe during the reporting period was 13.8 million. According to German Automobile Association numbers (VDA), the world's car market expanded by 8 percent to just under 60 million vehicles and thus has already returned to the level it was at prior to the crisis (VDA press release dated December 2, 2010).

Driven by the strong demand, particularly from Asia and America, the German automotive industry exported 23 percent more vehicles than last year. The final total was 4.2 million. Despite the declining domestic sales, production in Germany thus rose 11 percent to 5.5 million units. In parallel, production at German carmakers' facilities abroad climbed 17 percent to 5.7 million units, thus surpassing the number produced at home for the first time.

MECHANICAL AND PLANT ENGINEERING SECTOR LAGS

The mechanical and plant engineering sector also benefited from the rapid economic recovery, although with a normal time lag. According to VDMA, the German Engineering Federation, total orders received in 2010 were up 36 percent in real terms from the year prior. However, this has only returned the sector to the orders received numbers it had in 2005, and it is thus still significantly below the peaks reached prior to the crisis. This difference is particularly evident from the significantly lower manufacturing figures of the German plant and engineering sector, which reported a rise of only 8.8 percent for the year in total (source: VDMA press release dated February 1, 2011).

On the other hand, the robotics and automation segment's recovery was above the mean. According to the association, orders received in this segment in real terms jumped 55 percent from last year.

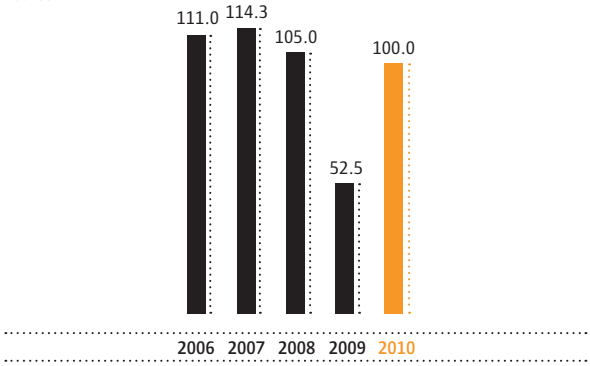
ROBOT MARKET RECOVERS FROM SLUMP WITHIN ONE YEAR

Sales of industrial robots recovered quickly after the steep decline last year. Both developments were due mainly to the sharp fluctuations in demand from the automotive industry. Demand swings in the sectors outside the automotive industry (general industry) during this period were significantly lower. Overall, the International Federation of Robotics (IFR) expects the market in 2010 to return to the level prior to the crisis. In other words, the industry has recovered from the prior year's slump in only one year (source: IFR dated November 18, 2010).

WORLDWIDE SALES OF INDUSTRIAL ROBOTS

in thousands of units

Source: IFR



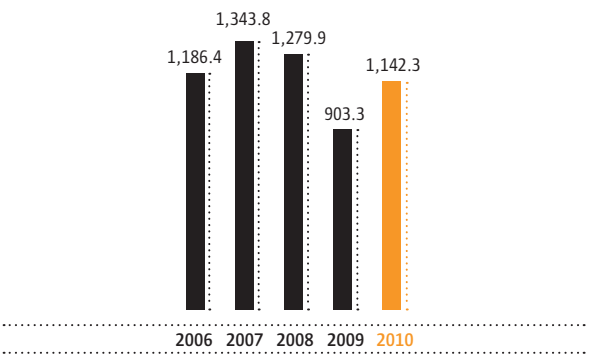
BUSINESS PERFORMANCE

As the world economy generally began to recover in fiscal 2010, KUKA benefited especially from the sharply higher capital spending of the international automotive industry. Increases in KUKA Group's orders received and sales revenues were thus both in the double-digit percentage range, recovering from last year's low levels. In parallel, the ongoing cost reduction program was executed according to plan, the breakeven point lowered and the Group made significantly more flexible.

STRONG DEMAND FROM THE AUTOMOTIVE INDUSTRY

In financial 2010, KUKA Group's consolidated orders received came in at € 1,142.3 million, 26.5 percent higher than the € 903.3 million posted in 2009. The company's orders received were thus almost back to the high level of € 1.2 billion reported in 2008. The Robotics division in particular recovered earlier from the prior year's market doldrums, driven by strong demand from the automotive industry. Orders were up 49.9 percent to € 486.2 million, a new all-time high. Last year's final number was € 324.3 million. While last year the automotive business was down more than other sectors, this year orders received from carmakers were almost twice as high as last year. General industry orders were also up sharply, returning to the level they were at in 2008. The Systems division also benefited from the automotive industry's higher capital spending. Orders received rose, especially in the second half of the year, and were up 16.5 percent to € 716.8 million from € 615.4 million in 2009.

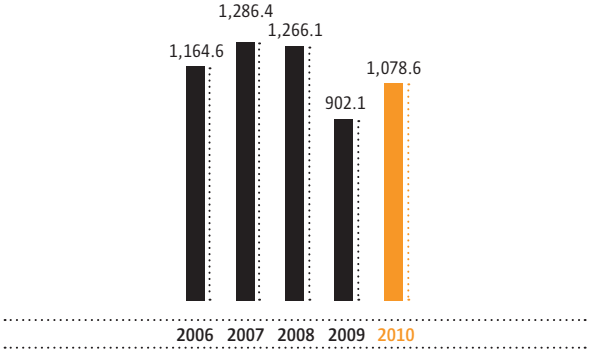
KUKA GROUP ORDERS RECEIVED in € millions



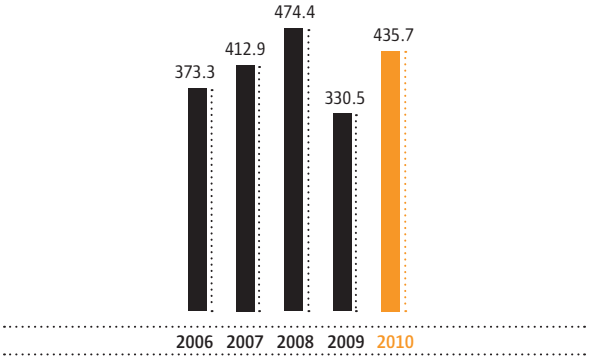
SHARPLY HIGHER REVENUES

Overall, KUKA Group's consolidated sales revenues for 2010 climbed 19.6 percent to € 1,078.6 million from € 902.1 million in 2009. The System division's share was € 695.3 million, up 14.8 percent from the prior year's € 605.5 million. The Robotics division's sales revenues came in at € 435.7 million, up 31.8 percent from the € 330.5 million generated in 2009.

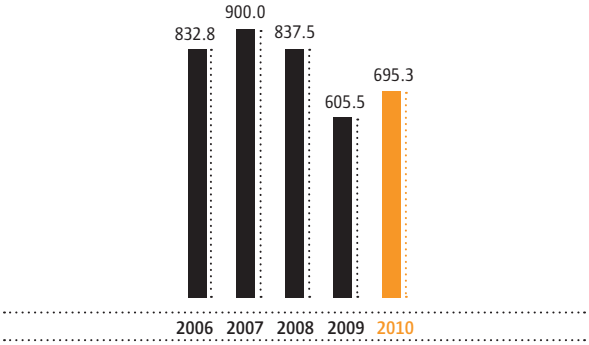
KUKA GROUP SALES REVENUES in € millions



KUKA ROBOTICS SALES REVENUES in € millions



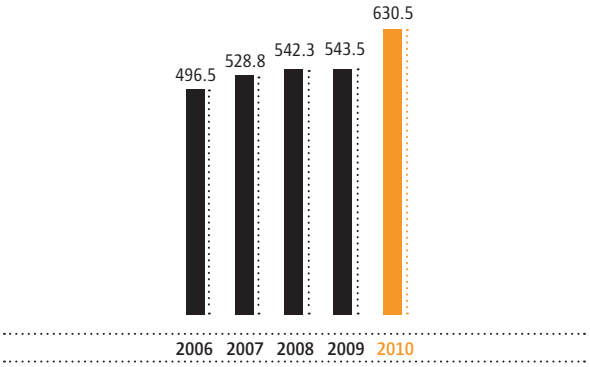
KUKA SYSTEMS SALES REVENUES in € millions



HIGH ORDER BACKLOG SECURES CAPACITY UTILIZATION

KUKA Group's order backlog rose to € 630.5 million at the close of 2010, 16.0 percent higher than the € 543.5 million posted at the end of 2009. The Robotics division's order backlog growth was the strongest: It jumped from € 93.9 million to € 149.0 million, up 58.7 percent. The Systems division's order backlog remained high and even rose 8.6 percent to € 500.0 million during the period under review. Capacity utilization is thus secured for the Systems division's project business for six to eight months and three to four months for the Robotics division's product business.

KUKA GROUP ORDER BACKLOG in € millions



WORKFORCE EXPANDED IN EASTERN EUROPE AND THE BRIC NATIONS

KUKA Group's workforce expanded from 5,744 at the end of 2009 to 5,990 at the close of 2010. This increase of 246 persons or 4.3 percent is proportionally less than the expansion in orders received of 26.5 percent. There were two offsetting developments during the year: KUKA expanded its workforce in Eastern Europe and the BRIC nations to align with its customers' increased global focus. For example, 351 employees were added at the company's Hungarian subsidiary, which builds control cabinets for robots. In the BRIC nations, the number of employees rose by 104. On the other hand, staff at KUKA Group's headquarters in Augsburg was cut by 259, leaving 2,375 persons at the end of 2010.

COST REDUCTION PROGRAM IMPROVES BUSINESS PROCESSES

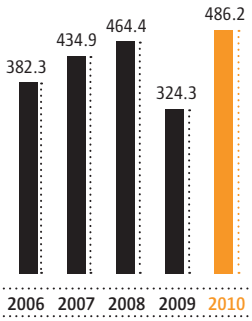
The cost reduction program was executed according to plan and generated recurring savings of € 68.6 million in total over the course of fiscal 2009 and 2010. The savings were achieved primarily by improving business processes and organizational structures throughout the entire Group.

DEVELOPMENTS IN THE DIVISIONS

ROBOTICS DIVISION

The Robotics division benefited from the sharply rising demand for industrial robots, particularly from the automotive industry, that had already started at the end of 2009 and became even stronger in 2010. Demand also rose in the nonautomotive sectors (general industry) and by the second half of the year had already surpassed the comparable orders received in 2008. The division's orders received in the second and third quarters of 2010 came in at € 131.7 million and € 137.7 million respectively, both all-time highs. Overall orders received for the financial year also reached a new high. They came in at € 486.2 million to beat the previous record of € 464.4 million set in 2008. The year-over-year growth from 2009's € 324.3 million was even greater at 49.9 percent.

KUKA ROBOTICS ORDERS RECEIVED in € millions



Automotive industry orders almost doubled

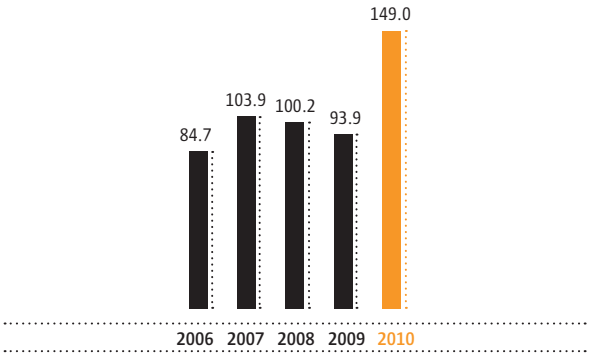
The main drivers of this satisfactory demand growth were the major automotive industry customers, which emerged stronger from the economic crisis and invested massively in new vehicle models and manufacturing systems the world over. The large orders received by KUKA Robotics were mainly blanket orders from European carmakers: e.g., Audi AG. Overall, orders received from the automotive industry were up 92.9 percent to € 202.4 million, almost twice last year's level. But general industry robot orders, which had declined less during the economic slump, also began to catch up quickly. They were up 32 percent to € 187.6 million. The service business unit, which had fared better during the downturn, had orders received of € 96.5 million, up 24.8 percent from a year earlier.

The significantly stronger orders received also drove the Robotics division's sales revenues sharply higher. They were up 31.8 percent, from € 330.5 million in 2009 to € 435.7 million. The book to bill ratio in financial 2010 remained solidly above one (1.12). Accordingly, order backlog continued to rise over the course of the year.

High order backlog at the start of the new year

As of the record date of December 31, 2010, the division had an order backlog of € 149.0 million, another record. It surpassed the prior year's record date number of € 93.9 million by 58.7 percent. This increase was driven by the higher level of orders received, particularly as a result of blanket orders from the automotive industry, as well as longer lead times from subsuppliers.

KUKA ROBOTICS ORDER BACKLOG in € millions



EBIT margin back to just under 5 percent

In financial 2010, the Robotics division generated earnings before interest and taxes (EBIT) of € 20.8 million. This compares to € -11.5 million in 2009 and includes special charges of € 9.6 million. The significantly improved earnings position is due in part to the substantially higher sales volume. This dramatically improved the loading of the division's flexible production capacity. Another contributing factor was the savings generated by the completed cost reduction program. Gross margin remained at 28.1 percent, mostly because of the high share of large automotive industry orders. In 2009 it was 30.7 percent. The Robotics division's overall EBIT margin in 2010 was back to 4.8 percent, compared to -3.5 percent the year prior. In the second half of the year, quarterly margins had already returned to over 6 percent.

SYSTEMS DIVISION

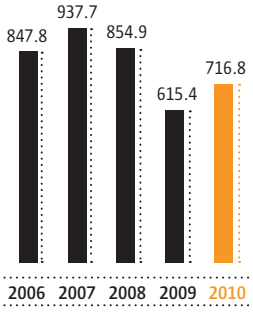
The Systems division also benefited from the accelerating demand from the automotive industry, even though the systems business typically responds later in the cycle than the Robotics division's product business. In financial 2010, the division received large orders from car manufacturers such as Ford, which are substantially expanding their capacities in the growth markets of Asia and South America. In contrast, investments in the car markets of Europe and North America were mainly for replacements.

All automotive business segments higher

The Systems division's overall orders received rose 16.5 percent, from € 615.4 million in 2009 to € 716.8 million in 2010. All business units involved in the automotive business (plant construction, Jeep Wrangler car body assembly, press tools, assembly and test systems) reported higher orders received. General industry sectors orders won were also up; for example from the aircraft and solar industries, so that orders received in this business area were also higher than last year.

In parallel with the higher orders received, the Systems division reported higher sales revenues. They were up 14.8 percent in fiscal 2010, from € 605.5 million in 2009 to € 695.3 million. The book to bill ratio in 2010 was slightly greater than one at 1.03. The division's order backlog continued to rise accordingly.

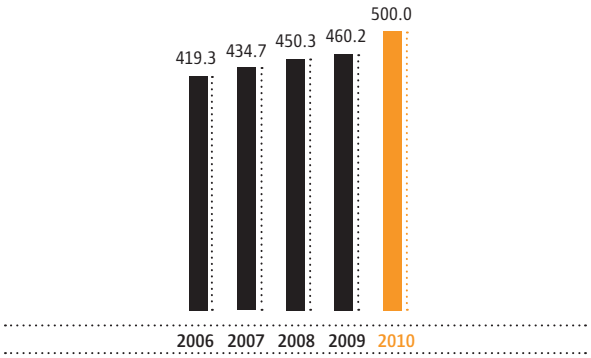
KUKA SYSTEMS ORDERS RECEIVED in € millions



High capacity loading at the start of the new year

The Systems division's order backlog was € 500.0 million on December 31, 2010. This is 8.6 percent higher than the € 460.2 million reported on last year's record date of December 31, 2009.

KUKA SYSTEMS ORDER BACKLOG in € millions



Improved efficiencies lead to solid earnings

In financial 2010, the Systems division generated earnings before interest and taxes (EBIT) of € 20.0 million. This compares to € -28.8 million in 2009 and includs special charges of € 23.8 million. This improvement is due to significantly lower costs and better efficiency, especially at the Augsburg headquarters, as well as an increase in the level of orders being processed. Gross margin at 10.6 percent was already higher than last year's 9.0 percent. Adjusted for interest charges on manufacturing costs, gross margin in 2010 reached 11.6 percent. The Systems division generated an EBIT margin of 2.9 percent for the financial year overall versus -4.8 percent in 2009. The margin in the last three quarters was higher than for the year overall.

EARNINGS, FINANCIAL POSITIONS AND NET WORTH

EARNINGS

Summary

In concert with the improved world economy, KUKA Group's orders received and sales revenues were substantially higher than last year, climbing 26.5 percent and 19.6 percent respectively in financial 2010. The Group's results were thus almost back to the same high levels reported in 2008. The company was able to turn around its earnings before interest and taxes (EBIT) as a result of the expanded business volume and the successfully implemented cost reduction program. It went from € -52.6 million in 2009 to € 24.8 million in 2010. These numbers include special charges of € 38.6 million in 2009 and € 6.3 million in 2010. The expenditures in 2010 were for consulting services associated with the cost reduction program.

in € millions	2006	2007	2008	2009	2010
EBIT	16.7	70.4	52.0	-52.6	24.8
EBIT-margin in percent from revenues	1.4	5.5	4.1	-5.8	2.3
Financial result	-13.8	-8.0	-5.0	-11.5	-22.0
Profit / loss	-64.8	117.9	30.6	-75.8	-8.6

Sharply higher sales revenues

The Robotics division's sales revenues rose sharply, from € 330.5 million in 2009 to € 435.7 million in 2010, an increase of 31.8 percent year-over-year. This very satisfactory growth was primarily driven by the expanding business with automotive industry customers since the start of the year. Since this division's business is primarily a product business where sales revenues follow orders received very quickly, most of the orders received growth translated into correspondingly higher sales revenues during the current year. The Systems division's sales revenues were up 14.8 percent, from € 605.5 million in 2009 to € 695.3 million in 2010. This division's orders received growth did not start to gain momentum until the second half of the year. Because project business lead times are longer, there is a delay before improved orders received are reflected in sales. KUKA Group's consolidated sales revenues for the financial year came in at € 1,078.6 million, up 19.6 percent from the € 902.1 million reported last year.

Earnings and costs improve

KUKA Group's gross earnings from sales rose € 44.8 million, from € 159.2 million in 2009 to € 204.0 million in 2010. The sharp jump was mainly driven by the € 176.5 million increase in sales revenues. However, at the same time, the Group's consolidated gross margin, the ratio of gross earnings to sales revenues, rose from 17.7 percent to 18.9 percent.

The Robotics division's gross earnings climbed, but gross margin was still down from 30.7 percent last year to 28.1 percent in 2010. This was mainly due to the higher share of business with major automotive industry customers, which rose from 31 percent last year to 41 percent.

KEY FIGURES KUKA ROBOTICS

in € millions	2009	2010
Orders received	324.3	486.2
Sales revenues	330.5	435.7
EBIT	-11.5	20.8
EBIT excl. one-time charges	-1.9	20.8
% from revenues	-3.5	4.8
% from capital employed (ROCE)	-9.5	16.1
Capital employed	120.5	129.1
Employees (Dec. 31)	2,009	2,347

Not only did the Systems division's gross earnings improve, its relative share of earnings on sales revenues was also up. In 2010, gross margin rose to 10.6 percent from 9.0 percent in 2009. Adjusted for the interest expenses included in manufacturing costs, the margin increased to 11.6 percent from last year's 9.1 percent. In addition to the improved market situation and the associated better price quality on orders, project risks were also significantly lower.

KEY FIGURES KUKA SYSTEMS

in € millions	2009	2010
Orders received	615.4	716.8
Sales revenues	605.5	695.3
EBIT	-28.8	20.0
EBIT excl. one-time charges	-5.0	20.0
% from revenues	-4.8	2.9
% from capital employed (ROCE)	-14.5	10.4
Capital employed	198.6	192.4
Employees (Dec. 31)	3,534	3,456

Operating costs; i.e., KUKA Group's administration, sales and R&D costs, fell year-over-year from € 198.0 million in 2009 to € 192.7 million in 2010. Despite higher sales revenues, sales costs were only marginally higher thanks to the successfully implemented cost reduction measures. The € 6.0 million drop in R&D expenses is in part due to the completion of the new generation of industrial robots. A large share of the special charges is included in the administration expenses. On the operating side, this item showed a significant decrease compared to last year.

Other income and expenses relate mainly to expenses and income associated with currency transactions. The positive balance was € 3.8 million in 2010 versus € 0.4 million in 2009. In addition, last year a major portion of the other expenditures came from the restructuring of the French locations.

Earnings before interest and taxes turned around

Thanks to the sharply higher gross earnings and elimination of special charges, KUKA was able to turn around its earnings before interest and taxes (EBIT). EBIT went from € -52.6 million in 2009 to € 24.8 million in 2010, including special charges of € 38.6 million in 2009 and € 6.3 million in 2010. KUKA Group's consolidated EBIT margin for 2010 was back to 2.3 percent from -5.8 percent the year prior.

Both divisions reported sharply higher earnings before interest and taxes. The Robotics division generated an EBIT of € 20.8 million in 2010, and thus an EBIT margin of 4.8 percent. In 2009, the result was € -11.5 million. The Systems division's results also improved during this period and in 2010, it generated an EBIT of € 20.0 million, compared to € -28.8 million in 2009. The division's EBIT margin was thus 2.9 percent. Both divisions came closer to their target EBIT margins over the course of the financial year as planned.

On the other hand, the loss from financing activities came in at € -22.0 million, significantly higher than the € -11.5 million in 2009. This was driven mainly by the significantly higher financing costs resulting from the revised Syndicated Senior Facilities Agreement in March 2010. These facilities could already be replaced by November 2010. In addition, the financial loss includes one-time charges of € 5.3 million associated with repayment of the Syndicated Senior Facilities Agreement. The financial loss for 2010 also includes for the first time interest costs of € 2.3 million associated with the bond issued in November 2010.

KUKA Group's tax expense in 2010 totaled € 4.0 million. Current tax expenses particularly in the United States were offset by prorated write-ups of capitalized deferred taxes on loss carryforwards. In 2009, current taxes were significantly lower. The prior year's number was driven mainly by the disqualification of tax loss carryforwards when a major shareholder exceeded the shareholding threshold of 25 percent.

Earnings after taxes

In total, KUKA Group's earnings after taxes went from € -75.8 million last year to € -8.6 million in 2010. In the fourth quarter earnings after taxes were for the first time positive. Earnings per share improved accordingly, going from € -2.95 in 2009 to € -0.28 in 2010. Because of the capital increase in 2010, the weighted average number of shares in circulation rose from 25.7 million in 2009 to 30.3 million in 2010, not including treasury shares of 1.3 million.

CONSOLIDATED INCOME STATEMENT (CONDENSED)

in € millions	2009	2010
Sales revenues	902.1	1,078.6
Earnings before interest and taxes (EBIT)	-52.6	24.8
Earnings from financing activities	-11.5	-22.0
Taxes on income	-11.4	-4.0
Loss for the year	-75.8	-8.6

FINANCIAL POSITION

Financial management goals and principles

KUKA AG bundles most of its companies' financial requirements and manages these in its central financial management department. This department evaluates Group-wide credit, liquidity, interest and exchange risks on the basis of a standard reporting system and secures them to the extent possible. Risks are hedged exclusively on a transaction by transaction basis or for anticipated orders by using standard derivatives. KUKA has issued a standard set of guidelines to all Group companies for managing financial risks. The company continuously reviews, updates and improves these guidelines.

Group financing and working capital management

The aim of the financing policy is to secure sufficient liquid reserves at all times to satisfy the operating and strategic financial needs of the Group's companies. This policy is based on a multiyear financial budget and a rolling monthly liquidity plan, each of which encompasses all consolidated Group companies.

Revenue streams from the business operations of the Group's companies represent the Group's most important source of liquidity. Cash management systems are used to employ the excess cash generated by individual Group companies to cover the financial needs of others. The centralized revenue sharing within the Group reduces the amount of debt financing required, which has a positive impact on the interest result. KUKA Group's financing needs are primarily covered by the existing Syndicated Senior Facilitates Agreement, the bond issued last year and the convertible bond, which comes due in November 2011 (further information can be found in the notes, item 27).

Financing restructured

The restructuring of KUKA Group's finances was a dominant theme in fiscal 2010. The Syndicated Senior Facilities Agreement in place since 2007 contained certain covenants the Group was unable to honor due to the difficult business situation since the second quarter of 2009; this fact entitled the lending banks to call in their loans immediately. The banks waived this right and instead instituted rolling waivers. To cover the Group's short-term financing needs, the Syndicated Senior Facilities Agreement totaling € 336.0 million and consisting of a € 146.0 million cash credit line and a € 190.0 million working capital guarantee was extended in March 2010. This loan agreement was subject to various conditions and covenants; e.g., successful implementation of the restructuring measures, raising additional capital and refinancing the existing convertible bond.

KUKA Group completed its restructuring during the financial year. Furthermore it successfully raised additional capital in June 2010. In November 2010, the financial restructuring was completed with the signing of a new Syndicated Senior Facilities Agreement in the amount of € 200 million and the issue of a bond valued at € 202 million, which generated € 200 million in revenues. The sum of € 69.0 million was set aside from the bond revenues and deposited in a trust account for the convertible bond.

In conjunction with the bond issue, KUKA AG received initial ratings in November 2010 from Standard & Poor's and Moody's. The former rated the company B (stable) and the latter B2 (stable). Standard & Poor's rated the bond itself B- and Moody's gave it B3.

The new Syndicated Senior Facilities Agreement is valued at € 200 million, of which € 50.0 million is a cash credit line and € 150.0 million a working capital guarantee, and runs until March 2014. As of December 31, 2010, the company also had a working capital guarantee of € 10.0 million from credit insurance companies. In addition, an ABS program (regular sale of receivables) launched in December 2006 can contribute up to € 25 million. As of December 31, 2010, the actual amount used was € 10.3 million. The cash committed in conjunction with this restructured financing was available in full at the end of 2010.

The Executive Board now considers KUKA Group's financing to be appropriate and secure for the long term.

CONSOLIDATED CASH FLOW (CONDENSED)

in € millions	2009	2010
Cash earnings	-43.7	23.4
Cash flow from operating activities	4.8	-24.8
Cash flow from investment activities	-27.0	-12.5
Free cash flow	-22.2	-37.3

Cash earnings improve substantially

Cash earnings, consisting of the loss for the year corrected for cash-neutral depreciation on property, plant and equipment and intangible assets and other non-cash income and expenses, were € 23.4 million in 2010, substantially higher than last year's € -43.7 million. This was largely driven by the reduced loss for the year, which went from € -75.8 million in 2009 to € -8.6 million in 2010.

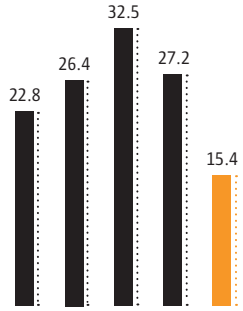
Cash flow from operating activities reflects mainly the change in working capital during the financial year. Because the business improved substantially trade receivables in particular were higher at the close of the reporting period, as were receivables from contracts (€ +53.3 million) and inventories (€ +54.2 million). This increase in current assets was mainly financed by an increase in trade payables (€ +75.3 million), due to the fact that after successfully refinancing, KUKA Group was again able to demand standard payment terms from key suppliers. Other accruals fell € 22.3 million during the financial period, especially due to payouts for restructuring measures already accrued for on the 2009 balance sheet.

Overall, KUKA Group's cash flow from operating activities as of the period end fell to € -24.8 million. This compares to last year's € 4.8 million. But at the same time cash flow from investing activities fell to € -12.5 million because of the reduced investments. This compares to € 27.0 million last year.

Reduced investments

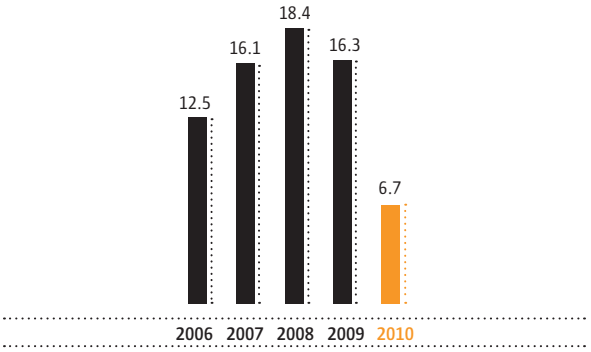
During the reporting period, KUKA Group invested in conjunction with the restructuring program € 15.4 million significantly less than last year's € 27.2 million. Investments in property, plant and equipment reached € 10.6 million versus € 15.8 million the year prior. Of the funds committed, € 3.9 million were invested for technical systems and machinery, € 4.9 million for factory and office equipment, € 0.9 million for assets under construction and down payments and € 0.9 million for property and buildings. Investments in intangible assets totaled € 4.8 million versus € 11.4 million the year prior and consisted primarily of rights and assets including capitalized development items.

KUKA GROUP CAPITAL EXPENDITURES in € millions

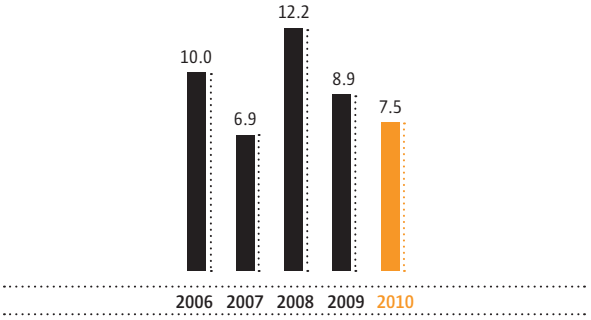


Investments by division in 2010 were as follows: The Robotics division's spent € 6.7 million versus € 16.3 million the year prior. In addition to capitalized development items, the spending was mainly for technical systems and machinery; e.g., a DMC 80 machining center. Investment was down substantially from last year, mainly because the development program for the new generation of industrial robots was completed in 2010. The Systems division invested € 7.5 million compared to € 8.9 million the year prior. Here the spending was mainly for technical systems such as milling machines, presses and CNC machinery, in addition to factory and office equipment. Investments by KUKA AG / others were also down to € 1.2 million from last year's € 2.0 million.

KUKA ROBOTICS CAPITAL EXPENDITURES in € millions



KUKA SYSTEMS CAPITAL EXPENDITURES in € millions



Since KUKA Group has a low intensity of investments to conduct its business, growth is not very dependent on investments in property, plant and equipment. However, higher capitalized internal costs from research and development activities are again expected for intangible assets, starting in 2011.

The reduced cash flow from investment activities together with the negative cash flow from operating activities resulted in a free cash flow of € -37.3 million. This compares to € -22.2 million the year prior.

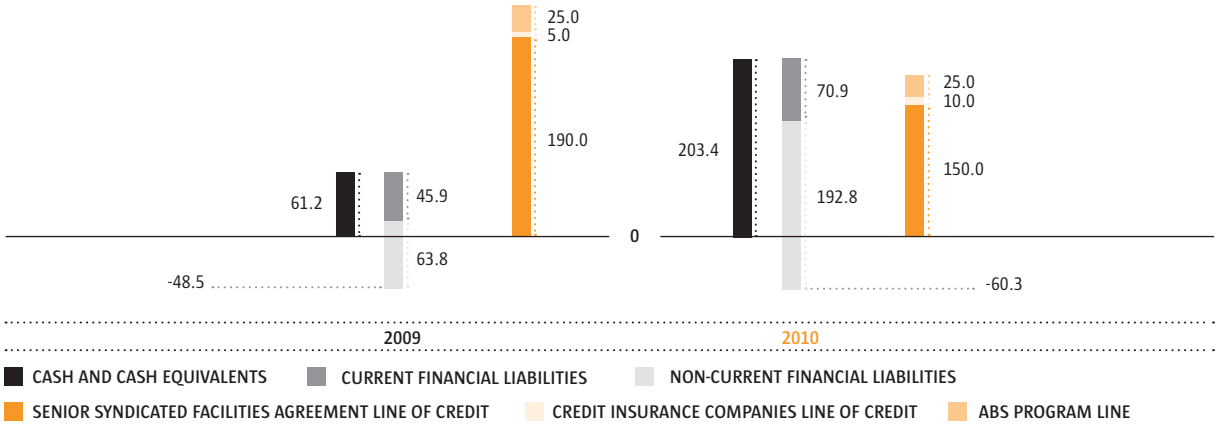
Substantially higher liquidity

Cash flow from financing activities includes new funds from the capital increase in June 2010 (€ 42.8 billion) and the issue of the bond in November 2010 (€ 198.2 million). Among other things, the funds were used to pay down bank loans by € 63.9 million. As of the period end, KUKA Group's liquid assets thus totaled € 203.4 million, versus € 61.2 million the year prior. Of this amount, € 69.0 million has been earmarked for any repayment of the convertible bond that may be required in November 2011.

KUKA Group's net debt; i.e., liquid assets minus current and non-current financial liabilities was € -60.3 million as of December 31, 2010. This is up € 11.8 million from the € -48.5 million reported on December 31, 2009. However, the Group's financing structure has also improved significantly.

GROUP NET DEBT

in € millions



NET WORTH

Total assets sharply higher driven by business situation

On the asset side, long-term assets were up slightly, rising € 4.3 million year-over-year, and were reported at € 296.6 million as of the period end. Because of reduced investment activities, non-current assets, particularly property, plant and equipment, were down € 7.2 million. While receivables from finance leasing resulting from the redemption of the KTPO financing and tax receivables changed only slightly, deferred tax assets rose € 8.8 million. Prorated write-ups of capitalized deferred taxes were adjusted upwards from last year because profits are expected to be higher.

Current assets were up because of sharply higher receivables from contracts and inventories. Further details in this regard are provided in the financial position discussions. The increase in other assets and deferred charges was driven mainly by higher value added tax receivables and accruals for transaction costs associated with the new Syndicated Senior Facilities Agreement. In total, current assets as of the record date were € 688.1 million, € 254.2 million higher than reported at the close of last year. At the same time, cash and cash equivalents were higher by € 142.2 million, above all because of the bond placement.

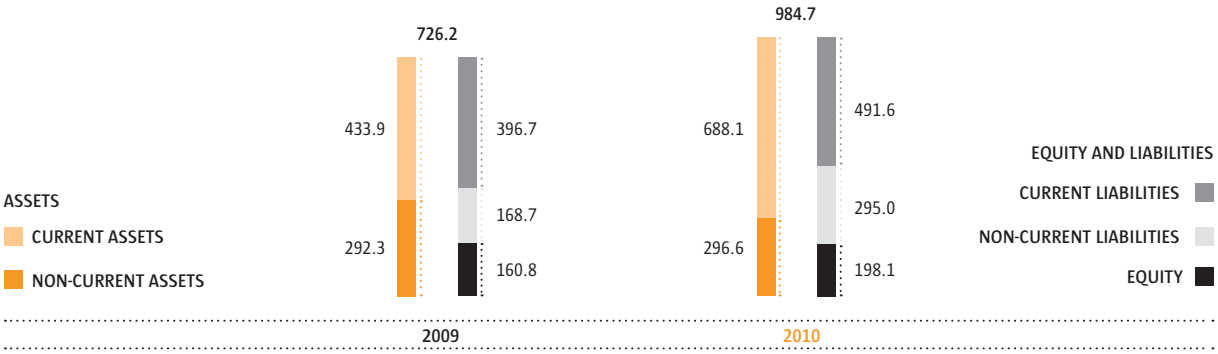
Overall, KUKA Group's total assets went from € 726.2 million as of December 31, 2009 to € 984.7 million on December 31, 2010, a year-over-year increase of € 258.5 million or 35.6 percent.

NET WORTH

in € millions	2006	2007	2008	2009	2010
Balance sheet total	1,072.5	888.0	865.5	726.2	984.7
Equity	120.5	233.5	213.5	160.8	198.1
in percent of balance sheet total	11.2	26.3	24.7	22.1	20.1
Net liquidity / debt	-83.9	163.6	-53.6	-48.5	-60.3

GROUP ASSETS AND FINANCIAL STRUCTURE

in € millions



Equity substantially higher

The cash injection of € 40.5 million from the capital increase and a currency exchange difference of € 6.9 million had a positive impact on equity. This was offset by the loss for the year of € 8.6 million. Overall, equity went from € 160,8 million as of December 31, 2010 to € 198.1 million, an increase of € 37,3 million. Since total assets rose by 35.6 percent, the equity ratio; i.e., the ratio of equity to total assets, still was down by two percentage points from 22.1 percent to 20.1 percent as of the record date.

The increase in non-current financial liabilities to € 192.8 as of the record date was mainly due to the issue of the corporate bond. Last year, this item only included the convertible bond. Since this convertible bond will come due in less than a year (November 2011), it is now reported under current financial liabilities. The remaining non-current debt items changed only marginally.

The current financial debt item for 2010 includes the convertible bond for the first time. In line with the higher business volume, down payments received have also risen by € 21.9 million to € 49.0 million. At the same time, liabilities from manufacturing orders fell € 15.0 million to € 39.6 million. At the end of 2010, current liabilities totaled € 491.6 million compared to € 396.7 million the year prior.

Working capital und capital employed

During the financial year, working capital rose € 29.9 million to € 84.8 million due to the expanding business volume.

One of KUKA Group's key indicators is return on capital employed, or ROCE. The average capital employed is measured at the beginning and at the end of the financial year. On average, KUKA Group's capital employed declined slightly from € 317.5 million in 2009 to € 312.5 million in 2010. The return on capital employed was positive at 7.9 percent in view of the EBIT of € 24.8 million. Last year, the return on capital employed was negative because of the earnings situation.

The Robotics division's return on average capital employed (ROCE) of € 129.1 million was 16.1 percent. The Systems division's return on average capital employed of 192.4 million was 10.4 percent.

RESEARCH & DEVELOPMENT

R&D is of great strategic importance to KUKA Group and serves primarily to continuously secure and enhance the company's technology leadership. The Robotics division relies on both its own employees, who work almost exclusively at the Augsburg location, and long-term collaboration with external research institutes. In contrast, the Systems division's research projects are associated mainly with customer orders which are placed directly to the company.

KUKA Group's R&D is based on the following principles:

- develop highly functional and efficient, user-friendly products and solutions
- aim for scalable solutions that add significant customer value using appropriate control technologies and mechatronics
- maximize product life cycle attributes such as quality, durability and energy efficiency
- minimize the time to market by utilizing state-of-the-art IT technologies
- continuously improve existing products to enhance efficiency

MAJOR PROJECT COMPLETED

KUKA launched a new generation of industrial robots called QUANTEC at the international automation and mechatronics trade show AUTOMATICA, which was held in June 2010 in Munich. The event brought to a close a number of R&D projects. This is the main reason KUKA Group's R&D expenses dropping from € 35.6 million in 2009 to € 29.5 million in 2010. As a result of the strong growth in sales revenues, the R&D ratio was down during the reporting period and came in at 2.7 percent, the same level as in 2008. Because of the substantially lower sales revenues, the R&D ratio in 2009 was 3.9 percent.

GROUP RESEARCH AND DEVELOPMENT COSTS

	2006	2007	2008	2009	2010
total expenditure in € millions	35.5	30.8	33.7	35.6	29.5
of which KUKA Robotics in € millions	32.7	28.3	31.0	33.1	28.2
KUKA Robotics' share in %	92.1	91.9	91.0	93.0	95.6
KUKA Robotics' R&D ratio in % of sales	8.8	6.9	6.5	10.1	6.6

The Robotics division does most of the R&D within the Group. Expenses for R&D of this division dropped from € 33.1 million last year to € 28.2 million as a result. Added to this are € 1.5 million for development work the division carried out on behalf of the Systems division and other KUKA Group companies. Last year's comparable number was € 0.4 million. The Robotics division's R&D ratio was 6.6 percent. Last year, the ratio was 10.1 percent because of the significantly lower sales revenues. The Systems division conducts most of its R&D activities in conjunction with customer orders. As a result, R&D expenses in 2010 were only € 1.4 million, compared to € 2.5 million the year prior.

KUKA Group's R&D costs are primarily self-financed. However, some of the work is publicly funded and the company also cooperates with research centers, universities and other companies. The share of outsourced services of the total budget in 2010 continued to be in the range of twenty percent.

ROBOTICS DIVISION

The Robotics division had 212 R&D employees as of December 31, 2010, compared to 232 the year prior. Most of these individuals have university degrees. Half of these employees work in the field of software and hardware development and the other half in mechanical design and mechatronics. In total the division applied for 137 patents in fiscal 2010, and 98 patents were awarded.

The Robotics division's R&D work generally focuses on industrial and service robotics.

The Industrial Robotics team completed the development of a new product family in 2010. This generation of industrial robot consists of mechanics, controller, operating interface and engineering software, all of which were newly developed. The product family was first unveiled to the public in June 2010 at AUTOMATICA, the international trade show for automation and mechatronics, held in Munich. First deliveries to customers took place in the second half of 2010. In 2011, the new industrial robot will first be sold to the automotive sector. The plan is to introduce it to general industry the following year.

QUANTEC – the new generation of industrial robots

QUANTEC is a new generation of robots featuring specific technical innovations that add customer value while simultaneously enabling the efficiency of manufacturing processes to be improved. For example, a single robot family now spans the entire payload range from 90 kg to 300 kg for the first time. QUANTEC robots are twenty-five percent smaller volume-wise than their predecessors, which makes them much easier to handle. Because they also weigh twelve percent less, their dynamic performance is better, and cycle time is reduced by twenty-five percent. At the same time, they consume twenty-five percent less energy. The rigid mechanical design also makes them more accurate. The product thus has a smaller footprint, produces more and at the same time saves energy. The QUANTEC generation of robots is designed to meet the strict specifications of the automotive industry, as well as the special needs of other sectors such as general industry.

KUKA presented its new QUANTEC console machines at K 2010 in Düsseldorf, the international trade show for the plastics and rubber industry. These robots are especially suited for use in the plastics industry. They are easy to mount on injection molding machines thanks to their lower weight. They feature an expanded working envelope in the forward and downward direction, which makes it easier to remove parts from injection molding machines. The QUANTEC K ultra robot is the world's most powerful console robot and has the highest power density.

New KR C4 controller provides basis for enhanced human-machine cooperation

IT industry technology leaps were applied in the development of the new KR C4 generation of controllers, which enables KUKA to offer the market cost optimized innovations. All of the internal and external communications systems are now Ethernet-based. The PC motherboard is especially suited for industrial use and multi-core scalable processors have been used to enhance computing performance. This architecture makes it possible to reduce the number of proprietary hardware modules being substituted by software functions that run on the PC. Less hardware results in less wiring and improves controller uptime. The software modules feature a wide range of configuration options, which enhances the controller's flexibility. An integrated software-based safety controller makes it possible to flexibly configure safety functions, which can be applied for example in new human-machine cooperation scenarios. Intelligent energy saving features cut energy consumption by up to 95 percent.

KUKA smartPAD – an intuitive interface

The focus was also on innovation when developing the new operator interface, called KUKA smartPAD. The new portrait style touch screen enables the robot system to be operated intuitively. The interface can be plugged in while the system is in operation. A single operator interface can be used to control several networked robotic systems.

KUKA's new WorkVisual engineering software assists users throughout an automation project's entire life cycle. In this software environment, the new controller can be configured and programmed using modern, intuitive application tools such as drag-and-drop.

KUKA Laboratories (Advanced Robotics)

The second focus of the division's R&D activities is on service robotics. KUKA's lightweight robot (LWR) especially is designed for a variety of tasks; for example, working places at which humans and robots can collaborate without the need for safety installations that have been required to date, as well as for the new health care markets. The lightweight robot family is being specifically enhanced on the basis of an existing framework. At AUTOMATICA 2010, the company presented a LWR model with an aluminum outer casing, which makes it particularly suitable for industrial use. The robot's strengths make it suitable for joining and assembly applications.

Because it weighs little and is very energy-efficient, the robot is easy to move around. It is also predestined for use in mobile systems. An enhanced version of the mobile robot discussed in the "omniRob concept" study presented in 2008 was demonstrated at AUTOMATICA 2010. The device autonomously performed order picking and delivery tasks in a real-world, unstructured production environment. The demonstration convinced visitors that it is suitable for industry. To further enhance the mobile robot, it is now being tested in several pilot projects in the automotive sector and general industry.

KUKA leads the EU-sponsored TAPAS project (www.tapas-project.eu), which has a mandate to develop mobile robots to support logistics and provide assistance services on future flexible production lines. The company is also a partner in the FIRST-MM (www.first-mm.eu) project. Here the participants are searching for ways to provide essential information to mobile systems. KUKA also works with leading industrial and research partners on a wide variety of other topics in an effort to ensure that knowledge is transferred quickly from R&D groups to industry, and thereby secure KUKA's technology leadership.

The R&D processes for developing products in the area of health care robotics were further expanded and prepared for certification. This will provide a better interface for KUKA customers on joint customer-specific health care applications. KUKA's lightweight robot is also increasingly being used in health care research projects.

KUKA is also involved in robotics in a general sense. A key role here is that of coordinator of the European Technology Platform project (EUROP; www.robotics-platform.eu). KUKA is also a member of European Robotics Networks (EURON; www.euron.org) and coordinates the euRobotics project (www.euRobotics-project.eu) associated with the other networks.

SYSTEMS DIVISION

During the financial year, KUKA Systems focused on standardizing products and components for plant assembly systems and cells. The following examples give an indication of how wide the application spectrum is.

FlexibleCube – modular system for laser and inert gas welding applications

FlexibleCube, a modular system the division developed for laser and inert gas welding applications, was first unveiled at the Euroblech trade show in Hannover. The modular concept makes it easier for users to get started with automation technology and makes it possible to expand production capacities. FlexibleCube consists of a wide range of standard components such as operator cabs, safety components and positioning aids. This cost-effective and flexible system provides a basis for making production lines more efficient. KUKA FlexibleCube provides customers do-it-yourself partly automated production cells to satisfy their needs.

Cycle Move – a new concept for parts provision

Cycle Move is a new, cost-effective concept for providing parts in automated production systems. The delivery system consists mainly of two stacked sloped belts running in opposite directions, on which pallets on roller bearings are conveyed by means of gravity. One of the belts delivers parts and the other carries them away. Either a robot included with the cell or an automated return device moves the empty pallets from the delivery to the return belt. The advantages of this delivery system are high uptime, low energy consumption and the fact that the operator is decoupled from the system cycle time.

Press automation using KUKA COBRA

KUKA Systems also presented a new system for automating presses at Euroblech in Hannover. For the first time, the gripper can be swiveled horizontally, which leads to greater freedom of movement and improves the flexibility of the press. Higher speeds are achieved by superpositioning the axes of the robots and linear systems while simultaneously reducing the mass in motion. KUKA COBRA is capable of delivering up to eighteen components per minute. It can move components weighing up to 100 kilograms (including gripper). KS PressTec software and a function package to handle components are already integrated into this new system.

Wafer saws for solar industry enhanced

Two saws for wafer production in the solar industry were enhanced. The Advanced Wire Saw Machine 3800 can use environmentally friendly polyethylene glycol-based cutting lubricant instead of oil. Furthermore, this wafer saw can now cut silicon blocks up to 1,200 mm long. Machine noise emission was also reduced and the sawing process made more stable. A new generation of cropping saws was also developed for cutting blocks to length. The unique features of this machine are its automated clamping system and the fact that it can be integrated into automated production lines.

Sunroof hemming

The time-tested HighOutputQuality system was extended by a newly developed hemming head, which can quickly make a 180° hem on a sunroof. The resulting surface quality is outstanding and process time extremely short. All required functions are integrated into this hemming head. The system can be used in "flying" mode as well as conventionally (sunroof is clamped to hemming jig). Cycle times under 50 seconds are possible, depending on the size of the sunroof.

Car body wheel house hemming

This concept enables highly flexible hemming operations to be carried out in the area of the car body's wheel house. The "Soft-touch" concept makes it possible to "snuggle up" to the forming bed in order to optimize surface quality. An integrated measuring system detects all tolerance deviations and transmits the data to the robot controller to ensure maximum processing accuracy. Up to six different vehicle models can be processed using the new concept.

PROCUREMENT

KUKA Group's Robotics and Systems divisions are each responsible for their own production materials procurement. However, a lead buyer purchases indirect materials and services for all Group entities. Among other things, KUKA Robotics is responsible for procuring transportation services and energy, while KUKA Systems is in charge of building management, the vehicle fleet and telecommunication services. The strong increase in demand in the second half of the year caused both procurement departments to implement special measures to secure their material supplies.

ROBOTICS INSTALLS TEAMS OF SPECIALISTS

In the Robotics division, the jump in demand led to shortages of all raw materials (metals) and electronic components. Specialist teams were thus formed to expedite material supplies at the sites of the suppliers or their subsuppliers, and in some cases even at the production locations of the raw materials and electronic components. Even so, longer robot manufacturing and delivery lead times were unavoidable.

The division also used its web-based Supplier Relationship Management system more intensively. KUKA has set a benchmark in the plant and mechanical engineering sector with this system. It consists of an electronic platform used to request quotations from suppliers and link suppliers electronically with a modern component inventory system (vendor managed inventory). Among other things, KUKA Robotics was thus able to further expand the volume of materials purchased from low-cost countries such as China and Eastern Europe. Overall, the division achieved its objective of offsetting the sharply higher prices for raw materials and meeting the targets of the cost reduction program.

SYSTEMS DIVISION STREAMLINES PROCUREMENT PROCESSES

The Systems division also responded to the shortage of components by forming a specialist team on site, which clarified the availability of design data and outsourced parts, monitored supplier commitments and prioritized materials at its own factory. Potential bottlenecks were detected early and avoided.

The Systems division's procurement processes were also streamlined and organized according to commodity groups. Project procurement managers are thus responsible for their projects until they hand them over to commodity specialists. Specialists also focus on searching for and evaluating new suppliers worldwide. Because flexibility is required when building the systems, KUKA Systems mainly purchases in whatever region the systems are installed. Exceptions to this rule are design services, some of which are provided in Asia for Europe, as well as steel construction and jig making, which is mainly done in Germany and Eastern Europe. Overall, the division was able to significantly cut purchasing costs in 2010.

EMPLOYEES

EXCEPTIONAL MANPOWER SITUATION

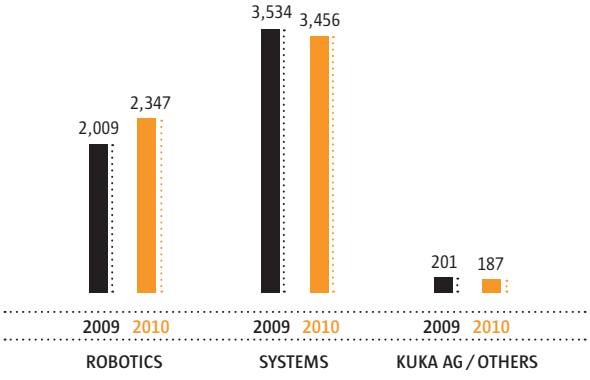
In fiscal 2010, KUKA had to come to grips with an exceptional manpower situation. While on the one hand there was still a focus on personnel capacity adjustments to cut costs and align with the low business volume at the beginning of the financial year, the Robotics division had to adapt its personnel capacity to the strong increase in demand starting in the second quarter.

The Robotics division mainly used temporary workers to expand its production capacity in Augsburg. The high degree of manufacturing flexibility especially paid for itself during the economic crisis. During the downturn, it was easy to adjust capacities quickly and then just as quickly recall workers when the turnaround came. A flexible manufacturing line can be adjusted to suit fluctuating demand peaks.

In addition, the division began adding employees in research and development as of July 1, 2010. At the same time, the Systems division reengineered its internal processes, especially in Augsburg. Most of the voluntary redundancy payments were arranged in this division in addition to utilizing partial retirement schemes, transfers within the Group, reduced working hours and normal fluctuations to cut labor costs. KUKA AG's central service departments already work in the Group's Shared Service Centers.

One of KUKA Group's success factors is motivated and qualified employees. It is thanks to their strong dedication that KUKA was able to come to grips with the extraordinary burdens of the unusual manpower situation of fiscal 2010 and is now stronger during the current upturn. As a result, the company is now also better prepared for the challenges of the demographic trend in Germany. The more international workforce introduced is another response to the anticipated shortage of specialized individuals.

EMPLOYEES BY DIVISION (DEC. 31)



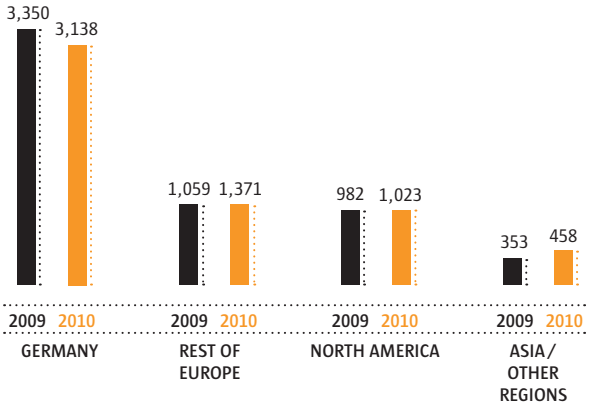
Overall, KUKA Group's personnel related adjustment measures during the financial year resulted in the following changes:

- Reduced working hours were eliminated step by step in Germany. While at the end of 2009, 477 employees were still working shorter hours, the number declined to 425 as of March 31, 245 at the half-year mark and 100 on September 30. By year-end, reduced work hours had been largely eliminated.
- At the same time, 104 voluntary redundancy payments were signed at the Augsburg location.
- The number of temporary workers throughout the Group reached a low of 573 in the first quarter and subsequently started to climb again. At the end of 2010, there were 843. Just under half of these temporary workers are employed by KUKA's American companies.

COMPANY STRENGTHENS INTERNATIONALITY

Overall, the number of persons employed by KUKA Group went from 5,744 on December 31, 2009 to 5,990 on December 31, 2010. This increase of 246 persons or 4.3 percent is proportionally less than the expansion in business volume. Two offsetting factors were at play during the year. On the one hand, the personnel capacity in Eastern Europe and the BRIC nations was expanded to align with the global focus of our customers. For example, after last year's business volume related adjustments, 351 employees were rehired at the KUKA Robotics' Hungarian subsidiary, which builds control cabinets for robots. In the BRIC nations, the number of employees rose by 104. On the other hand, the workforce at KUKA Group's headquarters in Augsburg was cut by 259. At the end of 2010, there were 2,375 employees.

EMPLOYEES BY REGION (DEC. 31)



Thus for 2010, jobs were mainly added in manufacturing abroad, and staff cuts were implemented in the central departments in Germany. The company's value added can thus be redistributed to align with markets in the European, American and Asian regions, and the internationality of the company further enhanced. The aim of these measures is to ensure that the company remains profitable and thereby secure jobs throughout the entire company.

AGE DISTRIBUTION REMAINS STEADY

The average age (41) of KUKA Group's employees was the same as last year. The average age in the Robotics division is 39, slightly lower than the Group average, and the Systems division's is 42, slightly higher. Employee qualification statistics also remained largely unchanged during the reporting period. 20 percent of employees have a university degree or college diploma and 72 percent have credentials in a technical or accounting field. The remaining employees are apprentices or have no skills training.

Eleven employees were honored for being with the company for 40 years (last year: 7); 48 members celebrated their 25th anniversary with the organization (last year: 20).

BOOST INVESTMENT IN TRAINING

In the next few years, the German mechanical and plant engineering sector expects the first negative impact of the demographic trend and fewer applicants for new apprenticeships. This is leading to a general rethinking of training. New target groups must be included in the search, including partially qualified applicants. KUKA is also planning to introduce a trainee program for graduates of Chinese universities and others in order to train new recruits for the Asian growth markets.

In 2010, the company was able to expand the number of available apprenticeships. The number of apprentices being trained by the Group at year-end rose from 193 to 210. The training ratio; i.e., the number of young apprentices compared to the company's total workforce, thus also increased from 3.4 percent last year to 3.5 percent during the current financial year.

KUKA offers a wide variety of technical and commercial apprenticeships at its German locations in Augsburg, Bremen and Schwarzenberg in the Erzgebirge: industrial accountant, computer specialist, mechatronics technician, machinist, industrial mechanic and electronics technician for automation technology. In addition, tool and die makers are trained at the Schwarzenberg location.

In addition to training more skilled workers, KUKA is in the process of making the company more attractive to university and other school graduates. A centerpiece of this initiative in the coming years will be family-friendly employment opportunities.

KUKA AMONG THE 100 TOP EMPLOYERS

For years, the company has been cultivating its contacts with universities and schools. In 2010, KUKA participated in twelve job fairs and university events and offered 85 internships (last year: 80). 32 students wrote their theses while working for the company (last year: 30)

The new training center in Augsburg also offers schools in the region various opportunities to familiarize students with the working world. Students from all types of schools can enroll in a weeklong "taster course". Company tours are offered to school classes, as are courses on how to apply for a job. Another target group is girls, who are given an insight into technical careers on Girls' Day.

In a 2010 survey, Institut trendence asked university graduates to name their favorite employers in Germany. The results demonstrate that KUKA has risen further in the eyes of students and improved its position from 42 to 37 among the major German employers.

FOCUS ON FAMILY-FRIENDLY JOBS

As another key step to improve its attractiveness as an employer, the company has been certified in accordance with the "career and family audit" conducted by the nonprofit Hertie foundation. The existing positions offered by KUKA AG and its subsidiaries KUKA Roboter GmbH, KUKA Systems GmbH and KUKA Dienstleistungs GmbH at the Augsburg location were audited from February to May 2010. The objective was to determine how well a career and family could be combined by people working for these employers. At the same time, additional components of a family-conscious personnel policy were defined, which are to

be implemented over the course of the next three years. KUKA is committed to further enhancing its existing options such as flexible work time and child supervision during the summer holidays in accordance with the agreed objectives. In June 2010, Federal Family Minister Kristina Schröder presented KUKA with a certificate as a testament to the company's family friendliness.

EMPLOYEE SHARE PROGRAM

The ability to take an equity stake in the company also makes the company more attractive to existing and potential employees. KUKA thus introduced an employee share program (MAP) a number of years ago. The eighth MAP, in which 322 employees participated was rolled out in 2010. Last year, 544 employees took part. The company offered one bonus share for every two shares purchased to encourage participation. Employees acquired about 150,000 shares as a result of this initiative. The total revenue generated from the eighth MAP was € 2.2 million, the same as last year.

RISKS

PRINCIPLES

KUKA Group conducts business around the globe, which exposes the company to numerous potential risks that accompany any entrepreneurial venture. The goal of KUKA AG's Executive Board is to minimize these risks and take advantage of potential opportunities, in order to systematically and continuously improve the value of the company for all stakeholders and shareholders.

Risk management

To achieve this objective, the Executive Board implemented a comprehensive risk management system within the Group, which is used to continuously and systematically identify and assess internal and external risks to which its divisions and subsidiaries are exposed. Risks are assessed uniformly throughout the Group for their potential consequences and probability of occurrence. They are also examined for worst, medium and best case scenarios and the resulting expected degree of risk. Appropriate consideration is then given to accruals or revaluations in the balance sheets of the respective divisions or companies. The identified risks are presented to the Executive Board quarterly during risk control meetings and explained in more detail as required. A decision is also made at these steering meetings as to whether the steps to minimize the risk appear to be adequate or whether the responsible parties must initiate additional steps. This steering committee also evaluates the plausibility of the reported risks and derives alternative ways to avoid similar risks in future. The monthly risk report contains among other things the top ten risks faced by the Group, Robotics, Systems and the holding company (AG), as well as a summary of the overall risk situation. In order to keep the importance of the risk management system in focus, the Group's top ten risks are a fixed component of the month-end reports. The risk report is also reviewed at meetings of the Executive Board, the Supervisory Board and especially the Audit Committee.

The direct responsibility for early identification, control and communication of risks is defined and lies with the management of the divisions and subsidiaries. Risk coordinators in the central and decentralized business units ensure that the reporting process is uniform with clearly defined reporting channels and reporting thresholds that are in line with the size of the company. Whenever defined reporting thresholds are exceeded, the responsible parties are obliged to use internal ad hoc announcements for any identified risks. The head of the Group controlling department at KUKA AG is responsible for coordinating the risk management system. This risk management manager position reports directly to KUKA AG's CFO. This ensures that risk management is an integral component of KUKA Group's overall planning, control and reporting process.

The Group's risk management system makes it possible for the Executive Board to identify material risks at an early stage and take appropriate steps to counter them as well as monitor the mitigating measures. The internal audit department regularly audits the risk management process to ensure that it is efficient and continuously improved. In addition, the external auditors check that the early risk identification procedure is suitable for identifying risks at an early stage that threaten the existence of the company.

MARKET AND BUSINESS RISKS

KUKA is exposed to the cyclic investment plans of its customers in the various market subsectors. The automotive sector, with its oligopolistical structures and constant price pressure, represents a major share of the Systems and Robotics divisions' business volumes. In addition, KUKA Group's risk position is affected by 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.

The impact of the economic crisis still had a strong impact in fiscal 2010, especially at the beginning of the year. Thereafter, KUKA benefited primarily from the rise in orders placed by the automotive industry and the plant and engineering sector. Orders received for the year in total thus rose 26.5 percent year-over-year and sales were up 19.6 percent compared to the year prior.

Even though the financial situation of most carmakers has improved dramatically over the course of the last financial year, KUKA continuously monitors the developments at automotive manufacturing companies. An exposure report is created for customers, and if necessary, an upper limit is set for quotation magnitude or order size as a function of the customer's credit rating. The same procedure applies to customers in other market segments; e.g., general industry.

At the present time, the key risks, which could also impact business performance after 2010, are as follows:

- a stronger euro
- expiry of current government incentive programs
- new competitors entering the market, especially from Asia, generating greater price pressure
- a setback in the banking and financial crisis
- political risks, especially in view of current developments in North Africa

PERFORMANCE RISKS

KUKA Robotics

The key challenges for this division's product portfolio are the continuing cost sensitivity of customers around the world and their demands for continuous product innovation. This applies especially to the automotive industry and its subsuppliers. The result is permanent price pressure and potentially longer life cycles for the robots used in the currently served markets.

KUKA Robotics counters such trends by continually developing new products and applications that offer customers in existing markets quantifiable financial advantages driven by very fast paybacks. In addition, the division targets and penetrates new markets; for example, applications in the health care sector and other consumer related areas. In 2010, KUKA Group spent € 29.5 million on research and development. The majority of the spending (95.6 percent) was by the Robotics division.

A key part of KUKA's corporate strategy is to expand into markets other than the automotive sector. This is being done by increasing the size of the customer base in general industry. In addition, the company is expediting sales in the American region and the BRIC nations. Exchange-rate advantages are also benefiting competitors' business in some areas. Increased distribution of our own value added across various local currencies will make the profitability of the company less dependent on exchange-rate fluctuations ("natural hedging").

KUKA Systems

The lead time of Systems' orders are relatively long. Very often, adjustments must be made to meet specifications while orders are being processed. The number of orders can be low due to the higher average order volume and price pressure from competitors is considerable. All of these factors put the revenues and profit from these orders at risk. Other project risks may also arise; e.g., inaccurate estimating when quoting, contractual penalties and project postponement. Exposure reporting includes a stringent project and receivables management process to track and reduce solvency risks. Other risks are continuously monitored and accrued for if necessary. Quotation and order acceptance processes have been optimized and standardized for all worldwide locations.

The regional diversification of activities in Europe and North America and business growth, especially in the Asian region, had a positive impact on the risk situation, as it did last year. There still appears to be significant potential, particularly in the BRIC countries where the automotive industry is planning to substantially expand its production capacity. The increasing model variety in the automotive industry also has a positive effect on orders received, since it results in rising demand for flexible production lines. These must be either newly built or existing lines must be upgraded, which creates new business opportunities for systems integrators and parts suppliers.

The need to build smaller, more fuel-efficient vehicles, some of which are driven using alternative energy sources will make it necessary to invest in new assembly lines or upgrade existing production systems, especially for American carmakers.

Pay-on-production contracts such as the one entered into by KUKA Toledo Productions Operations (KTPO) offer additional opportunities and risks. The Jeep Wrangler brand offers above-average growth opportunities compared to other American car models. Again in 2010, KUKA participated in the growth. The risks herein are the strong dependence on the volume produced for the American car market.

After conducting a fundamental general industry market analysis, KUKA Systems now also plans to tap the long-term business potential outside the automotive industry. Current examples are the aircraft and solar industry, as well as the rail vehicle manufacturing sector, where new orders were received in 2010.

CORPORATE STRATEGY RISKS

The goal of the business 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 their feasibility. The company mitigates the impact of faulty 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 and cooperative research projects; for example, 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 the company offers customer-oriented products and solutions and strengthens the positions of KUKA's companies in their target markets.

The corporate strategy is managed by a central KUKA AG department and is regularly reviewed and coordinated with the divisions. The joint Innovation Center develops crossover technologies and concepts. Uniform procedures and processes generate synergies that help the company meet market demands for innovative products and solutions.

KUKA Group's cost structure was improved in 2010 to optimize its costs and establish more efficient processes. Processes were reengineered and above all, the profitability was increased. A new risk checklist was implemented for major orders, so that it will be easier to assess technical risks.

PERSONNEL RISKS

The success of KUKA Group, a high-tech company, depends mainly on having qualified technical and management staff. Personnel risks arise mainly from employee turnover at key positions within the Group. The challenge KUKA faces as a result of the economic recovery last year is to keep its personnel in the company for the long run and train or recruit new highly qualified employees to fill positions within the Group. This applies both to the traditional markets in Europe and the United States as well as the growth markets; e.g. the BRIC countries, in which the need for highly qualified employees is steadily growing.

Furthermore, in Germany, there is evidence of an increasing shortage of qualified personnel, particularly in the technical area. This requires that the company have appropriate in-house training programs and permanently stay 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).

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 recruits the opportunity to get to know various business areas and foreign companies. The 211 apprentices to be trained by the KUKA Group by year-end will be quickly integrated into the company and mostly offered a permanent position when they have completed their training. One of the key challenges in the coming years will be to prepare KUKA Group for the future in view of the demographic shift.

KUKA Group has an attractive performance and results-driven compensation system for managers to strengthen entrepreneurial thought processes and management styles and to encourage employees to remain with the company and participate in its growth over the long term. KUKA Group's employee share program is another initiative that serves this purpose.

INFORMATION SYSTEMS RISKS

The company created Shared Service Centers Informationstechnologie (IT) in order to establish a foundation for bundling all IT processes in a single department, simplify and standardize processes and improve the potential to reduce costs. Initially this will be done at the Augsburg location. Among other things, this will be implemented by regularly investing in hardware and software and strictly managing access rights.

The existing IT security and Business Continuity Management systems, as well as guidelines and organizational structures, are continuously optimized and reviewed in an effort to predict and minimize computer systems related risks such as failure of computer centers and other IT systems. Risks from both the increasing level of external threats and dependence on ever-increasing digitization of business processes are minimized by systematically monitoring the associated processes.

IT security is also closely tied into KUKA Group's risk management process. External auditors conduct an annual IT audit as well as spot checks to ensure that the respective processes adhere to legal requirements.

The IT systems used also align with the KUKA Group's security and uptime requirements.

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, a central department optimizes the Group's financing and limits its financial risks. The standard, 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.

Over the course of the past year and a half, KUKA Group solvency was strengthened by way of several measures. One of these was to restructure the company's debt in terms of maturity and the type of financial instruments used. It included two capital increases, the issue of a corporate bond and conclusion of a new Syndicated Senior Facilities Agreement.

In November 2009 and June 2010 KUKA AG raised additional capital by issuing new shares, which resulted in gross proceeds of € 27.9 million and € 45.4 million respectively.

In addition to the primary objective, which was to improve the Group's equity position, the funds were used for general corporate purposes. Most importantly, this included implementing further strategic initiatives such as investment and development projects, in addition to financing working capital.

As part of the restructuring of its financing structure, KUKA AG issued a bond, which was purchased by both institutional and retail investors in Germany and abroad. The amount of the bond was € 202 million and a term of seven years, to 2017. The funds generated will be used in part for repayment of the convertible bond issued on May 9, 2006, which comes due on November 9, 2011. € 69 million have been specifically set aside from the proceeds generated by the high yield bond to ensure repayment. The remaining amount will be used for partial repayment of the cash drawn on the credit line that is part of the Syndicated Senior Facilities Agreement and to develop the operating business.

The rating agencies Standard & Poor's and Moody's gave KUKA AG a long-term Corporate Family Rating (CFR) of B and B2 respectively. Both ratings were assigned a stable outlook. KUKA AG's bond was given a rating of B- and B3 respectively.

In March 2010, KUKA AG extended its Syndicated Senior Facilities Agreement to March 31, 2012 and expanded the available credit to € 336 million. This total consisted of revolving cash facilities in the amount € 146 million and guarantee facilities of € 190 million.

After successfully completing its capital increase in June 2010 and placing the corporate bond, KUKA AG signed a new Syndicated Senior Facilities Agreement with the bank consortium in November 2010, which resulted in early release of the Syndicated Senior Facilities Agreement signed in March 2010. The new Syndicated Senior Facilities Agreement for € 200 expires on March 31, 2014. The total amount consists of € 150 million in guarantee facilities and € 50 million in revolving cash facilities. The terms of the new Syndicated Senior Facilities Agreement are better for KUKA than those of the previous loan agreement. It also offers greater flexibility.

The Syndicated Senior Facilities Agreement includes the usual covenants related to debt ratios and interest coverage. The risk with this covenant-based type of financing is that in the event the business substantially underperforms and as a result, earnings and financial parameters come in far below plan, there are no guarantees that these covenants can still be met. In such cases, the continued availability of the financing facilities depends on the extent to which the financing banks agree to the required adjustments. KUKA monitors its covenants monthly and was in compliance as of December 31, 2010.

In addition to the aforementioned steps, agreements on bilateral credit lines with banks and credit insurance companies supplement KUKA Group's financing portfolio. This includes, for example, the ABS program (regular sale of receivables) established in 2006 in the amount of up to € 25 million, which runs until March 31, 2012

Transaction-related currency exchange risks are hedged using currency futures. The goal is to hedge the currency exchange risk on a rolling basis. Details of the central currency management process are provided under Financial Instruments on pages 108 to 110 of the notes to the financial report. 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, but are continuously monitored. 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 trading and use of derivatives. Associated risks are continuously monitored internally.

COMPLIANCE RISKS

Compliance violations 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 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 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 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. A compliance committee meets at regular intervals and ad hoc and reports to KUKA AG's CEO, who in turn reports to the Supervisory Board's Audit Committee.

The CEO is ultimately responsible for the corporate compliance program. The program is regularly updated and subject to strict internal controls. The initiative did not uncover any substantial risks in 2010, since the company was able to actively implement countermeasures by mitigating risk at an early stage and striving to eliminate risk sources; e.g., by aligning its business processes.

OTHER RISKS

KUKA Group continuously monitors other risks and mitigates these to the extent possible. There is no evidence of environmental risks from operational activities, since the company does not use hazardous materials. The Group makes use of buildings and properties for its business operations, some of which it owns. As a result, the company is exposed to risks associated with any residual pollution, soil contamination or other damaging substances that may be discovered on its properties. There is currently no evidence that any situations exist which would have a negative impact on the valuation in the balance sheet. However, there is no guarantee that such situations, which could, for example, require costly cleanup operations to be undertaken, will not occur in the future.

Where possible, legal risks are limited by using standard general contracts. The Group's legal department supports the business operations and thereby help to limit risks. A Group-wide Directors' and Officers' (D&O) 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. KUKA's Executive Board subsequently decides on further steps.

The shareholder structure is periodically analyzed to assess a possible takeover of the company. Because it has operations around the world, 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 arrears. Appropriate precautions based on experience are taken for such tax risks.

SUMMARY

From an overall perspective, KUKA Group is primarily exposed to business performance and financial risks. The Executive Board is not aware of any individual or combined risks that could threaten the company's existence. Strategically and also financially, thanks to the restructuring, the company is positioned to be capable of taking advantage of business opportunities that arise.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

PRINCIPLES

Since the parent company KUKA Aktiengesellschaft is a capital market oriented corporation in terms of article 264d of the German Commercial Code (HGB), the key attributes of the internal controlling and risk management system as they relate to the Group's accounting process, which includes the accounting processes of the companies included in the consolidated financial statements, shall be described as per articles 289 para. 5 and 315 para. 2, clause 5 of the German Commercial Code.

The relationship between the internal controlling and risk management system and the accounting process is not legally defined. KUKA regards the internal controlling and risk management system as a comprehensive system and uses the definitions of accounting system related internal control systems (IDW PS 261 item 19 ff.) and risk management systems (IDW PS 340, item 4) provided by the Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf. An internal controlling system is thus the embodiment of the principles, processes and measures introduced by management, which are geared toward implementing management decisions throughout the organization:

- to ensure that the business activities are effective and efficient (including preservation of assets, and preventing and uncovering fraud)
- to ensure that the internal and external accounting systems are proper and reliable
- to ensure that the company complies with applicable laws

The risk management system comprises all organizational rules and measures related to recognizing risk and procedures for dealing with entrepreneurial risks.

STRUCTURES AND PROCESSES

The following structures and processes have been implemented by KUKA Group in regards to the accounting process:

The Group's Executive Board bears full responsibility for the internal controlling and risk management system as it applies to the accounting process. All companies that are part of the consolidated financial statements are included via a clearly defined management and reporting organization. KUKA AG has Shared Service Centers with Accounting, Human Resources and IT departments for its German companies. Other departments with Group-wide responsibilities, such as Treasury, Legal Services and Taxes also provide services centrally at KUKA AG using standard processes throughout the Group.

This is done by defining the principles, organizational structures and processes, and the Group accounting related internal controlling and risk management system processes in Group guidelines and organizational procedures, and regularly adjusting them to external and internal developments.

FEATURES OF THE INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM

We regard characteristics of the internal controlling and risk management system related to the (Group) accounting process as material, if they can have a material influence on the balance sheet and overall conclusion of the consolidated financial statements including the Group management report. At KUKA Group, this includes mainly:

- Identifying the main areas of risk (see Risk report, page 67) and controlling areas that affect the Group accounting process
- Quality controls to monitor the Group accounting process and the accounting results at the Group Executive Board and management company levels and at the level of the individual reporting units included in the consolidated financial statements
- Preventive control measures for the Group's finance and accounting systems and for the companies included in the consolidated financial statements, as well as for operative business performance processes that generate key information for preparing the consolidated financial statements, including the Group management report, and including a separation of functions of predefined approval processes in relevant areas

- Measures to ensure that Group accounting related facts and data are administered via proper IT processes. For example, this includes centralized control of access rights and automated plausibility checks when entering data into the reporting and consolidation system
- Measures to ensure that the departments implement the accounting related internal controlling and risk management systems and that the internal audit department monitors same by systematically verifying adherence to the internal control system.

SUMMARY

The company ensures that KUKA AG's and KUKA Group's accounting system is implemented in accordance with legal requirements, proper bookkeeping, international accounting standards and internal Group guidelines using the structures, processes and features of the internal controlling and risk management system presented here.

The company also ensures that business transactions are uniformly and appropriately recorded and evaluated and that relevant and reliable information is thereby made available to the internal and external accountants who process the information.

DISCLOSURE ACCORDING TO ARTICLE 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE, INCLUDING ACCOMPANYING EXPLANATION

The information required by article 315, para. 4 of the German Commercial Code (HGB) is disclosed and explained in the following.

COMPOSITION OF SHARE CAPITAL

As of December 31, 2010, the total share capital of KUKA Aktiengesellschaft amounted to € 88,180,120.60 and consisted of 33,915,431 no-par-value bearer shares. Each bearer share represents a notional holding of € 2.60 of the share capital. The share capital is fully paid in. All shares have equal rights and each share guarantees its holder one vote at the Annual General Meeting. Shareholders do not have the right to demand issuance of share certificates for their shares (article 4, para. 1 of the Articles of Association). When new shares are issued, the date fixed as the starting date for profit-sharing can deviate from that outlined in article 60, para. 2 of the German Stock Corporation Act (article 4, para. 3 of the Articles of Association).

RESTRICTIONS AFFECTING VOTING RIGHTS OR TRANSFER OF SHARES

KUKA Aktiengesellschaft regularly grants Executive Board members of the Company and other selected managers of Group companies the right to participate in so-called "phantom share programs"; i.e., virtual share programs, as per the terms of their individual employee contracts. The phantom share programs are a component of the performance-based compensation system for managers and are aimed at continuously improving the company's value. The respective programs have a term of three years. At the end of the term, managers are paid an amount that depends on the share price at that time and on the development of shareholder value. At the end of the respective phantom shareholder program term, managers entitled to participating must apply 25 percent of the gross sum paid out toward the purchase of KUKA shares, until a fixed holding target is reached, the value of which for current programs is 50 percent of their respective total annual remuneration. Shares purchased outside the phantom share program also count for the holding target. The holding obligation does not end until the participant leaves KUKA Group.

Again in 2010, KUKA Aktiengesellschaft implemented an employee share program (MAP 2010). Under the terms of MAP 2010, employees were entitled to buy KUKA shares and for each share purchased, received a certain number of bonus shares as defined by MAP 2010. Employees are restricted from selling the KUKA shares purchased or bonus shares received until December 31, 2011.

The Executive Board is not aware of any further restrictions that would affect voting rights or share transfers.

SHAREHOLDINGS THAT EXCEED 10 PERCENT OF THE VOTING RIGHTS

According to the German Securities Trading Act (WpHG), any shareholder who by purchase or sale or by other means acquires a stake that reaches, exceeds or falls below the voting right thresholds as defined in article 21 of the German Securities Trading Act (WpHG) is obliged to report same to the Company and the German Federal Financial Supervisory Authority (BAFin).

On June 28 and June 29, after completing the rights issue in June 2010, the following persons and companies advised KUKA Aktiengesellschaft of their shareholdings as follows. The shareholdings that exceeded 10 percent of the voting rights at that point in time were:

1.	Grenzebach Maschinenbau GmbH, Asbach-Bäumenheim, Germany	25.18%	23.69% held directly 1.49% allocated as per article 22 para. 2 of the WpHG
2.	Grenzebach GmbH & Co. KG, Asbach-Bäumenheim, Germany	25.18%	23.69% allocated as per article 22 para. 1 clause 1 item 1 of the WpHG 1.49% allocated as per article 22 para. 2 of the WpHG
3.	Grenzebach Verwaltungs-GmbH, Asbach-Bäumenheim, Germany	25.18%	23.69% allocated as per article 22 para. 1 clause 1 item 1 of the WpHG 1.49% allocated as per article 22 para. 2 of the WpHG
4.	Rudolf Grenzebach, Germany	25.18%	23.69% allocated as per article 22 para. 1 clause 1 item 1 of the WpHG 1.49% allocated as per article 22 para. 2 of the WpHG
5.	Rinvest AG, Pfäffikon, Switzerland	25.18%	1.49% held directly 23.69% allocated as per article 22 para. 2 of the WpHG
6.	Dr. Till Reuter, Switzerland	25.18%	1.49% allocated as per article 22 para. 1 clause 1 item 1 of the WpHG 23.69% allocated as per article 22 para. 2 of the WpHG

KUKA Aktiengesellschaft was advised that Grenzebach Maschinenbau GmbH had purchased additional shares of the Company throughout the year 2010 and as a result thereof directly holds – excluding allocated shares as per the German Securities Trading Act (WpHG) – voting rights exceeding 25 percent. The company did not receive any notice regarding voting rights, and thus assumes that the purchase of additional shares did not trigger any thresholds as defined by the German Securities Trading Act.

SHARES WITH SPECIAL RIGHTS THAT IMPART CONTROLLING AUTHORITY

Shares with special rights that would impart controlling authority do not exist.

METHOD OF VOTING RIGHTS CONTROL WHEN EMPLOYEES OWN SHARES IN THE COMPANY AND DO NOT DIRECTLY EXERCISE THEIR VOTING RIGHTS

There is no participation by employees in the sense of article 315, para. 4, item 5, of the German Commercial Code (HGB).

STATUTORY LAWS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION REGARDING THE APPOINTMENT AND DISMISSAL OF EXECUTIVE BOARD MEMBERS AND REGARDING AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The company's Executive Board consists of at least two persons as per article 6, para. 1 of the Articles of Association. The Supervisory Board determines the number of Executive Board members as per article 6 para. 2 of the Articles of Association. Executive Board members are appointed and dismissed as per the rules of articles 84 and 85 of the Stock Corporation Act (AktG), article 31 of the German Act on Company Codetermination (MitbestG) and article 6 of the Articles of Association.

Article 119, para. 1, clause 5 and article 179 para. 1 of the Stock Corporation Act (AktG) stipulate that any changes to the Articles of Association require a resolution by the shareholders at the Annual General Meeting. Article 22, para. 1 of the Articles of Association states that a simple majority of the shareholders attending the Annual General Meeting is sufficient, provided that a greater majority is not required by law. The latter is required especially for resolutions concerning changes to the Company's business purpose, reduction in capital stock and changes to the form of incorporation.

Article 11, para. 3 of the Articles of Association states that the Supervisory Board is authorized to make changes to the Articles of Association that only affect the version. Furthermore, by resolution passed at the Annual General Meeting on April 29, 2009, the Supervisory Board is authorized to amend the wording of article 4 of the Articles of Association after exercising (also partially) its authority to increase the share capital upon utilizing

Authorized Capital II and, in the event the latter has not been (fully) utilized by April 28, 2014, after expiry of the authorization. Furthermore, by resolution passed at the Annual General Meeting on April 29, 2010, the Supervisory Board is authorized to amend the wording of article 4 of the Articles of Association after exercising (also partially) its authority to increase the share capital upon utilizing Authorized Capital III and, in the event the latter has not been (fully) utilized by April 28, 2015, after expiry of the authorization.

EXECUTIVE BOARD AUTHORIZATION TO ISSUE AND BUY BACK SHARES

As per the resolution passed at the Annual General Meeting dated April 29, 2009, and article 4, para. 5 of the Articles of Association, which was inserted as a result of this resolution, the Executive Board, subject to approval by the Supervisory Board, is authorized to increase the Company's share capital until April 28, 2014 by up to € 34,500,000 by issuing new bearer shares in exchange for cash contributions and / or contributions in kind once or several times (authorized Capital II). The Authorized Capital II was partially utilized in November 2009 in the amount of € 6,915,974 and in June 2010 in the amount of € 12,104,146.60. It was partly revised at the Annual General Meeting on April 29, 2010, so that the amount outstanding is now € 15,479,879.40. In principle, shareholders are entitled to receive subscription rights in the event the Executive Board makes use of this authorization (also partially). However, the Executive Board is authorized to exclude fractional amounts from the subscription rights, subject to approval by the Supervisory Board. The Executive Board, subject to approval by the Supervisory Board, is also authorized to exclude subscription rights in the case of capital contributions in kind for the purpose of acquiring companies, parts of companies or an interest in companies or other assets. The Executive Board is further authorized, subject to approval by the Supervisory Board, to exclude shareholder subscription rights to the extent required in order to grant subscription rights for new shares to holders of warrants or conversion rights or holders of convertible bonds issued by KUKA Aktiengesellschaft or its subsidiaries, to the extent to which such holders would be entitled upon exercising their warrants or conversion rights or upon fulfilling their warrant or conversion obligations. The Executive Board is authorized, subject to approval by the Supervisory Board, to stipulate other details regarding the recapitalization and its execution, in particular with respect to share rights and the terms and conditions related to the share issue.

As per a resolution passed at the Annual General Meeting of April 29, 2010, and article 4, para. 6 of the Articles of Association, which was inserted as a result of this resolution, the Executive Board, subject to approval by the Supervisory Board, is also authorized to increase the Company's share capital once or several times up until April 28, 2015 by up to € 7,607,587.00 by issuing new shares (authorized Capital III). In principle, shareholders shall be granted subscription rights. However, subject to approval by the Supervisory Board, the Executive Board is authorized to exclude fractional amounts from the shareholder's subscription rights and to exclude shareholder rights if the capital increase takes place in exchange for capital contributions in kind for the purpose of acquiring companies or parts of companies or shares in companies or other assets (including receivables of third parties vis-à-vis the Company). Subject to approval by the Supervisory Board, the Executive Board is further authorized to exclude shareholder subscription rights upon utilization of the authorized Capital III to obtain cash contributions, once or several times, in an amount not to exceed 10 percent of existing share capital at the time of coming into force and at the time at which this authorization is exercised, so that the new shares can be issued at a price that is not significantly lower than the price of the Company's shares trading on the stock exchange at the time of finalizing the new share issue price. Shares acquired as a result of the authorization by shareholders at the Annual General Meeting of April 29, 2010 and / or sold as a result of this authorization pursuant to article 71, para. 1, item 8, clause 5 of the German Stock Corporation Act (AktG) in conjunction with article 186, para. 3, clause 4 of the AktG count toward the aforementioned 10 percent threshold. Furthermore, shares used to service warrant or convertible bonds, participation rights or income bonds or a combination of these instruments, provided these instruments were issued as a result of an authorization by shareholders at the Annual General Meeting of April 29, 2010 pursuant to the appropriate application of article 186, para. 3, clause 4 of the AktG, also count toward the aforementioned 10 percent threshold. The Executive Board is authorized, subject to approval by the Supervisory Board, to stipulate other details regarding the recapitalization and its execution, in particular with respect to share rights and the terms and conditions related to the share issue.

According to article 4 para. 7 of the Articles of Association, the total share capital of the Company was conditionally increased by up to € 19,500,000 by issuing up to 7,500,000 new shares. The conditional capital increase will only be carried out to the extent that option and / or conversion rights are exercised by the holders of option and / or conversion rights issued by the Company or its directly or indirectly majority owned companies in Germany or abroad on or before July 4, 2008.

On May 9, 2006, KUKA Aktiengesellschaft partially exercised the respective authorization to issue options and or convertible bonds and the aforementioned required capital by privately placing a convertible bond issue guaranteed by KUKA Aktiengesellschaft with a nominal value of € 69,000,000 through its 100-percent-owned Dutch subsidiary KUKA Finance B.V. Under the terms of the placement, the Company is obliged to completely but not partially convert every bondholder's bond valued at a nominal € 50,000 in accordance with their conversion rights at any time during the exercise period (July 8, 2006 to October 18, 2011) and at the conversion price of € 25.1034 per share to bearer shares of KUKA Aktiengesellschaft with a pro rata amount of total share capital of € 2.60 each. (Due to the distribution of dividends in May 2008 for the 2007 fiscal year and the capital increase in June 2010, the conversion price had to be adjusted in accordance with the bond terms and conditions). The company's capital would be increased by approximately € 7,150,000 by currently issuing about 2,750,000 new shares with a pro rata amount of total share capital of € 2.60 each, subject to the antidilution provisions of the bond terms, should all bearers of convertible bonds exercise their conversion rights. The bond is listed on the EuroMTF market of the Luxembourg stock exchange.

The conditions of the bonds contain a market-standard change-of-control-clause, according to which the bond issuer (KUKA Finance B. V.) and the guarantor (KUKA Aktiengesellschaft) must publish the change of control, as soon as it becomes known, in a leading newspaper with general readership in Luxemburg, probably Luxemburger Wort, and must publish the record of the change of control in a similar manner. Every bondholder then has the right to demand repayment of one or all of its bonds at face value plus interest thereon, on the said record date of the change of control from the bond issuer. In other respects, the conversion ratio will be aligned as further required by the conditions of the bonds. Control in the aforementioned sense means direct or indirect (in the sense of article 22 of the WpHG) legal or economic interest in shares, which together guarantee more than 30 percent of the voting rights of KUKA Aktiengesellschaft or in the case of an offer to purchase shares, circumstances in which the shares that are already under the control of the offerer (and / or persons working with the offerer) plus the shares for which the offer has already been accepted, together guarantee more than 50 percent of the voting rights of KUKA Aktiengesellschaft at the same time the offer became unconditional.

According to article 4 para. 8 of the Articles of Association, share capital is conditionally increased by up to € 18,200,000.00, divided into up to 7,000,000 new no-par-value bearer shares (conditional Capital). The conditional capital increase will only be carried out to the extent that holders or creditors of option or conversion rights or conversion or option obligations exercise their option or conversion rights in exchange for cash for options and or convertible bonds, participation rights or income bonds (or a combination of these instruments), issued or guaranteed by KUKA Aktiengesellschaft or a dependent Group company of KUKA Aktiengesellschaft as a result of the authorization granted to the Executive Board by shareholders at the Annual General Meeting of April 29, 2010 until April 28, 2015, or, to the extent they were obliged to exercise their conversion or option rights, fulfill their conversion or option obligations, or to the extent that KUKA Aktiengesellschaft exercises its option to wholly or partially grant shares of KUKA Aktiengesellschaft instead of paying the monies due, provided no cash settlement or treasury shares or shares of another listed company are used to service the bonds. Furthermore, new shares will be issued according to the conditions of the aforementioned authorization resolution at the option or conversion price to be determined respectively. The new shares shall participate in the profits as of the beginning of the financial year in which they are issued. The Executive Board is authorized, subject to approval by the Supervisory Board, to define the further details of execution of the conditional capital increase.

A resolution was passed at the Annual General Meeting on April 29, 2009, whereby the existing authorization in force until September 30, 2010 to buy back and use treasury shares was canceled. Furthermore, as per the resolution passed at the Annual General Meeting of KUKA Aktiengesellschaft on April 29, 2010, the Company is authorized, up until April 28, 2015, to buy back its own shares up to a total of 10 percent of the total share capital at the time the resolution was passed through the stock market or in form of a public purchase offer by the Company to all shareholders, whereby the treasury shares already reacquired (3.91 percent of total share capital) must be taken into consideration. In doing so, the purchase price (excluding acquisition costs) cannot be more than 10 percent higher or lower than the market price defined in detail in the resolution.

As per this resolution, the Executive Board is also authorized, subject to approval by the Supervisory Board, to treat the treasury shares acquired with exclusion of shareholder subscription rights as a result of this and earlier authorizations as follows:

(i) to dispose of the acquired treasury stock to third parties in connection with company mergers or the acquisition of companies, or parts of companies, or participations in companies, or other assets (including receivables of third parties vis-à-vis the Company);

(ii) to dispose of the acquired treasury stock by means other than the open market or tender offer to all shareholders, if the shares are sold for cash at a price that is not substantially lower than the quoted stock market price of company shares at the time of the sale. However, this authorization shall only be effective subject to the proviso that the shares sold subject to the exclusion of the subscription rights according to article 186 para. 3, clause 4 of the German Stock Corporation Act (AktG) may not, in total, exceed 10 percent of the share capital, and in fact do not do so either on the date that this authorization becomes effective or on the date on which it is exercised. This limit of 10 percent of share capital is to include shares (i) that were issued in order to service warrant or convertible bonds, participation rights or income bonds or a combination of these instruments, provided that these instruments were issued on the basis of an authorization granted at the Annual General Meeting of April 29, 2010 according to the appropriate application of article 186, para. 4, clause 4 of the German Stock Corporation Act (AktG) (ii) that are issued by exercising an authorization to issue new shares under exclusion of subscription rights using authorized capital that is in effect at the date on which this authorization becomes effective or an authorization granted at the Annual General Meeting of April 29, 2010 pursuant to article 186 para. 3 clause 4 of the German Stock Corporation Act (AktG);

(iii) to use the acquired treasury stock in order to introduce the Company's shares on foreign stock exchanges on which they were previously not approved for trading;

(iv) to offer shares in lieu of paying variable compensation elements and / or the 13th monthly salary of KUKA Group employees in or for the 2010 financial year in 2010 and 2011. Included are the following groups of employees: (i) Executive Board members of the Company; (ii) management board members of companies associated with the Company; (iii) employees of the Company; (iv) employees of companies associated with the Company. When offering treasury stock in this connection, it shall be ensured that (i) shares are acquired at a price not substantially lower than the quoted stock market price of Company shares at the time of accepting the offer; (ii) the acceptance period, subject to regulations concerning collective agreements, is four weeks for the respective offer; and (iii) employees who have acquired shares must hold these for a period of four years.

To the extent that members of the Executive Board are to be offered treasury stock in lieu of payment of compensation elements, the Supervisory Board of the Company shall be authorized to use the treasury stock and determine the modalities of the offer of treasury stock according to the preceding stipulations.

Moreover, subject to approval by the Supervisory Board, the Executive Board is authorized to withdraw the treasury shares. The purchase and the disposal authorization can be executed once or several times as well as in parts.

MATERIAL AGREEMENTS BY THE COMPANY THAT ARE CONDITIONAL UPON A CHANGE OF CONTROL, AND THE IMPACT OF THESE CONDITIONS

KUKA Aktiengesellschaft and its material subsidiaries and affiliated companies signed a new syndicated loan agreement with a bank syndicate led by Deutsche Bank AG Filiale Deutschlandgeschäft, Commerzbank AG, UniCredit Bank AG and Landesbank Baden-Württemberg in November 2010 under the terms of which the lenders make an amount of up to € 200,000,000 million available. This covers the material debt requirements of KUKA Group (including filing of bank guarantees). The contract includes a market-standard change-of-control-clause typical in the industry under the terms of which the syndicated banks can demand repayment of the loan in the event that a shareholder (or several shareholders working in concert) acquire(s) control of at least 30 percent of the voting rights of KUKA Aktiengesellschaft. If KUKA Aktiengesellschaft were unable to immediately secure refinancing from the market in such a case, it could threaten the existence of KUKA Aktiengesellschaft's business.

In addition, KUKA Aktiengesellschaft, under the arrangement of Deutsche Bank AG (London Branch) and Goldman Sachs International, issued a corporate bond with a total face value of € 202 million on November 18, 2010. The corporate bond is traded on the Luxemburg exchange (Euro MTF). The bond terms and conditions include a change-of-control-clause customary for high-yield bonds. It states that a change-of-control has occurred when

(i) a person or several persons acting in concert acquire(s) control of more than 30 percent of the share capital or voting rights of KUKA Aktiengesellschaft,

(ii) as a result of one or several transactions, all or nearly all assets of KUKA Aktiengesellschaft and its subsidiaries defined in the bond terms and conditions as a "Restricted Subsidiary" are sold or transferred by some other means to a person who is not a "Restricted Subsidiary",

(iii) for two years in succession, the majority of shareholder representatives sitting on the Supervisory Board is not made up of Supervisory Board members who were either members of the Supervisory Board on the day the corporate bond was issued, or whose appointment to the Supervisory Board was not supported by or made upon recommendation by the Nomination Committee, or

(iv) KUKA Aktiengesellschaft or a subsidiary qualified as a "Restricted Subsidiary" makes a transaction defined in item 3 of the bond terms and conditions as a "Permitted Investment". This covers material shareholdings in third parties (e.g., joint ventures).

If an event occurs that qualifies as a change-of-control-clause under the bond terms and conditions, every bondholder has the right to demand that KUKA Aktiengesellschaft buy back their bond notes at a price of 101 percent of face value plus interest.

If all or almost all bondholders were to exercise their right to resell their bond notes in the event of a-change-of-control, and if KUKA Aktiengesellschaft could not immediately secure alternative financing from the market, the existence of KUKA Aktiengesellschaft's business could be threatened.

COMPENSATION AGREEMENTS ON THE PART OF THE COMPANY FOR THE SCENARIO OF A TAKE-OVER BID WITH MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES.

No compensation agreements exist on the part of the Company for the scenario of a take-over bid with members of the Executive Board or employees.

COMPENSATION REPORT

The compensation report explains the basis for the establishment of the compensation for the Executive Board and Supervisory Board as well as its amount and structure. Additionally, it contains disclosures regarding the shares owned by the Executive Board and Supervisory Board and transactions with KUKA Aktiengesellschaft. The report follows the recommendations of the German Corporate Governance Code and contains disclosures that are necessary according to the regulations of the commercial code, including the disclosure of Executive Board compensation pursuant to articles 314, 315 of the German Commercial Code (HGB). The audited compensation report forms part of the management report. It is included in the Corporate Governance Report.

REPORT ON EXPECTED DEVELOPMENTS

OVERALL ECONOMIC CLIMATE

World economy returns to growth

The world economy recovered and grew by 3.9 percent in 2010. According to the World Bank, it will grow a further 3.3 percent this year. At the same time, developing and emerging countries will continue their above average growth and could see rates of about 6 percent. With a forecast growth rate of 8.7 percent in the coming year, China remains the world's growth engine (source: World Bank dated January 13, 2011).

German recovery to broaden

The federal government is expecting the export driven recovery to continue during the current year and broaden into other sectors of the German economy. The fact that German industry has now returned to high capacity utilization levels and improved earnings positions could have a positive impact on corporate capital spending, as well as consumer spending. Most economic research institutes are therefore forecasting that Germany's economy is entering a stable growth phase. The federal government estimates that Germany's GDP will grow by 2.3 percent this year (source: German federal government's annual economic forecast dated January 19, 2011).

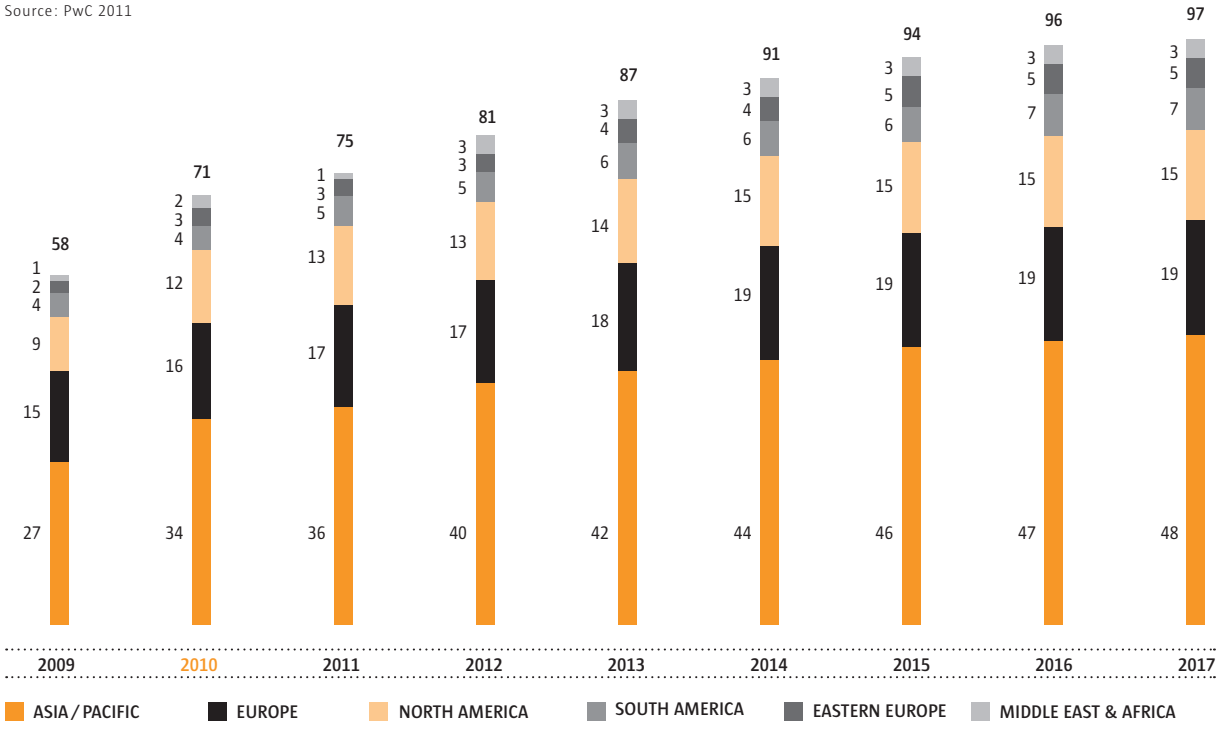
CONDITIONS BY SECTOR

Automotive industry expects higher manufacturing numbers

A key reason for the expansion of global car output is the steady demand growth in the emerging countries. According to an analysis conducted by Maschmeyer Rürup AG, ownership of cars in these countries is only ten percent of that in the developed countries. The study states that in India 19 of every 1,000 residents own a car, and in China the number is 59. In Europe, the ratio is 600 vehicles to 1,000 residents, and in the United States it is 1:1 (source: Handelsblatt dated December 20, 2010).

GLOBAL AUTOMOBILE PRODUCTION 2009 – 2017 in millions of units

Source: PwC 2011



Growth rates in the United States and Europe, which are considered mature markets, are therefore much lower than those in the emerging countries. Nevertheless, the United States remains the world's largest market for premium vehicles. German carmakers are therefore planning to expand their sales in North America by almost 50 percent by 2015 (source: Das Autojahr 2011 (2011 car market), Handelsblatt dated January 5, 2011).

Overall, chartered accountants PWC are forecasting that the number of vehicles produced worldwide will rise from 71 million units in 2010 to 97 million in 2017.

China will drive the growth of worldwide car manufacturing in the coming years. While the number of vehicles produced in Europe and North America is expected to increase only slightly compared to 2007 as a baseline, the number produced in China will be three times as high by 2017 according to the latest estimates. In two years, China could already be producing more cars that any other nation in the world (source: PWC 2011).

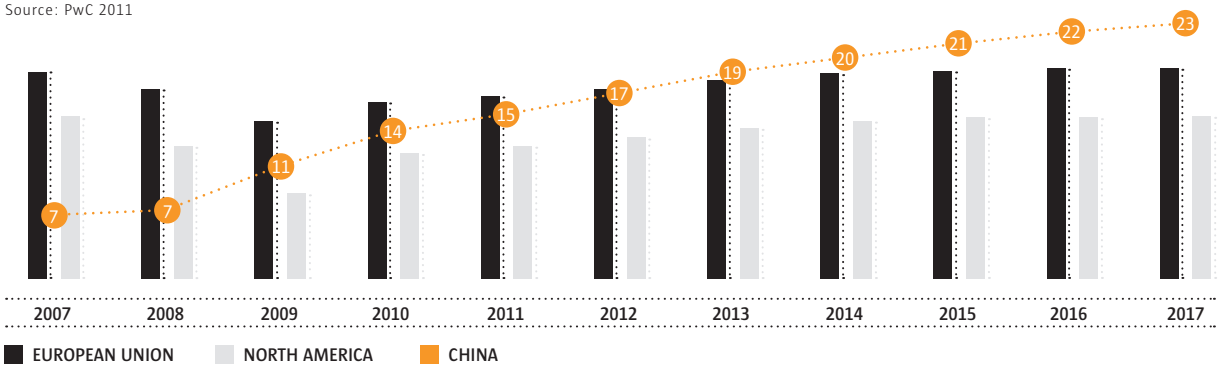
Number of different car models remains high

Forecasts regarding rising producing quantities cause carmakers to shift capacity to growth regions and invest more heavily in new production lines in these areas. This trend is evident from the number of planned new vehicle model production starts. According to a study by CSM, this year all international and national carmakers combined plan to start the production of 310 new models in total worldwide. The following year, the number increases to 360, and in 2013 it is expected to reach 380. This means an increase of 10 percent annually in the introduction of new vehicle models, including ongoing investment in the construction or upgrade of assembly lines (source: CSM Worldwide 2010).

AUTOMOTIVE PRODUCTION BY REGION 2007 – 2017

in millions of units

Source: PwC 2011



ROBOT MARKET

Industrial robotics

A study conducted by the International Federation of Robotics (IFR) forecasts that the global robot market will continue to grow this year. Here too, the international automotive industry, which accounts for over one-third of robot sales, will be the key driver. In addition to modernizing existing car factories in industrialized regions, the sector's investments will be more strongly focused on the emerging countries. At the same time, demand from general industry for robots should continue to rise as it strives to improve quality and efficiency. According to specialists, there is still considerable potential for automation in sectors such as pharmaceuticals, the cosmetics industry, health care and the food & beverage industry. Overall, the IFR is expecting the global robot market to grow 10 percent annually from 2011 to 2013. Industrial robots will continue to enter new markets (source: World Robotics 2010).

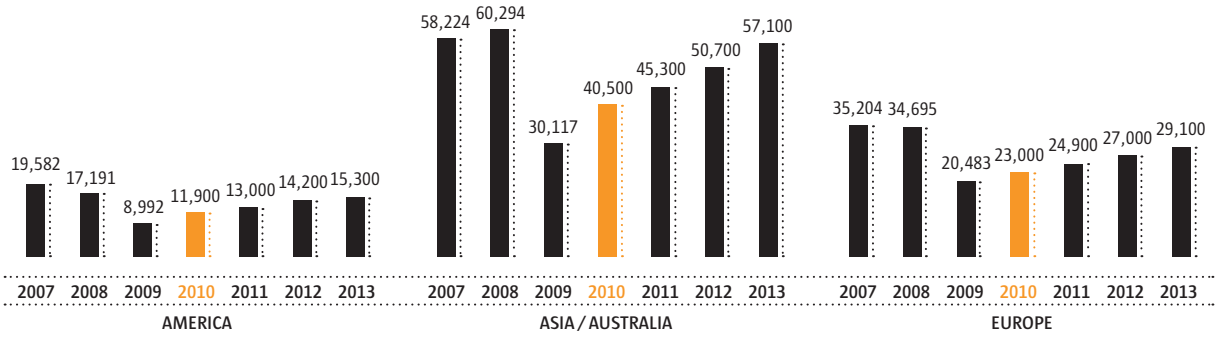
Service robotics

Completely new fields of application are opening up for robotics outside the traditional area of industrial manufacturing. For example, service robots are providing services for internal logistics as well as health care and safety systems.

Compared to industrial robotics, the service robotics market is a smaller but faster growing market. About 77,000 service robots had been sold by the end of 2009. According to a study conducted

SALES OF INDUSTRIAL ROBOTS WORLDWIDE 2007 – 2013

Source: IFR 09 / 2010



by the International Federation of Robotics (IFR), this number could double from 80,000 to almost 160,000 between 2010 and 2013. This means that the average growth rate in this new business area is 20 percent per annum, twice as much as the world market for industrial robots (source: IFR World Robotics 2010).

COMPANY-SPECIFIC OPERATING ENVIRONMENT

Favorable conditions present new opportunities

In view of the global economic turnaround, KUKA sees numerous opportunities in the international automobile industry and particularly in robotics in general to expand its current businesses and to launch new initiatives. A key strategy here is the regional expansion of the company into the strongly growing emerging countries by, among other things, building new local manufacturing facilities. Another focus will be on new applications for robotics outside the traditional markets for automating industrial production processes.

Regional expansion

KUKA used the crisis of the past few years to position the company for expansion in the growth markets of the emerging nations of Asia and South America. The focus is on expanding the business and capacity in the BRIC coutnries; namely, Brazil, Russia, India and China. KUKA has had a business relationship with the major manufacturers in Europe and North America for many years and thus has had a presence as an international mechanical and plant engineering company in key growth markets such as Russia, China and Brazil for twenty years. This has also applied to India for a number of years.

Assembly capacity expansion in China

KUKA plans to expand its assembly capacities in China as part of its objective to satisfy the growing demand for industrial robots in the key emerging countries locally. Over the course of the next few years, assembly capacity is to be expanded from the current 1,000 robots a year to 5,000. Cost-effective parts supplies and short lead times will be decisive here.

One of the company's strategic goals for the next few years is to expand its local customer base in the emerging countries. Very often, access to these new customer groups is provided when they build assembly lines for cars intended for export to industrial nations, which have strict quality and safety specifications. KUKA has already successfully completed a number of such projects with Chinese and Indian carmakers. These projects can be used as local references because of their advanced technology and high productivity, which enables further expansion of the business, also to sectors outside the automotive industry (general industry). The main target sectors are especially the metal processing and mechanical and plant engineering sector, as well as the plastics and food industries.

Benefiting from growth in service robotics

To tap the growth potential of the service robotics market, KUKA established the Advanced Robotics section. This business unit has been operating within Robotics as an independent company, KUKA Laboratories, since January 2011. Appropriate research and develop capacities were bundled here in order to penetrate markets in the non-industrial area, among other things; e.g., the health care market. In addition, the lightweight robot (LWR) is to be taken from the industrial testing stage to a state of readiness

for market launch. The LWR, a sensitive, safe robot, opens the door to completely new applications involving the collaboration with humans. For example, there are interesting potential applications for industrial assembly, for use in the workshops of small and medium-sized companies as worker's third hand and in health care to introduce new treatment methods.

EXPECTED BUSINESS OUTLOOK

Summary

In financial 2010, KUKA established the conditions for profitable growth. In conjunction with the further recovery of the world economy, which is now expected to enter a period of stable growth, we expect the Group's consolidated sales revenues to further increase substantially, and after the successful completion of the cost reduction program, a higher than average increase in the Group's consolidated operating earnings (EBIT) over the course of 2011 and 2012. As a result, we also expect net income for the year to be positive again for the first time in a number of years.

Specifically, we are expecting the following market developments: After the fast recovery in demand for industrial robots from the automotive sector, we now expect an increasing number of large orders to be placed for the construction of new production lines. At the same time, the demand from major Western carmakers for new installations in the growth markets of the BRIC countries and in replacement investments in the developed industrial regions of Europe and North America should recede and thus return to more normal levels overall.

In addition, the higher margin general industry sectors will continue to grow steadily and will intensify their efforts to streamline their production processes by using more and more robot based automation solutions.

This will lead to a shift in revenue mix, particularly in the Robotics division, which will improve KUKA Group's overall profitability. Because of the increased demand, the prices received for orders processed by the Systems division should also improve, enabling the business unit to also make a contribution to this end.

Revenue growth

KUKA Group expects sales revenues to grow at an annual rate corresponding to the forecast growth rate of the industry associations over the next two years, which is in the high single-digit percentage range. As a result, sales revenues of at least € 1.15 billion and in 2012, at least € 1.25 billion should be achievable. The Robotics' potential growth tends to be greater than that of Systems.

Cost development

The streamlining of operating processes during the course of the cost reduction program has resulted in a significant drop in overhead costs and a reduction in the operational breakeven point. As business volume increases, KUKA Group's labor cost ratio will thus tend to decrease. The successfully completed cost reduction program should especially improve gross margins.

Operating profit (EBIT margin)

Greater utilization of operational capacities, improved revenue mix with a large share from general industry and a reduced breakeven point should lead to an EBIT margin of at least 5 percent in 2011 and around 6 percent in 2012.

Consolidated net earnings

The company had to report a loss in 2010. In view of the strong rising operating profits, higher taxes and lower financing costs, we expect double-digit positive net earnings in 2011 and a further improvement in 2012.

Research and development, Capital expenditures

In order to secure its innovation strength and continue evolving into a high tech company, KUKA Group will again increase its spending on R&D in the coming years. The Robotics division in particular will launch new programs to develop software and applications, which will drive the R&D ratio higher; i.e., spending on R&D in relation to sales revenues, to about 8 percent. At the Group level, the R&D spending should thus be in the order of € 35 to 40 million, which corresponds to an R&D ratio of 3 to 3.5 percent.

The Group's investment in plant, property and equipment and intangible assets are expected to be in the order of 2 to 3 percent of sales revenues over the course of the next two years.

Free cash flow

KUKA Group's free cash flow is primarily generated from operating earnings and the development of its working capital. Rising income from the operating business and strict working capital management should ensure that the expected rising sales revenues will lead to a positive free cash flow.

FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

of KUKA Aktiengesellschaft for the period January 1 – December 31, 2010

in € thousands	Notes	2009	2010
Sales revenue	(1)	**902,068**	**1,078,623**
Costs of sales	(2)	-742,832	-874,591
Gross income		**159,236**	**204,032**
Selling expenses	(2)	-84,759	-86,851
Research and development costs	(2)	-35,565	-29,537
General and administrative expenses	(2)	-77,685	-76,313
Other operating income	(3)	25,051	30,224
Other operating expenses	(3)	-39,178	-24,025
Earnings from operating activities		**-52,900**	**17,530**
Reconciliation to earnings before interest and taxes (EBIT)			
Financing costs included in operating results		318	7,241
Earnings before interest and taxes (EBIT)		**-52,582**	**24,771**
Write-off of financial assets	(4)	-388	0
Interest income	(5)	10,290	9,067
Interest expense	(5)	-21,381	-31,114
Financial results		**-11,479**	**-22,047**
Earnings before tax		**-64,379**	**-4,517**
Taxes on income	(6)	-11,433	-4,049
Earning after taxes		**-75,812**	**-8,566**
of which: attributable to minority interests		-71	48
of which: attributable to shareholders of KUKA AG		-75,741	-8,614
Earnings per share (diluted / undiluted) in €	(7)	**-2.95**	**-0.28**

STATEMENT OF COMPREHENSIVE INCOME

of KUKA Aktiengesellschaft for the period January 1 – December 31, 2010

in € thousands	Notes	2009	2010
Earning after taxes		**-75,812**	**-8,566**
Translation adjustments		-1,414	6,874
Changes of actuarial gains and losses	(24)	-4,209	-1,814
Deferred taxes on changes of acturial gains and losses		1,335	273
Other comprehensive income		**-4,288**	**5,333**
Comprehensive income		**-80,100**	**-3,233**
of which: attributable to minority interests		-71	48
of which: attributable to shareholders of KUKA AG		-80,029	-3,281

CASH FLOW STATEMENT*

of KUKA Aktiengesellschaft for the financial year 2010

in € millions	2009	2010
Net loss for the year	**-75.8**	**-8.6**
Depreciation of intangible assets	6.9	7.1
Depreciation of tangible assets	16.2	15.2
Other non-payment related income	-3.5	-14.0
Other non-payment related expenses	12.5	23.7
Cash earnings	**-43.7**	**23.4**
Result on the disposal of assets	0.6	-0.6
Changes in provisions	3.7	-28.2
Changes in current assets and liabilities		
Changes in inventories	47.9	-52.0
Changes in receivables and deferred charges	109.7	-45.3
Changes in liabilities and deferred income (excl. financial debt)	-113.4	77.9
Cash flow from operating activities	**4.8**	**-24.8**
Payments from disposals of fixed assets	2.5	2.9
Payments for capital expenditures on intangible assets	-11.4	-4.8
Payments for capital expenditures on tangible assets	-15.8	-10.6
Payments for investments in financial assets	-1.1	0.0
Payments for the acquisition of consolidated companies and other business units	-1.2	0.0
Cash flow from investing activities	**-27.0**	**-12.5**
Free cash flow	**-22.2**	**-37.3**
Proceeds from capital increase	27.4	42.8
Proceeds from the issuance of bonds and liabilities similar to bonds	0.0	198.2
Payments for repaying liabilities due to banks and liabilities similar to bonds	14.6	-63.9
Cash flow from financing activities	**42.0**	**177.1**
Payment-related changes in cash and cash equivalents	**19.8**	**139.8**
Exchange rate-related and other changes in cash and cash equivalents	0.1	2.4
Changes in cash and cash equivalents	**19.9**	**142.2**
(of that net increase / decrease in restricted cash)	(0.0)	(69.0)
Cash and cash equivalents at the beginning of the period	41.3	61.2
Cash and cash equivalents at the end of the period	**61.2**	**134.4**
Restricted cash	0.0	69.0
Cash and cash equivalents acc. to balance sheet	**61.2**	**203.4**

* See notes page 135 for further disclosures on the cash flow statement.

GROUP BALANCE SHEET

of KUKA Aktiengesellschaft as at December 31, 2010

ASSETS

in € thousands	Notes	Dec. 31, 2009	Dec. 31, 2010
NON-CURRENT ASSETS			
Non-current assets	(8)		
Intangible assets	(9)	79,216	76,530
Property, plant and equipment	(10)	90,251	85,775
Financial investments	(11)	965	963
		170,432	163,268
Finance lease receivables	(12)	**75,761**	**77,762**
Income tax receivables		**10,350**	**9,042**
Other long-term receivables and other assets		**9,956**	**12,038**
Deferred taxes	(6)	**25,784**	**34,540**
		292,283	**296,650**
CURRENT ASSETS			
Inventories	(13)	**103,816**	**158,014**
Receivables and other assets			
Trade receivables	(14)	114,245	125,713
Receivables from construction contracts	(14)	124,279	166,139
Finance lease receivables	(12)	3,452	4,082
Income tax receivables		9,836	3,644
Other assets, prepaid expenses and deferred charges	(15)	17,082	27,061
		268,894	**326,639**
Cash and cash equivalents	(16)	**61,228**	**203,435**
		433,938	**688,088**
		726,221	**984,738**

EQUITY AND LIABILITIES

in € thousands	Notes	Dec. 31, 2009	Dec. 31, 2010
EQUITY	(17)		
Subscribed capital	(18)	76,076	88,180
Capital reserve	(19)	47,061	75,427
Treasury shares	(20)	-27,926	-27,926
Revenue reserves	(21)	64,196	60,938
Minority interests	(22)	1,418	1,466
		160,825	**198,085**
NON-CURRENT LIABILITIES, PROVISIONS AND ACCRUALS	(26)		
Financial liabilities	(27)	63,823	192,823
Other liabilities	(28)	16,030	13,639
Pensions and similar obligations	(24)	70,049	70,248
Deferred taxes	(6)	18,815	18,285
		168,717	**294,995**
CURRENT LIABILITIES	(26)		
Financial liabilities	(27)	45,877	70,927
Trade payables		73,331	148,606
Advances received		27,084	48,980
Liabilities from construction contracts	(14)	54,592	39,603
Accounts payable to affiliated companies		82	75
Income tax liabilities		13,326	14,342
Other liabilities and deferred income	(28)	71,287	80,274
Other provisions	(25)	111,100	88,851
		396,679	**491,658**
		726,221	**984,738**

DEVELOPMENT OF GROUP EQUITY

of KUKA Aktiengesellschaft for the financial year 2010

Notes		(18)	(19)	(20)	
	Number of shares outstanding	Subscribed capital in € millions	Capital reserve in € millions	Share buy-back in € millions	
Jan. 1, 2009	**25,272,660**	**69.2**	**26.5**	**-27.9**	
Comprehensive income					
Capital increase	2,659,990	6.9	20.5		
Employee share program					
Other changes					
Dec. 31, 2009	**27,932,650**	**76.1**	**47.0**	**-27.9**	
Comprehensive income					
Capital increase	4,655,441	12.1	28.4		
Employee share program					
Other changes					
Dec. 31, 2010	**32,588,091**	**88.2**	**75.4**	**-27.9**	

	(21)				(22)	
	Revenue reserves					
	Translation gains / losses in € millions	Actuarial gains and losses in € millions	Annual net profit and other revenue reserves in € millions	Equity to shareholders in € millions	Minority interests in € millions	Total in € millions
	-8.5	**5.0**	**147.7**	**212.0**	**1.5**	**213.5**
	-1.4	-2.9	-75.7	-80.0	-0.1	-80.1
				27.4		27.4
			0.1	0.1		0.1
			-0.1	-0.1		-0.1
	-9.9	**2.1**	**72.0**	**159.4**	**1.4**	**160.8**
	6.9	-1.6	-8.6	-3.3	0.1	-3.2
				40.5		40.5
			0.1	0.1		0.1
		1.2	-1.3	-0.1		-0.1
	-3.0	**1.7**	**62.2**	**196.6**	**1.5**	**198.1**

GROUP NOTES

of KUKA Aktiengesellschaft for the financial year 2010

GROUP SEGMENT REPORTING*

	Robotics		Systems	
in € millions	2009	2010	2009	2010
Group external sales revenue	299.5	385.5	602.0	692.2
as a % of Group sales revenue	33.2	35.7	66.7	64.2
Intra-Group sales	31.0	50.2	3.5	3.1
Sales revenue by division	**330.5**	**435.7**	**605.5**	**695.3**
Operating profit / loss	**-11.5**	**20.8**	**-29.1**	**12.8**
Interest included in operating profit / loss			0.3	7.2
EBIT	**-11.5**	**20.8**	**-28.8**	**20.0**
as a % of sales revenues of the division	-3.5	4.8	-4.8	2.9
as a % of Group external sales revenue	-3.8	5.4	-4.8	2.9
as a % of capital employed (ROCE)	-9.5	16.1	-14.5	10.4
Capital employed (annual average)*	120.5	129.1	198.6	192.4
Capital employed (end of fiscal year)	119.0	139.3	183.5	201.2
Assets	199.9	249.2	436.3	504.8
Liabilities	90.4	117.4	266.6	303.6
Capital expenditure	16.3	6.7	8.9	7.5
Depreciation / amortization of intangible and tangible assets	10.4	9.6	10.3	9.5
Impairment losses on intangible and tangible assets	0.1			
Payroll (annual average)	2,119	2,201	3,675	3,419

* See notes page 136f. for more information on Group segment reporting.

	KUKA Aktiengesellschaft and other Companies		Reconciliation and Consolidation		Group	
	2009	2010	2009	2010	2009	2010
	0.6	0.9			902.1	1,078.6
	0.1	0.1			100.0	100.0
	9.0	9.4	-43.5	-62.7		
	9.6	**10.3**	**-43.5**	**-62.7**	**902.1**	**1,078.6**
	-22.2	**-22.9**	**9.9**	**6.9**	**-52.9**	**17.6**
					0.3	7.2
	-22.2	**-22.9**	**9.9**	**6.9**	**-52.6**	**24.8**
	–	–	–	–	-5.8	2.3
	–	–	–	–	-5.8	2.3
	–	–	–	–	-16.6	7.9
	-0.6	-6.7	-1.0	-2.3	317.5	312.5
	-1.2	-12.2	-1.2	-3.5	300.1	324.8
	170.2	175.8	-177.5	-192.1	628.9	737.7
	82.3	91.1	-15.8	-22.9	423.5	489.2
	2.0	1.2	–	–	27.2	15.4
	2.3	3.1			23.0	22.2
					0.1	
	186	194			5,980	5,814

GENERAL COMMENTS

ACCOUNTING PRINCIPLES

KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, has prepared its Group consolidated financial statements for the period ending December 31, 2010 according to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretation Committee (SIC) as well as the International Financial Reporting Interpretation Committee (IFRIC). The applied accounting principles were applicable and approved by the European Union as of the balance sheet date and were supplemented by the guidelines stipulated in Article 315a, paragraph 1 of the German Commercial Code (HGB). The statements comply with all standards (IFRS / IAS) and interpretations (IFRICs) for which application is mandatory for the 2010 financial year. As a general rule, the accounting policies used conform to the methods applied in the prior year except for the standards and interpretations for which application is mandatory for the first time in the 2010 financial year. The newly applied standards and interpretations are listed under “Changes in accounting policies”.

The Group consolidated financial statements are in compliance with German law. The numbers for the prior year were prepared according to these same standards. With the exception of specific financial instruments reported at fair values, the Group consolidated financial statements are prepared based on historical acquisition or production costs.

The Group consolidated financial statements have been prepared in euros. Unless otherwise noted, all amounts are stated in millions of euros (€ million).

The Executive Board prepared the consolidated financial statements on March 2, 2011.

CONSOLIDATION PRINCIPLES

Subsidiaries directly or indirectly controlled by KUKA Aktiengesellschaft according to IAS 27 or SIC 12 (“Control Concept”) are consolidated in the Group financial statements according to the rules of full consolidation.

The consolidated financial statements are based on the financial statements of KUKA Aktiengesellschaft and those of the consolidated subsidiaries and were prepared according to the uniform accounting policies for the Group. Capital consolidation takes place by offsetting carrying amounts of investments against the proportionate newly measured equity of the subsidiaries at the time of their acquisition. In line with IFRS 3, any positive differences are capitalized as goodwill under intangible assets. Any negative differences must be recognized in the income statement.

Intra-Group sales, expenses, earnings and receivables and payables are netted, and inter-company profits and losses are eliminated. The deferred tax entries required in connection with the consolidation processes have been recorded.

Guarantees and warranties that KUKA Aktiengesellschaft issues on behalf of consolidated subsidiaries are eliminated provided they do not have an external effect.

SCOPE OF CONSOLIDATION

A total of 45 companies are included in the Group consolidated financial statements. This is one company more than in 2009. In addition to KUKA Aktiengesellschaft, six companies registered inside Germany and 38 firms domiciled outside Germany are included for which KUKA Aktiengesellschaft either directly or indirectly holds majority voting rights.

In comparison to December 31, 2009 the scope of consolidation has only changed to the extent that KUKA Systems (Thailand) Co., Ltd., Bangkok, Thailand was established within the Systems division.

Acquisitions

Last year the business segment with silicon saws was purchased from a Czech company for € 1.1 million. The assets were included in the shelf company KUKA S-BASE s.r.o., Roznov p.R., Czech Republic, which was purchased for CZK 0.2 million on August 27, 2009 by KUKA Systems GmbH, Augsburg (90.0 percent share) and KUKA Roboter GmbH, Augsburg (10.0 percent share).

The purchase price was paid in full in cash. Cash and cash equivalents or additional shares in fully consolidated companies were not acquired.

Sales of € 0.0 million and a net loss for the year of € 0.1 million were attributable to the acquisition. The values would not have been materially different with regard to sales and profit, i.e. loss had the business already been purchased at the beginning of 2009.

The following table shows the carrying amounts assumed as a result of the purchase of the division immediately prior to the acquisition as well as the opening balance sheet in fair values:

in € millions	Carrying amounts assumed	Opening balance sheet at fair value
Intangible assets	0.0	0.4
Tangible assets	0.4	0.4
Inventories	0.3	0.3
Total	**0.7**	**1.1**

In principle, the assets assumed comprise finished silicon saws or silicon saws under construction, spare parts and the related drawings. Liabilities and contingent liabilities were not assumed. The fair values were used in the tax balance sheet of KUKA S-BASE s.r.o. so that there were no deferred taxes to be accounted for. Goodwill was not assessed at the time of the transaction.

CURRENCY TRANSLATION

Receivables and payables denominated in foreign currency are translated as at the balance sheet date using an average rate. Any associated translation gains or losses are recorded as gains or losses under other operating income or expenses.

The annual financial statements of the consolidated foreign subsidiaries are translated from their functional currency (IAS 21) into euros. For almost all foreign companies this is the respective local currency, since they operate predominantly within their currency area. The sole exception is KUKA Robotics Hungária Ipari Kft., Taksony, Hungary, which converted to the euro as its functional currency in 2007, since it conducts business predominantly in euros.

Accordingly, all assets and liabilities are translated at the rate effective on the balance sheet date. Goodwill and equity are translated using historical rates. Income and expenses are translated using average rates for the year. The translation of annual profits or losses on the income statement is also done at average rates for the year. Differences arising from the translation of assets and liabilities denominated in foreign currencies compared to their translation in the prior year as well as translation differences between the income statement and the balance sheet are recognized in the revenue reserves. In the event of the departure of Group entities, existing exchange differences are then recognized in profit or loss. The following table shows the currency values compared to the previous year:

		Balance sheet date		Average rate	
Country	Currency	Dec. 31, 2009	Dec. 31, 2010	2009	2010
Brazil	BRL	2.5113	2.2177	2.7706	2.3344
Canada	CAD	1.5128	1.3322	1.5852	1.3665
China	CYN	9.8350	8.8220	9.5174	8.9805
India	INR	67.0400	59.7580	67.3080	60.6318
Japan	JPY	133.1600	108.6500	130.2333	116.4567
Korea	KWN	1.6670	1.4991	1.7728	1.5325
Malaysia	MYR	4.9326	4.0950	4.9040	4.2733
Mexico	MXN	18.9223	16.5475	18.7841	16.7532
Russia	RUB	43.1540	40.8200	44.1391	40.2780
Sweden	SEK	10.2520	8.9655	10.6200	9.5469
Switzerland	CHF	1.4836	1.2504	1.5099	1.3823
Taiwan	TWD	46.1570	38.9163	45.9748	41.9341
Thailand	THB	47.9860	40.1700	47.7750	42.0825
Czech Republic	CZK	26.4730	25.0610	26.4548	25.2939
Hungary	HUF	0.2704	0.2780	0.2805	0.2754
USA	USD	1.4406	1.3362	1.3933	1.3268
United Kingdom	GBP	0.8881	0.8608	0.8911	0.8582
Vietnam	VND	26.42244	25.8959	24.8590	25.3792

ACCOUNTING AND VALUATION

Goodwill

Within the framework of the rules under IFRS 3, goodwill is recognized using the "impairment only" approach and is tested for impairment at least annually.

The impairment test is performed for the defined cash generating units as per IAS 36 rules using the discounted cash flow method. The data from the detail planning phase from the business plan for the next three years was used as the underlying data for this purpose, assuming in subsequent years that the annual cash flows will generally equal those in year three. For the sake of simplification, the perpetuity calculation further assumes that investments equal depreciation / amortization expense and the working capital remains unchanged.

With respect to the segment-specific discount rates as well as the further parameters and their derivation, and also for the identification of the principal items of goodwill, please refer to the discussions under item 9.

Self-developed software and other development costs

Development costs for newly developed products or internally generated intangible assets (e.g. software) are capitalized provided that the technical feasibility and commercialization of the newly developed products are assured, that this will result in an inflow of economic benefits to the Group, and that the further requirements of IAS 38.57 have been met. In this context, the costs of production encompass the costs directly and indirectly attributable to the cost of development. According to IAS 38, expenditures on research are recognized as expenses when they are incurred. Provided they are material, borrowing costs are capitalized for qualifying assets. Those assets are defined as qualifying assets within the KUKA Group for which a period longer than 12 months is required to get them ready for their intended use or sale. Examples here within the KUKA Group in particular are manufacturing plants, internally-generated intangible assets and long-term construction contracts.

Scheduled depreciation commences when the asset is put into use and is recognized over the expected useful life of, as a rule, one to three years, using either the straight-line. Moreover, the value recognized for capitalized costs of development projects not yet completed is subject to impairment tests.

Other intangible assets

Purchased intangible assets, predominantly software, are recognized at their acquisition cost and are amortized as scheduled over their expected useful life of three to five years using the straight-line method.

The KUKA Group does not carry any assets with an undefined useful life with the exception of goodwill.

Property, plant and equipment

Property, plant and equipment are recognized at acquisition or production costs less scheduled depreciation, which is generally applied using the straight-line method. If the depreciation according to the declining balance method better reflects the wear and tear of movable tangible assets, this method is applied. The selected depreciation method is continuously reviewed.

In addition to directly attributable costs, the costs of production for internally generated assets also include a proportionate share of overhead costs in accordance with IFRS. Borrowing costs are capitalized for qualifying assets.

Scheduled depreciation is based predominantly on the following periods of useful life:

	Years
Buildings	25 – 50
Property facilities	2 – 15
Technical plant and equipment	2 – 15
Other equipment	2 – 15
Factory and office equipment	2 – 15

Impairment charges of intangible and tangible assets are recorded in accordance with IAS 36 if the recoverable amount of the asset is less than its carrying amount. In this context, the recoverable amount is the higher of the net realizable value and the value in use of the asset in question. If the reasons for an impairment recorded in prior years no longer apply, the impairment is reversed.

Government grants

In accordance with IAS 20, government grants are recognized only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received.

Government grants related to assets (e.g. investment subsidies and allowances) are deducted from the acquisition or production costs of the relevant asset. Grants related to income are recognized in the income statement.

Finance and operating lease

In connection with finance leases, ownership is attributed to the lessee in cases in which the latter assumes substantially all the risks and rewards incidental to ownership (IAS 17). Provided that the ownership is attributable to the KUKA Group, such leases are capitalized as at the date of the lease agreement at their fair value or at the lower present value of the minimum lease payments. Depreciation is recognized by the straight-line method over the useful life or over the lease term if it is shorter. The discounted value of payment commitments in connection with the lease payments is recognized as a liability and disclosed under other liabilities.

Finance lease agreements, for which the KUKA Group is the lessor and all substantial risks and rewards associated with the ownership are transferred to the lessee, are recognized as a sales and financing transaction for the lessor. A receivable is valued at the amount of the net investment in the lease and the interest income is recognized in the income statement.

To the extent that the KUKA Group has entered into operating leases according to IAS 17, lease or rent payments are directly recognized as an expense in the income statement and distributed using the straight-line method over the term of the leasing agreement, unless a different systematic basis more closely corresponds with the utilization period. Relevant total future costs are reported in item 10.

Financial instruments

Financial instruments are contracts that simultaneously give rise to a financial asset of one entity and a financial liability of another entity. These include both primary financial instruments (e.g. trade receivables or trade payables) and derivative financial instruments (e.g. transactions to hedge the risks of changes in fair value).

Derivative financial instruments are financial contracts whose value is derived from the price of an underlying asset (e.g. stocks, bonds, money market instruments or commodities) or a reference rate (such as currencies, indices or interest rates). They require little or no initial investment and are settled at a future date. Examples of derivative financial instruments include options, forward contracts and interest rate swap transactions. The KUKA Group uses derivatives to hedge foreign currency risks.

IAS 39 differentiates between the following categories of financial instruments that are relevant for KUKA:

- Loans and receivables
- Financial assets and financial liabilities held for trading
- Available-for-sale financial assets
- Financial liabilities measured at amortized cost

Unless otherwise noted, financial instruments are recognized at fair value. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

As a general rule, financial instruments are initially recognized or derecognized when the asset is delivered to or by KUKA (settlement date accounting).

Participations in associated companies and other financial investments

In the KUKA Group, participations in continuing business units that are not material to the financial position and performance of the Group are reported under available-for-sale financial assets. They are recognized at costs of purchase. Current market values are not available, since no shares are traded in an active market.

Receivables and other assets

Receivables and other assets are recognized at cost of purchase with appropriate discounts applied for all identified individual risks. General credit risk, to the extent that it can be documented, is also accounted for by appropriate valuation allowances. For this purpose, these financial assets are grouped in accordance with similar default risk characteristics and are collectively tested for impairment, and written down if necessary. When calculating any such impairment losses, the empirical default history is taken into account in addition to contractually stipulated payment flows.

The carrying amount of the assets is lowered using separate accounts for allowances for impairment losses. Actual defaults result in a write-off of the receivables in question. The maximum theoretically possible default risk corresponds with the carrying amounts. The carrying amounts largely correspond with the market values.

Derivatives with a positive fair value are recognized under other assets.

Cash and cash equivalents

Cash and cash equivalents include all cash funds recognized on the balance sheet, i.e. cash in hand, checks and cash balances with financial institutions, provided that they are available within three months.

Liabilities

Liabilities are recognized on the balance sheet at their depreciated / amortized cost of purchase. Payables arising from finance leases are recognized at the present value of future lease payments.

Long-term liabilities with a term of more than one year are discounted to the balance sheet date on the basis of appropriate interest rates where the interest effect is material.

On initial recognition, financial liabilities are carried at fair value less transaction costs. They are measured at amortized cost in subsequent periods; any difference between the amount paid out (less transaction costs) and the redemption amount is recognized in the interest result for the term of the loan using the effective interest method. Fees incurred when setting up credit lines are capitalized as credit transaction costs and are amortized over the term of the corresponding loan commitment.

Trade payables also include payments due on outstanding supplier invoices.

If the fair value of derivatives is negative, this results in recognition under other liabilities.

Derivatives

In accordance with IAS 39, the KUKA Group recognizes all derivatives at fair value as of the settlement date. The fair 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. Average prices are used for this calculation.

Derivatives are used to hedge currency fluctuations. Accounting for hedging instruments within the restrictive framework of the hedge accounting rules is not undertaken.

Inventories

According to IAS 2, inventories are valued at average cost of acquisition or production. In addition to the direct unit costs, production costs also include appropriate costs for indirect materials and production overheads according to IAS 2. Write-downs to lower net realizable value have been taken to the extent required. In addition to valuation allowing disposal at no net loss, these write-downs also cover all other inventory risk. If the reasons that led to a devaluation of inventories in the past no longer exist, impairment losses are reversed.

Construction contracts

Construction contracts that meet the criteria of IAS 11 are recognized according to the percentage of completion method (POC method). As a rule, the percentage of completion to be recognized by contract is determined by the cost of work to date as a percentage of the estimated total costs (cost-to-cost method). The corresponding earnings from the contract are recognized on the basis of the percentage of completion thus determined. These contracts are presented as receivables, i.e. liabilities from contracts. To the extent that services performed to date exceed advances received, the contracts are recorded on the balance sheet as receivables arising from construction contracts. If there is a negative balance after deduction of advances, this is recognized as liabilities from construction contracts. In accordance with IAS 23, borrowing costs are considered for construction contracts started in 2009. If necessary, provisions are recognized for impending losses.

Current and deferred taxes

Tax receivables and liabilities are assessed using the expected amount of the reimbursement from, i.e. payment to the tax authorities.

According to IAS 12, deferred tax assets and liabilities have been recorded for all temporary differences between the carrying amounts of assets and liabilities on the Group consolidated balance sheet and their recognized value for tax purposes (liability method) as well as for tax loss carry-forwards. Deferred tax assets for accounting and valuation differences as well as for tax loss carry-forwards are only recognized to the extent that there is a sufficiently probable expectation that the corresponding benefit will be realized in the future. Deferred tax assets and liabilities are not discounted. Deferred tax assets are netted against deferred tax liabilities if the tax creditor is the same.

Pension provisions and similar obligations

The measurement of pension liabilities and similar obligations is performed according to IAS 19. Pensions and similar obligations comprise obligations of the KUKA Group to pay benefits under defined benefit plans. The pension obligations are determined according to the so-called Projected Unit Credit Method. In addition to known pensions and vested benefits as at the balance sheet date, this method also takes expected future increases in salaries and pensions into account. The calculations are based on actuarial reports that must be prepared annually and must be based on biometric data. Service costs are recognized as personnel expense; the interest portion of the addition to provisions as well as the return on the fund assets are recognized as financing activities. Actuarial gains and losses are recognized directly in equity (“Option 3”).

Other provisions

Other provisions are recognized in the event that there is a current obligation to third parties arising from a past event. It must be possible to estimate the amount reliably and it must, more likely than not, lead to an outflow of future resources. Provisions are only recognized for legal and constructive obligations to third parties.

Provisions are recognized for costs of restructuring to the extent that a detailed, formal restructuring plan has been created and communicated to the parties affected by it and it is highly probable that company can no longer withdraw from these obligations.

No provisions were recognized for future expenses, since these do not represent an external obligation.

Liabilities in the personnel area, such as vacation pay, flex-time credits and the statutory German early retirement scheme (Altersteilzeit), are recognized under other liabilities.

Liabilities for outstanding vendor invoices are recognized under trade payables.

Long-term provisions with a term of more than one year are discounted to the balance sheet date on the basis of appropriate interest rates where the interest effect is material.

Share-based compensation

As part of an employee stock ownership program it was possible for KUKA employees of German companies to purchase KUKA shares. Arranged according to a holding period of one, three and five years, employees receive an additional share as a bonus for every ten KUKA shares acquired. A 50 percent incentive was granted in addition to the subscribed shares. The number of incentive shares was limited to 75,000 for all employees. KUKA employees acquired a total of 150,195 shares.

Revenue recognition

Construction contracts (IAS 11) are accounted for by the percentage of completion method. Other revenues are recognized in accordance with IAS 18. Sales revenues are booked in the period in which the products or goods were delivered or the services were rendered. Any reductions to the proceeds, contract penalties and cash discounts are deducted from this. At this time, the amount of revenues can be reliably measured and the inflow of economic benefits from the transaction is sufficiently probable.

Cost of sales

The cost of sales comprises the cost of production of the goods sold as well as the acquisition cost of any merchandise sold. In addition to the cost of attributable direct materials and labor, this also comprises indirect costs, including the depreciation and amortization of production plants and intangible assets, write-downs of inventories and the recognized borrowing costs. KUKA accounts for provisions for product warranties as part of the cost of sales at the time of revenue recognition. Impending losses from contracts are recognized in the reporting period in which the current estimate for total costs arising from the respective contract exceeds the expected contract revenue.

Research and development costs

Research and development costs that are not eligible for recognition as an asset are recognized as expenses when they are incurred.

ASSUMPTIONS AND ESTIMATES

The preparation of the Group consolidated financial statements requires management to make assumptions and estimates that affect the recognition and amount of assets and liabilities on the balance sheet, revenues and expenses, as well as the disclosure of contingent liabilities. Actual amounts may differ from these assumptions and estimates on a case-by-case basis. In the application of accounting policies, the company has made the following important discretionary decisions, which have a significant effect on the amounts in the annual financial statements. These do not include those decisions that represent estimates.

Development costs

Development costs are recognized as assets in accordance with the methods described under accounting policies. For the purpose of determining the amounts to be recognized as assets, management must make assumptions concerning the expected future cash flows from assets, the applicable discount rates and the timing of the inflow of expected future cash flows that the assets will generate.

Goodwill impairments

The Group tests assets recognized as goodwill at least once a year for impairment. This requires an estimate of the value in use less costs of disposal of the respective cash-generating units to which the goodwill has been allocated. To determine the value in use, management must estimate the future cash flows of the respective cash generating units and further select an appropriate discount rate for calculating the present value of these cash flows. For details about the carrying amounts of the assets recognized as goodwill and the performance of the impairment tests please refer to the discussion under item 9.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available such that the loss carry-forwards can actually be used. The determination of the amount of deferred tax assets requires an estimate on the part of management of the expected timing and amount of anticipated future taxable earnings as well as future tax planning strategies. For details please refer to the discussion under item 6.

Receivables and liabilities from construction contracts

A number of companies, particularly in the Systems segment, conduct a portion of their business in the form of construction contracts, which are recognized using the percentage of completion method. Sales are reported based on the percentage of completion. A careful estimate of the progress toward completion is essential for the accounting process. Depending on the method used to determine the percentage of completion, the most important estimates include the total order costs, the costs yet to be incurred until completion, the total project revenues and risks as well as other assessments. The management team responsible for the respective project continuously monitors all estimates and adapts these as needed.

Pensions and other post-employment benefits

Expenditures under defined-benefit plans and other post-employment benefits are determined on the basis of actuarial calculations. The actuarial calculations are prepared on the basis of assumptions with respect to discount rates, expected returns on plan assets, future increases in wages and salaries, mortality rates and future pension increases. In line with the long-term orientation of these plans, such estimates are subject to significant uncertainties. A change to the discounting factor of +/– 0.25 percent would lead to a higher / lower defined benefit obligation of € +/– 2.0 million. Please see item 24 for further details on pension provisions.

Provisions

To a great degree the designation and measurement of provisions for impending losses from contracts, of provisions for warranty obligations and of litigation provisions involve making estimates.

Long-term construction contracts in particular are awarded based on invitations to tender. KUKA recognizes a provision for impending losses when the current estimated total costs arising from the respective contract exceed the expected total revenue. These estimates may change due to new knowledge as the project progresses. Deficit orders are identified based on continuous project costing. This requires an assessment of the performance standards and warranty costs.

KUKA faces litigation in different areas. These proceedings can lead to criminal or civil sanctions or fines. A provision is always recognized when it is likely that an obligation will result that will lead to future cash outflows and the amount of which can be reliably assessed. The underlying issues are often complex and associated with great uncertainties. Judgment whether a present obligation arising from a past event is to be recognized on the balance sheet date, whether future cash outflows are probable and the obligation can be reliably assessed is therefore largely at the discretion of management. The company, which may also consult external legal professionals, regularly assesses the respective stage of the proceeding. New findings can change the assessment and it may be necessary to adjust the provision accordingly. Please see item 25 for further details on provisions.

CHANGES IN ACCOUNTING POLICIES

Due to the way the corporation is internally managed and to increase transparency compared to the 2009 consolidated financial statements, the structure of the income statement has been changed to provide a bridge from operating profit to earnings before interest and taxes (EBIT). The line item "Financing costs included in sales" applies to accrued financing expenses as outlined in IAS 23R. The prior year's numbers were shown accordingly.

Overall, KUKA Aktiengesellschaft's consolidated financial statements were not significantly affected by changes in accounting policies in fiscal 2010.

The following revised standards were applied for the first time in the 2010 financial year:

IFRS 3 (rev. 2008) – Business Combinations and IAS 27 (rev. 2008) – Consolidated and Separate Financial Statements

The amendments to IFRS 3 specifically affect how cost of purchase is measured (incidental acquisition costs are recognized as an expense), the accounting of goodwill, the illustration of successive acquisitions, and in certain areas the recognition and measurement of identifiable assets and liabilities.

In particular, the amendments to IAS 27 lead to changes relating to transactions with minority interests as well as the losses attributable to the minorities in the consolidated financial statements.

The effect of these changes on the financial position and performance of the KUKA Group will depend on the type and extent of future transactions and cannot be assessed at this time.

In addition, the following standards and interpretations likewise already adopted into EU law will be applied for the first time in the 2010 financial year:

- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Amendment to IFRS 1 – Additional Exemptions for First-time Adopters
- Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions
- Improvements to IFRSs (2009)*
- IFRIC 12 – Service Concession Arrangements
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- IFRS for Small and Medium-sized Enterprises (this standard has no relevance for the KUKA Group)

* This affects the following standards: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16.

IFRS standards and interpretations that are not yet mandatory

The following new and amended standards and interpretations had been adopted by the preparation date of the Group consolidated financial statements. However, these will become effective at a later date. The initial application always occurs in the year in which first-time adoption is required. Their impact on the Group consolidated financial statements of KUKA Aktiengesellschaft has not yet been completely analyzed. Consequently, the anticipated effects only represent a first estimate.

Amendment to IAS 32 – Classification of Rights Issues

IAS 32 was amended so that subscription rights, options and warrants on a fixed number of own shares in exchange for a fixed amount in any one currency are to be reported as an equity instrument provided these are granted proportionately to all existing same-class shareholders. These were previously reported under financial liabilities.

Adoption of the revised standard is mandatory for financial years starting on or after February 1, 2010.

IAS 24 (rev. 2009) – Related Party Disclosures

The amendment to IAS 24 led to a fundamental revision of the definition of related parties in particular, and adjustments regarding the definition of transactions (with a disclosure requirement).

Adoption of the revised standard is mandatory for financial years starting on or after January 1, 2011. The application of the new requirements takes place retrospectively. As this relates to notes the amended IAS 24 will not impact KUKA Group's financial position or performance.

In addition, the following standards and interpretations have already been approved and in part already adopted into EU law. This is expected to have little or no effect on KUKA AG's consolidated financial statements:

Standard / Interpretation	Effective date	Planned application by KUKA AG
IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters	July 1, 2010	Fiscal 2011
IAS 24 (rev. 2009) – Related Party Disclosures	Jan. 1, 2011	Fiscal 2011
Amendment to IAS 32 – Classification of Rights Issues	Feb. 1, 2010	Fiscal 2011
Improvements to IFRSs (2010)**	Jan. 1, 2011	Fiscal 2011*
IFRS 9 – Financial Instruments	Jan. 1, 2013	Fiscal 2013*
Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement	Jan. 1, 2011	Fiscal 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010	Fiscal 2011

* Pending adoption (endorsement) by the European Union.

** This affects the following standards: IFRS 1, IFRS 7, IAS 1, IAS 34, IFRIC 13; the standards IFRS 3 and IAS 27 have also been amended for application as of July 1, 2010.

NOTES TO THE GROUP INCOME STATEMENT AND TO THE GROUP BALANCE SHEET

1 SALES REVENUES

Sales revenues include fees and charges billed to customers for goods and services – less any sales deductions, contract penalties and cash discounts.

The breakdown of sales revenues by business divisions and regions is shown in segment reporting (cf. page 90 and 91 f.). Services account for approximately 21 percent of sales revenues in the Robotics division as compared to 23 percent last year. Services play a less significant role in the Systems division.

In connection with construction contracts, sales revenues in the amount of € 541.6 million were recognized in the reporting year (compared to € 459.7 million in the prior year) according to the percentage of completion method.

2 COST OF SALES, SELLING EXPENSES, RESEARCH & DEVELOPMENT EXPENSES AND GENERAL ADMINISTRATIVE EXPENSES

The following is a breakdown of the cost of sales, selling expenses, research and development expenses and general and administrative expenses:

	Cost of sales		Selling expenses		Research and development expenses		General and administrative expenses		Total	
in € millions	2009	2010	2009	2010	2009	2010	2009	2010	**2009**	**2010**
Cost of materials	476.3	592.7	1.4	1.0	9.4	4.1	0.2	0.4	487.3	598.2
Personnel expense	218.1	234.6	45.7	46.0	20.4	18.7	35.6	40.2	319.8	339.5
Amortization	13.5	13.0	0.8	1.0	3.8	3.4	5.1	4.9	23.2	22.3
Other expenses and income	34.9	34.3	36.9	38.9	2.0	3.3	36.8	30.8	110.6	107.3
Total	**742.8**	**874.6**	**84.8**	**86.9**	**35.6**	**29.5**	**77.7**	**76.3**	**940.9**	**1,067.3**

The cost of sales comprised under other expenses include financing costs for receivables from construction contracts totaling € 7.2 million compared to € 0.3 the previous year. These were calculated on the basis of the Group capitalization rate of 13.0 percent.

Personnel costs are directly allocated to the functional areas based on the cost centers, which results in the following figure:

in € millions	2009	2010
Wages and salaries	266.3	284.8
Social security payments and contributions for		
retirement benefits and provident funds	53.5	54.7
(of that for retirement benefits)	(3.2)	(3.4)
Total	**319.8**	**339.5**

In 2010, the German companies within the KUKA Group received subsidies following short-time work from the German Federal Labor Office totaling € 1.0 million (prior year: € 0.5 million), which were deducted directly from personnel expenses.

Annual average employed and employed at the balance sheet date by the KUKA Group:

	Annual average		Balance sheet date			
Employees by functional categories	Total 2009	Total 2010	Total 2009	Total 2010	of that, Germany	of that, abroad
Manufacturing	4,425	4,358	4,217	4,498	2,176	2,322
Sales	578	528	564	532	278	254
Administration	531	503	499	508	251	257
Research and development	277	240	271	242	235	7
	5,811	**5,629**	**5,551**	**5,780**	**2,940**	**2,840**
Trainees / apprentices	169	185	193	210	198	12
Total	**5,980**	**5,814**	**5,744**	**5,990**	**3,138**	**2,852**

3 OTHER OPERATING INCOME AND EXPENSES

These line items capture income and expenses that are not allocated to the functional categories cost of sales, selling expenses, research and development expenses, general and administrative expenses or otherwise reported separately.

in € millions	2009	2010
Income from foreign currency transactions	20.3	24.0
Reimbursements from damages claims	0.1	0.1
Other income	4.7	6.1
Other operating income	**25.1**	**30.2**
Expenses for foreign currency transactions	19.9	20.2
Donations	0.2	0.1
Other taxes	3.0	2.8
Other expenses	16.1	0.9
Other operating expense	**39.2**	**24.0**
Other operating income and expenses	**-14.1**	**6.2**

One of the reasons for the high amount of other expenses in the other operating expenses in 2009 was the sale of the location in Tours, France.

4 WRITE-OFF OF FINANCIAL ASSETS

KP Köln GmbH Konstruktion und Planung, Cologne was founded in the fourth quarter of 2009. Within the scope of a transfer of operations, 24 employees went from KUKA Systems GmbH, Augsburg to the new company, which was funded with equity and had acquired the operation. On December 31, 2009 the company was sold as part of a management buy-out. For this reason an amount of € 0.4 million was written off.

5 INTEREST INCOME / EXPENSE

in € millions	2009	2010
Other interest and similar income	10.3	9.1
Interest and similar expenses	21.4	31.1
Net interest income / expense	**-11.1**	**-22.0**

Other interest and similar income includes an amount of € 0.3 million (prior year: € 0.2 million) for expected returns on pension plan assets. The remaining interest income represents returns on bank deposits as well as from finance leasing in connection with the financing of a factory building for the production of bodies for the Jeep Wrangler in Toledo, USA (cf. note 12).

Interest and similar expenses include the interest portion of additions to the provision for pensions in the amount of € 3.8 million (prior year: € 4.2 million). In addition, this item includes guarantee and commitment fees, refinancing costs and interest on loans received. The convertible bond added € 5.3 million (prior year: € 5.1 million) to the net interest expense for the financial year. Interest expenses from the bond issued in November 2010 amounted to € 2.3 million. One-time charges in connection with the former Syndicated Senior Facilities Agreement totaling € 5.3 million were likewise recognized in interest expense (cf. note 27 Syndicated loan). The transaction costs of the Syndicated Senior Facilities Agreement have been deferred and are distributed over the term of the agreement; € 0.2 million was incurred in 2010.

6 TAXES ON INCOME / DEFERRED TAXES

Tax expense

Income tax expense breaks down by origin as follows:

in € millions	2009	2010
Current taxes	3.0	12.0
(of that relating to other periods)	(-3.9)	(1.1)
Deferred taxes		
from temporary differences	6.5	0.4
from loss carry-forwards	1.9	-8.4
Total	**11.4**	**4.0**

Of the current expenses for tax on earnings, € -1.6 million is attributable to domestic expenditure compared to € -2.3 million in the previous year, whereas € 10.4 million is attributable to foreign expenditure compared to € 5.3 million last year.

Deferred tax expenses of € -7.5 million are attributable to domestic operations and € -0.5 million to foreign. This compares with the figures from the previous year of € 6.0 million and € 2.4 million (tax income), respectively.

The expected tax expense based on earnings before taxes and the applicable tax rate for the KUKA companies in Germany of 30.0 percent (prior year: unchanged) leads to the following actual tax expense:

in € millions	2009	2010
Earnings before tax	**-64.3**	**-4.5**
Expected tax expense	**-19.3**	**-1.4**
Tax rate-related differences	1.4	3.1
Tax reductions due to tax-exempt income	-1.0	-0.5
Tax increases due to non-deductible expenses	3.5	4.2
Tax arrears (+) / Tax credits received (–) for prior years	-3.9	1.1
Changes to allowance on deferred taxes	32.1	-2.8
Changes in tax rates due to the German Business Tax Reform	0.1	0.0
Other differences	-1.5	0.3
Taxes on income (actual tax expense)	**11.4**	**4.0**

The applicable tax rate in Germany comprises corporate income tax (Körperschaftsteuer) of 15.0 percent, earned income tax (Gewerbesteuer) based on a uniform tax rate of 14.2 percent and the reunification tax (Solidaritätszuschlag) of 5.5 percent.

In principle, deferred taxes were recognized on the basis of the applicable tax rate for each company in question.

In addition to an existing corporate income tax credit, an amount equal to € 9.0 million (prior year: € 10.3 million) results after discounting as a non-current tax receivable effective December 31, 2010, and an amount of € 1.8 million (prior year: unchanged) as a current tax receivable.

There are no tax credits for which deferred taxes would need to be balanced.

A tax expense of € 1.1 million (prior year: € -3.9 million) for other periods was reported in the current financial year largely due to expected domestic tax corrections.

No adjustments to provisions were necessary in the 2010 financial year following the last auditing of the years 2002 to 2004. The audit reports are not yet complete.

Deferred tax assets and liabilities

The value of deferred tax assets and liabilities due to temporary differences and tax loss carry-forwards in the Group is associated with the following items:

	Deferred tax assets		Deferred tax liabilities	
in € millions	Dec. 31, 09	Dec. 31, 10	Dec. 31, 09	Dec. 31, 10
Non-current assets	2.7	15.3	25.6	43.4
Current assets	29.2	40.6	40.5	49.1
Provisions	19.8	15.9	0.2	1.7
Liabilities	12.5	13.1	7.9	3.4
Subtotal	**64.2**	**84.9**	**74.2**	**97.6**
Balancing item	-55.4	-79.4	-55.4	-79.4
Valuation allowance	-6.4	-2.8	0.0	0.0
Subtotal	**2.4**	**2.7**	**18.8**	**18.2**
Deferred taxes on temporary differences	2.4	2.7	18.8	18.2
Deferred taxes on tax loss carry-forwards	23.4	31.9	0.0	0.0
Total	**25.8**	**34.6**	**18.8**	**18.2**
(thereof: from items recognized in equity)			4.0	2.6

Valuation allowances to the carrying amount of deferred tax assets are recognized if the realization of the expected benefit of the deferred taxes is not sufficiently probable. The estimates made are subject to changes over time, which may result in the reversal of the valuation allowance in subsequent periods.

The recognized values on the balance sheet are written off in the event that the tax benefits that they represent were no longer expected to be realized.

From the loss carry-forward of € 242.6 million (prior year: € 262.5 million), amounts totaling € 137.1 million (prior year: € 185,1 million) are not considered in the accounting of deferred taxes. The previous year was adjusted due to legal developments in the regulations stipulated in Article 8c of the German Corporate Income Tax Act (KStG).

In accordance with IAS12, deferred tax items must be recognized for the difference between the proportionate equity of a subsidiary recognized on the Group balance sheet and the investment carrying amount of this subsidiary on the tax balance sheet of the parent company (so-called outside basis differences) if it is likely that this difference will be realized. Since both KUKA Aktiengesellschaft as well as the subsidiaries in question are

corporations, these differences are predominantly tax exempt under Article 8b KStG upon realization and thus permanent in nature. According to IAS 12.39, no deferred tax liability should be recognized even for temporary differences (e.g. those resulting from the 5 percent flat-rate allocation under Article 8b KStG) if it is not likely, given control by the parent company, that these differences will reverse in the foreseeable future. Since no such reversal is expected, no deferred tax items had to be recognized on the balance sheet for this purpose. There are outside basis differences in the amount of € 0.5 million (prior year: € 0.6 million).

Changes in deferred tax assets due to temporary differences totaling € 0.3 million (prior year: € 1.1 million) primarily relate to current assets. Changes in the deferred tax liabilities of € 0.6 million (prior year: € 5.7 million) are largely attributable to non-current assets.

Overall, the change to deferred tax assets and liabilities of € 9.4 million (prior year: € 6.5 million) came from amounts affecting net income totaling € -8.0 million (prior year: € 8.4 million) as well as amounts not affecting net income totaling € -1.4 million (prior year: unchanged) including currency effects.

Tax losses and tax loss carry-forwards

To the extent that loss carry-forwards have not been written off, it is expected in the planning period that this tax-reducing potential will be utilized via taxable income, which is likely based on the expectations of the Group companies.

Due to the regulations stipulated in Article 8c KStG, tax loss carry-forwards in connection with the largest acquisition of participating interests in KUKA AG in 2009 are endangered in Germany and are therefore not subject to accounting for precautionary reasons.

As at December 31, 2010, the loss carry-forwards not yet utilized amounted to € 242.6 million (prior year: € 262.5 million). German companies account for € 178.6 million (prior year: € 199,5 million) of this, and the amounts do not expire. In the USA, loss carry-forwards amount to € 12.5 million (prior year: € 12.8 million) and will expire in 2011.

In addition, loss carry-forwards in the total amount also include € 26.1 million (prior year: € 36.0 million) for France, € 11.1 million (prior year: € 2.7 million) for Japan and € 3.1 million for Spain (prior year: unchanged). There are loss carry-forwards totaling € 11.2 million (prior year: € 8.4 million) in other countries as well. In general the tax loss carry-forwards outside of Germany also do not expire.

7 EARNINGS PER SHARE

Undiluted / diluted earnings per share break down as follows:

	2009	2010
Net loss for the year after minority interests	-75.7	-8.6
Weighted average number of shares outstanding	25,671,659	30,325,029
Earnings per share (in €)	**-2.95**	**-0.28**

According to IAS 33, undiluted earnings per share were calculated on the basis of Group consolidated earnings after taxes and the weighted average number of shares outstanding for the year.

On December 31, 2008 there were 25.3 million shares outstanding. The capital increase in November 2009 increased the average number of shares outstanding at the end of the preceding year to 25.7 million.

An additional 4.7 million shares were issued from the capital increase in June 2010. This raised the average number of outstanding shares to 30.3 million as of December 31, 2010.

The issuance of the convertible bond on May 9, 2006 could result in a future dilution effect since contingent capital has been increased by a maximum of currently 2,718,322 shares. Since the average share price in 2010 remained below the conversion price so that a conversion would have been unfavorable for the bond holders, there was no diluting effect in 2010.

8 FIXED ASSETS

SCHEDULE OF CHANGES IN FIXED ASSETS 2010

	Acquisition / Manufacturing Costs						
in € thousands	Status as at Jan. 1, 2010	Exchange-rate differences	Additions	Disposals	Reclassifications	Status as at Dec. 31, 2010	
I. Intangible assets							
1. Rights and similar assets	42,084	652	2,785	1,874	53	43,700	
2. Self-developed software and other development costs	18,064	0	1,952	1,504	0	18,512	
3. Goodwill	56,633	0	0	0	0	56,633	
4. Advances paid	1,665	0	54	545	-53	1,121	
	118,446	**652**	**4,791**	**3,923**	**0**	**119,966**	
II. Tangible assets							
1. Land, similar rights and buildings including buildings on land owned by third parties	113,745	1,223	959	1,046	37	114,918	
2. Technical plant and equipment	89,458	799	3,877	3,522	1,961	92,573	
3. Other equipment, factory and office equipment	71,698	1,378	4,915	9,616	173	68,548	
4. Advances paid and construction in progress	1,802	8	894	28	-2,171	505	
	276,703	**3,408**	**10,645**	**14,212**	**0**	**276,544**	
III. Financial investments							
1. Participations in affiliated companies	4,584	0	0	0	0	4,584	
2. Participations in associated companies	0	0	0	0	0	0	
3. Other participations	878	0	0	0	0	878	
4. Other loans	16	0	0	2	0	14	
	5,478	**0**	**0**	**2**	**0**	**5,476**	
	400,627	**4,060**	**15,436**	**18,137**	**0**	**401,986**	

The following amounts have been capitalized under technical equipment and machinery due to finance leases in which the KUKA Group acts as the lessee:

Technical equipment and machinery	**4,530**		**0**			**4,530**	

	Accumulated Depreciation						Net carrying amount
	Status as at Jan. 1, 2010	Exchange-rate differences	Additions	Disposals	Reclassifications	Status as at Dec. 31, 2010	Status as at Dec. 31, 2010
	29,260	521	5,139	1,867	0	33,053	10,647
	2,974	0	1,917	1,504	0	3,387	15,125
	6,996	0	0	0	0	6,996	49,637
	0	0	0	0	0	0	1,121
	39,230	**521**	**7,056**	**3,371**	**0**	**43,436**	**76,530**
	62,767	282	3,186	109	-2	66,124	48,794
	68,819	397	5,343	2,998	1	71,562	21,011
	54,866	909	6,652	9,345	1	53,083	15,465
	0	0	0	0	0	0	505
	186,452	**1,588**	**15,181**	**12,452**	**0**	**190,769**	**85,775**
	4,509	0	0	0	0	4,509	75
	0	0	0	0	0	0	0
	0	0	0	0	0	0	878
	4	0	0	0	0	4	10
	4,513	**0**	**0**	**0**	**0**	**4,513**	**963**
	230,195	**2,109**	**22,237**	**15,823**	**0**	**238,718**	**163,268**
	3,063		**234**			**3,297**	**1,233**

SCHEDULE OF CHANGES IN FIXED ASSETS 2009

	Acquisition / Manufacturing Costs						
in € thousands	Status as at Jan. 1, 2009	Exchange-rate differences	Changes to scope of consolidiation*	Additions	Disposals	Reclassi-fications	Status as at Dec. 31, 2009
I. Intangible assets							
1. Rights and similar assets	34,905	-42	347	7,221	539	192	42,084
2. Self-developed software and other development costs	18,122	0	0	2,482	2,540	0	18,064
3. Goodwill	56,633	0	0	0	0	0	56,633
4. Advances paid	12	0	0	1,696	0	-43	1,665
	109,672	**-42**	**347**	**11,399**	**3,079**	**149**	**118,446**
II. Tangible assets							
1. Land, similar rights and buildings including buildings on land owned by third parties	115,235	-336	0	1,412	2,924	358	113,745
2. Technical plant and equipment	82,983	44	436	5,680	3,379	3,694	89,458
3. Other equipment, factory and office equipment	70,188	-17	0	5,336	4,489	680	71,698
4. Advances paid and construction in progress	3,214	160	0	3,326	17	-4,881	1,802
	271,620	**-149**	**436**	**15,754**	**10,809**	**-149**	**276,703**
III. Financial investments							
1. Participations in affiliated companies	4,697	0	0	0	113	0	4,584
2. Participations in associated companies	0	0	0	0	0	0	0
3. Other participations	161	0	0	1,121	404	0	878
4. Other loans	514	-15	0	0	483	0	16
	5,372	**-15**	**0**	**1,121**	**1,000**	**0**	**5,478**
	386,664	**-206**	**783**	**28,274**	**14,888**	**0**	**400,627**

The following amounts have been capitalized under technical equipment and machinery due to finance leases in which the KUKA Group acts as the lessee:

Technical equipment and machinery	**3,846**			**684**			**4,530**

* related to the acquisition in 2009 of KUKA S-BASE s.r.o., Roznov p.R., Czech Republic

	Accumulated Depreciation							Net carrying amount
	Status as at Jan. 1, 2009	Exchange-rate differences	Changes to scope of consolidiation*	Additions	Disposals	Reclassi-fications	Status as at Dec. 31, 2009	Status as at Dec. 31, 2009
	25,248	-82	0	4,634	531	-9	29,260	12,824
	3,228	0	0	2,286	2,540	0	2,974	15,090
	6,996	0	0	0	0	0	6,996	49,637
	0	0	0	0	0	0	0	1,665
	35,472	**-82**	**0**	**6,920**	**3,071**	**-9**	**39,230**	**79,216**
	61,093	-44	0	3,372	1,658	4	62,767	50,978
	65,074	25	0	6,196	2,476	0	68,819	20,639
	52,391	-31	0	6,647	4,146	5	54,866	16,832
	0	0	0	0	0	0	0	1,802
	178,558	**-50**	**0**	**16,215**	**8,280**	**9**	**186,452**	**90,251**
	4,519	0	0	0	10	0	4,509	75
	0	0	0	0	0	0	0	0
	34	0	0	0	34	0	0	878
	453	-15	0	0	434	0	4	12
	5,006	**-15**	**0**	**0**	**478**	**0**	**4,513**	**965**
	219,036	**-147**	**0**	**23,135**	**11,829**	**0**	**230,195**	**170,432**
	2,667			**396**			**3,063**	**1,467**

9 INTANGIBLE ASSETS

Changes to the individual items under intangible assets are disclosed in the schedule of changes in fixed assets. In the 2010 and 2009 financial years, no impairment losses were recognized on assets.

Goodwill

Recognized goodwill in the amount of € 49.6 million (prior year: unchanged) breaks down as follows:

Profit Center in € millions	Dec. 31, 2009	Dec. 31, 2010
Body-in-White	40.7	40.7
Assembly & Test	4.7	4.7
Robotics Automotive	3.8	3.8
Others / less than 1 million €	0.4	0.4
Total	**49.6**	**49.6**

Individual profit centers represent the smallest fund-generating unit, making them the basis for the impairment test of goodwill. The customer service business in the Robotics division is proportionately allocated to the profit centers "Automotive" and "General Industry".

The following discount rates for WACC before taxes are used in the three-year detailed planning period for the goodwill impairment tests for the 2010 financial year:

in percent	2009	2010
Planning period	2010 – 2012	2011 – 2013
Systems	9.4	9.6
Robotics	9.3	9.3

In this context, the cost of equity capital was determined on the basis of segment-specific peer groups. After the detailed planning period the future development of the generated cash flows is smoothed out. As in the previous year, a growth rate of 0.5 percent is applied as perpetuity.

Material components used in determining WACC are the market risk premium of 5.0 percent (prior year: unchanged) and the risk-free interest rate of 3.1 percent (prior year: 4.1 percent). The adjusted beta factor for the Systems segment was 1.288, and 1.223 for the Robotics segment.

The cost of borrowed capital was derived from the refinancing costs of KUKA Aktiengesellschaft.

The ratios for the cost of equity capital and the cost of borrowed capital that were thus determined were based on the respective peer group. The capital structure was determined based on KUKA Aktiengesellschaft. The expected average tax rate of the peer group of 30 percent (prior year: 33 percent) was chosen as the tax rate.

A 1 percent higher WACC would not influence the impairment of goodwill – just like a reduction in sales revenues over the entire planning period by 10 percent with a correspondingly lower cash flow.

Self-developed software and other product development costs

According to IAS 38, self-developed software and other development costs must also be capitalized. For the purpose of such capitalization, KUKA uses a definition of the costs of production which, in accordance with IAS, includes attributable direct costs as well as an appropriate allocation for overheads and depreciation. Borrowing costs are included in the production costs based on the Group capitalization rate of 13.0 percent for qualifying assets whose development began after December 31, 2008.

Development costs are only recognized as assets in the KUKA Group by KUKA Roboter GmbH. The company is working on several projects involving performance and guidance software for robots as well as new applications in the area of medical technology. Borrowing costs of € 0.1 million were accounted for. Total expenditures for research and development for the reporting period were € 29.5 million compared to € 35.6 million in 2009.

As in the previous year development costs with a carrying amount of € 15.1 million from the years 2007 to 2010 have been capitalized according to IAS 38. Additions for 2010 totaled € 2.0 million (prior year: € 2.5 million). Amortization is applied using a straight-line method over the respective expected useful life of three years or less.

10 TANGIBLE ASSETS

The breakdown of the assets aggregated in the balance sheet items of the tangible assets, as well as changes over the reporting year and in 2009, are shown in item 8 of the annual report. The major focus of capital expenditures in the financial year is described in the management report.

Subsidies in the amount of € 0.3 million (prior year: € 0.2 million) were deducted from the cost of purchase or cost of production for tangible assets. Government grants were received, principally for research and development projects, totaling € 2.3 million (prior year: € 2.2 million) and recognized as directly income-relevant. There were no contingently repayable grants as of the balance sheet date.

The depreciable amounts are as follows:

in € millions	2009	2010
Amortization of intangible assets		
scheduled	16.1	15.2
non-scheduled	0.1	0.0
Total	**16.2**	**15.2**

Impairment losses in the previous year are largely related to the discontinuation of the KUKA Robotics Hungária Ipari Kft., Taksony, Hungary site.

The finance leases for technical plant and equipment have interest rates of 2.25 percent p.a. The following table shows the breakdown of future payments due for finance lease agreements as well as the present values for future leasing payments (the corresponding amounts are recognized under other liabilities):

in € millions	Dec. 31, 2009 Total	Dec. 31, 2010 Total	up to one year	between one and five years
Minimum lease payments	0.6	0.6	0.3	0.3
Present value	0.5	0.5	0.3	0.2

Commitments from leases and rental agreements

in € millions	Dec. 31, 2009	Dec. 31, 2010
up to one year	5.7	5.7
between one and five years	16.2	13.0
more than five years	7.2	7.7
Total	**29.1**	**26.4**

Commitments in connection with leases for passenger cars, office and factory buildings include liabilities from leases and rental agreements in connection with operating leases.

Total rental expenses for the fiscal year were € 13.5 million compared to € 13.7 million in the prior year; rental income totaled € 0.4 million and was unchanged compared to 2009.

11 FINANCIAL INVESTMENTS

The prior year's addition to financial investments primarily concerns the acquisition of a 4.9 percent share in Bright Automotive Inc., Anderson, USA for $ 1.0 million.

12 FINANCE LEASE

KUKA Toledo Production Operations LLC., Toledo, Ohio, USA, which was consolidated for the first time in fiscal 2005, manufactures Jeep Wrangler bodies under the terms of a pay-on-production contract with Chrysler. The first unpainted car bodies associated with the project were delivered to Chrysler in July 2006. The project was financed through an operating lease agreement with a local corporation and a consortium of financing banks. KUKA Aktiengesellschaft reached an agreement with Chrysler LLC and the financing banks in 2008 regarding the prepayment of the financing of the manufacturing facility of its American subsidiary, KUKA Toledo Production Operations LLC ("KTPO"), which makes Chrysler's Jeep Wrangler car bodies. The financing to take over legal ownership of the buildings and production systems totals € 77.1 million, and was prepaid using the KUKA Group's existing net liquid assets. As a result, this segment's capital employed has risen.

Because of the existing agreement to supply car bodies to Chrysler, the acquisition of the production system assets was not included on the balance sheet as an asset acquisition, but instead categorized as a finance lease in accordance with IFRIC 4 / IAS 17 guidelines and booked as a receivable from finance leases. Leasing receivables of € 77.8 million (prior year: € 75.8 million) and a current leasing receivable of € 4.1 million (prior year: € 3.5 million) exist as of the balance sheet date. Sales revenues shown on KTPO's balance sheet will thus be reduced by the fictitious leasing rate. The interest component included in the fictitious leasing rate is booked under interest result, while the repayment component of this repayment reduces the receivables as per schedule.

Due to the arrangement of the dealing as a full payout lease agreement, future minimum lease payments correspond with the gross investment. The following table shows the transition to the present value of the outstanding minimum lease payments:

in € millions	2009	2010
Future minimum lease payments / Finance lease gross investments	130.6	130.7
of that not later than one year	10.4	11.3
of that later than one year and not later than five years	41.8	45.1
of that later than five years	78.4	74.3
Unrealized financial income	-51.3	-48.8
Present value of outstanding minimum lease payments	**79.3**	**81.9**
of that not later than one year	3.5	4.1
of that later than one year and not later than five years	17.4	20.5
of that later than five years	58.4	57.3

13 INVENTORIES

in € millions	Dec. 31, 2009	Dec. 31, 2010
Raw materials and supplies	33.2	44.7
Work in process	51.2	84.4
Finished goods	13.0	18.7
Advances paid	6.4	10.2
Total	**103.8**	**158.0**

The carrying amount of inventories written off in the amount of € 94.9 million compares with € 64.5 million in 2009 and has been recognized at net realizable value. The write-down, relative to gross value, was € 27.6 million versus € 27.9 million the year prior.

14 RECEIVABLES

in € millions	of that up to one year	of that more than one year	Dec. 31, 2009 Total	of that up to one year	of that more than one year	Dec. 31, 2010 Total
Trade receivables	114.2	0.3	114.5	125.7	0.3	126.0
Receivables from construction contracts	124.3	–	124.3	166.1	–	166.1
Total	**238.5**	**0.3**	**238.8**	**291.8**	**0.3**	**292.1**

The following table breaks down receivables by age and recoverability.

as of Dec. 31, 2010 in € millions	Net carrying amount	neither impaired nor past due as at the balance sheet date	net carrying amount of impaired trade receivables	impaired trade receivables before recording of impairment losses	impairment loss	Total of past due, unimpaired receivables	not impaired as of the balance sheet date but in arrears by: less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	more than 180 days
as of Dec. 31, 2009	**114.5**	81.4	4.5	10.7	-6.2	28.6	10.3	5.2	4.1	3.3	5.7
as of Dec. 31, 2010	**126.0**	96.7	0.6	7.4	-6.8	28.7	13.4	5.3	3.6	3.6	2.8

With respect to existing receivables that were neither impaired nor in arrears, there were no indications as of the balance sheet date that the obligors would not meet their payment obligations. Receivables from construction contracts have no specific due date and are not impaired.

Trade receivables

Bad debt allowances on trade receivables developed as follows:

in € millions	2009	2010
Impairment losses / Status as at Jan. 1	**6.8**	**6.2**
Additions (Expenses related to impairment losses)	2.1	3.2
Use	-1.0	-1.2
Reversals	-1.7	-1.4
Impairment losses / Status as at Dec. 31	**6.2**	**6.8**

The total amount of additions of € 3.2 million (2009: € 2.1 million) breaks down into additions for specific bad debt allowances of € 2.7 million (2009: € 1.7 million) and lump-sum bad debt allowances in the amount of € 0.5 million (2009: € 0.4 million).

Receivables from construction contracts

For receivables from construction contracts, advances received have been offset against costs incurred in connection with the contract, including contributions to earnings on a per contract basis. As at the balance sheet date, costs incurred and earnings recognized in connection with long-term contracts in the amount of € 643.4 million were offset against advances received in the amount of € 477.3 million. In 2009 these figures were € 544.6 million and € 420.3 million, respectively. This resulted in receivables of € 166.1 million compared to € 124.3 million the year prior and liabilities of € 39.6 million versus € 54.6 million a year earlier. Advances received in connection with long-term contracts exceed the costs incurred and the earnings portion.

15 OTHER ASSETS, PREPAID EXPENSES AND DEFERRED CHARGES

in € millions	of that up to one year	of that more than one year	Dec. 31, 2009 Total	of that up to one year	of that more than one year	Dec. 31, 2010 Total
Other assets, prepaid expenses and deferred charges	17.1	9.6	26.7	27.1	11.7	38.8

The increase in other assets, prepaid expenses and deferred charges was largely due to higher sales tax receivables and deferred transaction costs related to the new Syndicated Senior Facilities Agreement.

The following table shows the financial instruments recognized under other assets as outlined in IFRS 7 according to age and impairment:

in € millions	Net carrying amount	of which: neither impaired nor past due as at the balance sheet date	net carrying amount of impaired trade receivables	impaired trade receivables before recording of impairment losses	impairment loss	Total of past due, unimpaired receivables	of which: not impaired as of the balance sheet date but in arrears by: less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	more than 180 days
Dec. 31, 2009	**16.8**	16.7	0.1	3.8	-3.7	0.0	0.0	0.0	0.0	0.0	0.0
Dec. 31, 2010	**15.5**	15.5	0.0	2.7	-2.7	0.0	0.0	0.0	0.0	0.0	0.0

There are no other assets that are impaired or past due as of the financial reporting date.

Impairment losses on other assets developed as follows:

in € millions	2009	2010
Impairment losses / Status as at Jan. 1	**2.4**	**3.7**
Additions (Expenses related to impairment losses)	1.9	0.5
Use	0.0	-0.1
Reversals	-0.6	-1.4
Impairment losses / Status as at Dec. 31	**3.7**	**2.7**

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash funds recognized on the balance sheet, i.e. cash in hand, checks and cash balances with financial institutions, provided that they are available within three months.

The KUKA Group maintains bank balances exclusively at financial institutions of sound credit worthiness. Furthermore, funds to be invested are distributed across several financial institutions in order to diversify risk.

Amounts totaling € 69.0 million are held in a fiduciary account and may only be accessed to meet obligations arising from the convertible bond ("restricted cash").

in € millions	Dec. 31, 2009	Dec. 31, 2010
Cash-on-hand	0.1	0.1
Bank balances	61.1	134.3
Restricted cash	–	69.0
Total	**61.2**	**203.4**

17 EQUITY

Changes in equity, including changes without effect on profit or loss are disclosed in the Development of Group Equity on page 88 f. and in the Statement of Comprehensive Income on page 84.

For more information on equity see the notes in the management report under Disclosures as per Article 315 para. 4 HGB and the explanatory report.

18 SUBSCRIBED CAPITAL

Capital increase November 2009

In November 2009 the share capital of KUKA Aktiengesellschaft was raised under exclusion of shareholder subscription rights by means of a partial utilization of authorized capital by an amount of € 6,915,974.00 from € 69,160,000.00 to € 76,075,974.00 in exchange for cash contributions.

2,659,990 bearer shares were issued at the issue price of € 2.60 per share and at the offer price of € 10.50 per share. The difference between offer price and issue price is reported in the capital reserve, taking into account commissions and taxes. After deducting direct transaction costs the company took in € 27.2 million.

Capital increase June 2010

In June 2010, a rights issue consisting of 4,655,441 shares was placed. The capital increase was implemented by issuing rights with a ratio of 6:1. At an issue price of € 2.60 per share, the subscription price was € 9.75. The difference between offer price and issue price is reported in the capital reserve, taking into account commissions and taxes. After deducting direct transaction costs the company took in € 42.8 million.

Following the two capital increases the total share capital of KUKA Aktiengesellschaft amounts to € 88,180,120.60 and is subclassified into 33,915,431 (prior year: 29,259,990) no-par value bearer shares. Each share is equal to one vote.

19 CAPITAL RESERVE

The capital reserve applies to KUKA AG. The change last year resulted from the capital increase in November 2009. The resulting transaction costs – accounting for taxes of € 0.5 million – were deducted from the capital reserve without effect on profit or loss. The change this reporting year stems from the capital increase in June 2010. The resulting transaction costs of € 4.9 million were also deducted from the capital reserve without effect on profit or loss.

20 TREASURY SHARES

As authorized by the Annual General Meeting of May 16, 2007, treasury shares were purchased on the open market in the period from March 25, 2008 to August 29, 2008. Under the terms of this authorization, KUKA Aktiengesellschaft bought back a total of 1,327,340 KUKA shares valued at € 27,898,339.58. Together with the capital increases in November 2009 and June 2010 there were 32,588,091 shares outstanding as of December 31, 2010.

21 REVENUE RESERVES

The revenue reserves include:

- The accumulated retained earnings of KUKA Aktiengesellschaft and its consolidated subsidiaries
- Consolidation and currency translation effects
- Actuarial gains and losses included in provisions for pensions and the associated deferred taxes.
- Obligations as part of an employee stock ownership program for KUKA employees

Deferred taxes totaling € 2.6 million (prior year: € 4.0 million) from transactions not recognized in profit or loss are included in equity. € 3.4 million (prior year: unchanged) is attributable to the convertible bond and € -0.8 million (prior year: € 0.6 million) to actuarial gains and losses from pensions.

22 MINORITY INTERESTS

This item primarily concerns the minority stake held by third parties in KUKA Enco Werkzeugbau spol. s.r.o., Dubnica, Slovakia and in Hung Viet International Company Limited, Ho Chi Minh City, Vietnam. The changes to this item are detailed in the development of Group equity.

23 MANAGEMENT OF CAPITAL

The primary goal of managing capital for the KUKA Group is to support ongoing business operations by providing adequate financial resources and increasing enterprise value.

This requires sufficient shareholders' equity (leverage ratio as a key indicator), liquidity (net liquidity as a key indicator), and a sufficient return on capital employed (ROCE as a key indicator). Management and controlling of the business divisions therefore takes place based on these key indicators.

		2009	2010
Equity	€ millions	160.8	198.1
/ Total quity	€ millions	726.2	984.7
Equity ratio	%	**22.1**	**20.1**
EBIT	€ millions	-52.6	24.8
/ Capital employed (annual average)	€ millions	317.5	312.5
ROCE	%	**-16.6**	**7.9**
Cash and cash equivalents	€ millions	61.2	203.4
non-current finance liabilities	€ millions	-63.8	-192.8
current finance liabilities	€ millions	-45.9	-70.9
net debt	€ millions	**-48.5**	**-60.3**

24 PENSION PROVISIONS AND SIMILAR OBLIGATIONS

Actuarial gains and losses are recognized directly in equity at the time in which they occur (Option 3 in accordance with IAS 19.93A).

Accordingly, provisions for pensions developed as follows in the financial year 2010:

in € millions	Status as at Jan. 1	Changes to the scope of consolidation, exchange rate differences, Other	Consumption	Reduction	Additions	Actuarial gains and losses (directly in equity)	Status as at Dec. 31
2009	68.5	-0.2	6.2	0.7	4.4	4.2	70.0
2010	**70.0**	**0.1**	**5.8**	**0.0**	**4.1**	**1.8**	**70.2**

Pension provisions include liabilities from vested benefits and from current benefits paid to vested and former employees of the KUKA Group as well as their surviving dependents. Depending on the legal, economic and tax situation in each of the countries concerned, various retirement benefit systems are in place that are as a rule based on employees' length of service and compensation.

Since they are in the nature of a retirement benefit, liabilities of the US Group company KUKA Assembly and Test Corp. for post-employment medical benefits are also disclosed under pension provisions according to IAS 19. Of the total provisions and accruals, these obligations similar to pensions, calculated according to the rules of IAS 19, represent € 0.7 million compared to € 0.6 million in 2009. Last year there was a gain of € 0.4 million related to these obligations, particularly as a result of plan curtailments. The possible effects of an increase / reduction of one percent of the expected cost development in the field of medicine are under € 50,000.

Company retirement benefit coverage in the Group is provided through both defined contribution and defined benefit plans.

For the defined contribution plans, the company pays contributions to a public or private pension insurance carrier. Upon payment of the contributions, the company has no further obligations. Total payments for pensions under defined contribution plans in the amount of € 17.7 million compared to € 19.2 million in 2009 are disclosed as expenses in the year in question.

Under defined benefit plans, the company incurs an obligation to provide the benefits promised by the plan to current and former employees.

The only remaining funded benefit plans are in effect in the USA.

The amount of pension obligations (defined benefit obligation) was calculated by actuarial methods for which estimates are unavoidable. In addition to assumptions related to life expectancy, this involves assumptions detailed below, which are dependent on the economic environment for each country in question:

	Germany		USA		Others	
Dec. 31	2009	2010	2009	2010	2009	2010
Demographic assumptions	RT 2005 G	RT 2005 G	RP 2000	RP 2000	IPS55 (I); TV88/90 (F)	IPS55 (I); TV88/90 (F)
Discount factor	5.40%	4.95%	5.75%	5.40%	5.60%	4.95%
Expected rate of return on assets	N/A	N/A	8.00%	8.00%	N/A	N/A
Wage dynamics	0.00 - 2.50%	0.00 - 2.50%	N/A	N/A	0.00 - 1.50%	0.00 - 1.50%
Pension dynamics	2.00 - 2.50%	1.75 - 2.50%	N/A	N/A	0.00 - 2.00%	0.00 - 2.00%
Changes in cost of medical services	N/A	N/A	5.00 - 7.00%	5.00 - 8.00%	N/A	N/A

The discounting factor is determined on the financial reporting date based on the returns from high-quality, fixed-rate corporate bonds.

Wage dynamics encompass future increases in wages and salaries that are estimated annually by reference to factors such as inflation and economic conditions, among others.

The expected returns are derived from consensus forecasts for the respective asset classes as well as bank discussions. The forecasts are based on experienced data, economic data, interest forecasts and stock market expectations.

For funded plans, the pension obligations calculated according to the Projected Unit Credit Method are reduced by an amount equal to the fund assets. If the fund assets exceed the defined benefit obligations, an asset is recognized according to IAS 19 and disclosed under other assets. To the extent that the fund assets do not cover the commitment, the net obligation is recognized as a liability under pension provisions.

Increases or decreases in either the present value of the defined benefit obligations or the fair value of the plan assets may give rise to actuarial gains or losses. This may be caused by factors such as changes in actuarial parameters, changes to estimates for the risk profile of the pension obligations and differences between the actual and expected returns on the fund assets. Actuarial gains and losses are recognized directly in equity and offset against revenue reserves in the year in which they occur.

Funding status of defined benefit pension obligations

	Germany		USA		Others		Total	
in € millions	2009	2010	2009	2010	2009	2010	2009	2010
Present value of pension benefits covered by provisions	67.9	67.9	0.6	0.7	0.5	0.6	69.0	69.2
Present value of funded pension benefits			4.1	4.8	0.0	0.0	4.1	4.8
Defined benefit obligation	**67.9**	**67.9**	**4.7**	**5.5**	**0.5**	**0.6**	**73.1**	**74.0**
Fair value of plan assets			3.1	3.8	0.0		3.1	3.8
Net obligation as of Dec. 31*	**67.9**	**67.9**	**1.6**	**1.7**	**0.5**	**0.6**	**70.0**	**70.2**

* Is the same as the pension provision because in both the reporting year as well as in the previous year there was no overfunding of plan assets and no unrecognized past service cost.

As a result of the decline in market rates observed especially in the euro zone since the reference date for the prior year, lower discount rates were applied generally for the discounting of pension obligations resulting, ceteris paribus, in a higher defined benefit obligation. Details of the changes in defined benefit obligations for the financial year are shown in the following summary:

Changes in defined benefit obligation

Current service costs and interest expenses totaling € 4.4 million (prior year: € 4.6 million) compare to benefit payments of € 5.8 million during the financial year (prior year: € 6.0 million). The increase of the defined benefit obligation results mainly in actuarial losses of € 2.0 million accrued during the financial year, compared to losses of € 4.7 million in 2009.

Other prior year changes are related to the transfer of employees along with their pension claims in conjunction with the sale of the Tours location of KUKA Systems France S.A., France.

	Germany		USA		Others		Total	
in € millions	2009	2010	2009	2010	2009	2010	2009	2010
Net obligations as of Jan. 1	64.8	67.9	4.9	4.7	1.2	0.5	70.9	73.1
of which funded in a separate fund	(0.0)	(0.0)	(4.0)	(4.1)	(0.0)	(0.0)	(4.0)	(4.1)
of which funded by provisions	(64.8)	(67.9)	(0.9)	(0.6)	(1.2)	(0.5)	(66.9)	(69.0)
Current service costs	0.3	0.4	0.1	0.1	0.0	0.1	0.4	0.6
Interest expense	3.9	3.5	0.3	0.3	0.0	0.0	4.2	3.8
Plan changes	0.0	0.0	-0.4	0.0	-0.3	0.0	-0.7	0.0
Payments	-5.6	-5.6	-0.2	-0.2	-0.2	0.0	-6.0	-5.8
Acturial gains (–) / and losses (+)	4.5	1.7	0.2	0.3	0.0	0.0	4.7	2.0
Currency translation	0.0	0.0	-0.2	0.3	0.0	0.0	-0.2	0.3
Other changes	0.0	0.0	0.0	0.0	-0.2	0.0	-0.2	0.0
Net obligations as of Dec. 31	**67.9**	**67.9**	**4.7**	**5.5**	**0.5**	**0.6**	**73.1**	**74.0**
of which funded in a separate fund	(0.0)	(0.0)	(4.1)	(4.8)	(0.0)	(0.0)	(4.1)	(4.8)
of which funded by provisions	(67.9)	(67.9)	(0.6)	(0.7)	(0.5)	(0.6)	(69.0)	(69.2)

The defined benefit obligation increased in the reporting year owing to a decrease in the discounting factor for domestic and foreign pension plans. The influence of the remaining valuation parameters was minimal.

Pension expense for defined benefit plans

	Germany		USA		Others		Total	
in € millions	2009	2010	2009	2010	2009	2010	2009	2010
Current service costs	0.3	0.4	0.1	0.1	0.0	0.1	0.4	0.6
Interest expense	3.9	3.5	0.3	0.3	0.0	0.0	4.2	3.8
Expected return on plan assets	–	–	-0.2	-0.3	–	–	-0.2	-0.3
Plan curtailments	–	–	-0.4	0.0	-0.3	0.0	-0.7	0.0
Pension expenses from defined benefit commitments	**4.2**	**3.9**	**-0.2**	**0.1**	**-0.3**	**0.1**	**3.7**	**4.1**

Pension expense for defined benefit plans rose by € 0.4 million to € 4.1 million from the previous year's € 3.7 million. Last year there were reductions of € 0.4 million to medical care coverage at KUKA Assembly and Test Corp., Saginaw, USA as well as a loss of € 0.3 million in claims due to restructuring at KUKA Systems France S.A., Montigny, France, which together led to an overall reduction in pension expense in the reference year.

The actuarial gains and losses recognized in Group equity include the following amounts:

in € millions	2006	2007	2008	2009	2010
Cumulative gains (+) and losses (–) recognized directly in equity as at Jan. 1	-9.5	-6.3	3.5	6.9	2.7
Actuarial gains (+) and losses (–) of the financial year	3.2	9.8	3.4	-4.2	-1.8
cumulative gains (+) and losses (–) recognized directly in equity as at Dec. 31	-6.3	3.5	6.9	2.7	0.9

Development of plan assets in the financial year

in € thousands	2009	2010
Fair value as at Jan. 1	2.4	3.1
Expected returns on plan assets	0.2	0.3
Acturial gains / losses	0.5	0.2
Currency translation	-0.1	0.2
Employer contributions	0.2	0.2
Payments	-0.1	-0.2
Fair value as at Dec. 31	**3.1**	**3.8**

The actual expenses from external pension funds were € 0.5 million compared to prior year gains of € 0.7 million.

As of December 31, 2010 the plan assets of € 3.8 million (prior year: € 3.1 million) broke down into 79.1 percent shares in stock funds (prior year: 78.9 percent), with the remaining 20.9 percent (prior year: 21.1 percent) comprising fixed-interest securities and cash funds.

Employer payments into the fund assets of € 0.2 million are expected in the 2011 financial year.

Amounts for the current year and the four previous years of pension obligations, the excluded assets and the assets exceeding benefit commitments are represented as follows:

in € millions	2006	2007	2008	2009	2010
Defined Benefit Obligation	213,2	77.0	70.9	73.1	74.0
Plan Assets	74,9	3.1	2.4	3.1	3.8
Funded Status	**138,3**	**73.9**	**68.5**	**70.0**	**70.2**

The following shows the experience-based adjustments for the current and three previous years:

in € millions	2007	2008	2009	2010
Experience-based increase (+) / decrease (–) of pension obligations	-3.0%	0.8%	1.0%	0.5%
Experience-based increase (+) / decrease (–) of plan assets	0.0%	-53.1%	15.6%	5.9%

In addition to provisions made for personnel measures, restructuring obligations also include provisions for material measures. In 2009 the company put together an extensive restructuring plan that affects the entire Group and systematically implemented it in 2010. Provisions totaling roughly € 14.2 million were used in the financial year for expected restructuring measures, € 6.5 million was reversed and € 2.7 million was added in return. At year end restructuring obligations totaled € 4.7 million; € 3.6 million for the Systems division, and € 0.9 million for the Robotics division. A provision of € 1.8 million (prior year: € 7.6 million) as of the key date was related to the restructuring in France. Net assets of € 3.1 million were deducted from the KUKA Group owing to the sale of the Tours location in 2009. 80 employees have left the company as a result.

Of the other provisions, € 21.0 million (prior year: € 22.0 million) relates among other items to costs still to be incurred for orders already invoiced and litigation risk of € 2.7 million (prior year: € 5.2 million).

The other provisions have an expected remaining term of up to one year.

25 OTHER PROVISIONS AND ACCRUALS

in € millions	Status as at Jan. 1, 2010	Changes to the scope of consolidation exchange rate differences	Consumption	Reversals	Additions	Status as at Dec. 31, 2010
Warranty commitments and risks from pending transactions	35.8	0.4	20.9	3.1	23.6	35.8
Liabilities arising from restructurings	22.7	0.0	14.2	6.5	2.7	4.7
Other provisions	52.6	2.0	26.4	6.7	26.8	48.3
Total	**111.1**	**2.4**	**61.5**	**16.3**	**53.1**	**88.8**

Other provisions and accruals for warranty commitments and risks from pending transactions include provisions for impending losses from pending transactions of € 20.6 million (prior year: € 22.5 million) and warranty risk of € 15.2 million (prior year: € 13.3 million). Of the reversals, € 1.4 million is attributable to provisions for impending losses and € 1.7 to warranty risk.

26 LIABILITIES

2010 in € millions	Remaining maturity: up to one year	between one and five years	of more than five years	Dec. 31, 2010 total
Liabilities due to banks	1.8	0.0	0.0	1.8
Bond	2.2	0.0	192.8	195.0
Convertible bond	66.9	0.0	0.0	66.9
Financial liabilities	**70.9**	**0.0**	**192.8**	**263.7**
Trade payables	148.6	–	–	148.6
Advances received	49.0	–	–	49.0
Liabilities from construction contracts	39.6	–	–	39.6
Accounts payable to affiliated companies	0.1	–	–	0.1
Income tax liabilities	14.3			14.3
Other liabilities and deferred income	80.3	11.5	2.1	93.9
(of that for taxes)	(10.9)	(0.0)	(0.0)	(10.9)
(of that for social security payments)	(1.4)	(0.0)	(0.0)	(1.4)
(of that, liabilities relating to personnel)	(37.6)	(5.8)	(1.2)	(44.6)
(of that for leases)	(0.3)	(0.3)	(0.0)	(0.6)
(of that derivates)	(6.4)	(0.0)	(0.0)	(6.4)
	402.8	**11.5**	**194.9**	**609.2**

2009 in € millions	Remaining maturity: up to one year	between one and five years	of more than five years	Dec. 31, 2009 total
Liabilities due to banks	45.5	0.0	0.0	45.5
Bond	0.0	0.0	0.0	0.0
Convertible bond	0.4	63.8	0.0	64.2
Financial liabilities	**45.9**	**63.8**	**0.0**	**109.7**
Trade payables	73.3	–	–	73.3
Advances received	27.1	–	–	27.1
Liabilities from construction contracts	54.6	–	–	54.6
Accounts payable to affiliated companies	0.1	0.0	0.0	0.1
Income tax liabilities	13.3			13.3
Other liabilities and deferred income	71.3	14.8	1.2	87.3
(of that for taxes)	(10.7)	(0.0)	(0.0)	(10.7)
(of that for social security payments)	(1.2)	(0.0)	(0.0)	(1.2)
(of that, liabilities relating to personnel)	(38.1)	(7.0)	(0.5)	(45.6)
(of that for leases)	(0.2)	(0.5)	(0.0)	(0.7)
(of that derivates)	(1.6)	(2.2)	(0.0)	(3.8)
	285.6	**78.6**	**1.2**	**365.4**

27 FINANCIAL LIABILITIES / FINANCING

The remaining existing financial liabilities mainly represent the bond issued in November 2010 and the convertible bond issued in May 2006.

Fixed interest rate agreements

	Net carrying amount		Fair value			
in € millions	2009	2010	2009	2010	Original maturity	Notional interest rate
Bond	–	195.0	–	210.1	2010 – 2017	8.75% p.a.
Convertible bond	64.2	66.9	55.9	68.7	2006 – 2011	3.75% p.a.

The market value of the bond was determined using the Xetra closing price of the Deutsche Börse Frankfurt on December 30, 2010 and the closing price in floor trading at the Deutsche Börse Frankfurt for the convertible bond on December 30, 2010.

Variable interest rate liabilities to banks (2010)

Financial instrument / in millions	Net carrying amount		Avg. notional interest rate	Year of latest maturity
Liabilities due to banks	0.5€	0.5€	4.20% p,a,	2011

Variable interest rate liabilities to banks (2009)

Financial instrument / in millions	Net carrying amount		Avg. notional interest rate	Year of latest maturity
Liabilities due to banks	44.1€	44.1€	4.93% p,a,	2010
Liabilities due to banks	1.2 GBP	1.3€	2.50% p,a,	2010

All averages are calculated as the arithmetic mean of the values of the individual financial instruments as at the financial statement reporting date, weighted by the respective carrying amounts in euro.

Bond

In November 2010 KUKA Aktiengesellschaft placed a bond with a face value of € 202.0 million. The issue price was 99.3605 percent, which corresponds to a cash inflow of € 200.7 million. The bond was issued in denominations of € 50,000.00 and carries an interest coupon of 8.75 percent p.a. Interest payments are made on May 15 and November 15 every year.

The bond matures at the latest on November 15, 2017 and will be redeemed by payment equal to the face value plus interest accrued up until that time. The issuer has the right to cancel the bond before maturity. The first cancellation date is November 15, 2014.

The bond is listed on the Luxembourg exchange (ISIN DE000A1E8X87 / WKN A1E8X8). The last price quoted for the bond on the Frankfurt stock exchange in 2010 was 104.00 percent.

On initial recognition the bond is carried at fair value less transaction costs totaling € 8.0 million. The difference between the amount paid out (after deducting transaction costs) and the redemption amount is recognized for the term using the effective interest method. The interest rate rises to 9.66 percent (effective) when the issuing costs are included.

The proceeds from the bond are used to refinance the convertible bond, for redemption of cash usage under the syndicated loan and to invest in business operations.

Convertible bond

In May 2006 KUKA placed a convertible bond with a face value of € 69.0 million, collateralized by KUKA Aktiengesellschaft, via its subsidiary KUKA Finance B.V., Amsterdam, Netherlands. The bond was issued in denominations of € 50,000.00 each and grants rights for conversion in consideration of the 2007 dividend and the capital increase in 2010 into up to 2,718,322 no-par value shares of KUKA Aktiengesellschaft. The conversion price is currently € 25.1034 per share. The conversion rate is 1,991.7638 shares by unit of denomination. The adjustment related to dividend payments guarantees the anti-dilution provisions with respect to distributions in accordance with the bond terms and conditions. The conversion right can be exercised until the maturity date of the bond. The bond carries an interest coupon of 3.75 percent p.a. Interest is paid in November of each year.

The bond matures on November 9, 2011 and will be redeemed by payment equal to the face value plus interest accrued up until that time. As of December 9, 2009 KUKA has the right to call the bond at any time at the nominal amount, plus accrued interest, subject to the share price exceeding 130 percent of the conversion price within a period defined in the bond terms and conditions.

The convertible bond is listed on the Luxembourg exchange (ISIN DE000A0GRMC0 / WKN A0GRMC). The last price quoted for the bond on the Frankfurt stock exchange in 2010 was 99.50 percent versus 81.00 percent the year prior.

On the balance sheet, the convertible bond is broken down into an equity and a debt component. The market value of the debt component (€ 55.7 million) was determined on the basis of the market interest rate for a corresponding fixed-interest bond without conversion feature (7.63 percent). The interest rate rises to 8.25 percent (effective) when the issuing costs allocated proportionately to the equity and debt components are included. The resulting value of the equity component (€ 11.3 million) is recognized as part of the capital reserve and will not be changed until the due date or conversion. In the 2010 financial year, interest expense of € 5.3 million (prior year: € 5.1 million) was booked in connection with the bond account.

€ 69.0 million is held in a fiduciary account to meet obligations arising from the convertible bond (“restricted cash”).

Syndicated loan

SYNDICATED LOAN UNTIL MARCH 2010

On December 22, 2006 KUKA Aktiengesellschaft and 31 subsidiaries had closed a syndicated loan for € 475.0 million with a select group of banks. The lead banks of the syndicate were Landesbank Baden-Württemberg, Commerzbank Aktiengesellschaft and UniCredit Bank AG. They were joined by BayernLB, the Royal Bank of Scotland and Deutsche Bank. The syndicated loan agreement (“Syndicated Senior Facilities Agreement”) was executed effective January 31, 2007.

Following the successful sale of the Packaging division in April of 2007, contractual adjustments to this syndicated loan became effective. Aside from the elimination of the twelve companies in this business division as parties to the contract, the term loan was repaid and the guarantee line was reduced by € 20.0 million.

The availability of the financing was tied to the adherence to specific covenants. This had to do with the interest coverage ratio (measured as EBITDA to adjusted net interest), the debt ratio (measured as defined net debt to EBITDA), and the absolute level of equity adjusted for minority interests. Due to the economic situation, the company was unable to adhere to different covenants since the second quarter of 2009. This could have led to credit lines being payable in the 2010 financial year. As part of a rolling waiver process the issuing banks waived their right to early repayment. The necessary cash and guarantee lines for continuing operations were made available in the respective amounts until the Syndicated Senior Facilities Agreement was readjusted in March 2010.

As of December 31, 2009 the KUKA Group had € 67.0 million at its disposal under this agreement as revolving cash lines and € 190.0 million as guarantee lines. The latter are particularly important for KUKA in connection with the financing of plant construction deals.

SYNDICATED LOAN FROM MARCH 2010 UNTIL NOVEMBER 2010

To cover short-term financing requirements an agreement was reached in March 2010 to extend the Syndicated Senior Facilities Agreement totaling € 336.0 million (€ 146.0 million as a cash credit line and € 190.0 million as a guarantee line) until March 2012. The agreement included various covenants and conditions such as successfully implementing the KUKA Group's restructuring plan. Other stipulations were increasing capital via shares or by way of mezzanine financing, refinancing the existing convertible bond and honoring various financial and non-financial covenants.

Key covenants related to earnings before interest, taxes, depreciation and amortization (EBITDA), the debt-to-equity ratio and equity. As part of this agreement with the consortium banks KUKA Aktiengesellschaft agreed to accept increasing capital via shares or by way of mezzanine financing by the end of June 2010. This obligation was met with the successful capital increase in June.

SYNDICATED LOAN FROM NOVEMBER 2010

In November 2010 the financial restructuring of KUKA Aktiengesellschaft was completed with the conclusion of a new Syndicated Senior Facilities Agreement and the issue of a bond.

The Syndicated Senior Facilities Agreement comprises € 200.0 million (€ 50.0 million as a cash credit line and € 150.0 million as a guarantee line) and has a term until the end of March 2014. The lead banks of the syndicate are Deutsche Bank, Commerzbank, Landesbank Baden-Württemberg and UniCredit Bank. Other consortium banks are Goldman Sachs, Postbank, BayernLB and Bankhaus Berenberg.

The Syndicated Senior Facilities Agreement includes financial and non-financial covenants. The key financial covenants relate to minimums for the interest coverage ratio (ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to defined net interest expense), leverage (ratio of net debt to EBITDA) and gearing (ratio of defined net debt to equity without minority interests). The individual financial covenants must be met at the end of each quarter.

The utilization of the guarantee line as of the key date totaled € 117.6 million (prior year: € 110.6 million); the existing working capital line was not utilized (prior year: € 40.0 million).

The receivables of the syndicate of banks from the financing agreement are collateralized by KUKA companies. The collateral package includes a registered land charge on the industrial site in Augsburg totaling € 70.0 million and registered land charges on other domestic property, as well as charges on business interests, patent and trademark rights and other assets including blanket assignments and transfers by way of securities. These securities also subordinately serve bondholders.

Credit lines from surety companies

Guarantee lines in the amount of € 10.0 million (prior year: € 5.0 million) have been committed by surety companies. Utilization at the end of the financial year was € 5.6 million (prior year: € 3.6 million).

Asset-backed securities program

In December 2006 an asset-backed securities (ABS) program was issued with a five year term. Under this program, trade receivables of KUKA Roboter GmbH in an amount of up to € 25.0 million can be sold in regular tranches to a special purpose vehicle (SPV) of BayernLB. The SPV finances the purchase of the receivables by issuing securities on the capital market or through utilization of a special credit line provided by BayernLB. Covenants are also in place for this financing program that could not be upheld since the second quarter of 2009. In this case as well, the participating parties waived their contractual right to cancel the agreement as part of a waiver process. Consequently, the financing was available without restriction throughout the entire financial year 2010. The contractual adjustments took effect in March 2010 and most recently in November 2010.

At the balance sheet date € 10.3 million (prior year: € 9.5 million) was utilized from the program. The adequate credit worthiness of the receivables sold is guaranteed by a default guarantee from a credit insurer. In this connection, KUKA Roboter GmbH absorbs the first 1.15 percent of the credit risk from the sale of the receivables. A cash deposit of € 4.4 million (prior year: € 2.9 million) was established as a further security and is reported under other assets. The claims of KUKA Roboter GmbH for the management and settlement of the sold receivables are also included in this category at a present value of € 0.1 million (prior year: unchanged). The continuing involvement of € 0.3 million (prior year: € 0.2 million) was completely written off as of the balance sheet date.

28 OTHER NON CURRENT / CURRENT LIABILITIES AND DEFERRED INCOME

The other liabilities for other taxes are primarily from sales taxes to be paid.

Other liabilities in the personnel area are mostly related to obligations from vacation entitlements (2010: € 5.2 million; prior year: € 4.3 million), flex-time credits (2010: € 10.1 million; prior year: € 9.4 million) and partial retirement (2010: € 6.1 million; prior year: € 11.6 million). The latter obligations were recognized for the first time on December 31, 2010 by offsetting the fair value of the corresponding fund assets (2010: € 6.8 million; prior year: € 5.5 million). The defined benefit obligation (DBO) from partial retirement obligations before offsetting was € 12.9 million.

Also reported under this item are, among other things, special payments, inventor's compensation, long-service awards and trade association fees.

Liabilities arising from finance leases are recognized at the present value of future lease payments and disclosed as other liabilities.

29 FINANCIAL RISK MANAGEMENT AND FINANCIAL DERIVATIVES

a) Principles of risk management

The KUKA Group is exposed in particular to risks from movements in exchange rates and interest rates that affect its assets, liabilities and forecast transactions. Financial risk management aims to limit and control these market risks through ongoing operational and finance activities. Derivative hedging instruments are used for this purpose depending on the risk assessment; the Group principally only hedges the risks that affect its cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging transactions are only concluded with financial institutions of sound credit worthiness.

The fundamentals of the Group's financial policy are established each year by the Executive Board. The Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the CFO, who is also regularly briefed on the current risk exposure.

Effective management of the market risk is one of the Treasury's main tasks. To ensure this the department performs simulation calculations using different most-likely and worst-case scenarios.

b) Currency risks

KUKA is exposed to currency risks from its investing, financing, and operating activities. These are hedged at the time of their occurrence to the extent that they influence the Group's cash flows through the conclusion of derivative financial instruments with banks or by offsetting opposing payment flows. Hedging may also cover future planned transactions where hedging instruments with a short term (< 1 year) are used to cover currency risks. Foreign-currency risks that do not influence the Group's cash flows, e.g. risks resulting from translation of assets and liabilities of foreign KUKA companies into the Group's reporting currency, are generally not hedged. In certain cases these risks can also be hedged after approval by the CFO. In the area of investments, there were no major risks from foreign currency transactions on the KUKA reporting date.

Foreign currency risks in the financing area are caused by loans in foreign currency that are extended to Group entities and liquid funds in foreign currency.

The Treasury hedges the major risks arising from these. Currency derivatives are used to convert financial obligations and intra-Group loans denominated in foreign currencies into the Group entities' functional currencies. At the reporting date there were no major financial liabilities in foreign currencies. All intra-Group loans denominated in foreign, freely convertible currencies were hedged accordingly. On account of these hedging activities, KUKA was not exposed to any significant exchange rate risks in the area of financing at the reporting date.

The individual KUKA companies handle their operating activities mainly in the relevant functional currency. However, some KUKA companies are exposed to corresponding exchange rate risks in connection with planned payments outside their own functional currencies. KUKA uses currency derivatives to hedge these payments. On account of these hedging activities, KUKA was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

Currency risks as defined by IFRS 7 arise on account of financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which KUKA has financial instruments.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables (e.g. interest rates, exchange rates) on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

The currency sensitivity analysis is based on the following assumptions:

- Major non-derivative monetary financial instruments (liquid assets, receivables, liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.
- Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency by using derivatives. For this reason, there can be no effects on the variables considered in this connection.

The following currency scenarios arise at the balance sheet date for the main foreign currencies used by the KUKA Group:

A ten percent gain of the EUR against the USD would have a positive effect on Group profits of plus € 1.3 million (prior year: plus € 1.0 million). A ten percent decline of the EUR against the USD would have a negative effect on Group profits of minus € 1.6 million (prior year: minus € 1.3 million).

A ten percent gain of the EUR against the JPY would have a negative effect on Group profits of minus € 2.6 million (prior year: minus € 0.8 million). A ten percent decline of the EUR against the JPY would have a positive effect on Group profits of plus € 3.2 million (prior year: plus € 0.9 million).

A ten percent gain of the EUR against the HUF would have a negative effect on Group profits of minus € 0.4 million (prior year: minus € 0.3 million). A ten percent decline of the EUR against the HUF would have a positive effect on Group profits of plus € 0.5 million (prior year: plus € 0.4 million).

A ten percent gain of the EUR against the BRL would have a positive effect on Group profits of plus € 0.8 million. A ten percent decline of the EUR against the BRL would have a negative effect on Group profits of minus € 0.9 million. A ten percent gain of the BRL against the USD would have a positive effect on Group profits of plus € 1.0 million. A ten percent decline of the BRL against the USD would have a negative effect on Group profits of minus € 1.2 million.

c) Interest rate risks

Risks from interest rate changes at KUKA are essentially the result of short-term investments / borrowings in EUR. These are not hedged at the reporting date.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions:

- Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost (e.g. the issued bond and convertible bond) are not subject to interest rate risk as defined in IFRS 7.
- Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks.

An increase in market interest rates by 100 basis points at December 31, 2010 would have a positive effect on results of plus € 2.0 million. A decrease in market interest rates by 100 basis points would have a negative effect on results of minus € 1.3 million. In 2009 results would have been higher by € 0.2 million had market interest rates increased or decreased by 100 basis points. This hypothetical effect results solely from the financial investments (borrowings) with variable interest rates totaling € 203.4 million (€ 0.5 million) at the balance sheet date.

d) Credit risks

The KUKA Group is exposed to credit risk from its operating activities and certain financing activities. A default can occur if individual business partners do not meet their contractual obligations and the KUKA Group thus suffers a financial loss. With regard to financing activities, important transactions are only concluded with counterparties that have a credit rating of at least A-/A1.

At the level of operations, the outstanding debts are continuously monitored in each area (locally). There are regular business relations with major customers at several KUKA Group companies. The associated credit risks are subject to separate quarterly credit rating monitoring as part of the risk management system at the Group's Executive Board level for early detection of an aggregation of individual risks. Added to these measures are comprehensive routine checks implemented at the segment level as early as the order initiation process (submission of offers and the acceptance of orders). Credit risks are taken into account as necessary through individual impairments.

In the course of ABS transactions, the designated receivables are managed separately. A security margin is provided as a cash reserve for the credit risk. The percentage of the provision for the credit risk has been statistically proven to be stable. A statement of the actual loan losses is prepared periodically and any excess payments to the cash reserve are refunded.

The maximum exposure to credit risk is represented by the carrying amounts of the financial assets that are carried in the balance sheet (including derivatives with positive market values). No agreements reducing the maximum exposure to credit risk had been concluded as of the reporting date.

e) Liquidity risks

One of KUKA AG's primary tasks is to coordinate and control the Group's financing requirements as well as ensure the financial independence of KUKA and its ability to pay on time. 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 in the 2010 financial year 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.

In order to ensure the payment capability at all times and the financial flexibility of the KUKA Group, a liquidity reserve is kept in the form of credit lines and cash funds. KUKA has, among other things, concluded a Syndicated Senior Facilities Agreement with a consortium of banks. Detailed information is provided in the notes under item 27 Financial liabilities / financing in the section "Syndicated loan".

The following figures show the commitments for undiscounted interest and redemption repayments for the financial instruments subsumed under IFRS 7:

Dec. 31, 2010 in € millions	Cash flows 2011	Cash flows 2012	Cash flows 2013 – 2015	Cash flows 2016 ff.
Non-current financial liabilities	17.7	17.7	53.0	237.4
Current financial liabilities	75.2	0.0	0.0	0.0
Trade payables	148.6	0.3	0.0	0.0
Liabilities from construction contracts	39.6	0.0	0.0	0.0
Accounts payable to affiliated companies	0.1	0.0	0.0	0.0
Other non-current lliabilities	0.0	1.2	0.9	0.0
(of that for leases)	(0.0)	(0.3)	(0.0)	(0.0)
Other current liabilities	43.5	0.0	0.0	0.0
(of that for leases)	(0.3)	(0.0)	(0.0)	(0.0)

Dec. 31, 2009 in € millions	Cash flows 2010	Cash flows 2011	Cash flows 2012 – 2014	Cash flows 2015 ff.
Non-current financial liabilities	2.6	71.6	0.0	0.0
Current financial liabilities	45.8	0.0	0.0	0.0
Trade payables	73.3	0.0	0.0	0.0
Accounts payable to affiliated companies	0.0	0.0	0.0	0.0
Other non-current lliabilities	0.0	2.5	0.2	0.0
(of that for leases)	(0.0)	(0.3)	(0.2)	(0.0)
Other current liabilities	18.2	0.0	0.0	0.0
(of that for leases)	(0.2)	(0.0)	(0.0)	(0.0)

All financial instruments are included which were held at the balance sheet dates and for which payments have already been contractually agreed. Foreign currency amounts are expressed at the spot rate on the key date. The variable interest payments from the financial instruments were determined on the basis of the interest rates last fixed prior to December 31, 2010, i.e. 2009. Financial liabilities repayable at any time are always assigned to the earliest time period. The payment flows from derivatives (forward exchange transactions) are net, i.e. they are represented by balancing the inflow and outflow of funds.

f) Hedges

Hedges are used by the KUKA Group exclusively in the form of forward exchange transactions to secure fair values and existing balance sheet items as well as to hedge future payment flows. These are exclusively for the purpose of hedging exchange risks.

The KUKA Group has not used hedge accounting since 2009.

The following shows the carrying amounts of the financial instruments according to the valuation categories of IAS 39:

in € millions	Abbr.	2009	2010
Available-for-Sale Financial Assets	AfS	1.0	1.0
Loans and Receivables	LaR	308.9	508.4
Financial Assets Held for Trading	FAHfT	1.3	2.9
Financial Liabilities Measured at Amortized Cost	FLAC	199.5	451.5
Financial Liabilities Held for Trading	FLHfT	3.8	6.4

The carrying amounts and the fair values are derived from the following table:

Net carrying amount and fair values by measurement categories for 2010

in € millions	IAS 39 – measurement categories	Net carrying amount / Status as at Dec. 31, 2010	of that: other assets and liabilities not covered by IFRS 7	of that: other assets and liabilities covered by IAS 17	Net carrying amount of the financial instruments / Status as at Dec. 31, 2010	Fair value / Status as at Dec. 31, 2010
Assets						
Financial investments		1.0	0.0	0.0	1.0	1.0
(of that participations)	AfS	1.0	0.0	0.0	1.0	1.0
Long-term finance lease receivables	n.a.	77.8	0.0	77.8	0.0	77.8
Other long-term receivables and other assets		12.0	4.0	0.0	8.0	12.0
(of that trade receivables)	LaR	(0.3)	(0.0)	(0.0)	(0.3)	(0.3)
(of that from the category LaR)	LaR	(7.7)	(0.0)	(0.0)	(7.7)	(7.7)
(of that other)	n.a.	(4.0)	(4.0)	(0.0)	(0.0)	(4.0)
Trade and other receivables	LaR	125.7	0.0	0.0	125.7	125.7
Receivables from construction contracts	LaR	166.1	0.0	0.0	166.1	166.1
Current receivables from finance leasing	n.a.	4.1	0.0	4.1	0.0	4.1
Other assets, prepaid expenses and deferred charges		27.1	19.0	0.0	8.1	27.1
(of that Derivatives without a hedging relationship (held for sale))	FAHfT	(2.9)	(0.0)	(0.0)	(2.9)	(2.9)
(of that other from the category LaR)	LaR	(5.2)	(0.0)	(0.0)	(5.2)	(5.2)
(of that other)	n.a.	(19.0)	(19.0)	(0.0)	(0.0)	(19.0)
Cash and cash equivalents	LaR	203.4	0.0	0.0	203.4	203.4

in € millions	IAS 39 - measurement categories	Net carrying amount / Status as at Dec. 31, 2010	of that: other assets and liabilities not covered by IFRS 7	of that: other assets and liabilities covered by IAS 17	Net carrying amount of the financial instruments / Status as at Dec. 31, 2010	Fair value / Status as at Dec. 31, 2010
Liabilities						
Non-current financial liabilities	FLAC	192.8	0.0	0.0	192.8	210.1
Other non-current liabilities		13.6	11.2	0.3	2.1	13.6
(of that for leases)	n.a.	(0.3)	(0.0)	(0.3)	(0.0)	(0.3)
(of that derivatives without a hedging relationship (held for sale))	FLHfT	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
(of that other from the category FLAC)	FLAC	(2.1)	(0.0)	(0.0)	(2.1)	(2.1)
(of that other)	n.a.	(11.2)	(11.2)	(0.0)	(0.0)	(11.2)
Current financial liabilities	FLAC	70.9	0.0	0.0	70.9	73.0
Trade payables	FLAC	148.9	0.0	0.0	148.9	148.9
Liabilities from construction contracts	n.a.	39.6	39.6	0.0	0.0	39.6
Accounts payable to affiliated companies	FLAC	0.1	0.0	0.0	0.1	0.1
Other current liabilities, prepaid expenses and deferred charges		80.3	39.6	0.3	43.1	80.3
(of that for leases)	n.a.	(0.3)	(0.0)	(0.3)	(0.0)	(0.3)
(of that derivatives without a hedging relationship (held for sale))	FLHfT	(6.4)	(0.0)	(0.0)	(6.4)	(6.4)
(of that other from the category FLAC)	FLAC	(36.7)	(0.0)	(0.0)	(36.7)	(36.7)
(of that other)	n.a.	(36.9)	(36.9)	(0.0)	(0.0)	(36.9)

Net carrying amount and fair values by measurement categories for 2009

in € millions	Net carrying amount / Status as at Dec. 31, 2009	of that: other assets and liabilities not covered by IFRS 7	of that: other assets and liabilities covered by IAS 17	Net carrying amount of the financial instruments / Status as at Dec. 31, 2009	Fair value / Status as at Dec. 31, 2009
Assets					
Financial investments	1.0	0.0	0.0	1.0	1.0
(of that participations)	(1.0)	(0.0)	(0.0)	(1.0)	(1.0)
Long-term finance lease receivables	75.8	0.0	75.8	0.0	75.8
Other long-term receivables and other assets	10.0	4.1	0.0	5.9	10.0
(of that trade receivables)	(0.3)	(0.0)	(0.0)	(0.3)	(0.3)
(of that from the category LaR)	(5.6)	(0.0)	(0.0)	(5.6)	(5.6)
(of that other)	(4.1)	(4.1)	(0.0)	(0.0)	(4.1)
Trade and other receivables	114.2	0.0	0.0	114.2	114.2
Receivables from construction contracts	124.3	0.0	0.0	124.3	124.3
Current receivables from finance leasing	3.5	0.0	3.5	0.0	3.5
Other assets, prepaid expenses and deferred charges	17.1	12.6	0.0	4.5	17.1
(of that derivatives without a hedging relationship (held for sale))	(1.3)	(0.0)	(0.0)	(1.3)	(1.3)
(of that other from the category LaR)	(3.2)	(0.0)	(0.0)	(3.2)	(3.2)
(of that other)	(12.6)	(12.6)	(0.0)	(0.0)	(12.6)
Cash and cash equivalents	61.2	0.0	0.0	61.2	61.2

in € millions	Net carrying amount / Status as at Dec. 31, 2009	of that: other assets and liabilities not covered by IFRS 7	of that: other assets and liabilities covered by IAS 17	Net carrying amount of the financial instruments / Status as at Dec. 31, 2009	Fair value / Status as at Dec. 31, 2009
Liabilities					
Non-current financial liabilities	63.8	0.0	0.0	63.8	55.9
Other non-current lliabilities	16.0	13.3	0.5	2.2	16.0
(of that for leases)	(0.5)	(0.0)	(0.5)	(0.0)	(0.5)
(of that derivatives without a hedging relationship (held for sale))	(2.2)	(0.0)	(0.0)	(2.2)	(2.2)
(of that other from the category FLAC)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
(of that other)	(13.3)	(13.3)	(0.0)	(0.0)	(13.3)
Current financial liabilities	45.9	0.0	0.0	45.9	45.9
Trade payables	73.3	0.0	0.0	73.3	73.3
Liabilities from construction contracts	54.6	54.6	0.0	0.0	54.6
Accounts payable to affiliated companies	0.1	0.0	0.0	0.1	0.1
Other current liabilities, prepaid expenses and deferred charges	71.3	53.1	0.2	18.0	71.3
(of that for leases)	(0.2)	(0.0)	(0.2)	(0.0)	(0.2)
(of that derivatives without a hedging relationship (held for sale))	(1.6)	(0.0)	(0.0)	(1.6)	(1.6)
(of that other from the category FLAC)	(16.4)	(0.0)	(0.0)	(16.4)	(16.4)
(of that other)	(53.1)	(53.1)	(0.0)	(0.0)	(53.1)

With the exception of financial investments and leasing claims, most assets have short terms to maturity. Their carrying amounts as of the closing date therefore correspond approximately with the fair value. Long-term interest-bearing receivables including finance lease receivables are measured and, if necessary, impaired based on different parameters such as interest rates and customer-specific credit ratings. Thus, these carrying amounts largely reflect the market values.

Liabilities – with the exception of long-term financial liabilities and the other non-current liabilities – have regular, short terms to maturity. The values shown on the balance sheet approximately represent the fair values. The market value of the bond and convertible bond is based on the quoted prices as of the balance sheet date.

The derivative financial instruments recognized at the balance sheet date have to do with forward exchange transactions to hedge exchange exposure. Recognition in the balance sheet occurs at the market value determined using standardized financial mathematical methods, among other things, in relation to the foreign exchange rates.

In accordance with IFRS 7.27A, financial assets and financial liabilities measured 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 price 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.

Affected by this in the KUKA Group are primarily forward exchange transactions carried as an asset (€ 2.9 million; prior year: € 1.3 million) and those carried as a liability (€ 6.4 million; prior year: € 3.8 million). These are measured according to level 2.

Net results for the financial year listed according to valuation categories are represented as follows:

Net profit / loss of IAS 39 by measurement categories for 2010

in € millions	Net gains / losses	Total interest income / expenses	Commission income / expenses
Loans and Receivables (LaR)	1.1	1.2	0.0
Available-for-Sale Financial Assets (AfS)	0.0	0.0	0.0
Financial Instruments Held for Trading (FAHfT und FLHfT)	0.1	0.0	0.0
Financial Liabilities Measured at Amortised Cost (FLAC)	4.5	-29.0	-5.5
Total	**5.7**	**-27.8**	**-5.5**

The following figures resulted for the financial year 2009:

Net profit / loss of IAS 39 by measurement categories for 2009

in € millions	Net gains / losses	Total interest income / expenses	Commission income / expenses
Loans and Receivables (LaR)	-5.7	2.6	0.0
Available-for-Sale Financial Assets (AfS)	-0.4	0.0	0.0
Financial Instruments Held for Trading (FAHfT und FLHfT)	3.2	0.0	0.0
Financial Liabilities Measured at Amortised Cost (FLAC)	3.5	-12.1	-5.1
Total	**0.6**	**-9.5**	**-5.1**

Net profits (net losses in the previous year) from the category Loans and Receivables include for the most part exchange rate effects as well as results from additions and reversals of provisions for receivables and other assets. In addition to foreign currency effects, the net profits from Financial Liabilities Measured at Amortized Cost also include income from writing off liabilities.

Interest income for financial instruments from the category Loans and Receivables comes from the investment of cash and cash equivalents. The interest result from financial liabilities from the category Financial Liabilities Measured at Amortized Cost largely reflects interest expenses from the convertible bond and the bond as well as from financial liabilities due to banks.

Commission expenses are recorded as the transaction costs for financial liabilities due to banks and fees for the provision of guarantees.

30 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

The following contingent liabilities and other financial commitments existed as of the balance sheet date:

in € millions	2009	2010
Liabilities from guarantees	5.5	1.5
Liabilities from warranty agreements	67.7	68.1
Other commitments	33.9	31.3
(of that, discounted notes)	(1.6)	(0.5)
(of that, leases and rental agreements)	(29.1)	(26.4)
(of that, other financial commitments)	(3.2)	(4.4)
Total	**107.1**	**100.9**

NOTES TO THE GROUP CASH FLOW STATEMENT

According to IAS 7, the cash flow statement reports cash flows separately for incoming and outgoing funds from operating, investing and financing activities. The calculation of cash flows is derived from the Group consolidated financial statements of KUKA Aktiengesellschaft by the indirect method.

Cash and cash equivalents in the cash flow statement comprise all cash and cash equivalents disclosed on the balance sheet, i.e. cash in hand, checks and cash with banks provided they are available within three months. Cash inflows from the bond issue totaling € 69.0 million were placed in a fiduciary account and may only be accessed to meet obligations arising from the convertible bond ("restricted cash"). Other cash and cash equivalents are not subject to restrictions.

Cash flow from operating activities is derived indirectly from the earnings after taxes on income.

Under the indirect method, the relevant changes to the balance sheet items associated with operating activities are adjusted for currency translation effects and changes to the scope of consolidation.

Payments last year for the acquisition of consolidated companies and other business units of € 1.2 million were largely associated with the purchase of intangible assets, tangible assets and inventories at KUKA S-Base s.r.o., Roznov p.R., Czech Republic, which was consolidated for the first time in the financial year 2009.

Cash inflows / outflows from operating activities also include the following items: Interest paid in the amount of € 37.6 million (prior year: € 10.4 million), interest received in the amount of € 0.7 million (prior year: € 9.5 million) and and € 6.8 million in reimbursed income taxes (prior year: € 1.6 million).

NOTES TO THE GROUP SEGMENT REPORTING

The data for the individual annual financial statements have been segmented by business fields and by region. The structure follows internal reporting (management approach). The segmentation is intended to create transparency with regard to the earning power and the prospects, as well as the risks and rewards for the various business fields within the Group.

Segment reporting is designed to accommodate the structure of the KUKA Group. The KUKA Group was engaged in the reporting years 2010 and 2009 in two major business fields:

KUKA ROBOTICS

This segment offers customers from the automotive sector and general industry – as well as those supported by comprehensive customer services – industrial robots, from small models to the Titan robot now weighing in at 1,300 kg.

KUKA SYSTEMS

This segment provides customers in the fields of automotive, aerospace, solar and general industry with innovative solutions and services for automated production. Applications range from welding, bonding, sealing, assembling and testing, to forming solutions tailored to meet the specific customer needs.

KUKA Nordic AB, Västra Frölunda, Sweden, is allocated to the Robotics segment as of 2010 due to its sales structure. This does not impair comparability with the previous year.

KUKA Aktiengesellschaft and additional participations that are supplementary to the operating activities of the KUKA Group have been aggregated in a separate area. Cross-divisional consolidation and reconciliation items are shown in a separate column. The attribution of the Group companies to the business segments is shown in the Schedule of shareholdings.

The breakdown of sales revenue by region is based on customer / delivery location. Non-current assets (property, plant and equipment and intangible assets) are calculated by company head office.

	Revenues acc. to customer location		Non-current assets acc. to registered office of the company	
in € millions	2009	2010	2009	2010
Germany	297.3	443.8	91.9	84.9
Europe (excl. Germany)	235.2	217.8	21.4	19.3
North America	255.6	268.1	53.2	53.3
Asia / other regions	114.0	148.9	3.0	4.8
Total	**902.1**	**1,078.6**	**169.5**	**162.3**

Overall, the KUKA Group achieved more than ten percent of total sales from three customers, respectively. These sales are attributable to both the Robotics segment and the Systems segment.

	Total 2009		Total 2010	
	in € millions	in%	in € millions	in%
Customer A	77.7	8.6	154.0	14.3
Customer B	120.5	13.4	144.3	13.4
Customer C	146.8	16.3	144.0	13.4
Other customers	557.1	61.7	636.3	58.9
Sales revenues	**902.1**	**100.0**	**1,078.6**	**100.0**

The calculations for segment reporting rely on the following principles:

- Group external sales revenues show the divisions' respective percentage of consolidated sales for the Group as presented in the Group income statement.
- Intra-Group sales revenues are related sales transacted between segments. In principle, transfer prices for intra-Group sales are determined at the market level.
- Sales revenues for the segments include revenues from sales to third parties as well as sales to other Group segments.
- EBIT reflects operating earnings, i.e. the earnings from ordinary activities – including goodwill impairment charges, if any – before result from financing activities; EBIT is adjusted for borrowing costs to be capitalized.
- ROCE (return on capital employed) is the ratio of EBIT to capital employed, which is largely non-interest bearing. To calculate ROCE the capital employed is based on an average value.

The reconciliation of capital employed to segment assets and segment liabilities is shown in the following table:

in € millions	2009	2010
Capital Employed		
Intangible assets	79.2	76.5
+ Tangible assets	90.3	85.8
+ Non-current finance lease receivables	75.8	77.8
+ Working capital	382.6	496.6
Inventories	103.8	158.0
Receivables from construction contracts	124.3	166.1
Trade receivables	114.5	126.0
Other receivables and assets	40.0	46.5
= Asset items of capital employed	627.9	736.8
./. Other provisions, excluding major provisions for restructuring	85.5	81.7
./. Liabilities from construction contracts	54.6	39.6
./. Advances received	27.1	49.0
./. Trade payables	73.3	148.9
./. Other liabilities except for liabilities similar to bonds (incl. deferred income)	87.3	92.7
= Liability items of capital employed	327.8	411.9
= Capital employed	**300.1**	**324.8**
Average capital employed	317.5	312.5
Segment assets		
Asset items of capital employed	627.9	736.7
+ Participations	1.0	1.0
= Segment assets	**628.9**	**737.7**
Segment liabilities		
Liability items of capital employed	327.8	411.9
+ Pension provisions and similar obligations	70.0	70.2
+ Adjusted provisions	25.7	7.1
= Segment liabilities	**423.5**	**489.2**

Additional elements of the segment reports are contained in the management report on the operating business divisions Robotics and Systems, as well as in the tables at the beginning of the Group notes.

OTHER NOTES

RELATED PARTY DISCLOSURES

In accordance with IAS 24 persons or companies that may be influenced by or have influence on the reporting company must be disclosed, insofar as they have not already been included as consolidated companies in the financial statements.

Parties related to the KUKA Group include mainly members of the Executive and Supervisory Boards as well as non-consolidated and associated KUKA Group companies in which KUKA Aktiengesellschaft directly or indirectly holds more than 20 percent of the voting rights or companies that hold more than 20 percent of the share of voting rights in KUKA Aktiengesellschaft.

Grenzebach Maschinenbau GmbH, Asbach-Bäumenheim, Bavaria, and Rinvest AG, Pfäffikon, Switzerland together currently hold a 25.2 percent share in KUKA Aktiengesellschaft. In accordance with the voting rights announcement of June 29, 2010 the shares in voting rights are to be attributed mutually as per Article 22 para. 2 WpHG (Germany Securities Trading Act) and therefore represent related parties for the purpose of IAS 24.

The following table summarizes the product and services-related business activities transacted between companies included in the KUKA Group consolidation and related companies:

in € millions	Interest in%	Products and services provided by the KUKA Group to related companies 2009	Products and services provided by the KUKA Group to related companies 2010	Products and services provided by related companies to the KUKA Group 2009	Products and services provided by related companies to the KUKA Group 2010
Grenzebach Group	25.2	4.4	10.2	3.3	18.5

Intra-Group purchases and sales are transacted under the "dealing at arm's length" principle at transfer prices that correspond to market conditions.

Services provided to related companies mainly comprise commissions and sales, primarily for products from the Robotics segment. Services provided to the Group by non-consolidated related and associated companies consist primarily of preparatory work that is subject to subsequent processing by the KUKA Group's consolidated companies and job order production.

The following table lists the material amounts owed by related parties to fully consolidated KUKA Group companies and vice versa.

in € millions	Interest in%	Receivables of the KUKA Group to related companies Dec. 31, 2009	Receivables of the KUKA Group to related companies Dec. 31, 2010	Liabilities of the KUKA Group to related companies Dec. 31, 2009	Liabilities of the KUKA Group to related companies Dec. 31, 2010
Grenzebach Group	25.2	2.9	3.9	0.9	0.7
Others less than € 1 million	–	0.0	0.0	0.1	0.1
Total	**–**	**2.9**	**3.9**	**1.0**	**0.8**

No business subject to reporting rules was conducted between any KUKA Group companies and members of KUKA Aktiengesellschaft's Executive or Supervisory Boards with the exception of the legal transactions outlined in the compensation report.

TOTAL EMOLUMENTS OF EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

The total compensation paid to the Executive Board was € 2.6 million (prior year: € 4.1 million). Altogether in the financial year 2010, the Executive Board received a fixed salary including payments in kind of € 1.4 million (prior year: € 0.9 million) as well as target achievement and performance-based compensation of € 0.7 million (prior year: € 0.3 million). Prior year severance payments in the amount of € 2.7 million have been made. € 0.5 million (prior year: € 0.2 million) was set aside for compensation in accordance with the phantom share program.

With a few exceptions, former Executive Board members have been granted benefits from the company pension scheme, which include old-age, vocational and employment disability, widow's and orphan's pensions. The amount of accruals included for this group of persons in 2010 for current pensions and vested pension benefits totals € 10.1 million (HGB) compared to € 9.4 million in 2009.

KUKA Aktiengesellschaft has no compensation agreements with the members of the Executive Board or the employees that would come into effect in the event of a take-over bid.

Total compensation of the Supervisory Board in fiscal 2010 was € 0.7 million (prior year: unchanged).

Please refer to the notes in the audited compensation report for further information and details about the compensation of individual Executive Board and Supervisory Board members. The report on compensation forms part of the corporate governance report and summarizes the basic principles used to establish the compensation of the Executive and Supervisory Boards of KUKA Aktiengesellschaft. The executive compensation report is an integral part of the management report.

The members of the Executive and Supervisory Boards are presented on page 140 f.

AUDIT FEES

The fee for the auditor PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, recognized as an expense in 2010 totals € 1.9 million. € 0.9 million was recognized for financial statement auditing services. The auditor performed other assurance services totaling € 0.8 million, particularly in connection with the capital increase and bond issue. € 0.2 million was recognized as an expense for tax advisory services performed by the auditor.

DECLARATION REGARDING THE CORPORATE GOVERNANCE CODE

The identically worded declarations in accordance with Article 161 German Corporation Act (AktG) that have been issued by the Executive Board (February 16, 2011) and by the Supervisory Board (March 1, 2011) are available for inspection by any interested party on the company's website (www.kuka.com).

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

Augsburg, March 2, 2011

KUKA Aktiengesellschaft

The Executive Board

Dr. Till Reuter Stephan Schulak

CORPORATE BODIES

SUPERVISORY BOARD

Bernd Minning
Kaisheim
Chairman of the Supervisory Board
Managing Director of Grenzebach Maschinenbau GmbH, Asbach-Bäumenheim

Jürgen Kerner***
Königsbrunn
Deputy Chairman of the Supervisory Board
1st Secretary of IG Metall trade union
Augsburg branch
- MAN SE, Munich*
- MAN Diesel&Turbo SE, Augsburg*
- manroland AG, Offenbach*
- Eurocopter Deutschland GmbH, Donauwörth*
- Premium Aerotec GmbH, Augsburg*

Dr. Till Reuter (until April 26, 2010, Supervisory Board mandate suspended since September 29, 2009)
Pfäffikon, Switzerland

Prof. Dr. Dirk Abel
Aachen
University Professor
Director of the Institute of Automatic Control at RWTH Aachen

Wilfried Eberhardt***
Aichach
Managing Director Sales and Marketing
KUKA Roboter GmbH, Augsburg
Authorized Signatory of KUKA Roboter GmbH, Augsburg
- KUKA Automatisme + Robotique S.A.S., France**
- KUKA Roboter Italia S.P.A., Italy**
- KUKA Roboter Schweiz AG, Switzerland**

Dr. Uwe Ganzer
Hanover
Merchant
Sole Director of VARTA AG, Hanover
Managing Director of GOPLA Beteiligungsgesellschaft mbH
- expert AG, Langenhagen*
- Curanum AG, Munich*

Siegfried Greulich***
Augsburg
Chairman of the Works Council of KUKA Systems GmbH, Augsburg

Thomas Knabel***
Zwickau
2nd Secretary of IG Metall trade union, Zwickau branch

Carola Leitmeir***
Großaitingen
Deputy Chairman of the Works Council of KUKA Roboter GmbH, Augsburg

Prof. Dr. Uwe Loos
Stuttgart
Industrial Consultant
- Dorma Holding GmbH +Co.KGaA , Ennepetal*
- Bharat Forge LTD , Pune, India**
- CDP Bharat Forge GmbH, Ennepetal**
- Rodenstock GmbH, Munich**
- Eyewear Holding GmbH, Munich**
- Kenersys GmbH, Münster**
- Honorary Professor at TU Munich, Department of Business Administration, Management, Logistics and Production**

* Membership in other legally stipulated supervisory boards
** Membership in comparable German and foreign control bodies of commercial enterprises
*** Employee representative

Dr. Michael Proeller (since April 29, 2010)
Augsburg
Business Administrator
Managing Partner of Erhardt + Leimer GmbH, Augsburg
Managing Director of Erhardt + Leimer Elektroanlagen GmbH, Augsburg
Managing Director of Erhardt + Leimer Elektrotechnik Chemnitz GmbH
- Erhardt + Leimer Inc., Spartanburg, USA**
- Erhardt + Leimer, India Pvt. Ltd., India**
- Erhardt + Leimer, Italia Srl., Italy**
- Erhardt + Leimer do Brasil Ltda., Brazil**
- Erhardt + Leimer Canada Ltd., Canada**
- Erhardt + Leimer Japan Ltd., Japan**
- Erhardt + Leimer France Sarl., France**

Fritz Seifert***
Schwarzenberg
Chairman of the Works Council of KUKA Systems GmbH, Augsburg
Toolmaking Division, Schwarzenberg
Deputy Chairman of the Group Works Council

Guy Wyser-Pratte
Bedford, New York, USA
President of Wyser-Pratte & Co., Inc.

Dr. jur. Wolf Hartmut Prellwitz
Karlsruhe
Honorary Chairman

EXECUTIVE BOARD

Dr. Till Reuter
Pfäffikon, Switzerland, Chief Executive Officer
- Rinvest AG, Pfäffikon / Switzerland *
- Dr. Steiner Holding AG *

Dr. Walter Bickel (until December 31, 2010)
Grünwald, Executive Board Member, Chief Operating Officer (COO)
- Alvarez & Marsal Deutschland GmbH, Munich**
- Albert Ziegler GmbH & Co. KG

Stephan Schulak
Rohrbach, Executive Board Member, Finance and Controlling

* Membership in other legally stipulated supervisory boards
** Membership in comparable German and foreign control bodies of commercial enterprises
*** Employee representative

SCHEDULE OF SHAREHOLDINGS OF KUKA AKTIENGESELLSCHAFT

As of December 31, 2010

	Name and registered office of the company	Currency	Share of Equity in %	Equity in tsd.in local currency	Net profit for the year in tsd. in local currency	Method of Consolidation	Segment
Germany							
1	KUKA Roboter GmbH, Augsburg*	EUR	100.00	50,614	0 [1]	c	ROB
2	KUKA Systems GmbH, Augsburg*	EUR	100.00	30,076	0 [1]	c	SYS
3	KUKA Laboratories GmbH, Augsburg*	EUR	100.00	27,492	0 [1] [3] [5]	c	ROB
4	HLS Ingenieurbüro GmbH, Augsburg	EUR	100.00	-913	-3,733	c	SYS
5	KUKA Dienstleistungs-GmbH , Augsburg*	EUR	100.00	2,173	0 [1]	c	OTH
6	Bopp & Reuther Anlagen-Verwaltungsgesellschaft mbH, Mannheim	EUR	100.00	27,330	-5,970 [3]	c	OTH
7	Freadix FryTec GmbH, Augsburg	EUR	100.00	41	-4 [3]	nc	OTH
8	IWK Unterstützungseinrichtung GmbH, Karlsruhe	EUR	100.00	26	0	nc	OTH
9	KUKA Unterstützungskasse GmbH, Augsburg	EUR	100.00	25	0	nc	SYS
10	Schmidt Maschinentechnik GmbH, Niederstotzingen	EUR	100.00	-6,388	0	nc	SYS
Other Europe							
11	HLS Czech s.r.o., Mlada Boleslav / Czech Republic	CZK	100.00	5,440	-2,326	c	SYS
12	KUKA Automatisering + Robots N.V., Houthalen / Belgium	EUR	100.00	1,346	254	c	SYS
13	KUKA Automatisme + Robotique S.A.S., Villebon-sur-Yvette / France	EUR	100.00	4,050	-8	c	ROB
14	KUKA Automotive N.V., Houthalen / Belgium	EUR	100.00	585	73	c	SYS
15	KUKA Enco Werkzeugbau spol. s.r.o., Dubnica nad Váhom / Slowakia	EUR	65.00	3,339	359	c	SYS
16	KUKA Finance B.V., Rotterdam / Netherlands	EUR	100.00	883	36	c	OTH
17	KUKA Nordic AB, Västra Frölunda / Sweden	SEK	100.00	6,505	-2,542	c	ROB
18	KUKA Roboter Austria GmbH, Linz / Austria	EUR	100.00	900	340	c	ROB
19	KUKA Roboter Italia S.P.A., Rivoli / Italy	EUR	100.00	4,422	-945	c	ROB
20	KUKA Roboter Schweiz AG, Dietikon / Switzerland	CHF	100.00	1,220	-169	c	ROB
21	KUKA Robotics Hungária Ipari Kft., Taksony / Hungary	EUR	100.00	9,047	3,215	c	ROB
22	KUKA Robotics OOO, Moskau / Russia	RUB	100.00	-3,559	-17,240	c	ROB
23	KUKA Robots IBÉRICA, S.A., Vilanova i la Geltrú / Spain	EUR	100.00	1,885	-832	c	ROB
24	KUKA S-BASE s.r.o., Roznov p.R. / Czech Republic	CZK	100.00	-7,680	-11,640	c	SYS
25	KUKA Sistemy OOO, Togliatti / Russia	RUB	100.00	12,728	2,506	c	SYS
26	KUKA Systems France S.A., Montigny / France	EUR	100.00	-15,087	658	c	SYS
27	Thompson Friction Welding Ltd., Halesowen / Great Britain	GBP	100.00	6,234	1,245	c	SYS
28	Metaalwarenfabriek 's-Hertogenbosch B.V., 's-Hertogenbosch / Netherlands	EUR	100.00	-977	-11 [3] [4]	nc	OTH

	Name and registered office of the company	Currency	Share of Equity in %	Equity in tsd.in local currency	Net profit for the year in tsd. in local currency	Method of Consolidation	Segment
North America							
29	KUKA Systems Corporation North America, Sterling Heights / USA incl.	USD	100.00	81,654	26,394 [2)]	c	SYS
30	KUKA Assembly and Test Corp. , Saginaw / USA	USD	100.00	–	–	c	SYS
31	KUKA Robotics Corp., Sterling Heights / USA	USD	100.00	–	–	c	ROB
32	KUKA Toledo Production Operations, LLC., Clinton Township, Michigan / USA	USD	100.00	–	–	c	SYS
33	KUKA Systems de Mexico, S. de R.L. de C.V. , Mexico City / Mexiko	MXN	100.00	–	–	c	SYS
34	KUKA Recursos, S. de R.L. de C.V., Mexico City / Mexiko	MXN	100.00	–	–	c	SYS
35	KUKA Robotics Canada Ltd., Saint John NB / Canada	CAD	100.00	-227	-465	c	ROB
36	KUKA de Mexico S.de R.L.de C.V., Mexico City / Mexiko	MXN	100.00	27,289	2,422	c	ROB
Latin America							
37	KUKA Roboter do Brasil Ltda., Sao Paulo / Brazil	BRL	100.00	-1,320	-1,331	c	ROB
38	KUKA Systems do Brasil Ltda., Sao Bernardo do Campo SP / Brazil	BRL	100.00	3,502	-1,247	c	SYS
Asia							
39	HLS Autotechnik (India) Pvt. Ltd., Pune / India	INR	100.00	7,624	-1,505	c	SYS
40	Hung Viet International Company Limited, Ho Chi Minh City / Vietnam	VND	75.10	2,451,323	1,906,865	c	SYS
41	KUKA Automation Equipment (India) Pvt.Ltd, Pune / India	INR	100.00	12,387	-14,450	c	SYS
42	KUKA Automation Equipment (Shanghai) Co., Ltd., Shanghai / China	CNY	100.00	-3,651	2,897	c	SYS
43	KUKA Flexible Manufacturing Systems (Shanghai) Co., Ltd., Shanghai / China	CNY	100.00	23,180	-15,081	c	SYS
44	KUKA Robot Automation Malaysia Sdn BhD, Kuala Lumpur / Malaysia	MYR	99.99	6,149	-2,095	c	ROB
45	KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City / Taiwan	TWD	99.90	30,638	-440	c	ROB
46	KUKA Robotics (India) Pvt. Ltd, Haryana / India	INR	100.00	35,252	5,620	c	ROB
47	KUKA Robotics Japan K.K., Tokio / Japan	JPY	100.00	-12,735	-138,839	c	ROB
48	KUKA Robotics Korea Co., Ltd., Kyunggi-Do / South Korea	KRW	100.00	1,955,224	243,285	c	ROB
49	KUKA Systems (Thailand) Co., Ltd., Bangkok / Thailand	TWD	100.00	3,994	-7	c	SYS

*) Companies that have made use of the exemption persuant to sec. 264 par. 3 or sec. 264 b of the German Commercial Code

1) after profit / loss transfer
2) according to Group Balance Sheet and Group Income Statement
3) Shell company
4) fical year ending June 30, 2010
5) the company starts its business activity in 2011

Type of consolidation
c fully consolidated companies as at Dec. 31, 2010
nc non-consolidated companies as at Dec. 31, 2010

Division
ROB: ROBOTICS
SYS: SYSTEMS
OTH: OTHERS

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Augsburg, March 2, 2011

KUKA Aktiengesellschaft

The Executive Board

Dr. Till Reuter

Stephan Schulak

AUDIT OPINION

We have audited the consolidated financial statements prepared by KUKA Aktiengesellschaft, Augsburg, comprising the income statement, statement of comprehensive income, cash flow statement, balance sheet, statement of changes in equity, and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1, to December 31, 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315a para. 1 HGB (German Commercial Code) are the responsibility of the parent company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – "Institute of Public Auditors in Germany"). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 3, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Alexander Winter
Wirtschaftsprüfer
(German Public Auditor)

ppa. Thomas Gillitzer
Wirtschaftsprüfer
(German Public Auditor)

EXTRACT FROM THE ANNUAL FINANCIAL STATEMENTS OF KUKA AKTIENGESELLSCHAFT

BALANCE SHEET

of KUKA Aktiengesellschaft as at December 31, 2010

ASSETS

in € thousands	Dec. 31, 2009	Dec. 31, 2010
Non-current assets		
Intangible assets	2,912	2,579
Property, plant and equipment	15,720	15,801
Financial investments	214,006	174,271
	232,638	**192,651**
Current assets		
Receivables and other assets		
Receivables from affiliated companies	107,401	171,826
Other receivables and assets	17,799	11,326
	125,200	**183,152**
Financial assets held for trading	15,477	0
Cash and cash equivalents	34,851	163,210
	175,528	**346,362**
Prepaid expenses and deferred charges	115	1,526
	408,281	**540,539**

EQUITY AND LIABILITIES

in € thousands	Dec. 31, 2009	Dec. 31, 2010
Equity		
Subscribed capital	76,076	88,180
Nominal value of treasury shares		-3,451
Capital reserve	39,680	72,993
Other retained earnings	15,477	3,451
Net retained earnings	-71,989	-75,733
	59,244	**85,440**
Provisions		
Pension provisions	12,075	12,489
Provision for taxes	6,495	1,485
Other provisions	20,991	29,443
	39,561	**43,417**
Liabilities		
Bond		202,000
Liabilities due to banks	40,203	2,209
Trade payables	633	6,110
Accounts payable to affiliated companies	263,445	194,794
Liabilities to provident funds	2,419	2,386
Other liabilities	2,776	4,183
	309,476	**411,682**
	408,281	**540,539**

INCOME STATEMENT

of KUKA Aktiengesellschaft for the period from January 1 – December 31, 2010

in € thousands	2009	2010
Other operating income	18,481	30,223
Personnel expense	-12,589	-17,402
Depreciation and amortization of tangible and intangible assets	-2,191	-3,032
Other operating expenses	-31,371	-47,693
Income from participations	-65,501	46,626
Other interest and similar income	10,145	16,266
Impairments and reversal of impairments of financial assets and marketable securities	-1,155	0
Interest and similar expenses	-10,694	-33,732
Income from ordinary activities	**-94,875**	**-8,744**
Extraordinary result	0	-997
Taxes on income	-10,382	5,997
Annual net loss	**-105,257**	**-3,744**
Profit / loss carryforward from the previous year	32,113	-71,989
Additions to capital redemption reserve	1,155	0
Amount of balance sheet loss	**-71,989**	**-75,733**

The balance sheet and income statement of KUKA Aktiengesellschaft are extracts from the complete annual financial statements of KUKA Aktiengesellschaft (AG Report).

These annual financial statements were audited by PricewaterhouseCoopers AG, and were certified without reservations in an opinion dated March 3, 2011.

A copy of the complete annual financial statements of KUKA Aktiengesellschaft can be requested from KUKA Aktiengesellschaft, Investor / Public Relations, P.O. Box 43 12 69 in 86072 Augsburg, Germany.

GLOSSARY OF ACCOUNTING TERMS

ABS
Asset-backed securities. Asset-backed securities are bonds or notes that are collateralized with assets (usually receivables). Receivables of KUKA Roboter GmbH are purchased within the framework of an ABS program.

BRIC countries
Term that refers to the combination of Brazil, Russia, India and China.

Capital employed
Capital employed includes working capital as well as intangible assets and tangible fixed assets. Capital employed therefore represents the difference between operating assets and non-interest-bearing outside capital.

CAPM
The Capital Asset Pricing Model (capm) is a model for pricing an individual security or portfolio to determine a company's cost of equity capital (see WACC).

Cash earnings
Cash earnings are a measurement for the inflow or outflow of cash from the operating profits (EBIT). They are the resulting balance from operating profits, interest, taxes, depreciation as well as other non-payment-related expenses and income.

CGC
Corporate Governance Code: The German Government Commission's list of requirements for German companies (since 2002).

Commitments
Payment obligation from purchases

Continuing operations
Business activities still being pursued

Corporate governance
Common international term for responsible corporate management and control that aims at creating long-term value.

DAX
German stock index of blue chip companies. It includes the 30 largest German companies admitted to the Prime Standard in terms of market capitalization and volume of stocks traded.

Deferred taxes
Temporary differences between calculated taxes on the commercial and tax balance sheets designed to disclose the tax expense in line with the financial accounting income.

Derivatives
Financial instruments whose value is largely derived from a specified price and the price fluctuations / expectations of an underlying base value, e. g., exchange rates.

Discontinued operations
Business operations that will be or have been sold over the course of the fiscal year.

EBIT
Earnings before interest and taxes.

EBIT margin
ebit in relation to sales revenues.

Equity ratio
Ratio of equity to total assets.

Declaration of compliance
Declaration of the Executive Board and the Supervisory Board in accordance with article 161 of the German Corporation Act (AktG) regarding the implementation of the recommendations of the Government Commission in the German Corporate Governance Code.

Earnings per share
Earnings per share are calculated on the basis of Group consolidated earnings after taxes and the average number of shares outstanding for the year.

Exposure
A key figure used to assess risk. This key figure includes all incoming payments in a 90-day period prior to the record date of the down payments, payments based on percentage of completion or compensation after acceptance of the work carried out. In addition, the key figure also comprises all customer payments made within 90 days and which have not yet been supplied with deliveries / services including the sum of unpaid invoices following delivery or service supplied to the customer, the poc receivables and any purchase commitments.

Free cash flow
Cash flow from operating activities plus cash flow from investing activities. Free cash flow shows the extent of the funds generated by the company in the business year.

Free float
Shares of a public company owned by diverse shareholders.

General industry
General industrial markets not including the automotive industry.

HGB
German Commercial Code.

IAS
International Accounting Standards.

IFRIC / SIC
International financial reporting interpretation committee – interpreter of the international financial reporting standards ias and ifrs, formerly also SIC. IFRIC is the new name for the Standing Interpretations Committee adopted by the trustees of the iasc foundation in March 2002. sic was created in 1997 to improve the application and worldwide comparability of financial reports prepared in accordance with International Accounting Standards (IAS). It outlines financial statement practices that may be subject to controversy.

IFRS
International Financial Reporting Standards: The IFRS ensure international comparability of consolidated financial statements and help guarantee a higher degree of transparency.

MAP
KUKA Aktiengesellschaft's employee share program.

Market capitalization
The market value of a company listed on the stock exchange. This is calculated by taking the share price and multiplying it by the number of shares outstanding.

MDAX
This stock index comprises the 50 largest German companies (after those of the dax) according to market capitalization and volume of stocks traded.

Net liquidity / Net debt
Net liquidity / net debt is a financial control parameter consisting of cash, cash equivalents and securities minus current and non-current financial liabilities.

Percentage of completion method (POC)
Accounting method of sales and revenue recognition according to the stage of completion of an order. This method is used for customer-specific construction contracts.

R&D expenses
Expenditures related to research and development.

Rating
Assessment of a company's creditworthiness (solvency) determined by a rating agency based on analyses of the company. The individual rating agencies use different assessment levels.

ROCE
Return on capital employed (roce) it the ratio of the operating profit / loss (EBIT) to the capital employed (see Capital employed). To calculate roce the capital employed is based on an average value.

SDAX
This stock index comprises 50 smaller German companies that in terms of order book turnover and market capitalization rank directly below the MDAX shares.

Volatility
Intensity of fluctuations in share prices and exchange rates or changes in prices for bulk goods compared to market developments.

WACC
Weighted average cost of capital.

$$WACC = (E/V) * Re + (D/V) * Rd * (1-Tc)$$

where:

$$V = E + D$$

Re = cost of equity
Rd = cost of debt
Tc = corporate tax rate
D = market value of debt
E = market value of equity
V = total value of the company

Working capital
Working capital consists of the inventories, trade receivables, other receivables and assets, accrued items and the balance of receivables and payables from affiliated companies, as far as these are not allocated to financial transactions, minus other provisions, trade payables, other payables with the exception of liabilities similar to bonds and deferred income.

WPHG
German Securities Trading Act.

FINANCIAL CALENDAR 2011

MAY 11, 2011	**FIRST-QUARTER INTERIM REPORT**
MAY 26, 2011	**ANNUAL GENERAL MEETING, AUGSBURG**
AUGUST 3, 2011	**ANNUAL REPORT TO MID YEAR**
NOVEMBER 9, 2011	**INTERIM REPORT TO THE FIRST NINE MONTHS**

This financial report was published on March 16, 2011 and is available in German and English from KUKA AG's public / investor relations department. In the event of doubt, the German version applies.

CONTACT AND IMPRINT

KUKA AG
Zugspitzstr, 140
86165 Augsburg
Deutschland
Phone: +49 821 797-0
Fax: +49 821 797-5333
kontakt@kuka.com

PUBLIC / INVESTOR RELATIONS
Phone: +49 821 797-5251
Fax: +49 821 797-5333
ir@kuka.com

CONCEPT & DESIGN
Whitepark GmbH & Co., Hamburg

PRINTING
Zertani GmbH & Co. Die Druckerei KG, Bremen

SOURCES OF PICTURES

Photo agencies:
Getty Images (p. 10, 20)

Photographs:
Michael Lange (Cover p. 1, 3, 14 / 15)
Jo Teichmann (p. 23)

Other Photos:
KUKA

Text:
candid communications GmbH
(p. 1 – 27)

KEY FIGURES 5-YEAR OVERVIEW

in € millions	2006	2007	2008	2009	2010
Orders received					
Robotics	382.3	434.9	464.4	324.3	486.2
Systems	847.8	937.7	854.9	615.4	716.8
Group	1.186.4	1.343.8	1.279.9	903.3	1.142.3
Sales revenues					
Robotics	373.3	412.9	474.4	330.5	435.7
Systems	832.8	900.0	837.5	605.5	695.3
Group	1.164.6	1.286.4	1.266.1	902.1	1.078.6
Order backlog (Dec. 31)	**496.5**	**528.8**	**542.3**	**543.5**	**630.5**
EBIT					
Robotics	22.4	33.6	42.0	-11.5	20.8
Systems	10.0	37.2	26.8	-28.8	20.0
Group	16.7	70.4	52.0	-52.6	24.8
EBIT in % of sales					
Robotics	6.0	8.1	8.9	-3.5	4.8
Systems	1.2	4.1	3.2	-4.8	2.9
Group	1.4	5.5	4.1	-5.8	2.3
Earnings after taxes	**-64.8**	**117.9**	**30.6**	**-75.8**	**-8.6**
Financial situation					
Free cash flow	51.4	223.6	-166.9	-22.2	-37.3
Capital employed (annual average)	205.2	169.4	242.3	317.5	312.5
ROCE (EBIT in % of capital employed)	8.1	41.6	21.5	-16.6	7.9
Capital expenditure	22.8	26.4	32.5	27.2	15.4
Employees (Dec. 31)	5.580	5.732	6.171	5.744	5.990
Net worth					
Balance sheet total	1.072.5	888.0	865.5	726.2	984.7
Equity	120.5	233.5	213.5	160.8	198.1
in % of balance sheet total	11.2	26.3	24.7	22.1	20.1
Net liquidity	-83.9	163.6	-53.6	-48.5	-60.3
Share					
Number of shares (in millions)	26.6	26.6	25.8	25.7	30.3
Earnings per share (in €)	-2.43	4.43	1.18	-2.95	-0.28
Dividend per share (in €)	–	1.00	–	–	–
Market capitalization (Dec. 31)	515.0	692.0	337.0	350.0	548.0

WWW.KUKA.COM