

KUKA

ANNUAL REPORT 2007



AUTOMATION FASCINATES

Integrated Business

KUKA

ROBOTS INCLUDING
APPLICATIONS



ROBOT CELLS



COMPLETE ROBOT-
AUTOMATED SYSTEMS



CUSTOMERS

Automation fascinates

KUKA automates production 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 continue to grow profitably and enhance the value of the company, particularly in existing and emerging general industry markets such as the aircraft and solar industries, medical systems, logistics, metals and plastics.

Key figures 5-year overview*

KUKA GROUP		2003	2004	2005	2006	2007
Orders received	in € millions	1,062.4	1,149.4	1,090.2	1,186.4	1,343.8
Sales revenues	in € millions	1,122.5	1,111.1	1,051.1	1,164.6	1,286.4
EBIT	in € millions	58.8	77.7	- 53.4	16.7	70.4
in % of sales	%	5.2	7.0	- 5.1	1.4	5.5
in % of capital employed (ROCE)	%	19.2	25.2	- 21.9	8.1	41.6
Capital employed	in € millions	206.6	308.2	243.7	205.2	169.4
Employees (Dec. 31)		5,144	5,443	5,463	5,580	5,732
ROBOTICS DIVISION						
		2003	2004	2005	2006	2007
Orders received	in € millions	429.6	385.3	338.4	382.3	434.9
Sales revenues	in € millions	417.7	420.5	323.6	373.3	412.9
EBIT	in € millions	48.3	43.9	- 22.8	22.4	33.6
in % of sales	%	11.6	10.4	- 7.0	6.0	8.1
in % of capital employed (ROCE)	%	53.8	38.6	- 22.1	24.3	34.6
Capital employed	in € millions	89.8	113.6	103.3	92.2	97.1
Employees (Dec. 31)		1,834	2,044	1,936	1,838	2,023
SYSTEMS DIVISION						
		2003	2004	2005	2006	2007
Orders received	in € millions	651.7	780.4	778.2	847.8	937.7
Sales revenues	in € millions	734.6	715.9	791.2	832.8	900.0
EBIT	in € millions	20.2	35.1	- 14.4	10.0	37.2
in % of sales	%	2.7	4.9	- 1.8	1.2	4.1
in % of capital employed (ROCE)	%	11.1	21.0	- 9.7	9.9	51.0
Capital employed	in € millions	181.9	167.1	148.7	101.0	73.0
Employees (Dec. 31)		3,194	3,275	3,422	3,620	3,582

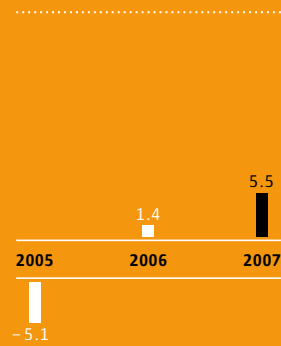
* Prior years were adjusted for comparison purposes.

THE FIGURES FROM THE 10-YEAR OVERVIEW CAN BE FOUND ON THE BACKSIDE COVERPAGE OF THIS ANNUAL REPORT.

Financial highlights

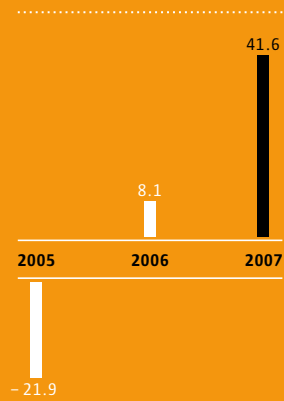
EBIT MARGIN

(in %)



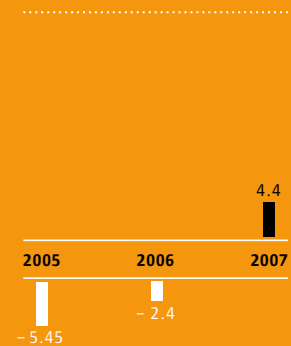
ROCE

(in %)



EARNINGS PER SHARE

(in €)



KUKA around the world



EUROPE

Austria
Belgium
Czech Republic
France
Germany
Hungary
Italy
Norway
Portugal
Russia
Slovakia
Spain
Sweden
Switzerland
United Kingdom

NORTH / SOUTH AMERICA

Argentina
Brazil
Chile
Mexico
USA

ASIA / OCEANIA

Australia
China
India
Japan
Malaysia
New Zealand
South Korea
Taiwan
Thailand
Vietnam

AFRICA

South Africa



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annual financial statements

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“2007 was the year we
sharpened our focus”

GERHARD WIEDEMANN, DIPL.-ING.
CHAIRMAN OF THE EXECUTIVE BOARD (CEO),
SYSTEMS DIVISION

Gerhard Wiedemann, Dipl.-Ing., born 1946, has been a member of the Executive Board since April 1, 2006 and CEO of KUKA Aktiengesellschaft since January 1, 2007. After completing his studies in mechanical engineering and business administration, he started his professional career as a project engineer. In 1977, he joined KUKA Schweißanlagen + Roboter GmbH, where he held numerous management positions. From 1993 to 2006 he was managing director and CEO of KUKA Schweißanlagen GmbH. He continues to be the member of the Executive Board responsible for the Systems division. Gerhard Wiedemann is married and has two children.

Dear shareholders,

KUKA Aktiengesellschaft has successfully completed its restructuring. The refocusing of the Group on the Robotics and Systems divisions was last business year's primary task, and this too has now been completed. Our company is once again able to present a solid financial structure and balance sheet.

We have achieved a number of targets that were originally identified as medium-term ahead of schedule. We have taken advantage of our newly defined strategic direction earlier than was expected by many. The tailwind from the excellent global economy undoubtedly contributed to our momentum. But we were only able to maximize the forward thrust because we had correctly set our sails. KUKA's profitable growth trend is the result of focusing on the forward-looking Robotics and Systems divisions and linking them into an integrated business model that creates substantial synergies in the technology and sales areas. In 2007, we were able to increase orders received and sales revenues by 13.3 percent and 10.5 percent respectively, while EBIT quadrupled and EBIT margin came in at 5.5 percent. Our equity ratio is also once again over 26 percent.

Already in year one, the KUKA Group was able to demonstrate the earning strength of the new corporate structure. No matter how the financial market problems and other economic risks play out in the coming year, the economic future of the industrial countries and the strongly growing emerging nations are dependent on, among other things, further automating production processes using robots. Thanks to its technology leadership in both areas, KUKA will play a major role in helping to shape this future. Their robotics and engineering expertise make KUKA Robotics and KUKA Systems world leaders in this field.

Our new technical solutions improve our customers' profitability and thus their competitiveness. This enables KUKA to penetrate new markets. Being an automation partner to the automotive industry, the aircraft industry, the logistics, metal processing, plastics, electrical and electronics industries, and ever emerging sectors will continue to be the guiding principle for our development. Our two divisions, Robotics and Systems, will offer a range of products and services that complement one another – from stand-alone robots through robot cells, up to robot-based automation systems, and from individual engineering services to operating an entire factory.

KUKA will redouble its commitment wherever business activity and prosperity growth are particularly strong, especially in Asia. We aim to continue to press ahead with internationalizing our business, so that regional economic swings provide a counterbalance and reduce economic risks.

The basis of our success is customer focused, creative research and development. KUKA will continue to invest systematically on R&D in the coming year. The KUKA Innovation Center in Augsburg links the research and development expertise of KUKA Robotics with the pronounced applications focus of KUKA Systems. The two divisions will increase their research efforts and endeavor to find common development solutions. This will strengthen the strategically important position of KUKA as a technology and innovation leader.

Investment in our employees and their innovation and expertise is equally important. This is why we continue to train young people year after year, and why we highly value our comprehensive continuing education options and promote creativity through an intensive knowledge transfer process.

Without the commitment of our employees, the positive development of the Group would not have been possible. For this we thank them, as we thank our customers, business partners and shareholders for the trust they have shown in our company.

Our innovative spirit and customer focus have enabled us to significantly exceed our medium-term growth targets for the 2007 financial year. Again in fiscal 2008, we are planning further growth for the divisions – 10 percent for Robotics and 5 percent for Systems. This is a strong statement of KUKA's confidence in its potential. We would be very pleased if you would accompany us on our growth journey, either as an investor or business partner.

Sincerely,



Gerhard Wiedemann, Dipl.-Ing.
Chairman of the Executive Board



“New technical solutions will enable our customers to improve profitability, thereby improving their competitiveness and opening new markets for us.”

BERND LIEPERT, DIPL. MATH.
MEMBER OF THE EXECUTIVE BOARD,
ROBOTICS DIVISION

Bernd Liepert, Dipl. Math., born in 1962, has been a member of the Executive Board of KUKA Aktiengesellschaft since April 1, 2006 and is head of the Robotics division. After studying mathematics and mechanical engineering, he joined the software department of KUKA Schweißanlagen + Roboter GmbH. In 1996 he took charge of controller development and in 1998 became a member of the executive committee. He has been the CEO of KUKA Roboter GmbH since 2000. Bernd Liepert is married and has two children.

“Our innovative spirit and customer focus have enabled us to significantly exceed our medium-term targets for the 2007 financial year.”

DR. JÜRGEN KOCH
MEMBER OF THE EXECUTIVE BOARD,
CFO

Dr. Jürgen Koch, born in 1957, has been a member of the Executive Board of KUKA Aktiengesellschaft since April 1, 2006 and is the company's chief financial officer (CFO). After completing his studies in business administration, during which he earned a doctorate (Dr.rer.pol.), he held various management positions from 1986 to 2000 at companies belonging to the former Metallgesellschaft AG in Düsseldorf and Frankfurt. From 2001 to 2006, he was the CFO at Pfeleiderer AG, based in Neumarkt, Oberpfalz. Dr. Jürgen Koch is married and has two children.



“The financial markets and the public are
applauding the KUKA Group’s progress.”

DR. ROLF BARTKE
CHAIRMAN OF THE SUPERVISORY BOARD

Dr. Rolf Bartke, born in 1947, is chairman of the Supervisory Board of KUKA Aktiengesellschaft. After studying economics and graduating as an industrial engineer, he earned a doctorate (Dr.rer.pol.) and held a number of leading positions in the Daimler Group. From 1995 to 2006, he headed up the Mercedes-Benz Vans business unit. Dr. Rolf Bartke is married and has a son.

SUPERVISORY BOARD REPORT

The financial year 2007 just ended was an important one for the KUKA Group, and looking back, a successful one. After successfully restructuring, the KUKA Group is on a profitable growth track and is once again on a solid financial footing with a strong balance sheet.

The year 2007 was dominated by refocusing efforts. At the same time, the Group was streamlined and the management organization made more efficient. The excellent progress in the business operations proves that the adopted strategy has been successfully implemented. The financial markets and the public are applauding the KUKA Group's substantial progress. The Group reached important medium-term milestones in 2007, ahead of schedule.

Following the completion of the sale of the Packaging division on April 19, 2007, the KUKA Group now consists of KUKA Aktiengesellschaft, the Group's managing holding company, and the two divisions, Robotics and Systems. As announced, the company relocated its business headquarters to Augsburg in early 2007. The shareholders at the annual general meeting on May 16, 2007 voted in favor of renaming the company and relocating its headquarters to this city. Consolidating KUKA Aktiengesellschaft and the management companies of the two divisions at the Augsburg location is generating ever more apparent synergies in many business segments and at all levels.

During the financial year, the Supervisory Board was heavily involved in the corporation's business activities and consulted with the Executive Board, which it supervised in the interests of the shareholders and employees. It met 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, sales, order backlog, EBIT, return on capital employed). The Supervisory Board asked for detailed explanations of any disagreement between the business results and the plans and targets, as well as the budgets. The board then reviewed the submitted documents and analyzed the discrepancies. In addition, the Executive Board reported to the Supervisory Board periodically with regard to the operational situation, as well as the strategic direction and associated prospects. Risk management was included as part of the regular reporting. The Supervisory Board was continuously involved in decisions of material importance and for particularly important or urgent issues, also outside the normal schedule. When necessary, it also handed down decisions through written correspondence.

The Executive Board complied with the Supervisory Board's standard rules of procedure, which stipulate that certain transactions require its prior approval. The Supervisory Board (and the Executive Board) revised their standard rules of procedure to align with the current Group structure and adopted the new process in a meeting in December 2007. The Supervisory Board's tasks included evaluating the propriety, legality and financial viability of the Executive Board's corporate management activities.

The chairman of the Supervisory Board remained in close contact with the Executive Board, particularly with the chairman, so that he could stay informed about important managing developments and pending decisions and be in a position to support the Executive Board in its deliberations. The chairs of the Supervisory and Executive boards also consulted regularly with one another outside the scheduled meetings of the Supervisory Board.

OTHER SUPERVISORY BOARD PERSONNEL DEVELOPMENTS

The term of office of the members of the Supervisory Board ends with the adjournment of the annual general meeting in 2008, where a decision regarding ratification of the work of the Supervisory Board members for the 2007 financial year will be made. Supervisory Board shareholder representatives will be elected at the company's annual general meeting on May 15, 2008. The term of office of the Supervisory Board members elected there will start immediately after the conclusion of the annual general meeting. To prepare for the new elections, the Supervisory Board's nomination committee recommended to the Supervisory Board that all but one of the current shareholder representatives be recommended as candidates at the annual general meeting. After a comprehensive review and selection, the nomination committee recommended Mr. Helmut Gierse to the Supervisory Board as a new member instead of Mr. Prof. Dr.-Ing. Gerd Hirzinger. In October 2007, a voting procedure was initiated for electing representatives of the employees to the Supervisory Board. Their term of office also starts immediately after this annual general meeting.

In 2007, there were no personnel changes on the Supervisory Board.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES DURING THE REPORTING PERIOD

The following committees were established by the Supervisory Board: a personnel committee, an audit committee and an arbitration panel in accordance with article 27 (3) of the Mitbestimmungsgesetz (German Act on Company Co-Determination). In a meeting in September 2007, the Supervisory Board established a nomination committee, which is in addition to the existing three committees (committee as per article 27 (3) of the Act on Company Co-determination, personnel committee and audit committee), in accordance with item 5.3.3 of the German Corporate Governance Code (CGC). This nomination committee is charged particularly with preparing the Supervisory Board's resolution regarding recommended candidates for the Supervisory Board shareholder representatives, and outlining a clear job profile for the shareholder representatives on the Supervisory Board in consideration of the specific requirements of the company.

The Supervisory Board met five times in fiscal 2007.

The March 27, 2007 Supervisory Board's sitting focused on IWKA Aktiengesellschaft's and the IWKA Group's financial results for 2006 and the recommended resolutions for the May 16, 2007 annual general meeting. The Supervisory Board discussed a possible strategic restructuring of the IWKA Group and the associated Group organizational structure at the same meeting. An in-depth discussion regarding the sale of the Packaging division's companies was held, based on a comprehensive presentation by the Executive Board regarding the status of the negotiations, the open items and the possible alternatives, and after a thorough debate, the decision was essentially made to proceed with the sale.

In the meeting on May 16, 2007, immediately prior to the annual general meeting, the agenda items included the final report on the sale of the Packaging division and the preparation for the annual general meeting.

The Supervisory Board meeting immediately following the annual general meeting on May 16, 2007 dealt with the results of the shareholder meeting. The gremium also dealt with key issues related to business operations.

At the next Supervisory Board meeting on September 21, 2007, the strategy of the divisions and management projects regarding development of the Group were discussed. The Supervisory Board also conducted a review of the Supervisory Board's efficiency in accordance with item 5.6 of the CGC, with largely positive results; see also the Corporate Governance report. In addition, the shareholder's representatives resolved to form a nomination committee as per item 5.3.3 of the CGC. Finally, the Executive Board reported to the Supervisory Board on the status of the KUKA Group's corporate compliance program.

The Supervisory Board held its last regular meeting of 2007 on December 5 and 6, 2007. It discussed and adopted the budget for 2008 as well as the mid-term plan to 2010. It also discussed the strategy of the divisions, particularly the topic of service robotics. The Supervisory Board also made a decision about changes to the standard rules of procedure for the Supervisory Board and acknowledged the changes to the standard rules of procedure for the Executive Board. The members of the Supervisory Board were informed about the company's Supervisory Board elections in 2008. In addition, the Executive Board reported that it had now signed off on the KUKA Group's corporate compliance program. The topic of temporary workers and fictitious employment was also addressed as part of the report

on compliance in the Group's companies. The Supervisory Board and the audit committee will continue to address compliance issues, as they have in the past, and the Executive Board will report to these bodies in this respect.

All members of the Supervisory Board participated in over half of the Supervisory Board meetings in 2007 (Item 5.4.8 of the CGC).

Further details regarding corporate governance are included in the company's Corporate Governance report, which forms part of the annual report.

The personnel committee, consisting of the chairman, his deputy and one each employee and employer representative met four times in 2007 and dealt with the preparing the Executive Board and its contractual issues in accordance with its regulations. The chairman informed the members of the Supervisory Board about the agenda items and decisions.

The audit committee, consisting of the chairman, his deputy and one each employee and employer representative, met to discuss annual report related topics plus four additional times. Subject of the meetings included preparation of the respective quarterly reports, and the report on compliance of the Group's companies with respect to temporary employees and fictitious employment. The audit committee intensively supported the Supervisory and Executive Boards' tasks and provided the panel with important information to prepare it for making its decisions.

Neither the committee as per article 27 (3) of the Codetermination Law nor the nomination committee met last year.

EXECUTIVE BOARD PERSONNEL DEVELOPMENTS

There were no personnel changes at the Executive Board level in fiscal 2007. As outlined in the last Supervisory Board report dated March 27, 2007, board member Mr. Gerhard Wiedemann assumed the position of CEO as of January 1, 2007, as well as that of Labor Director.

Other than that, there were no personnel changes at the Executive Board level, nor did the responsibilities of the individual members of the Executive Board change.

Dr. Jürgen Koch, member of the company's Executive Board, announced in December 2007 that he will not be available for a contract exclusion beyond March 31, 2009 for personal reasons.

INDEPENDENCE AND DECLARATION OF COMPLIANCE

The Supervisory Board members complied with and continue to comply with the arms-length provisions outlined in item 5.4.2 of the Corporate Governance Code. No conflicts of interest as defined in item 5.5 of the Corporate Governance Code arose during the reporting period. The Supervisory Board and the Executive Board submitted identical declarations of compliance in accordance with article 161 of the German Stock Corporation Act. The annual declarations were made on February 11, 2007 by the Executive Board and on February 25, 2007 by the Supervisory Board.

WORK WITH THE AUDITORS

The annual financial statements and management report of KUKA Aktiengesellschaft as of December 31, 2007, as well as the consolidated annual financial statements and Group management report as of December 31, 2007, including the accounting were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart, who issued an unqualified audit opinion on them. The KUKA Group's risk management system was also audited, as required by law. The KUKA Group's midyear report dated June 30, 2007 was also reviewed.

The audit committee appointed the external auditors as per the resolution at the annual general meeting of May 16, 2007. Prior to appointing the auditors of the financial statements of the company and the Group, the chairman of the audit committee and the chairman of the Supervisory Board conducted in-depth discussions with the auditors regarding audit issues, scope and fees. As in previous years, each with different topics, items such as consulting expenses, commissions, finished products and goods, raw materials, supplies and consumables as well as warranty accruals were defined in consultation with the auditor for the 2007 financial audit. The auditor had no major objections on these items. In Decem-

ber 2007, the auditor gave the audit committee chairman and the Supervisory Board chairman a detailed explanation of the preliminary audit results. The auditor also immediately reported any findings that arose during the course of the audits that were material to the Supervisory Board's work.

Because they had been contracted to review the June 30, 2007 mid-year financial report, the auditors attended the August 2, 2007 audit committee meeting.

In a joint meeting with the auditor on March 12, 2008, the audit committee reviewed the two annual reports, taking into consideration the auditor's reports. The highlights of the annual report were presented to the panel by the Executive Board and the auditor. 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 report was discussed in depth with the auditor. The audit committee reported to the Supervisory Board on the results of its meeting and its review during the board's meeting on March 18, 2008 and recommended that the board approve KUKA Aktiengesellschaft's annual financial statements and the KUKA Group's consolidated annual financial statements.

The Supervisory Board also reviewed the draft annual financial statements submitted by the Executive Board. The audit reports provided by Ernst & Young were made available to all members of the Supervisory Board. The auditor took part in the Supervisory Board meeting on March 18, 2008 regarding the annual financial statements in order to report on material findings in the audit and to provide additional information.

ANNUAL FINANCIAL STATEMENTS FOR 2007 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 18, 2008, the Supervisory Board raises no objections to the results and concurs 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 Group management report. 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 or the Group management report.

At its financial statements meeting on March 18, 2008, the Supervisory Board approved the annual financial statements and the management report prepared by the Executive Board for the 2007 financial year, including the executive compensation report and the explanatory report by the Executive Board of KUKA Aktiengesellschaft regarding the information as per articles 289, para. 4 and 315, para. 4 of the German Commercial Code (HGB), which form part of the management report and the Group management report. Thus the annual financial statements are adopted.

The Supervisory Board likewise approves the consolidated annual financial statements and the Group management report of KUKA Aktiengesellschaft for the year 2007 prepared by the Executive Board.

Furthermore, at its meeting on March 18, 2008, the Supervisory Board reviewed the recommendations of the Executive Board regarding allocation of the net profit for the year 2008. In doing so, the board paid particular attention to the company's liquidity situation, financial and capital spending plans and the perspective of the capital markets. In consideration of the aforementioned aspects, the Supervisory Board concurs with the Executive Board regarding allocation of the net profit for the year.

THANKS TO THE STAFF

The challenges of the year 2007 were only overcome as a result of the strong commitment in all areas of the company. The Supervisory Board would like to thank all employees, members of the Executive Board, the management teams and the elected employee representatives for their efforts. Their achievements serve the interests of the company, its customers and shareholders.

Augsburg, March 18, 2008

The Supervisory Board



Dr. Rolf Bartke
Chairman

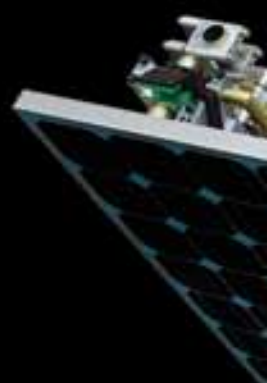
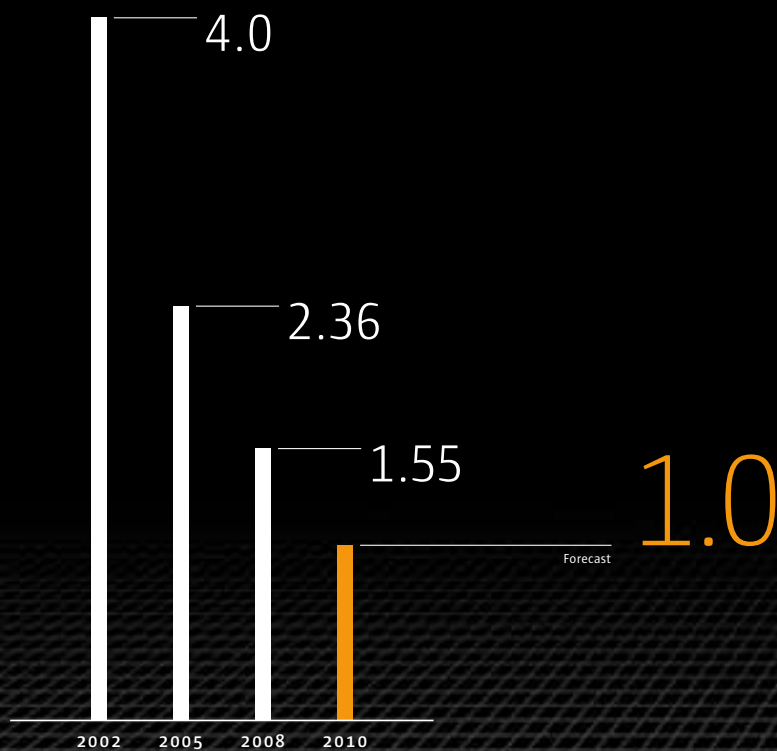


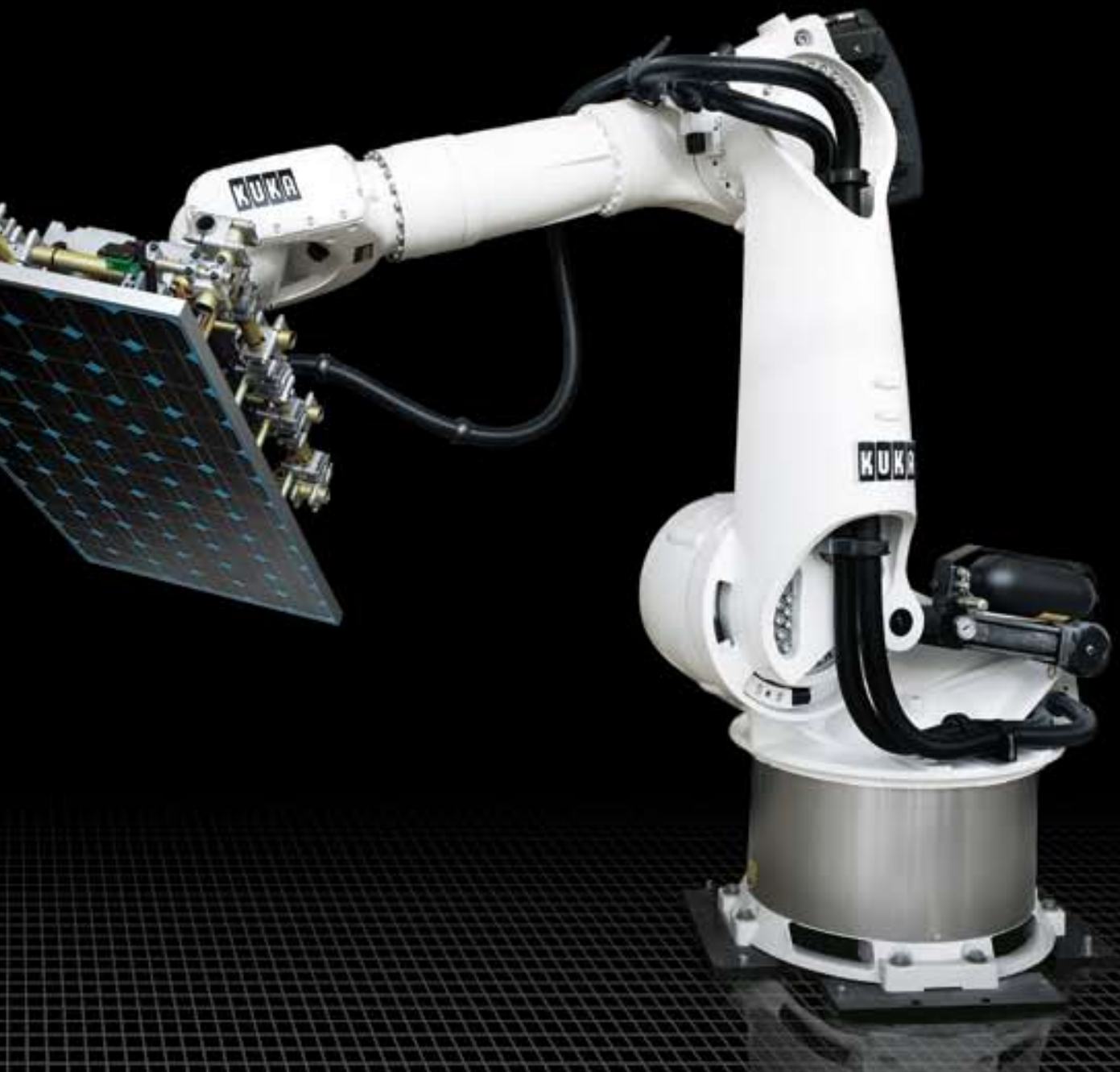
ELISABETH SCHÄRTL, DIPL.-ING., PROJECT MANAGER SOLAR, KUKA SYSTEMS

“The high demand for solar products is spurring large-scale mass production. Here, KUKA automation solutions ensure top quality, speed and precision.”

“Automated manufacturing
also leads to dramatically
lower costs for solar product
manufacturing.”

DEVELOPMENT OF MANUFACTURING COSTS FOR SOLAR ENERGY
(in € per peak Watt)





AUTOMATION MADE BY KUKA – OUR INTEGRATED BUSINESS MODEL

Automation fascinates. Robot-based automation solutions are at the center of our corporate business activities. This is how KUKA provides real value to its customers, and how it has achieved a leading international position. All around the world, customers in a wide range of industries value the advantages that robot-based automation offer. For our customers, Automation made by KUKA is the essential key to

- ⋮ higher productivity
- ⋮ improved product quality
- ⋮ reduced consumption of costly materials
- ⋮ lower energy consumption
- ⋮ repeatable precision
- ⋮ flexible work processes

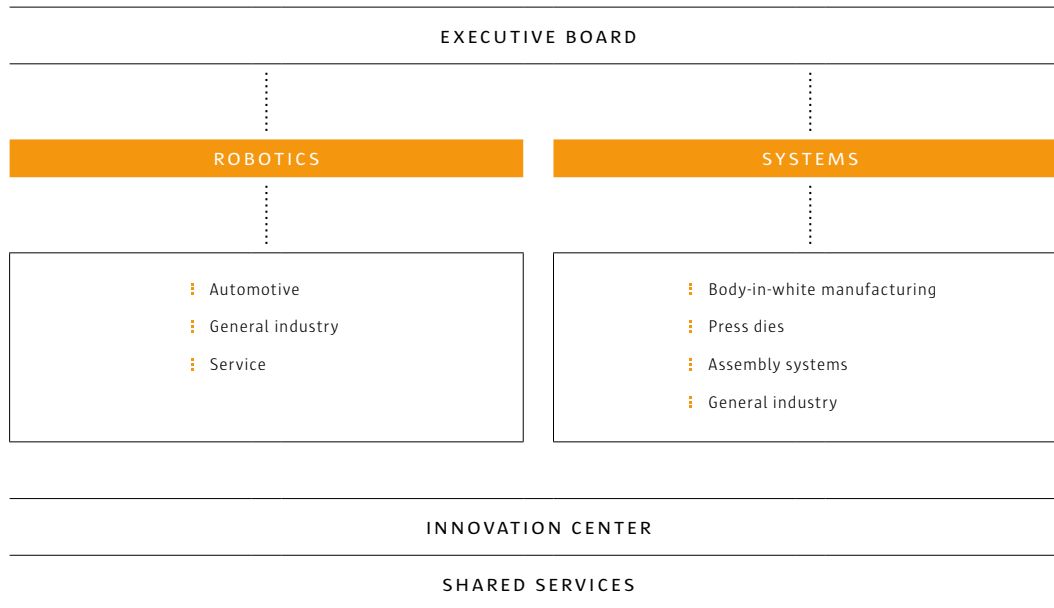
Over the last few years, KUKA has systematically separated from a large number of business units and now offers stand-alone robots, robots cells and robot-based production systems through its two integrated divisions, Robotics and Systems. This business model, which took its final form in 2007, has significant potential to open new doors. KUKA's goal is to lead the market in the areas of technology and innovation, offering flexible and tailor-made system solutions, and to continually establish new benchmarks in the automation of manufacturing processes. These are the fundamentals of continuously securing pivotal competitive advantages.

GREATER COMPETITIVE STRENGTH THROUGH TECHNOLOGICAL LEADERSHIP

The Robotics division offers a wide-ranging product portfolio consisting of industrial robots, robots for special applications and robotic systems. The portfolio spans from heavy-load robots such as the KR 1000 Titan, the world's most powerful six-axis robot, right through to high-precision robots, which are used, for instance, in the field of medical technology. The control software developed by KUKA Robotics is often the heart of the robotics automation system. This is supported by comprehensive customer services and training programs that have set new standards in the industry.

Our strategy of concentrating systematically on general industry while at the same time creating new solutions for the automotive industry has proven to be correct. KUKA Robotics has successfully acquired new customers around the world in a wide range of markets. Our customers trust our quality and service and have made KUKA Robotics a strong growth brand with a leading market position. We offer our customers intelligent solutions in a wide variety of industries, including plastics, assembly systems and foundries, aerospace, glass and wood. KUKA Robotics drives technology trends such as robot-robot cooperation, human-machine cooperation, production assistants and modular interactive robot families, and this will secure the division's growth in the coming years. Customers are looking for solutions, not individual products. KUKA Robotics prepares customer-specific quotations to address these requirements.

▣ KUKA'S INTEGRATED BUSINESS MODEL



ENGINEERING EXPERTISE ADDS VALUE

KUKA Systems maintains its high degree of engineering expertise through continuous innovation. This enables it to offer its customers flexible, high-performance automation solutions. The Systems division's commitment to progressive automation in the field of carmaking has enabled it to establish a wide range of services. During the course of its decades-old partnership with the automotive industry, KUKA Systems developed leading-edge technologies for centralized motor vehicle manufacturing processes. These solutions ranged from body-in-white production and assembly, to development of individual components, to semi-automated production equipment and highly flexible production systems for manufacturing individual modules, including the assembly of complete car bodies and subcomponents. The division even operates entire factories. A milestone on this journey was the development of the remote laser for laser welding technology. This laser can considerably improve speed and precision when constructing car bodies, and can do the same for other applications.

Expertise in key technologies is also a major success factor when winning new customers and entering new markets. More and more industries are learning to appreciate the expertise of KUKA Systems. Recent new growth market targets included the aircraft and solar industries. One example of the company's technological expertise in this area is an innovative application where two cooperating robots simultaneously rivet the inside and outside of an airplane's fuselage. KUKA Systems offers the solar industry intelligent solutions in all areas of production; for example, to precisely join solar cells to make solar modules, which are required to work for twenty years without maintenance.

COMBINED EXPERTISE – TAPPING THE POTENTIAL OF THE INTEGRATED BUSINESS MODEL

The two divisions, Robotics and Systems, have considerable growth and earnings potential in their respective fields. The objective of integrating these divisions is to take advantage of additional synergies.

In summer of 2007, the company caused a major sensation when it changed the name of the long established, MDAX-listed IWKA to KUKA Aktiengesellschaft, a name that has an excellent ring in the automotive sector. The strong KUKA brand is now the company's umbrella brand, supported by a new corporate design and the new KUKA logo. With the relocation of the company's headquarters to Augsburg, all business units were integrated at one location. The merger of subsidiaries reduces the complexity of the organizational structure and the strengthening of the centralized management organization makes the company faster, more flexible and more powerful. To improve efficiency even more, initiatives were undertaken to bundle functions throughout the business process, some of which have already been implemented. For example, administrative functions and staff functions were merged under a group-wide shared services department.

There is considerable potential for automation in many industry sectors. KUKA is strictly oriented to meeting the needs of the markets. In the future, many new applications will be based on robot-based automation solutions. Automation made by KUKA offers custom solutions, which are as interesting to medium-sized operations as they are to major corporations. At the present time, only a very small part of all possible automation solutions have actually been implemented. The market and opportunities for KUKA are enormous.

KUKA AND THE CAPITAL MARKET

LAST YEAR'S SPLIT STOCKMARKET PERFORMANCE

Market performance in 2007 was inconsistent. During the first half-year, the upward trend of the past five years continued, spurred by delightful macroeconomic news and higher-than-expected corporate earnings reports. The DAX and MDAX reached new historic highs in mid-July, closing at 8,106 and 11,378 points respectively. But in the second half of the year, recession concerns related to the real estate crisis in the United States and the anticipated weakening of economic growth in Europe led to wide market price swings. This particularly affected small and mid-cap stocks, which in the past few years have enjoyed above-average gains. As a result, investors realigned their portfolios and dumped thinly traded small and mid-caps in favor of more liquid blue chips. Mechanical engineering company shares, which are cyclic and sensitive to economic fluctuations, were particularly hard hit. The MDAX lost 11 percent of its value in the second half of the year, while the DAX was able to hold its level. Overall, the DAX rose 22.3 percent in 2007, compared to 22.0 percent the year prior. As a result of the market correction in the second half of the year, the MDAX gained only 4.9 percent, versus 29.0 percent in 2006. In January 2008, the market declines accelerated as a result of the anticipated economic slump in the United States and high write-downs by banks.

FURTHER INFORMATION

[www.kuka-ag.de/en/
investor_relations/
shares](http://www.kuka-ag.de/en/investor_relations/shares)

■ KUKA SHARE – KEY FIGURES

		2003	2004	2005	2006	2007
Number of shares	millions	26.60	26.60	26.60	26.60	26.60
Earnings per share	€	1.70	1.83	- 5.45	- 2.43	4.43
Dividend per share	€	0.66	0.66	-	-	1.00*
Dividend yield (Dec. 31)	%	4.10	3.30	-	-	3.85
High for the year	€	16.90	20.60	23.15	24.75	31.50
Low for the year	€	10.20	16.00	15.62	14.02	18.58
Closing price for the year	€	16.00	20.20	18.25	19.36	26.01
Change compared to prior year	%	55.30	26.20	- 9.60	6.10	34.30
P/E ratio	(Dec. 31)	9.40	11.00	-	-	5.90
Market capitalization (Dec. 31)	€ millions	425.00	537.30	485.45	515.00	692.00
Average daily volume	No. of shares	70,000	80,000	91,250	165,000	232,000

* Subject to the resolution of the AGM 2008.

KUKA SHARES OUTPERFORM

Following the restructuring of the KUKA Group and the announced concentration on the two divisions, Robotics and Systems, after the successful sale of the Packaging division in the first quarter of 2007, the company's share price climbed sharply. On February 22, it surpassed the € 25 mark for the first time. At the Annual General Meeting on May 16, 2007, the shareholders approved the renaming of the company from IWKA to KUKA Aktiengesellschaft and relocation of the company headquarters from Karlsruhe to Augsburg. The company has been conducting business under its new name since July 9.

In the second half of the year, the KUKA Group's business performance exceeded the expectations of the financial markets. At the same time, the Executive Board raised the target margin for the 2007 business year in two steps; first from 4.2 percent to 4.6 percent and then to over 4.6 percent (excluding one-time earnings). On September 4, KUKA's share price reached a record high of € 31.50. But the stock was unable to sustain this price level during the fourth quarter's market pressure and subsequently dropped 13 percent, more than the 4.5 percent decline in the MDAX. Overall, the share price climbed a remarkable 34.3 percent in 2007 and significantly outperformed the MDAX. In January 2008, the shares dropped a further 17 percent, as did the market indices.

EXPANDED INVESTOR RELATIONS

Last year, the company took advantage of the growing interest of the capital markets in KUKA's stock to expand its contact with existing and potential domestic and foreign investors. The Executive Board presented the KUKA Group's new strategy during sixteen road shows and at seven investor conferences. The initiative focused on the international financial centers Frankfurt (6), London/Edinburgh (3) and New York/Boston (2). In addition, familiarity with KUKA shares was improved substantially by the board's first-time visits to the financial centers Paris, Brussels, Vienna, Milan and Scandinavia. On November 22, the company hosted its annual Capital Market Day event for twenty financial analysts in Stuttgart. The highlight was a tour of the new Mercedes C-Class factory in Sindelfingen, where guests were able to see KUKA robots and KUKA manufacturing systems in action.

BUY RECOMMENDATION FROM ANALYSTS

At the end of 2007, eighteen financial analysts were regularly analyzing KUKA's shares. Sixteen of these were issuing "purchase or accumulate" recommendations. Two were signaling a "hold". A year earlier, ten of sixteen analysts were making a "purchase or accumulate" recommendation and six were advising investors to "hold". In other words, during the reporting period, both the number of analysts regularly tracking KUKA's shares and the number of positive recommendations increased.

SHAREHOLDER STRUCTURE

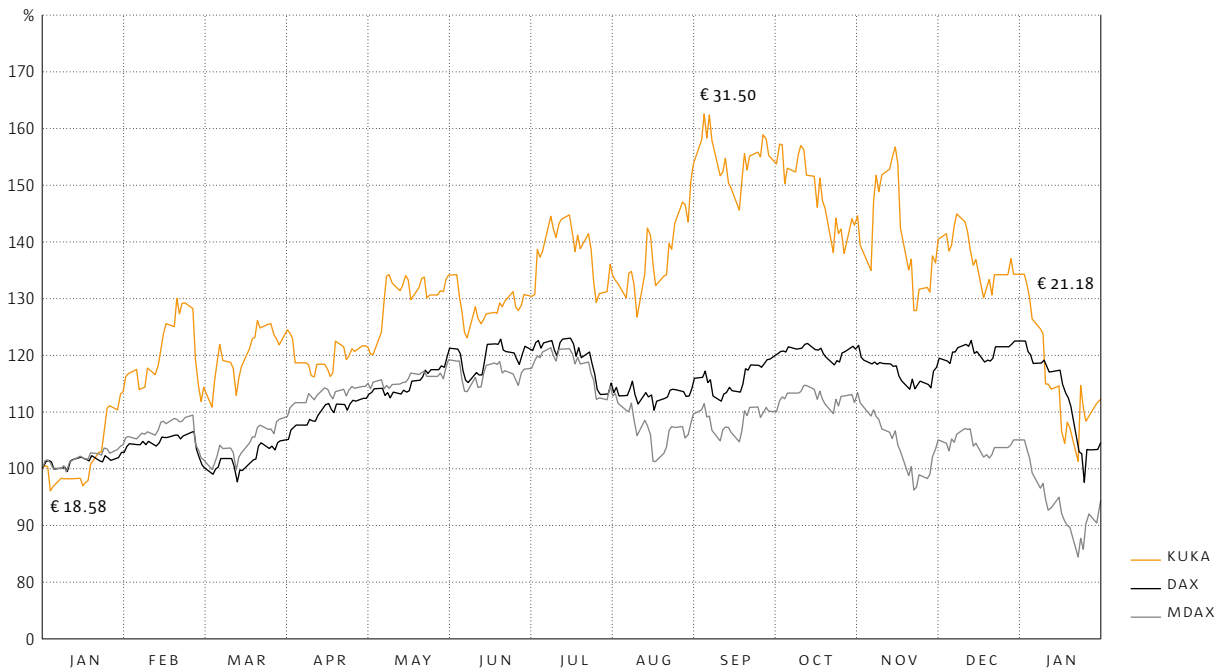
The latest analysis of the shareholder structure dated February 1, 2008 indicates that there is a further increase in the importance of German private investors. These boosted their share of KUKA AG's capital stock from 30.7 percent in 2007 to 36.6 percent in 2008. The number of domestic institutional investors was 15.4 percent, approximately the same level as the prior year's 16.5 percent. Foreign investors reduced their share from 52.8 percent in 2006 to 48.0 percent this year.

CONVERTIBLE BOND

In line with the company's long-term refinancing strategy, KUKA Aktiengesellschaft placed a convertible bond issue in the capital markets on May 9, 2006 via its 100-percent owned Dutch subsidiary, KUKA Finance B.V. The convertible bond's term extends to November 2011, pays interest at a rate of 3.75 per cent per annum and can be converted to KUKA shares at a conversion price of € 26.08. The convertible bond has been listed on the EuroMTF market of the Luxembourg Stock exchange since November 9, 2006 (ISIN DE000A0GRMCO / WKN A0GRMC). The value of the bond tracks the share price. To date, no bonds have been converted to shares.

SHARE PRICE PERFORMANCE JANUARY 1, 2007 TO JANUARY 31, 2008

Index January 2007 = 100

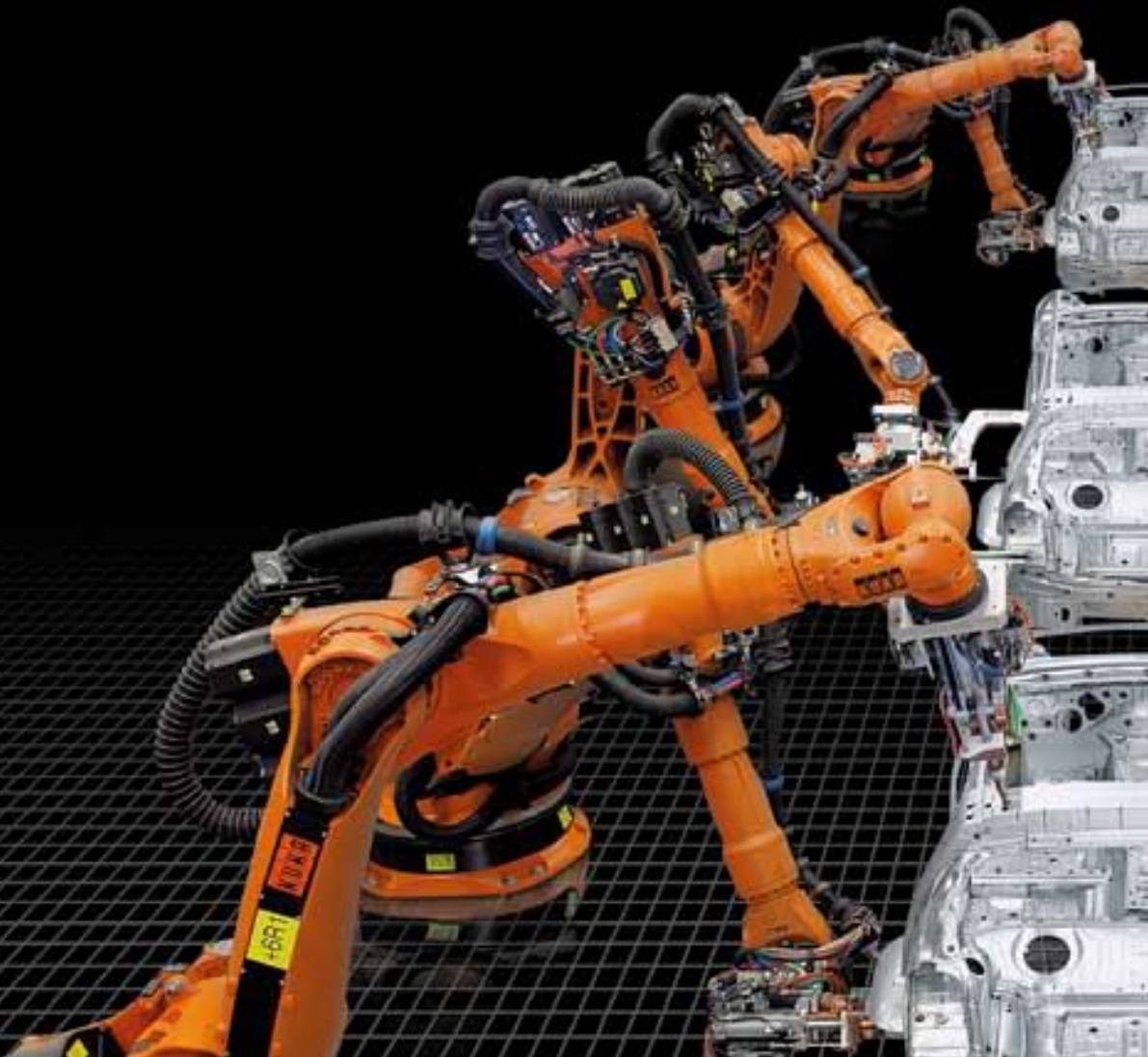




MARKUS KEESE, DIPL.-ING., PROJECT MANAGER ORDER PROCESSING PLANT CONSTRUCTION, KUKA SYSTEMS

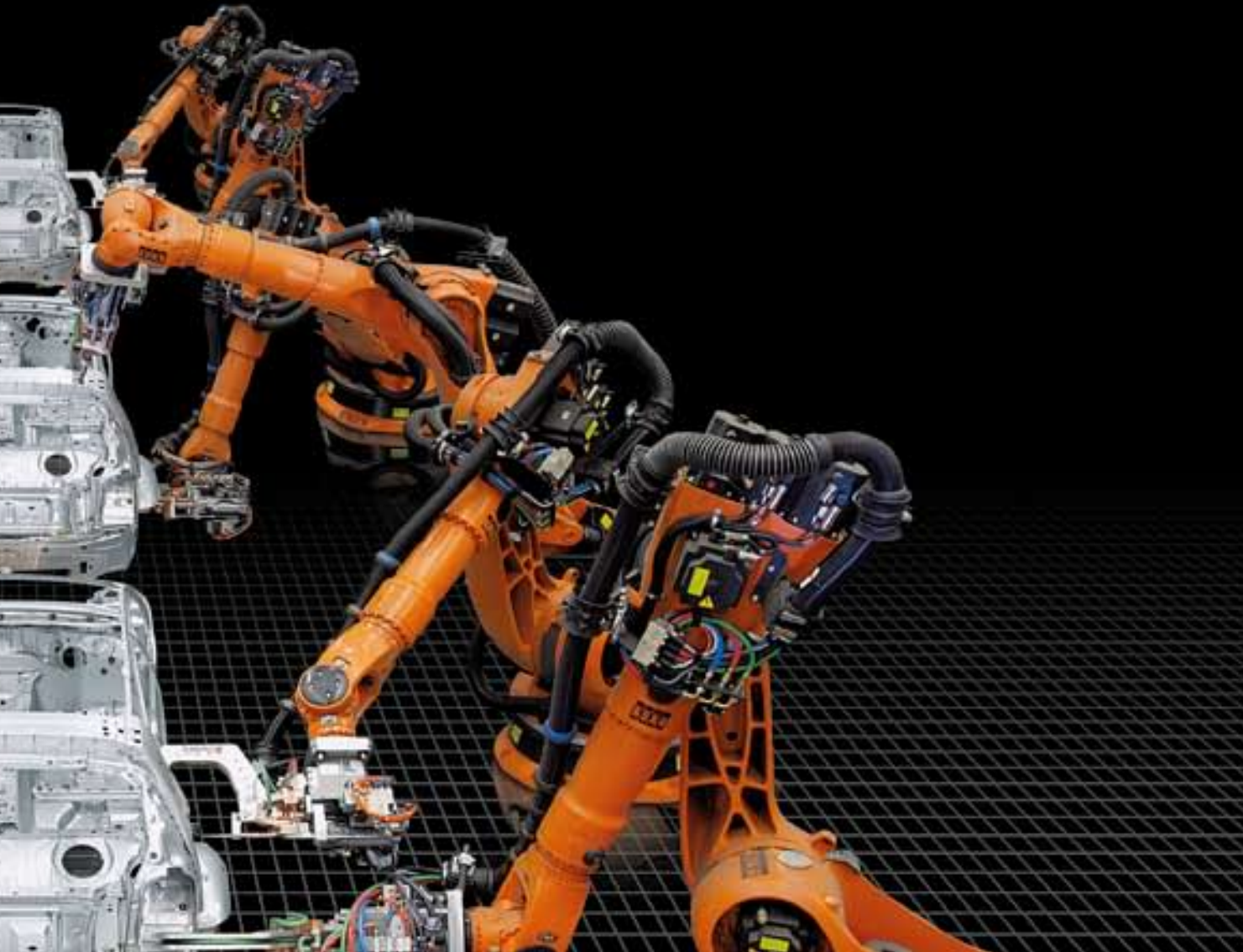
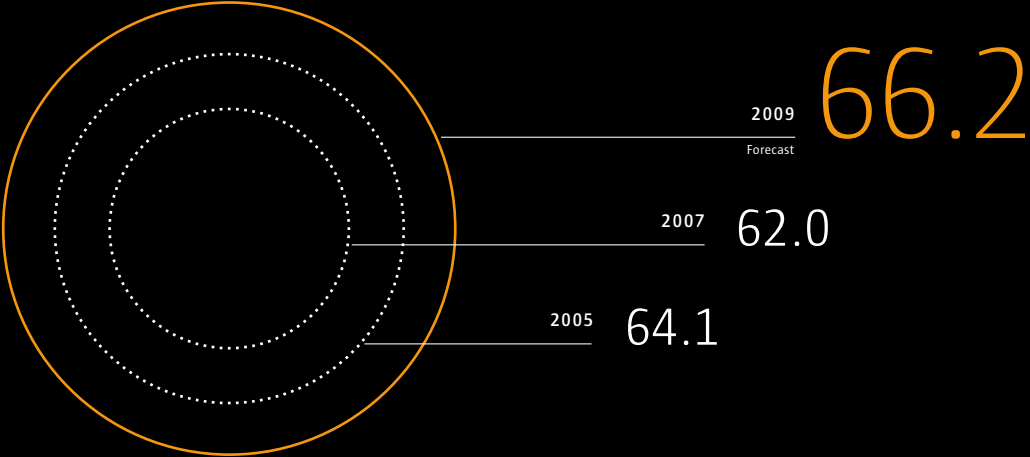
“Made-to-order manufacturing requires maximum production flexibility and top cost efficiency. Delivering creative solutions and using intelligent automation systems are a key competitive factor here.”

“Flexible manufacturing demands maximum precision and detailed planning. Our innovative solutions for plant construction set industry standards.”



STABLE CAPITAL EXPENDITURE OF CARMAKERS WORLDWIDE

(in € billions)



BUSINESS ACTIVITIES AND GROUP STRUCTURE

THE INTEGRATED KUKA BUSINESS MODEL

KUKA focuses on robot-supported automation of manufacturing processes and is thus active in the mechanical and plant engineering sector. KUKA AG is a joint stock company (Aktiengesellschaft) listed on the stock exchange, whose widely held no-par value common stock is 100-percent publicly traded. Its market capitalization of about € 600 million qualifies the company for being listed on the German mid-cap share index, the MDAX.

The business operations management organization has three tiers. The Executive Board determines the company's strategy, decides on key business activities and controls the ongoing business using short and long-term targets. The company has two divisions: KUKA Robotics and KUKA Systems. KUKA Roboter GmbH and KUKA Systems GmbH operate as management companies for the divisions. The managers of these companies are responsible for the business operations. Subsidiaries in 27 countries support the management companies in marketing the company's products and services, as well as providing assembly and field service at the customers' sites.

KUKA AG and its management companies KUKA Roboter GmbH and KUKA Systems GmbH are headquartered in Augsburg. This guarantees close cooperation. Other European companies belonging to the Group are located in Great Britain, Belgium, France, Spain, Italy, Sweden, Slovakia, the Czech Republic and Hungary. Another important business area is North and South America, with companies in Detroit / Michigan, Mexico, Brazil and Argentina. In Asia, the KUKA Group has representatives in China, India, Malaysia, South Korea, Taiwan and Japan.

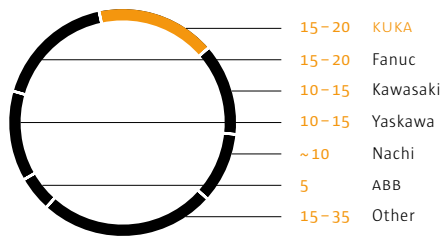
KUKA ROBOTICS

The Robotics division's mandate in the integrated KUKA business model is to supply robots, a core component for automating manufacturing processes. KUKA Robotics develops, manufactures and sells industrial robots, which are used in almost all industry sectors. In addition, the division is preparing to enter the emerging service robot market. These devices will be able to support humans in a large variety of tasks outside of manufacturing.

The division's product portfolio comprises six modular basic types with many mechanical and electrical infeed options. All new robots and applications are developed, designed and assembled at the Augsburg center. Certified suppliers deliver project-related robot components. KUKA Robotics targets the automotive sector and general industry. Sales to automotive industry customers are direct, with designated key accounts. Sales and service for the majority of general industry customers is via sector-specific systems partners.

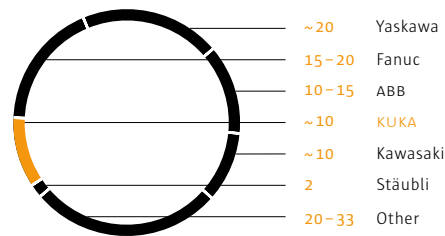
■ KUKA ROBOTICS – COMPETITIVE POSITION AUTOMOTIVE

(market share in %)



■ KUKA ROBOTICS – COMPETITIVE POSITION GENERAL INDUSTRY

(market share in %)



Comparison based on 5- and 6-axis industrial robots.

The Robotics division considers itself a global innovation and technology leader. In the automotive industry, KUKA is one of the leading companies, with a market share of about 20 percent. KUKA did not begin targeting general industry until the year 2000, but has quickly captured a market share of 10 percent.

KUKA SYSTEMS

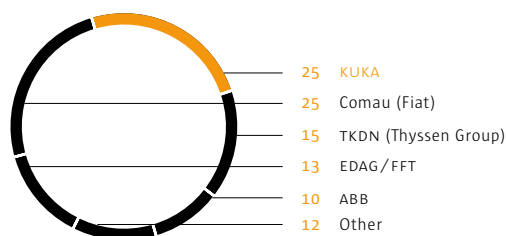
The Systems division's mandate within the KUKA business model is that of an application engineering service provider for the automation of manufacturing processes. KUKA Systems acts as a general contractor, planning and constructing complete systems. In addition to utilizing its application-oriented robotics expertise, the division employs many other metal forming and joining processes in its designs. The Systems division has designated regional centers of expertise: Augsburg for Germany and Europe, Detroit for North America and Shanghai for the growing Chinese market. Local subsidiaries that are close to the customer support these centers and independently process small orders.

In the automotive industry, KUKA Systems focuses on flexible manufacturing lines for making vehicle bodies. Several different models or variants of a particular model can be built using these systems. Other business segments include press dies manufacturing and automated assembly lines for engine and transmission components. These entities are located in Schwarzenberg/Erzgebirge, Slovakia and Bremen, as well as the greater Detroit area in Michigan, USA.

KUKA Systems' share of orders awarded by the automotive industry to third parties is 25 percent, making it the market and technology leader in this sector. The division is expanding into technically comparable general industry sectors such as the aviation and solar industries.

■ KUKA SYSTEMS – COMPETITIVE POSITION

(market share in %)



Comparison based on sales revenues.

■ STRATEGY AND GOALS

Following the successful completion last year of its restructuring, KUKA now focuses on the robotics and systems markets. KUKA is the technology and innovation leader in both markets. In 2007, the company launched a medium-term (to 2009) strategy centered on profitable growth. Successful implementation will be assessed by the degree of continuous improvement in three areas: revenue growth, EBIT margin and return on capital employed (ROCE). The Group also manages its business by focusing on these key indicators.

■ BUSINESS TARGETS FOR 2009

(in %)

	Robotics	Systems	Group
Revenue growth (p.a.)	10	5	7
EBIT margin	10	5	6

The business goal in the automotive industry is to expand the customer base, particularly in Asia and North America. Last year, KUKA was already able to build and start up reference grade systems employing KUKA robots in India and North America. These systems can also be used as a door opener for the general industry markets in these regions.

The general industry business, which includes all applications outside the automotive industry, is being systematically expanded. Among other things, KUKA Robotics is in the process of expanding its sales network with systems partners in America and Asia. The division is currently promoting its high degree of customer focus and its innovation strength as it endeavors to enter the metal processing, electrics, plastics, foundry, medical technology, food and logistics industries. KUKA Systems is focusing on general industry sectors in which manufacturing processes are currently being automated. The aircraft and solar industries are key targets.

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 targets are performance indicators that affect the value of the company.

In order to determine return on sales, earnings before interest and taxes (EBIT) are compared to sales revenues, which gives the indicator: EBIT margin. To determine the return on capital employed, EBIT is compared to capital employed, which gives the return on capital employed, or ROCE. EBIT and ROCE are determined for the Group as well as the Robotics and Systems divisions. Free cash flow; that is, the difference between cash flow from operating activities and planned capital spending, shows whether the planned investments can be funded from operating cash flow, and how much is available for payment of dividends, etc. This indicator is used at the Group level. The cost of capital (WACC) for the business units and for the KUKA Group for the planning period 2008 to 2010 is about 9 percent after taxes.

Orders received is an important early indicator of business development and it is continuously monitored at the divisional and regional level, while order backlog indicates the degree to which the company's capacity is and will be absorbed in the current and future quarters of the current financial year.

All key indicators are tracked and reviewed continuously using the internal reporting system. Any deviations from plan are analyzed by management and agreement is subsequently reached on the corrective actions required to achieve the targets.

ECONOMIC CONDITIONS

GLOBAL ECONOMIC SITUATION

The dominant overall business environment continued to be favorable during 2007. Global gross domestic product growth at 3.4 percent was only slightly under the prior year's 3.8 percent. Manufacturing growth in the industrial countries continued at a slightly slower pace than before.

However, toward the end of the year, the economic climate deteriorated significantly, primarily because of the fallout from the American real estate crisis and the rising price of oil. The strong appreciation of the euro against the US dollar and the yen presented additional challenges for the Euro zone's economy. Nevertheless, the European economy grew at 2.7 percent, in line with forecasts.



KUKA robot tests seats at Volvo.

German economic growth in 2007 came in at 2.5 percent compared to 2.9 percent in the prior year. The annual average growth rate of exports of goods and services was once again strong at 8.3 percent in real terms, despite the unfavorable exchange rate situation. As expected, the economy increasingly profited from buoyant domestic capital spending.

The US economy performed better than expected in 2007 despite the impact of the real estate crisis, and the weakness of the US dollar spurred American exports. Gross domestic product in the United States once again grew an estimated 2 percent according to official reports. However, this growth was already weaker than in previous years; in 2006, it was 2.9 percent.

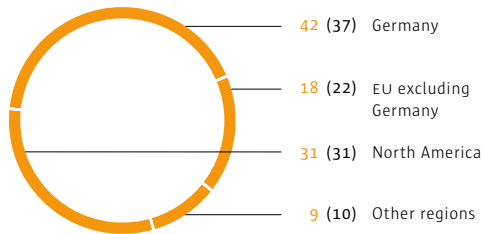
The momentum of the economic expansion in the emerging nations is contributing to the stabilization of the world's economy. In the first half of 2007 alone, economic growth in China reached 11.4 percent according to the government statistics authority. In fiscal 2006/2007, India's real gross domestic product grew 9.4 percent.

MECHANICAL AND PLANT ENGINEERING SECTOR BOOMS FOR THE FOURTH YEAR IN A ROW

The year 2007 was the most successful year in the past decade for the German mechanical engineering sector. Manufacturing of machines and systems grew 11 percent. The sector's capacity utilization was unusually high at over 90 percent. Domestic and foreign demand shared this growth almost equally; however, in October domestic demand fell sharply.

ORDERS RECEIVED BY REGION*

(in %)



* Prior year's numbers (in brackets) adjusted for comparison purposes.

WORLD MARKET FOR INDUSTRIAL ROBOTS

The number of industrial robots added around the world in 2007 was 125,000 – the second-highest quantity ever shipped. The record was established in 2005. This quantity includes robots with few axes. The strong demand for industrial robots and automation solutions continued, not only from the automotive sector, but also non-automotive industries. According to estimates by the International Federation of Robotics (IFR), these industries already ordered 25 percent more robots in 2006.

CAPITAL SPENDING BY AUTOMAKERS

Capital spending by the major carmakers reached a new world wide high in 2007, with global investment last year totaling some € 62 billion. European automotive companies increased their capital spending by 2 percent to € 33 billion. Higher spending was particularly apparent from Daimler and Volkswagen. Among the Asian carmakers, Indian and Chinese companies led the field when it came to higher capital spending, with investments up 51 percent over the prior year. In North America, the major car companies almost maintained their high rate of capital spending and invested nearly € 10 billion in total. In general, the ongoing trend to introduce new models to the market spurred capital spending. In addition, the need to cut fuel consumption and carbon dioxide emissions is adding to the model variety.

BUSINESS PERFORMANCE

SUMMARY

In total, the overall economic climate had a positive impact on the KUKA Group's business performance during the 2007 financial year. Rising capital spending, particularly from the European automotive industry and the increasing use of robots in general industry markets led to a higher demand for stand-alone units, robot cells and robot-supported manufacturing systems. KUKA also benefits from the long-term market trend toward more flexible manufacturing equipment to reduce unit costs and the substitution of manual tasks with robotics automation.

Focusing on the Robotics and Systems divisions under the umbrella of the integrated KUKA business model contributed to the higher than normal growth in operating profits during the 2007 financial year compared to the business sector average. Furthermore, goals that were originally medium-term targets, such as a steady improvement in equity ratio and debt reduction, were achieved ahead of schedule because of the sale of the Packaging division.

RISING ORDERS RECEIVED – INCREASING ORDER BACKLOG

The Group's orders received of € 1,343.8 million were higher than the prior year's € 1186.4 million by 13.3 percent. Orders received growth in both divisions was in the double digits, with Robotics up 13.8 percent and Systems rising 10.6 percent.

The Group's growth was primarily attributable to KUKA Robotics. Orders received came in at € 434.9 million, 13.8 percent higher than last year's € 382.3 million. The automotive segment was responsible for € 197.3 million, corresponding to a growth rate of 20.9 percent. The division was able to take advantage of its excellent market position among the major European carmakers, and booked significantly more orders than forecast. Some of the customers decided against repair services and upgrades and instead, opted in favor of new investments. Added to that were increasing orders from Asia. Orders received from the general industry segment rose 10.2 percent to € 156.2 million. Growth was particularly strong in the medical technology area. The third contributor, service, also grew by 5.3 percent, and increasingly focused on training.

KUKA Systems is industry's technology partner in the field of manufacturing automation. In addition to continuing to work with the automotive industry, the division is increasingly entering growth markets such as the aircraft and solar industries. In 2007, it was able to improve orders received by 10.6 percent, with the total volume coming in at € 937.7 million. The growth came from Germany and North America. KUKA Toledo Production Operation's (KTPO's) pay-on-production plant for the Jeep Wrangler, located in Toledo, Ohio, had higher than planned capacity utilization in its first full year of operation.

The German share of the Group's orders received rose from 36.7 percent to 41.7 percent. The total share of orders from North America was 31.3 percent compared to 30.7 percent in 2006. It is KUKA's second-largest market, right behind Germany. European orders, excluding Germany, had a 17.7 percent share of the total, compared to 22.5 percent a year earlier. Orders received from other regions, which ended at 9.3 percent, were almost the same as the previous year.

Of the total orders received, 71.3 percent were attributable to the automotive industry. Automotive component suppliers were next at 9.7 percent, while general machinery and plant engineering contributed 5.3 percent.

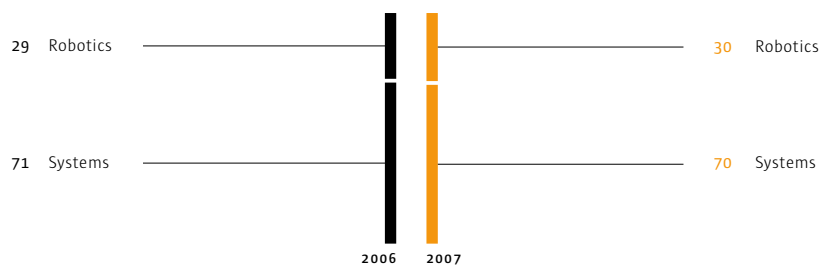
The KUKA Group's order backlog as of December 31, 2007 was € 528.8 million, above the prior year's € 496.5 million. The Robotics division's order backlog of € 103.9 million was 22.7 percent higher than the prior year's € 84.7 million. The Group's order backlog is therefore notionally sufficient to secure the present level of activity for five months.

SALES SIGNIFICANTLY HIGHER THAN A YEAR AGO

The Group's 2007 sales revenues rose 10.5 percent year-over-year, from € 1,164.6 million to € 1,286.4 million. The sales growth was due to the positive business development in both divisions. KUKA Robotics posted sales revenues of € 412.9 million, which corresponds to an increase of 10.6 percent. The automotive segment rose 9.3 percent, general industry 10.7 percent and service 13.4 percent.

SALES REVENUE BY DIVISION*

(in %)

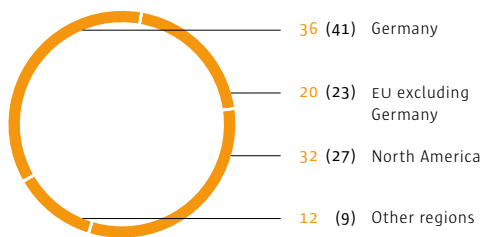


* Prior year's numbers adjusted for comparison purposes.

KUKA Systems boosted sales revenues by 8.1 percent to € 900.0 million. Sales in the fourth quarter of 2007 were lower than the accounting-based strong fourth quarter sales in 2006. The material cost effect for the pay-on-production contract in Toledo, Ohio, also had a negative impact. The strongest growth regions were North America and Asia.

SALES REVENUES BY REGION*

(in %)



* Prior year's numbers (in brackets) adjusted for comparison purposes.

EARNINGS

The KUKA Group's financial statements were prepared in accordance with IFRS (International Financial Reporting Standards) and were given an unqualified opinion from the auditors, Ernst & Young AG. The income statement was prepared using the cost of sales accounting method for the first time. Comparable figures for the prior year were also calculated using the cost of sales method. The Packaging division was sold on April 19, 2007. Its results are shown under discontinued operations. The report comprises the earnings from ordinary activities right through to deconsolidation of the division, as well as the income from the disposal.

EARNINGS CONSIDERABLY IMPROVED

In 2007, the KUKA Group reported an operating profit of € 70.4 million and achieved an EBIT margin of 5.5 percent, which compares to the prior year's 1.4 percent. This includes one-time effects from the sale of properties totaling about € 7 million. The adjusted EBIT margin was 4.9 percent. The target margin, which was adjusted upwards from 4.2 percent to 4.6 percent during the course of fiscal 2007, was therefore substantially exceeded. Total gross profit from sales rose from € 218.0 million in 2006 to € 258.2 million in 2007. Gross margin improved from 18.7 percent in 2006 to 20.1 percent in 2007. The main contributors to this positive development were higher sales, which led to better utilization of capacity, and the positive impact of the prior year's restructuring.

■ GROSS MARGIN BY DIVISION

(in %)

	2006	2007	Change
Robotics	34.5	34.4	- 0.1 %-points
Systems	10.7	12.8	+ 2.1 %-points
Group	18.7	20.1	+ 1.4 %-points

The higher operating profit of € 40.2 million is due to the improvement in gross margin. An additional € 13.5 million resulted from the positive development of overheads and the previously discussed one-time revenue of about € 7 million from property sales, which is shown under the administration costs item.

The loss from financing activities improved by € 5.8 million to € -8.0 million due to lower interest expenses as the Group paid down debt after the sale of the Packaging division. The tax rate came in at 21.8 percent. The reduction in the corporate income tax rate from 39 percent to 30 percent, which will come into effect in fiscal 2008, had a negative impact due to a lower rate of capitalization of deferred taxes on loss carryforwards. In addition to the payment obligation related to the operational tax audit, the increase in the continued corporate tax credit impacted the 2007 result. The final earnings from continuing operations were therefore € 48.8 million after taxes.

INCOME STATEMENT

(in € millions)

	2006*	2007
Sales revenues	1,164.6	1,286.4
Earnings from operating activities	16.7	70.4
Financial result	- 13.8	- 8.0
Taxes on income	- 5.1	- 13.6
Profit/loss from discontinued operations	- 62.7	69.1
Net income/loss for the year	- 64.8	117.9

* Prior year's numbers adjusted for comparison purposes.

HIGH EARNINGS FROM DISCONTINUED OPERATIONS

The sale of the Packaging division generated a positive result from discontinued operations in the amount of € 69.1 million. In contrast, a year prior the Group had to contend with charges of € 62.7 million, mainly resulting from book losses due to the sale of Manufacturing division companies. Total earnings from continuing operations and discontinued operations generated a total net profit of € 117.9 million in fiscal 2007, compared to € - 64.8 million in 2006.

FIVE-YEAR SUMMARY OF EARNINGS

		2003*	2004*	2005*	2006*	2007
EBIT	€ millions	58.8	77.7	- 53.4	16.7	70.4
in % of sales		5.2	7.0	- 5.1	1.4	5.5

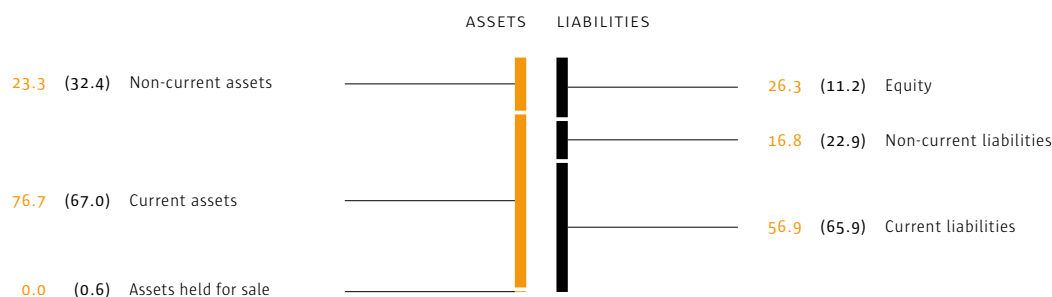
* Prior year's numbers adjusted for comparison purposes.

NET WORTH

The KUKA Group's balance sheet changed significantly in comparison to last year as a result of the sale of the Packaging division. Total balance sheet assets fell 17.2 percent to € 888.2 million as of the period end. On the asset side, declines in property, plant and equipment and intangible assets, as well as inventories and trade receivables were offset by a significant increase in cash and cash equivalents, which rose € 148.3 million to € 223.2 million.

GROUP ASSETS AND FINANCIAL STRUCTURE*

(in %)



* Prior year's numbers (in brackets) adjusted for comparison purposes.

RETURN TO A SOLID BALANCE SHEET

On the liability side, equity increased to € 233.5 million at the period end, mainly because of the high net income. As a result, the equity ratio; the ratio of equity to total assets, rose from 11.2 percent in 2006 to 26.3 percent in 2007. As a result of debt retirement after the sale of the Packaging division, short-term financial liabilities in particular declined, as did pension obligations. Overall, net liquidity; i.e., cash and cash equivalents minus short and long-term liabilities due to banks, increased by € 247.5 million as of the period end. A net cash position of € 163.6 million as of December 31, 2007 and an equity ratio 26.3 percent are evidence of the KUKA Group's now solid balance sheet.

HIGH RETURN ON CAPITAL EMPLOYED

One of the KUKA Group's key indicators is return on capital employed, or ROCE. Average capital employed during the 2007 financial year was € 169.4 million. The KUKA Group's EBIT of € 70.4 million divided by capital employed results in a ROCE of 41.6 percent. KUKA Systems achieved 51.0 percent. The division was able to negotiate relatively high down payments from customers and keep its own capital employed low. KUKA Robotics was also able to report a significant improvement over last year's ROCE. This year's 34.6 percent compared to 24.3 percent in 2006.

FINANCIAL POSITION

FINANCIAL MANAGEMENT GOALS AND PRINCIPLES

Cash flow and cash on hand of the Group's companies are for the most part bundled and managed via KUKA AG's central financial management. This is where Group-wide credit, liquidity, interest and exchange risks are evaluated and largely secured. The active use of standard derivatives serves exclusively to hedge the underlying transaction. KUKA has issued a standard set of guidelines to all Group companies for managing financial risks.

FREE CASH FLOW IN THE TRIPLE-DIGIT MILLION RANGE

The KUKA Group's in-house financing capability increased further during the course of the year under review. Cash flow reached € 81.2 million versus € 52.2 million a year prior. Free cash flow, including the lump sum of € 154.3 million from the sale of the Packaging division, reached € 223.6 million. This amount was primarily applied to retiring financial liabilities.

GROUP FINANCING AND WORKING CAPITAL MANAGEMENT

The Group's financing must consistently cover the operational and strategic financial needs of the Group's companies. Activities to secure working capital occur on the basis of a multiyear financial budget and a rolling monthly liquidity plan, each of which include all consolidated Group companies.

☰ CASH FLOW STATEMENT

(in € millions)

	2006*	2007
Cash flow	52.2	81.2
Cash flow from operating activities	58.3	62.3
Cash flow from investing activities	- 6.9	161.3
Free cash flow	51.4	223.6

* Prior year's numbers adjusted for comparison purposes.

The business operating activities of the Group's companies and the associated revenue streams 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 third-party financing required by individual companies, which has a positive impact on the net interest result. The KUKA Group's financial needs are primarily secured through lines of credit from banks, as well as the issue of the convertible bond. As of December 31, 2007, the KUKA Group had confirmed cash and guaranteed credit lines from national and international banks and credit insurance companies in the amount of € 380 million as sources of working capital. This total is comprised of € 115 million in cash credit lines and € 190 million in working capital guarantees, which are available via a syndicated loan agreement with a term extending to December 2010. In addition, working capital guarantees of € 50 million are available from credit insurance companies. The financing is supplemented by a convertible bond with a face value of € 69 million issued in May 2006, and an ABS program launched in December 2006 (regular sale of receivables) totaling up to € 25 million (actual utilization as of December 31, 2007: € 13.9 million).

KUKA SHARES OUTPERFORM

Following the restructuring of the KUKA Group and the announced concentration on the two divisions, Robotics and Systems, after the successful sale of the Packaging division in the first quarter of 2007, the company's share price climbed sharply. On February 22, it surpassed the € 25 mark for the first time. At the Annual General Meeting on May 16, 2007, the shareholders approved the renaming of the company from IWKA to KUKA Aktiengesellschaft and relocation of the company headquarters from Karlsruhe to Augsburg. The company has been conducting business under its new name since July 9.

In the second half of the year, the KUKA Group's business performance exceeded the expectations of the financial markets. At the same time, the Executive Board raised the target margin for the 2007 business year from 4.2 percent to 4.6 percent. On September 4, KUKA's share price reached a record high of € 31.50. But the stock was unable to sustain this price level during the fourth quarter's market pressure and subsequently dropped 13 percent, more than the 4.5 percent decline in the MDAX. Overall, the share price climbed a remarkable 34.3 percent in 2007 and significantly outperformed the MDAX. In January 2008, the shares dropped a further 17 percent, as did the market indices.

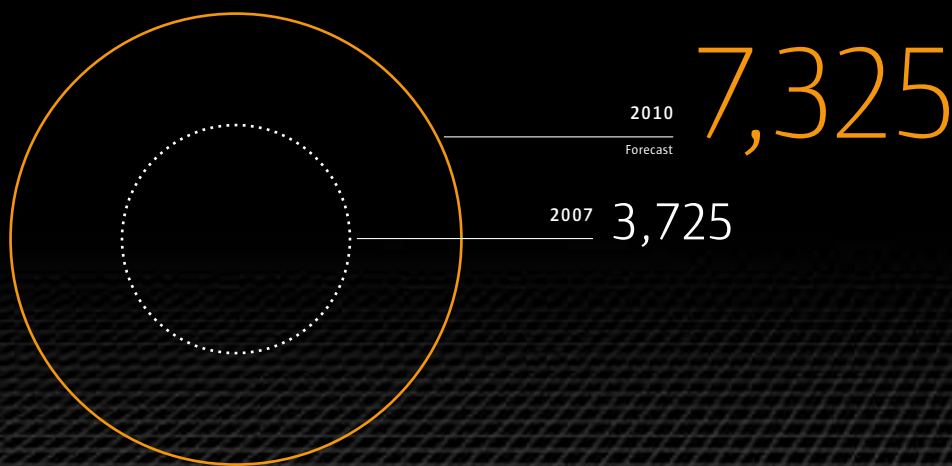


DR. RALF KOEPPE, HEAD OF DEVELOPMENT, KUKA ROBOTICS

“The latest KUKA innovation in service robotics is the lightweight robot. Aside from its very low weight, its uniqueness lies in its special sensors, which make it capable of yielding to external forces. This enables users to intuitively position the robot by grasping and manipulating it.”

“An outstanding example of KUKA innovations for service robotics is in healthcare. Robots help with difficult therapy techniques; in this example, with particle therapy. Human and machine work hand-in-hand.”

INCREASING USE OF ROBOTS FOR HEALTHCARE
(Number of units in service worldwide)





RESEARCH AND DEVELOPMENT

GLOBAL TECHNOLOGY LEADERSHIP

KUKA's strength in the global marketplace is offering customers innovative products and problem solutions. KUKA is able to maintain its technology leadership because it continuously offers innovative solutions that add considerable value to its customers' businesses. This is why effective research and development is of such high strategic importance.



Practical application for sand casting in the foundry industry.

In 2006, the research and development processes were restructured and the activities moved closer to the manufacturing and assembly facility in Augsburg. The payback for these changes has been improved efficiency and shorter time to market between the idea and finished product. In 2007, the KUKA Innovation Center was established at the Augsburg location to support the close cooperation between Robotics and Systems. This facility will tap the development potential of robot technologies and the in-house systems building experience to develop innovative solutions.

The goals of KUKA's development plan are:

- ⋮ to develop products and solutions that offer customers greater benefits
- ⋮ to achieve better economies of scale and flexibility regarding product variants and unit quantities through standardization and modularization
- ⋮ to achieve cost advantages and
- ⋮ to shorten time-to-market between concept and finished product

In 2007, KUKA spent € 30.8 million on research and development – 2.4 percent of sales revenue. Almost 92 percent of the R&D expenditures are attributable to Robotics, and about 8 percent to Systems. KUKA Robotics has 235 persons who are exclusively dedicated to research and development.

Spending on research and development was € 4.7 million less than the prior year's € 35.5 million. When the 2006 expenditures are adjusted for our one-time charges that occurred and the R&D capitalization in 2007 is taken into consideration, the R&D expenses are almost identical for the comparable periods.

The actual expenses for research and development are considerably higher, because new developments and enhancements associated with customer projects are not shown in the R&D budget.

KUKA's research and development is supported primarily by its own budget, but the company also makes use of public grants provided by the EU or the Federal Ministry of Education and Research and collaborates on industry projects, as well as with universities and research institutes.

NEW DEVELOPMENTS AT THE KUKA INNOVATION CENTER

Under the stewardship of KUKA Systems, the center developed a concept that enables cooperating robots to hold car body parts and position them for the welding sequence. The system consists of two gripper units that largely eliminate the need for conventional clamping devices and motion mechanisms. The robots' motion capabilities are used instead. The main advantage of the system is greater flexibility

when handling different body types and successor models on a manufacturing line, not to mention the associated lower initial cost. This project serves as an example for the close and effective cooperation between Robotics and Systems.

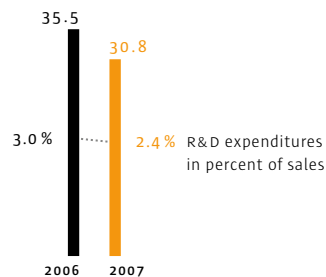
ROBOT TECHNOLOGY BASED ON INNOVATIVE PRODUCTS

The new KR 1000 Titan heavy-load robot caused quite a stir among customers and the public. It is the only robot that has payload capability of 1000 kg, which qualified it for entry into the Guinness World Records book. The developers at KUKA Robotics spent two years on the research, programming and testing of this high-performance machine. The robot's power, speed, reach and precision are second to none. The total power of its nine motors is equivalent to that of a midsize car. A completely new drive concept was required. Two drives are connected to a single gearbox for axes 1 and 3. Axis 2 also has two motors, which are connected to two gearboxes. A static torque capability of 60,000 Newton meters (Nm) makes the Titan 100 times more powerful than a high performance car. KUKA Robotics is therefore prepared to meet the demand for a robot to lift heavy or unwieldy parts. For example, the Titan is capable of handling entire car bodies, a task for which at least two robots or an elaborate special motion system was required to date. Concrete step sections, large panes of glass or large cast parts are no problem for the Titan. Despite its power and stability, its precision has not been compromised.

Another example: The new all-rounder KR 5 arc saves space and can be integrated into almost any cell concept thanks to its compact size. It has a working envelope of over 1.40 m. It can be mounted on the floor or hung from the ceiling, and it quickly and efficiently carries out its tasks with high contouring accuracy. Its modular design makes it a cost-effective solution. The new KR 5 arc robot is particularly flexible in applications that include KUKA Safe Robot and KUKA RoboTeam technologies.

▣ R & D EXPENDITURES*

(in € millions)



* Prior year's numbers adjusted for comparison purposes.

KUKA Robotics unveiled its KR 5 arc HW (hollow wrist) robot as an innovative solution for arc welding tasks. This robot model's arm features integrated power and control wiring. Because the hose assembly is protected, the robot is able to infinitely rotate axis 6. Its wrist no longer requires reorientation during the work cycle. This improves component accessibility, maximizes protection of the hose assembly and simplifies off-line programming. The protective assembly for the KR 5 arc HW can be separated from the wire feeder and the rotary interface. Standard plug-in connections enable it to be equipped with all available welding equipment. Its IP 54 protection category makes the KR 5 arc HW suitable for use in harsh work environments.

PARTICIPATION IN RESEARCH PROJECTS

The EU-sponsored project "PHRIENDS" is tasked with developing key components to enable humans to safely share a workspace with a robot. Direct contact between humans and robots is also to be made possible. The key deliverables are new elastic joint mechanics, new approaches to control systems, as well as new algorithms for planning trajectories. The lightweight robot, which was developed in close cooperation with the German Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt), is ideally suited as a target platform for such innovative technologies. Preliminary results, such as response strategies in the event of accidental collisions, have already been demonstrated using a lightweight robot. Intelligent collision detection capabilities enable the robot to activate a regulating system that causes it to yield and thereby avoid injuring humans.

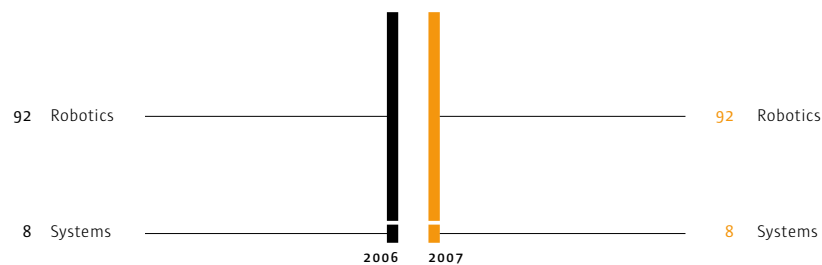
It is currently almost impossible to use robots to automate many handling, order picking and unloading processes, e.g., from containers, since the parts position or orientation, shape and weight are not precisely known, or they cannot be selected because they are jammed together. This is an everyday issue in many industries. For example, at airports, baggage containers must be loaded and unloaded; many manufacturing operations have their manufacturing and assembly parts delivered in containers; components are unloaded from palettes at many distribution centers and mailing houses before they are picked for new orders. The same applies to mail and package deliveries. Genesys is a project sponsored by the Federal Ministry of Education and Research that aims to develop a generic unloading system for logistics applications. The goal is to identify the position of unknown objects and pick them up using a robot; e.g., for unloading baggage at airports. A high priority was assigned to the various components of such a system in 2007: collision-free trajectory planning, 3-D sensor, strategy component, 3-D imaging, cell control and the patented gripper. The latter three components are the responsibility of KUKA Robotics.

Another ground-breaking example is three-dimensional vision in real time, one of the most demanding microsystems technology challenges. It requires micro-integrated solutions with maximum sensor, actuator and data processing intelligence. The aim of the LYNKEUS project, which is 50-percent financed by private industry, is to cover the entire vertical value-added chain for the development and implementation of microintegrated 3-D real time camera systems based on Photonic Mixing Device (PMD) technology for intelligent environment sensing. Specifications for the developments are to be applications oriented and optimized to allow broad-based practical usability. At the end of the project, the capabilities of the developed systems are to be demonstrated on four validation tasks in order to document the broad-based applications prospects of PMD-based, intelligent 3-D real-time camera systems. The envisioned end-user markets are in automation/robotics, self-guided vehicles, human-machine inter-

action, safety systems, medical technology and quality control. KUKA Robotics' goal on this project is to make PMD technology ready for the market and identify industrial applications for PMD technology. The ability of the PMD technology to be used in so-called "pick from a box" applications is of particular interest. A wide variety of futuristic components are to be developed and optimized for such systems.

■ R & D EXPENDITURES BY DIVISION*

(in %)



* Prior year's numbers adjusted for comparison purposes.

■ R & D INITIATIVES FOR PLANT ENGINEERING AND CONSTRUCTION

The new laser head for remote welding was an important device developed by KUKA Systems. It features an expanded focusing capability that can be adjusted from very near, 270 mm, to very far, 1500 mm, and can be controlled via the seventh axis of a KUKA robot. The Roboscan process makes it possible to weld from a considerable distance using long focal lengths and the offset motion can only be initiated by the robot's wrist assembly. On the other hand, short focal lengths are advantageous when reorienting in a tight radius. The newly developed zoom lens can be adjusted to focus anywhere between the laser head and the workpiece during the welding sequence. In the future, the resulting cycle time reduction will further improve efficiencies and cut costs in practical applications. Development of this new module was completed in 2007, whereupon it was released to market, and in early 2008, was delivered to an automotive component supplier for the first time.

A new framing station was designed to further increase the flexibility of robot chassis manufacturing systems. Up to six different chassis types or vehicle models per cycle can now be manufactured using a rotary drum with a horizontal axis for storing sidewall tensioning frames. Furthermore, the space required for this system is a little over half of what is required for conventional solutions. The new framing station is being used at Opel in Gliwice, Poland.

KUKA's Robospin process is an enhanced robot-based spot welding system. The robot with the welding gun no longer stops moving during the weld sequence; instead, it continues to move from the current weld spot toward the next weld spot. In addition to reducing cycle time, the new method lengthens the service life of the welding caps and improves weld quality.

In 2007, KUKA also enhanced its robotic crimping system. The crimping roll used for high-speed hemming is now self driven, which results in a cycle time reduction of 25 percent. In 2008, the new crimping system will be used for the first time at a Ford plant in the door and hatch manufacturing area.

KUKA's hybrid laser welding system was brought to market readiness. Because heat transfer can be more effectively controlled using this combination of laser and arc welding, it is possible to reduce distortion when welding metals, particularly heavy plates.

KUKA SYSTEMS IN THE SOLAR AND AIRCRAFT MANUFACTURING INDUSTRIES

In 2007, research and development activities for general industry focused on the new business segments, to which KUKA Systems is transferring technical expertise based on experience in industries it has traditionally targeted. Automation solutions have thus been developed for the first time for important complex production processes in the solar industry. These replace formerly manual processes. The resulting quality is consistently high and cycle times in manufacturing are reduced, leading to improved productivity. A new framing concept, which uses a robot-based application to attach aluminum frame parts to the solar module, has already been used for two systems. Another formerly manual application that has now been automated by KUKA Systems for the first time is the application of adhesive tape to solar modules using a robot-guided tape head.



KUKA Systems aircraft component construction application for the Airbus 340.

New systems concepts were developed for aircraft manufacturing plants. The main task consists of handling and processing CFRP (carbon fiber reinforced plastics) components. The concepts prepared are already being proposed in very promising quotations. In addition to the challenge of entering this new growth industry, KUKA systems also faced the challenge of dealing with new materials. Here too, customers benefit from the years of experience KUKA Systems has in designing and engineering systems and equipment.

PARTNERSHIPS

KUKA Robotics needs excellent partners to maintain its technology leadership and secure the long-term future of robotics. The company has therefore been working intensively for many years with selected excellent universities and research institutes in Europe and North America.

A partnership agreement signed in 2007 now places an official seal on the years of collaboration with RWTH Aachen. KUKA Robotics has thereby put the important transfer between industry and the academic community on a sound footing for the long term. KUKA Robotics, the institute for control technology at RWTH Aachen and the Aachen University clinic plan to conduct research on new medical robotics applications in several areas. One example is in the field of rehabilitation, where extremely flexible and rugged "mechatronic physiotherapists" can help humans do their exercises. Visions such as these can only be realized by a first-class interdisciplinary team of networked partners from the business and scientific communities.

CAPITAL SPENDING AND PROCUREMENT

HIGHER CAPITAL SPENDING

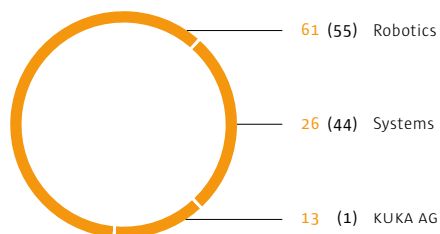
In fiscal 2007, the KUKA Group invested € 26.4 million in property, plant and equipment and intangible assets. In 2006, the figure was € 22.8 million. Spending was therefore up 15.8 percent or € 3.6 million year-over-year.

Spending was higher in the Robotics division, while in the Systems division, it remained at almost the same level. The KUKA Group's overall increase is entirely attributable to KUKA AG, which in 2007 went ahead with the planned upgrade of its IT infrastructure (SAP expansion) at a cost of more than € 3 million.

In 2007, the Group spent just under € 5 million more on intangible assets than in 2006. The funds were required to implement KUKA AG's IT plans and for R&D expenditures at KUKA Robotics.

CAPITAL SPENDING BY DIVISION*

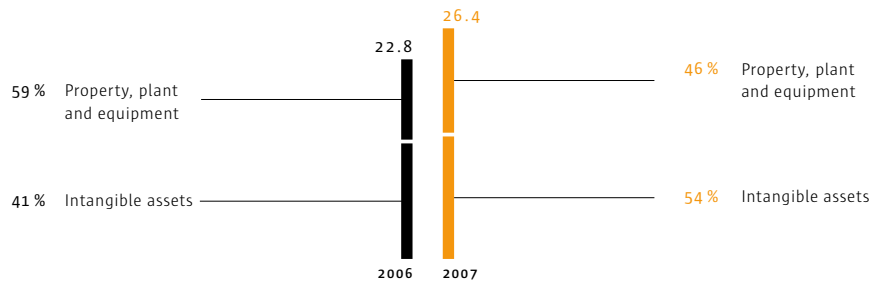
(in %)



* Prior year's numbers (in brackets) adjusted for comparison purposes.

■ CAPITAL SPENDING BY TYPE OF INVESTMENT*

(in € millions)



* Prior year's numbers adjusted for comparison purposes.

PROCUREMENT

The purchasing department is responsible for providing the KUKA Group with goods and services sourced in the international marketplace. This task includes achieving optimum quality, delivery reliability and cost effectiveness. To achieve these goals, it is particularly important to base the procurement on strategic partnerships with a core group of national and international suppliers. The quality of the goods delivered by the business partners is continuously monitored. Performance targets are mutually coordinated, and if necessary, the partners agree on improvement plans.

OFFSETTING RISING RAW MATERIAL PRICES

A major challenge in 2007 was the development of costs. The high capacity utilization in the supplier sector and the high demand on commodity markets led to rising prices. The purchasing department countered these developments by closely working with its supplier partners, concluding long-term contracts and purchasing in low-wage countries.

REORGANIZATION OF PRODUCTION RELATED AND NON-PRODUCTION RELATED PROCUREMENT

Another important task was the reorganization of non-production-related purchasing for all of the Group's German business entities, with all-encompassing blanket agreements in the areas of telecommunications, fleet management and travel management. This exercise made a significant contribution to reducing costs.

The purchasing departments of KUKA Robotics and KUKA Systems will continue to independently purchase production-related components because of their different purchasing organizations and product-specific procurement specifications. However, in 2008, lead-buyer processes will be defined and introduced for selected purchased items to generate cost synergies. Investments were also made in suppliers in Eastern Europe, Brazil and China, enabling new procurement sources to be identified. Other innovations in 2007:

- ⋮ Restructuring of the purchasing department, with the main subgroups consisting of the strategically focused Material Group Management (commercial) and Procurement Engineering (technical) at KUKA Robotics
- ⋮ Improved data exchange with suppliers after introducing electronic data interchange: Orders with suppliers are processed by electronically exchanging data. The processes are therefore faster, more efficient and error-free.
- ⋮ Improved partner linking via the purchasing portal at KUKA Systems: All procurement is processed on a web-based platform, which can be used, for example, to exchange specification-related data.
- ⋮ Supplier Event Day on November 29, 2007: Twenty-five national and international suppliers were commended for their outstanding performance. Three of these companies received a supplier award. The main aim here is to create a positive incentive for suppliers.

EMPLOYEES

Automation made by KUKA is an attractive field of endeavor for our employees. Industrial robots and systems are very sophisticated, high-tech products. In addition to mechanical and electrical engineering knowledge, expertise in mechatronics and computer science is also essential to their development. Creative minds that can think in futuristic terms are required.

KUKA considers itself an attractive employer offering its employees a work environment that is both exciting and challenging. Although KUKA conducts business globally, its internal organizational structure more closely resembles that of a medium-sized company. On the one hand, this means an excellent, almost family-like work environment. On the other hand, such an organization demands a high degree of independence and entrepreneurial management. We need employees who think in terms of the company's needs and accept responsibility. KUKA's people must independently promote their projects and execute their assignments in an interdisciplinary manner. This is the only way to secure high quality, comprehensive service and lasting innovation strength – for the benefit of KUKA's customers.

KUKA had 5,732 employees as of December 31, 2007, 152 more than at the end of 2006. Driven by its continuously growing business, Robotics' workforce increased to 2,023 persons as of December 31, 2007, versus 1,838 at the close of 2006. Personnel were added to the R&D department to focus on general industry applications. At the same time, the size of the sales force was increased. New distributors were added, for example, in India and existing ones were significantly expanded. The Systems division's staff count fell slightly to 3,582 employees as of December 31, 2007. This compares to 3,620 employees in 2006. The employees added when the distributor in India was established were more than offset by cutbacks resulting from the simplification of the companies' organizational structures. At the end of 2007, KUKA's workforce consisted of 2,213 blue-collar workers, 3,324 white-collar employees and 195 apprentices.

FURTHER INFORMATION

<http://www.kuka-ag.de/en/career>

NEW SERVICE CENTERS INTRODUCED

With the move of the corporate headquarters and restructuring at the Augsburg location, KUKA took the opportunity to streamline and improve the efficiency of its management organization. Administrative processes were standardized and centralized with the introduction of the Shared Service Center. After the move, the accounting, treasury, taxes and payroll departments were analyzed and reorganized with the goal of creating this new department. Since the end of 2007, they have been operating as business units that provide internal services based on using common resources within the Group.

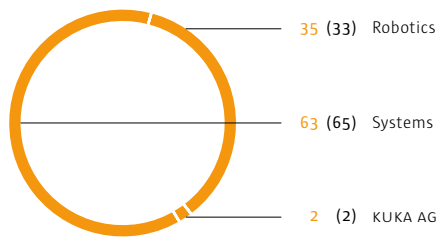
KUKA ACADEMY RESPONSIBLE FOR CENTRALIZED CONTINUING EDUCATION

The company's motto is to support and challenge. The KUKA Academy offers a wide range of continuing education and training courses to all employees. Employees can improve their language skills with the help of third-party tutors or improve their business knowledge. The company subsidizes continuing education outside the KUKA Academy. Continuing education is also a component of the target agreement process.

In 2007, over 1,000 people were trained in over 2,320 days of seminars. Courses offered included specialty training modules (e.g., robot programming, 3-D design programs), as well as personnel development seminars that focused on topics such as improving management skills. As part of the initiative to concentrate all strengths at the Augsburg location, the personnel development and training programs of all business units, which have been separated to date, will be merged under one umbrella at the KUKA Academy in 2008.

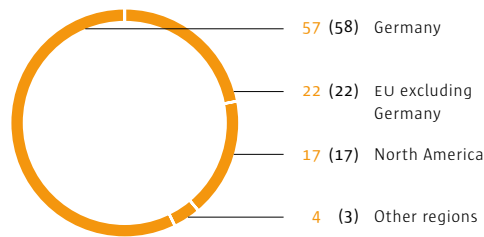
EMPLOYEES BY DIVISION*

(in %)



EMPLOYEES BY REGION*

(in %)



* Prior year's numbers (in brackets) adjusted for comparison purposes.

INTERNATIONAL TRAINEE PROGRAM

The trainee program developed by KUKA is an additional tool for attracting internationally oriented graduates/young professionals to the company. Another aim of the program is to train in-house personnel. Recruits are given one year to get to know various parts of the Group, which generally familiarizes them with the company. The orientation plan includes delegation to some of our domestic and foreign subsidiaries, plus supplementary training programs such as language courses and time/conflict/self-management.

Graduates or young professionals with mechanical, mechatronic and industrial engineering qualifications and up to two years of work experience rotate through a number of assignments, including design and project administration in the systems or special machinery segment or delegation to a foreign construction site. Following the completion of the trainee program, the candidates receive specific orientation related to their designated job function. There is also an accompanying general curriculum that includes workshops in English dealing with soft skills, individual career path planning and a mentoring program.

TRAINING IN SEVEN PROFESSIONS

The intent of spending time together at the KUKA training center, both as a professional group and a group as a whole, is that the trainees develop a positive team spirit. Intensive discussions surrounding the subject of teamwork are intended to expose the trainees to the advantages and disadvantages of



Employee training and skills enhancement is a top priority at KUKA.



KUKA meets its specialist staffing needs by providing solid, multi-faceted training programs.

working as a team and teach them to recognize their own team player abilities. From this they can draw their own conclusions about working successfully in a team. The trainees should learn to accept responsibility and that the company wants people to contribute to the thought process. The trainees should learn to be prepared to think “outside the box” and continually improve their skills. Other voluntary modules offered as part of KUKA’s in-house training provide the young people with valuable insight into various life skills and fields of work. Topics offered here include managing ideas, marketing at KUKA, communications, controlling, EDP and CAD, environmental management, as well as learning techniques and self-management.

In 2007, 195 apprentices completed their vocational training at KUKA. They are trained as industrial mechanics, electronic technicians, mechatronics workers, tool and die makers, computer specialists for systems integration /applications development and industrial accountants. They also participated in the dual vocational education and training system.

APPRENTICES ON FOREIGN ASSIGNMENTS

KUKA has been offering young people the opportunity to see the working world and mindset of other nations since the beginning of 1998. This gives them insight into the social and cultural characteristics of other countries. The purpose is to enable them to become familiar with the work methods and organizational structures in the guest countries and learn to work with foreign colleagues. In parallel, the foreign assignment helps them improve their language skills.

GROWING INTEREST IN THE EMPLOYEE SHARE PROGRAM (MAP)

Once again in 2007, while the company was restructuring and changing its name, KUKA offered employees incentives towards acquiring KUKA shares. The company offered 15 to 25 percent more shares than the number of new KUKA shares purchased, depending on how many were originally bought.

In 2007, 414 employees took advantage of the MAP program and acquired 54,020 KUKA shares. This represents a capital injection of € 1,581,453.24 by these shareholders. The number of participants and the number of shares acquired was thus considerably higher than in past years. The goal of increasing the number of employees who are shareholders was therefore achieved.

RISK AND OPPORTUNITY REPORT

GENERAL PRINCIPLES

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

Risk management

KUKA continuously and systematically identifies external and internal risks in all business areas and subsidiaries and evaluates them consistently throughout the Group with respect to their potential level of damage and likelihood of the events occurring. The precise risks are categorized into worst-, medium- and best-case scenarios and appropriate accruals are formed on the balance sheet. Prior to the quarterly reports, a steering committee analyzes the identified risks. Those responsible evaluate the plausibility and define possible management alternatives. A risk summary is subsequently generated, which includes identification of the top ten risks and a summary of the overall risk situation. This risk summary is a standing item on the Executive Board, Supervisory Board and audit committee meetings' agendas.

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

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

Opportunity management

The KUKA Group's opportunity management system is derived from the corporate strategy. It identifies opportunities encountered and their potential. Among other things, it includes:

- ⋮ the strategic planning process, which is executed once per year by the Executive Board and divisions. The results are subsequently presented to the Supervisory Board in conjunction with strategy discussions.
- ⋮ identification and description of claims and measures, which are continuously monitored for success using a software tool especially designed for this purpose,
- ⋮ regular business performance and accounting reports to the Supervisory Board regarding the implementation of strategic, medium-term and budget plans,
- ⋮ acquisitions, changes to product and service offerings, and business location decisions.

In some cases, external consulting companies are hired to provide support.

Opportunities that improved business performance were seized by both the Robotics and Systems division. As a result, the KUKA Group's 2007 EBIT margin rose from 1.4 percent to 5.5 percent.

The sale of the Packaging division in April 2007 substantially improved the company's liquidity position, giving rise to new opportunities in the area of business expansion, new products and markets, thereby enabling significant growth in business volume.

MARKET AND BUSINESS RISKS

KUKA is exposed to the changing investment plans of its regular customers in the various market sub-sectors. It is further exposed to country risks, such as patent and brand protection in Asia, exchange rate fluctuations, financial and technical risks and the risk of substantial price increases of key raw materials. The company continued to implement its cost-cutting and earnings improvement programs in fiscal 2007 so that it could respond appropriately to economic downturns in the world economy. By selling parts of the Group, above all the Packaging division, the company was able to substantially reduce the Group's business risks.



KUKA robots are team players.

KUKA ROBOTICS

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

KUKA Robotics can only counter such trends by continually developing new products and applications that offer customers quantifiable financial advantages driven by very short paybacks. The efforts focus on opportunities to further enhance innovative applications in the medical technology and other consumer-related areas. In fiscal 2007, the KUKA Group spent € 30.8 million on research and development. The majority of the spending was on robotics.

An important component of the corporate strategy is to expand the customer base in the automotive industry, which in fiscal 2007 represented 43.8 percent of Robotics' sales. This includes entering the Indian market, which is served by TATA Motors. Other opportunities were seized in the general industry area, one example being the entry into the medical technology market.

Exchange-rate advantages are benefiting competitors' business in some areas. The company is striving to offset these advantages by building and expanding its international presence.

KUKA SYSTEMS

A key risk for the Systems division is in the capital spending plans of the automotive sector, which in turn will be strongly influenced by the global business and investment climate. On the one hand, carmakers' cost reduction programs have a positive impact on the business because of greater demands for better efficiency and more flexibility of the production lines. On the other hand, they impact negatively

because of the reduced capital spending overall. The long duration of the project management phase and the infrequency of the orders received, as well as price and competitive pressures, can expose the company to sales and profit risks.

A risk mitigator is the regional diversification associated with the now significant business activities in the United States (over 30 percent of sales), as well as the growth of the Asian business. Asia in particular is seen as an area of further potential, since the automotive industry wants to participate in Asia's economic growth and is therefore building and expanding local manufacturing facilities. The increasing model variety in the automotive industry has a positive effect on orders received, since it results in rising demand for flexible production lines. This enables systems integrators and subsuppliers to participate in new business opportunities.

Pay-on-production models such as the one being used by KUKA Toledo Production Operations (KTPO) offer additional opportunities and risks. When Daimler AG sold Chrysler in August 2007, Chrysler's credit rating deteriorated. The sale of Chrysler also triggered a change of control clause, which led KUKA after finalizing fiscal year 2007 (see supplementary report on page 67) to redeem the financing for the Jeep Wrangler car-body manufacturing facility. The prepayment of this financing provides an opportunity to secure and stabilize the expected profits and cash flow from KTPO. Furthermore, the Jeep Wrangler brand offers above average growth and development opportunities, in which KUKA can participate. The risks are in the stronger dependence on vehicle sales and production levels in the US car market and the expenses associated with KUKA's refinancing, because of the lower ratings.

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

CORPORATE STRATEGY RISKS AND OPPORTUNITIES

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

Using effective quality assurance systems in combination with regular certification programs helps convince purchasers that we offer customer-oriented products and solutions and strengthens our companies' positions in their markets. The corporate strategy is managed by a central KUKA AG department and is regularly reviewed and coordinated with the divisions. Crossover technologies and concepts are developed at the joint Innovations Center. Uniform procedures and processes generate synergies that help the company meet the demands of the market for innovative products and solutions. R&D controllers were assigned by Robotics and Systems for this purpose.

PERSONNEL

KUKA relies on qualified specialists and managers to achieve its goals. In today's very competitive marketplace, it is therefore an ongoing challenge to attract these human resources to the Group and ensure they identify with the company long-term. There is an increasing demand for well educated and motivated workers, especially in the world's growth markets. In Germany, there is also evidence of an increasing shortage of qualified personnel, particularly in the technical area. This requires that the company 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 (Deutsches Zentrum für Luft- und Raumfahrt (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 trainee program offers young recruits the opportunity to get to know various business areas and foreign companies. The 195 apprentices to be trained by the KUKA Group by year-end will be quickly integrated into the company and subsequently offered a permanent position if possible.

A key task is to ensure that the KUKA Group is unaffected by future demographic trends. Entrepreneurial thinking and management styles are also encouraged by tying variable incentives to managers' remuneration packages, which are paid according to business performance. This is supported by an employee share program, the stock options program and the future introduction of phantom shares at the upper management level.

INFORMATION SYSTEMS

IT is a strategic tool used to achieve business goals while keeping costs in perspective. A key requirement for cost-effectively and smoothly operating IT systems is to standardize and integrate them to form the basis of efficient, end-to-end business processes. To this end, a project to harmonize the accounting IT systems was launched in fiscal 2007, and it will continue on into the 2008 financial year. The technical and architectural aspects of the IT systems must also align with the security and availability needs of the business processes.

By regularly reviewing and optimizing the IT systems in use, as well as the relevant guidelines and organizational structures, the company is able to minimize the risks posed by the increasing potential threats from external sources, as well as the growing dependence of the business processes on a functioning IT system. An ongoing IT service continuity management process prevented interference with business processes. IT is also permanently integrated into the KUKA Group's opportunity and risk management

process. In addition to the annual IT review, the auditors conduct spot checks of the IT departments regarding their adherence to legal requirements. Regular qualitative and quantitative benchmark comparisons are also conducted with external IT service providers to identify potential improvement opportunities.

FINANCIAL SITUATION

One of the main jobs of the KUKA Group is to allocate resources and ensure that the company maintains its financial independence. With this goal in mind, the KUKA Group optimizes the Group's financing and limits its financial risks. To support this process, a new, consistent group-wide treasury reporting system was introduced in the second half of fiscal 2007. In addition, KUKA issued a standard set of guidelines for managing financial risks to all Group companies. A treasury committee consisting of accountants representing KUKA AG and the management companies was also introduced. It meets bimonthly to evaluate financial opportunities and risks. The Group's overall liquidity risk is reduced by closely monitoring the Group's companies and their control of payment flows.

The Group's financing over the next few years is secured by a syndicated loan of € 305 million, a convertible bond with a face value of € 69 million issued on May 9, 2006, an ABS program valued at up to € 25 million introduced in December 2006 (regular sale of receivables) and other bilateral credit lines with credit insurance companies and banks. Some of the associated financial liabilities and investments are subject to the risk of interest rate changes. Interest rate analyses are conducted to control these risks and the results are an important part of the risk management system. A change in the interest rate of 1 percent referred to the period end would alter the KUKA Group's financial result by about € 2.2 million.

Transaction-related currency exchange risks are hedged using forward foreign exchange contracts (primarily futures and swap transactions). Details of the central currency management process are provided under Financial instruments on pages 173 to 177 of the Group notes. As a basic principle, all KUKA Group companies must secure their foreign currency positions as soon as they arise. Translation risks; that is, valuation risks associated with balance sheet items whose value has been converted from a foreign currency, are never hedged. The risk associated with the volatility of leading currencies and the resulting economic exchange risk (competitive risk) is mitigated by having production facilities in several countries (natural hedging). For example, of the sales in the United States totaling about € 400 million, the major share was generated by local US companies and only a small portion by cross-border business.

Both the transactions and use of derivatives are regulated by internal guidelines and are continuously scrutinized internally regarding risks. In addition, they are monitored annually by the German public auditors.



KUKA robot builds fuel cells at ZSW in Ulm.

SWOT ANALYSIS

	STRENGTHS	WEAKNESSES
COMPANY RELATED	<ul style="list-style-type: none"> ⋮ High innovation strength ⋮ Market/technology leader ⋮ Worldwide sales and service network ⋮ Customer-specific service concepts 	<ul style="list-style-type: none"> ⋮ Complex cost structure due to worldwide presence ⋮ Limited experience in new markets
	OPPORTUNITIES	THREATS
MARKET RELATED	<ul style="list-style-type: none"> ⋮ Strong growth in general industry for Robotics ⋮ Short lifecycles of model range in the automotive industry ⋮ Continuing trend to automate and improve the efficiency of production processes 	<ul style="list-style-type: none"> ⋮ Price pressure from competitors and customers ⋮ Competitive weakness due to exchange-rate trend

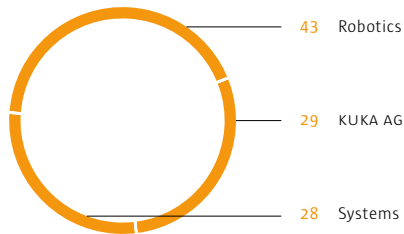
OTHER

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

The shareholder structure is regularly analyzed to assess the risk of a possible takeover of the company.

RISK DISTRIBUTION IN 2007

(in %)

**SUMMARY**

Considering the risks from an overall perspective, it is clear that the KUKA Group is primarily exposed to market risks. In particular, this includes the business cycle and the dependence on major customers in the automotive sector. Risks arising from value-added processes are controlled by a risk management system, and their potential negative impact can therefore be calculated and limited.

In summary, there are risks associated with high raw material prices, continued price pressures and exchange rates, which the company is addressing by implementing numerous performance improvement and cost cutting programs. The KUKA Group's risks are manageable and transparent, and as far as we are able to foresee, do not threaten the company's survival. Neither do we see any risks that could threaten the company's future business or legal existence.

OUTLOOK

CHANGING GENERAL CONDITIONS:**US RECESSION PUTS DAMPER ON WORLD ECONOMY**

At the start of 2008, the outlook for global economic growth over the next two years is strongly influenced by the current economic slump caused by the real estate crisis in the United States. Any consequent decline in demand for consumer goods could first impact the strongly export-dependent economies of Asia and subsequently also dampen demand for capital goods in Europe. Such a scenario has not yet been adequately considered in the current forecasts.

In any case, the expected recession in the United States will slow the growth of the world economy. The expansion rate of the global gross domestic product in 2008 will be more moderate and considerably below 2 percent, compared to 3.4 percent last year. The euro zone's economic outlook for the current year must also be adjusted further downward. Growth in the gross domestic product could thus

be less than 2 percent. In Germany, economic growth forecasts for 2008, without consideration of the current global economic developments, are between 2.2 percent and 1.4 percent. Last year the economy advanced 2.5 percent.

RISING CAPITAL SPENDING BY THE AUTOMOTIVE INDUSTRY

The capital spending plans of major carmakers are geared toward the medium to long term, with lead times of three to five years before new vehicle models are introduced to market. Experts are thus forecasting an increase in global investment for 2008, up from last year's € 62 billion to about € 70 billion. European manufacturers' share of this total is estimated at € 35 billion. Volkswagen, Daimler and FIAT are expected to spend the most. After the high capital expenditures of the past few years, investment by US carmakers is expected to return to a normal level of € 10 billion. However, capital spending growth by the Asian manufacturers, particularly Japanese, Indian and Korean carmakers, as well as the Russian and Brazilian manufactureres, could be the most dynamic.

EXPANDING ROBOT MARKET

The International Federation of Robotics (IFR) estimates that about one million industrial robots were in operation in 2007. By 2009, the global installed base of robots is expected to grow to about 1.1 million units. The annual average growth rate of the robot market is 4 percent. Demand from the automotive industry may rise in the next two years, but at a lower average rate than the total market. This is largely due to the still low level of automation spending by the Asian manufacturers in India and China. On the other hand, general industry demand could continue to grow faster than the total market. The main activity in this area will be the strategic use of robotic automation in place of manual labor in many different markets.

OPPORTUNITIES AND RISKS FOR NEW PRODUCT DEVELOPMENT AND NEW MARKET PENETRATION

As part of its profitable growth strategy, KUKA will take advantage of the market opportunities of the next two years in a variety of ways:

- ⋮ As the technology and innovation leader, KUKA will strengthen its position in the automotive industry, particularly through new applications or products such as cooperating robots or the 1000-kg Titan robot.
- ⋮ In general industry, the economic advantages of robots will be used in developing new applications together with systems partners and to penetrate the associated markets. The aircraft, beverage, healthcare and electrical sectors are examples of markets presently in this stage of development.
- ⋮ The regional expansion of the business will focus mainly on the growth markets in North America, China and India. In North America in particular, the development and expansion of the general industry robot business will build on the strong market position in the systems business. In the medium term, the demand for robotic automation solutions will also grow dramatically in Asia, driven by quality considerations.



The KR 1000 Titan, a world record holder, is the most powerful industrial robot on the planet.

Potential risks in implementing the strategy could arise in particular due to the negative effects of the current economic slowdown on market demand. In the medium term, there could be project delays or cancellations, particularly in the automotive industry. The large number of customers in over fifteen different markets around the world stabilizes the demand in general industry.

AMBITIOUS GROWTH AND RETURN TARGETS

Over the next two years, KUKA Robotics is planning annual sales revenue growth of 10 percent, driven mainly by the excellent growth and return opportunities in general industry. The division could therefore see sales exceed the € 500 million mark in 2009. EBIT margin is expected to rise at the same time, from 8.1 percent in 2007 to 10 percent in 2009, representing an average increase of 10 percent per annum.

During the same period, KUKA Systems plans to increase sales revenues by 5 percent annually by winning project orders from the automotive, aircraft and solar industries. The division will therefore see sales exceed the € 1.0 billion mark in 2009. EBIT margin is expected to grow in parallel, from 4.1 percent in 2007 to 5.0 percent in 2009, also representing an average increase of 10 percent per annum.

In total, the KUKA Group's sales revenue plan for 2009 is € 1.5 billion, with an EBIT of € 90 million to produce a return on sales of 6 percent.

CAPITAL SPENDING SUPPORTS GROWTH TARGETS

The capital spending of about € 29.2 million approved by the Supervisory Board for intangible assets and property plant and equipment is higher than the average amount of previous years. Fixed asset investments of € 24.6 million (excluding financial investments) are budgeted for 2008, along with IFRS-based rising, capitalizable investments in research and development of € 14.4 million. Total capital spending for the current year will therefore be € 16.8 million higher than scheduled amortization. The KUKA Group has sufficient liquidity to finance these investments. It also has secured financing for the strategic capital spending program for the following financial years 2009 and 2010.

CONSISTENT DIVIDEND POLICY

The Executive and Supervisory boards will recommend to the annual general meeting in Augsburg on May 15, 2008 that a dividend of € 1.0 per share be paid for the 2007 financial year. The renewed payment of dividends after three years forms part of the company's consistent dividend policy.

OVERALL SUMMARY REGARDING GROUP DEVELOPMENT

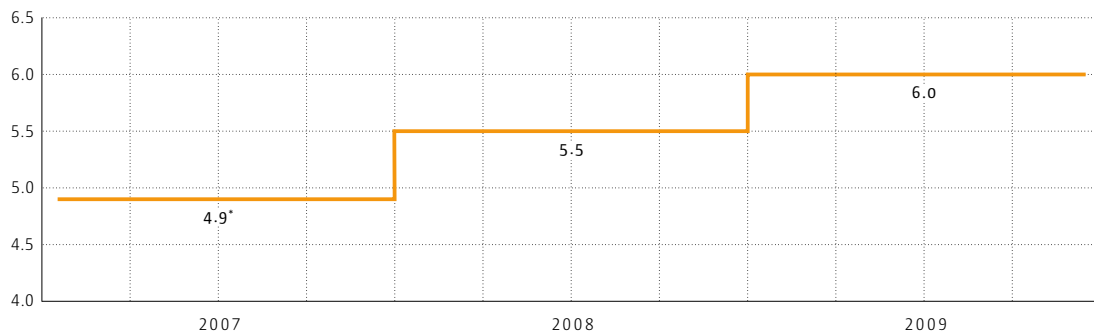
The KUKA Group's business targets for the current financial year and the medium-term horizon of two years will be published, and will be updated during the fiscal year if necessary. The intent of this method is to provide a high degree of transparency with regard to current business developments.

During the 2007 financial year, some of the key targets originally set as medium-term goals during the restructuring were achieved ahead of schedule. The net debt of the Group at the beginning of the year was transformed into a substantial net liquidity by year-end, mainly due to the sale of the Packaging division. The KUKA Group therefore once again has a solid balance sheet and financial structure as of the end of 2007, with an equity ratio of 26.3 percent and net liquidity of € 163.6 million.

Profitable growth is expected to continue in 2008. Capital spending by the automotive industry in new manufacturing systems and by general industry on automating its manufacturing processes is primarily geared toward improving productivity and competitiveness, and is therefore less subject to the effects of short-term economic factors. We therefore do not see the deteriorating economic outlook as a reason to revise the forecasts and business targets between the end of the financial year and the publication of the annual report.

GROUP EBIT MARGIN TARGET

(in %)



* without extraordinary gains from the sale of property

DISCLOSURES ACCORDING TO ARTICLE 315 PARAGRAPH 4 HGB (GERMAN COMMERCIAL CODE – GROUP MANAGEMENT REPORT) AND ITS NOTES ACCORDING TO ARTICLE 120 PARAGRAPH 3 SENTENCE 2 AKTG (GERMAN CORPORATION ACT)

The total share capital of KUKA Aktiengesellschaft is € 69,160,000 consisting of 26,600,000 value shares issued to the bearer with a pro rata amount of the share capital of € 2.60 each. There is only one class of shares. The Executive Board is not aware of any restrictions regarding voting rights or the transfer of shares. The company was not informed about any direct or indirect participations of capital that exceed 10 percent of the voting rights. There are no shares with exclusive rights that grant controlling rights. Moreover, there is no participation of employees in terms of article 315 paragraph 4 No. 5 HGB (German commercial code).

Executive Board members are nominated and dismissed in accordance with articles 84 and 85 of AktG (German Corporation Act) and article 31 MitbestG (German Act on Company Co-Determination). Pursuant to the German Corporation Act, Executive Board Members are nominated by the Supervisory Board for a maximum period of five years. A repeated nomination or extension of the term of office is permitted, each for a maximum of five years. Article 31 MitbestG (German Act on Company Co-Determination), requires a majority of 2/3 of the members of the Supervisory Board for the nomination of Executive Board members. In case there should be no nomination, the Mediation Committee of the Supervisory Board has to recommend a nomination to the Supervisory Board within one month after the vote. Then, the Supervisory Board nominates the Executive Board Members with the majority of the votes of its members. In case the nomination should fail, the Chairman of the Supervisory Board will have two votes in a repeated election, should the nomination fail based on this procedure as well.

The Executive Board is made up of at least two people according to article 6 paragraph 1 of the bylaws. The nomination of deputy members of the Executive Board with the same representation rights for the company in dealings with third parties as the ordinary Executive Board Members is permitted, article 6 paragraph 1 of the bylaws. The Supervisory Board stipulates the number of Executive Board Members, article 6 paragraph of the bylaws. The Supervisory Board is according to article 6 paragraph 2 of the bylaws also responsible for the nomination of the deputy members of the Executive Board, the signing of employment contracts, and the appointment of one member as the Chairman of the Executive Board as well as other members of the Executive Board to deputy Chairman of the Executive Board where necessary. The Supervisory Board can revoke a nomination for an Executive Board Member or the Chairman of the Executive Board for cause, article 84 paragraph 3 AktG (German Corporation Act) and article 6 paragraph 2 of the bylaws.

Every amendment of the bylaws requires a resolution of the Annual General Meeting according to article 179 paragraph 1 AktG (German Corporation Act). Article 22 paragraph 1 of the bylaws provides that a simple majority of the represented stock is sufficient for resolutions in the Annual General Meeting as long as a larger majority is not required by law; the latter is particularly the case for resolutions regarding amendments of the business purpose, reductions of the corporate capital, and changes to the legal form of the company. The Supervisory Board is according to article 11 paragraph 3 of the bylaws authorized to conduct amendments to the bylaws that concern only the version. Moreover, according

to article 4 paragraph 5 of the bylaws, the Supervisory Board is authorized to amend the bylaws as far as the authorization to increase capital according to article 4 paragraph 5 of the bylaws (thereto see below) is exercised or such authorization becomes irrelevant.

According to article 4 paragraph 5 of the bylaws, the Executive Board is authorized to increase the company's share capital on one or several occasions, subject to approval by the Supervisory Board, until May 31, 2011 up to a total of € 34,500,000, by issuing new shares in the name of the bearer against cash contributions and /or contributions in kind. Generally, the shareholders shall be granted subscription rights in case this authorization is used; however, subject to approval by the Supervisory Board, the Executive Board is authorized to exclude the shareholder subscription rights prescribed by law (i) for fractional amounts (ii) to the extent this is required in order to grant the holders subscription rights to new shares, as per the resolution passed at the Annual General Meeting on July 4, 2003, in the quantities to which they would be entitled by exercising their conversion or option rights related to convertible debentures and /or warrants issued by KUKA Aktiengesellschaft or its companies (iii) for increases in equity against cash contributions if the offering price of the new share does not fall considerable short of the market price, and to the extent the number of shares issued under exclusion of subscription rights in accordance with article 186, paragraph 3, sentence 4 AktG (German Corporation Act) does not exceed 10 percent of the total share capital, neither at the point in time the authorization becomes effective nor at the time of exercising the authorization. In doing so, the company's own shares, if sold under exclusion of subscription rights, and shares issued or to be issued for the satisfaction of bonds with conversion and option rights issued pursuant to the resolution of the Annual General Meeting on July 4, 2003, in case the bonds were issued during the term of the authorization under exclusion of subscription rights in corresponding application of article 186 paragraph 3 sentence 4 AktG (German Corporation Act), have to be counted under this restriction. This also applies (iv) for capital increases against contributions in kind for the purpose of acquiring companies or parts of companies.

According to article 4 paragraph 6 of the bylaws, the total share capital was conditionally increased by up to € 19,500,000 by issuing up to 7.5 million 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 rights 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 previously described conditional 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 € 26.07648 per share to value shares of KUKA Aktiengesellschaft issued to the bearer with a pro rata amount of the share capital of € 2.60 each. The company's capital would be increased by issuing currently about 2,660,000 new shares with a pro rata amount of the

share capital of € 2.60 each. Subject to the antidilution provisions of the bond terms, should all bearers of convertible bonds use their conversion right. The bond was subsequently listed on the EuroMTF market of the Luxembourg stock exchange.

As per the resolution passed at the Annual General Meeting of KUKA Aktiengesellschaft on May 16, 2007, the company is authorized 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 until October 31, 2008. In doing so, the purchase price (without acquisition costs) cannot be more than 10 percent higher or lower than the market price to be established according to the resolution.

Furthermore, subject to approval by the Supervisory Board, the Executive Board is authorized under exclusion of subscription rights to sell the treasury shares thus acquired (i) within the scope of company mergers or the acquisition of companies, parts of companies, or investments in companies to third parties, (ii) in other ways than through the stock exchange or through an offer to all shareholders if these shares are sold for cash at a price not considerably less than the market price of company shares of same endowment at the moment of the sale, if and as far as the shares sold under exclusion of subscription rights in total do not exceed 10 percent of the stock capital, namely neither at the time of the effective date nor at the time of the execution of the authorization – this limitation includes such shares that were issued under exclusion of subscription rights for the service of bonds with conversion or option rights and /or taking advantage of an authorization to issue new shares from approved capital according to article 186 paragraph 3 sentence 4 AktG (German Corporation Act) – and (iii) for the purposes of listing on foreign stock exchanges on which the company shares had previously not been approved for trading. 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.

The conditions of the bonds contain a change of control rule typical of the industry, 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 Luxembourg, 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 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 which 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.



KR 100 HA – HA stands for high accuracy.

KUKA Aktiengesellschaft and its material consolidated companies signed a syndicated loan agreement with a bank consortium led by Bayerische Hypo- und Vereinsbank AG, Dresdner Bank AG, and Landesbank Baden-Württemberg under which the lenders make an amount of up to € 305 million available. This covers the material debt requirements of the KUKA Group (including filing of bank guarantees). The contract includes a change of control clause that is 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 together) 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 cause the company to be unable to pay its creditors and thereby could lead to the insolvency of KUKA Aktiengesellschaft.

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 Executive Board and Supervisory Board as well as its amount and structure. Additionally, it contains disclosures regarding the ownership of shares by Executive Board and Supervisory Board and transaction with KUKA Aktiengesellschaft, which need to be disclosed according to the Securities Trade Act. The report follows the recommendations of the German Corporate Governance Codex and contains disclosures, which are necessary according to the regulations of the commercial code, including the disclosure of Executive Board compensation pursuant to articles 314, 315 HGB (German Commercial Code). The audited compensation report is part of the consolidated report. It is included in the Corporate Governance Report.

SUPPLEMENTARY REPORT

On February 29, 2008, KUKA AG released the following ad hoc announcement:

“KUKA Aktiengesellschaft has reached agreement with Chrysler LLC and the financing banks regarding the prepayment of the financing of the manufacturing facility of KUKA’s American subsidiary KUKA Toledo Production Operations LLC (“KTPO”). The prepayment of the financing, funds for which will come from the KUKA Group’s existing net liquidity, will lead to an increase in assets as a result of the purchase of the manufacturing facility and a decrease in net liquidity of about € 85 million.”



UDO ERATH, DIPL.-ING., DIRECTOR GLOBAL PRODUCTION, KUKA ROBOTICS

“We are currently shipping our robots to 30 countries and 25 industries. Automation, unit cost reduction and productivity improvement are a high-priority topic in all national markets around the world.”

“Whether large or small, heavy or light:
KUKA has a comprehensive product
portfolio and therefore conducts business
in almost all industries internationally.”

DEVELOPMENT OF DEGREE OF AUTOMATION IN INDUSTRY
(number of robots per 10,000 workers)





KUKA ROBOTICS

In 2007, global demand for industrial robots was ten percent higher than in 2006. This investment-friendly business environment enabled KUKA Robotics to take full advantage of its technological market leadership position. Innovative products and solutions and an international network of qualified systems partners in a wide variety of industries guarantee fast market penetration and an optimum solution for every customer.



The outcome of close collaboration between KUKA Robotics and the German Aerospace Center: the KUKA light-weight robot.

In 2007, KUKA Robotics was able to beat its growth and operating profit targets. For the financial year just completed, orders received rose 13.8 percent to € 434.9 million and sales revenues were up 10.6 percent to € 412.9 million. The division thus grew faster than the market. Order backlog also grew by 22.7 percent and on December 31, 2007 reached € 103.9 million, which compares to € 84.7 million at the end of 2006.

All three business segments contributed to the success: Orders from the automotive segment accounted for 45.4 percent and 35.9 percent came from general industry. The cross-sector customer service group contributed 18.7 percent. KUKA Robotics' EBIT soared from € 22.4 million in 2006 to € 33.6 million, representing an improvement of € 11.2 million, or 50 percent.

ROBOTS MORE AND MORE POPULAR AROUND THE WORLD

At the end of 2007, over one million industrial robots were in operation around the world. Almost half of these were in Asia, one-third in Europe and 16 percent in America. In 2007 alone, the number of industrial robots added was about 125,000 – the second-highest quantity ever sold. The record was established in 2005.

In Europe, the International Federation of Robotics (IFR) recorded rising demand, particularly in Central and Eastern Europe, Germany and Italy. After two weak years, the automotive industry again boosted capital spending. A stronger tendency to automate is also noticeable in all other industries.

A rising demand for industrial robots was again apparent in North America. The IFR estimates that the battle for market share in the automotive industry led to increasing demand for robots. The Asian and European manufacturers are continuing to invest, but the Big Three (GM, Ford, Chrysler), after losing market share and reducing their manufacturing capacities, are again investing in modernizing their manufacturing facilities. Robot applications in the electronics industry doubled in North America. Demand from the rubber and plastics industries was also higher. Demand from the metals industry, mechanical engineering clients and the food and beverage industry declined.

In Asia, the number of robots shipped increased by 6 percent. According to the Japan Robot Association (JARA), sales in Japan were only slightly higher, while the rest of Asia continues to boom and sales grew an estimated 20 percent. According to the IFR, total demand continues to rise. The same applies to China, Asia's third-largest robot market. In India, robot sales almost doubled in 2006 at 850 units. The high growth rates, even though the numbers are currently low, point to the developing momentum in this market.

SERVICE ROBOTS CLOSE TO A BREAKTHROUGH

At the end of 2006, about 40,000 service robots were being used for commercial applications, including, for example, in the construction industry, medical systems or on mobile platforms. According to IFR forecasts, a further 35,500 service robots will be added by 2010. Demographic trends and advancing technology will make robots that assist handicapped persons a hot topic. Leading manufacturers and research institutes are focusing their efforts on prototypes.

KUKA ROBOTICS – GLOBAL TECHNOLOGY LEADER

KUKA Robotics is one of the world's leading suppliers of industrial robots. Its key fields of expertise are in the development, manufacture and marketing of industrial robots, controls, software and linear devices. The product range spans from miniature robots with a payload of 5 kg to the currently most powerful robot in the world, the Titan, which can handle weights up to 1,000 kg. Thanks to their modular construction, KUKA robots can be now used in a very wide variety of industries outside of the automotive sector. This includes logistics, metals machining and processing, plastics and foundries. The company has representatives in all key European markets, as well as America and Asia.

KUKA Robotics focuses on offering intelligent, high-tech solutions. Technology trends such as robot-robot cooperation, human-machine cooperation, production assistants and modular interactive robot families will secure the division's growth in the coming years. Cooperating robots are contributing more and more to optimizing vehicle production systems and improving their flexibility, not only in automotive systems. Several robots work simultaneously side-by-side; for example, to share a task for a car part in order to reduce cycle times, or to help each other when manipulating heavy payloads. Work is also being done on a new concept that seeks to improve the cooperation between humans and robots when their work areas overlap, in order to optimize the overall degree of automation. It is all made possible by KUKA Safe Robot technology.

Key prerequisites to success in existing and emerging markets are close customer relationships, flexibility to respond to customer needs and the innovation strength to develop new technologies based on these requirements.

FURTHER INFORMATION

<http://www.kuka.com/germany/en>

TRUSTED BY AUTOMOTIVE CUSTOMERS

The automotive business has seen a stable development around the world. The sales organization, which is divided into the three regions Europe, Asia and America, has delivered. All regions reported growth; some grew substantially.

Orders received in the automotive business segment climbed steeply from last year's figure and rose 20.9 percent to € 197.3 million. As a result, the share of automotive orders of Robotics' total volume rose from 42.7 percent in 2006 to 45.4 percent in the year just ended. Important orders came from Daimler for the new E-Class, from Audi for the new A4 and from BMW for the new 7-series.

In Asia, the order from TATA Motors received in 2006 led to additional orders from the Indian sub-supplier industry. With the market launch of KUKA Robotics (India) Pvt. Ltd., KUKA Robotics is well positioned for the expected upsurge in India's auto industry. Aside from the sales office in Delhi, there is a branch office in Pune, the hometown of TATA Motors. KUKA Robotics operates its own training center here, equipped according to German standards. An expansive supplier park for automotive sub-suppliers is currently under construction in Pune, which makes the outlook for additional business promising.

Business relationships with Asian carmakers (e. g., Hyundai, Chery, JAC, TATA, FAW) were further strengthened. KUKA China received orders from BBDC (Beijing Benz DaimlerChrysler Automotive Co., Ltd.) and Chery Automobile, among others. Chery is one of the strongest growing auto manufacturers in China and is a successful non-joint-venture carmaker. KUKA Robotics was successful here as a result of its collaboration with its system partner Jianghuai Automation. FAW-Volkswagen ordered a welding line for the Jetta and Bora models. The high quality standard of KUKA's products and the extensive services provided clinched this order.

After placing its first orders for the KUKA Occubot robot in Korea, Hyundai Motor ordered additional Occubot systems for manufacturing car seats and for its development department. KUKA Korea's goal is to establish the Occubot system as a standard for testing car seats in Korea.

In Brazil, KUKA Robotics received a large order from Volkswagen in connection with the production of the VW Golf.

After many years, Renault in Europe is once again using KUKA robots with complete welding accessories to make car bodies. Porsche placed a larger order for manufacturing the Porsche Panamera. Other major project shipments also went to Daimler (C-Class), as well as BMW for arc welding and the new 7-series BMW. The flexibility of robotic in-line measurement systems is generating increased demand from automakers that have not used this technology to date.

The service business also developed positively, with an orders received volume of € 81.4 million in 2007. This is 5.3 percent more than the prior year's € 77.3 million.

ROBOTICS MAKE INROADS IN GENERAL INDUSTRY

In 2007, the general industry business also grew substantially. Orders received climbed 10.2 percent over the prior year's bookings. Total orders in 2007 were already € 156.2 million, up from the prior year's € 141.8 million.

Both medical technology and the food industry contributed to the growth. The number of international customers in these segments reached a new high, including global players such as Nestlé, Mars, Procter & Gamble, Kraft Foods, Unilever and Cargill. KUKA Robotics presented solutions and products tailored to meet the needs of customers at the most important trade shows and conventions around the world. An ever-increasing number of companies are being added to the international network of food segment systems integrators.

In Europe, KUKA Robotics is growing much faster than the market; among others by the launch of new products such as the KR 1000 Titan and the new welding experts KR5 arc and KR 5 arc HW. Large orders came from Ronal (Germany), Salvagnini (Italy), Sacmi (Italy), Hähn-Automation (Germany), Brembo (Italy), Bergen Plastics (Norway), SAF, Deckel Maho Gildemeister (DMG), LIGMATECH (HOLZ-HOMAG Group) and Philips Roosendaal (Netherlands).

The leading systems builder in the glass and construction materials sector, Grenzebach Maschinenbau, purchased the first KR 1000 Titan. The newly developed heavy-load robot will make a significant contribution to improving productivity in the glass industry.

MAN Roland applied its APL (Automatic Plate Loading) robot technology in the industrial printing industry. The APL System is based on a four-axis kinematic system that uses KUKA Robotics' KMC controller. It has a positioning accuracy of 0.01 mm and significantly speeds up plate changes. At the end of the printing process, the robot takes the used plates from the machine and places them in a box. Then it takes a set of up to four new plates from the magazine using two vacuum suction cups for each and transfers it to the plate clamping system. The robot application guarantees a faster, more flexible system that keeps the surrounding area cleaner.

KUKA supplied robots to a leading German manufacturer of white goods (refrigerators, washing machines, etc.). These have various tasks in the manufacturing facility. One systems partner ordered KUKA Robotics controllers (KUKA Motion Control), which are used at a leading carmaker's plant. Several KR 5sixx robots had previously been ordered for various manufacturing areas. Orders were also received from a well-known German manufacturer for a shower basin manufacturing line.

In Malaysia, Panasonic ordered KUKA Scara robots for an assembly line. As was the case for other tenders, KUKA Robotics won the order against cheaper competitors because of its seasoned applications expertise and its service performance. KUKA China received an order for palletizing boxes at the Zaotong Tobacco Factory.

In the United States, KUKA robotics was chosen by Negri Bossi Inc. as a new supplier for its injection molding systems (metal injection molding).



A KUKA robot palletizes juice bags at Arla Foods AB in Sweden.

In Latin America and Mexico, orders received were still above plan. Numerous inquiries are being received from Columbia in particular. One order KUKA received was from Colceramica, the country's largest plumbing supplies manufacturer, which exports about 70 percent of what it produces to the United States. Here KUKA was able to supply six robots and displace the incumbent competitor. Cargill, one of the largest food processing companies in Latin America and the United States for products such as pasta and oil, ordered type KR180PA robots to palletize cases of canned oil.

One notable project was in Chile, one of the world's most important mining nations. At an altitude of 3,300 m in the Andes, there is facility for molybdenum, an alloy used to improve strength, as well as corrosion and heat resistance. It is used, for example, to manufacture aircraft and rocket components, as well as a catalytic converter to remove sulfur from mineral oils. Because of the harsh work environment, cleaning of the treatment oven had often been improperly carried out in the past. This resulted in damage to ovens. A KUKA robot is now very successfully looking after the cleaning. KUKA Robotics is a first mover in this sector, which has enormous growth potential.

THE HEALTH SERVICES GROWTH MARKET

At the annual meeting of the Radiological Society of North America (RSNA) in Chicago, the world's largest trade show for radiological medical technology, KUKA Robotics demonstrated a new robotic system for interventional angiography; i. e., imaging and treatment of blood vessel diseases. "Artis zeego" is made by Siemens Medical Solutions and is based on a KUKA robot. It is combined with advanced x-ray systems. The x-ray equipment used in interventional angiography must be capable of very flexible positioning at the patient. A robot, with its six axes of rotation, is ideally suited to this application. The robot has a so-called C-arm, which is used to take the x-rays of the recumbent patient. This makes it possible to view blood vessels from different angles faster and more flexibly than before and thus detect vessel diseases or damage due to injuries or tumors. Furthermore, larger images are possible.

The robot can demonstrate its speed when the angiographic system is used to produce CT-type images. The C-arm must quickly circle the patient. The images taken provide additional information that can be used for diagnostic purposes.

KUKA Robotics has been working intensively for years on applications for medical systems. The high quality of the KUKA robots – top safety and precision, limited down time, low maintenance, enormous flexibility – opens the door to a wide range of potential applications.

■ KUKA ROBOTICS – KEY FIGURES

(in € millions)

	2006	2007	Change in %
Orders received	382.3	434.9	13.8
Sales revenues	373.3	412.9	10.6
EBIT	22.4	33.6	50.0
% of sales	6.0	8.1	–
% of capital employed (ROCE)	24.3	34.6	–
Capital employed	92.2	97.1	5.3
Employees (Dec. 31)	1,838	2,023	10.1

New systems were developed in cooperation with well known international manufacturers. For example, in the field of particle radiotherapy, KUKA robots optimize the position of the patient for irradiating tumors. A further application for cancer therapy is the Cyberknife – a new x-ray application. Instead of a scalpel, a robotic x-ray head capable of delivering collimated radiation precisely destroys the tumor cells. Open surgery is not required. The exposure of the surrounding cells to the radiation dose is reduced considerably. Any movement by the patient is tracked and corrected by the system. The accuracy range is less than 1 mm. These extremely fast and highly precise correction mechanisms make stressful mechanical clamps attached to the patient's skull or body unnecessary. Cyberknife offers an innovative, tested treatment alternative for patients with tumors and supplements existing types of therapy. Other KUKA Robotics products in various general industry sectors and in the automotive field also benefit from the successes in the medical technology area.

In late November, KUKA presented its wide assortment of products and services at the leading robotics tradeshow IREX 2007 in Japan in order to further its position in the world's largest robot market. This trade show participation brought to a close a successful exhibition year. The KR 1000 Titan was the center of attention, alongside clean room applications, solutions for the food industry and SafeRobot technology. KUKA Robotics considers the participation in the trade show an ideal start to its commitment to Japan, where a branch office was opened in July 2007.

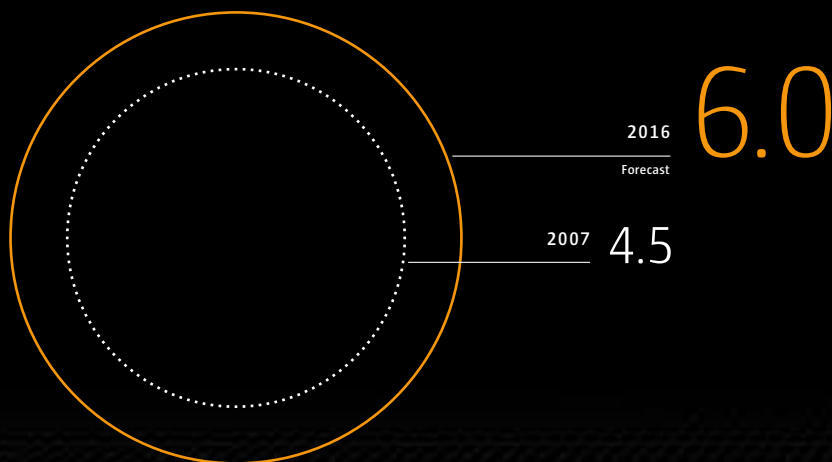


ROBERT HAMAN, DIPL.-ING., SALES & PROJECT PLANNING AEROSPACE, KUKA SYSTEMS

“We are innovation leaders for applications and automation technology. We transfer our technology leadership to a broad range of industries and thereby penetrate new markets.”

“The need to use flexible and cost-effective automation for aircraft manufacturing is becoming more and more urgent. Our mostly robot based concepts and solutions play a major role here.”

EXPECTED CAPITAL SPENDING ON SYSTEMS IN THE AEROSPACE SECTOR
(in € billions)





KUKA SYSTEMS

The Systems division offers its customers in the automotive, aerospace, solar and general industry sectors innovative solutions and services for automated manufacturing. About 3,600 employees in Europe, America and Asia offer a comprehensive spectrum of applications for welding, gluing and sealing, assembling and testing, handling and metal forming, customized to meet customer specifications and continually enhanced.

The division is driven by its expansion strategy, as evidenced by new fields of activity such as pay-on-production contracts and its involvement in the aircraft and solar industries. The management company's name change from KUKA Schweißanlagen GmbH to KUKA Systems GmbH underscores the expansion of business activities and the internationality of the division.



Flexible KUKA Systems manufacturing line for car bodies with many different body styles.

The division's core expertise within the framework of the integrated KUKA business model is in application engineering as it relates to automating manufacturing processes. Acting as the general contractor, we plan and build complete manufacturing systems. Our application-oriented automation expertise, which usually entails using robots, enables us to integrate countless innovative forming, joining and assembly processes.

KUKA Systems maintains its high level of engineering expertise by continuously innovating. The division mainly relies on three regional centers: Augsburg for Germany and Europe, Detroit for North America and Shanghai for the growing Chinese market. Local subsidiaries that are close to the customer support these centers and independently process small orders. The division is expanding into general industry sectors such as the aircraft and solar industries.

In the automotive industry, the Systems division focuses on flexible manufacturing lines for making vehicle bodies. Several different models or variants of a particular model can be built using these systems. Other business segments include press dies manufacturing and automated assembly lines for engines, transmissions and axles, which are located in Schwarzenberg / Erzgebirge, Bremen, Dubnica / Slovakia, as well as in the greater metropolitan Detroit, Michigan area of the United States.

The Systems division's share of orders awarded by the automotive industry to third parties is 25 percent, making it the market and technology leader in this sector.

PROFITABLE GROWTH IN ALL BUSINESS SEGMENTS

The year 2007 was a successful one for KUKA systems. The reward for the restructuring efforts and reorganization was an increase in sales revenues of € 67.2 million. The final sales of € 900.0 million in fiscal 2007 represented a year-over-year increase of 8.1 percent. Orders received growth was even stronger and ended at € 937.7 million, 10.6 percent ahead of the prior year's € 847.8 million. Order backlog also rose substantially. As of December 31, 2007, it had reached € 434.7 million, which compares to € 419.3 million a year earlier.

Furthermore, this growth was very profitable. EBIT improved to € 37.2 million from € 10.0 million the year prior. EBIT margin thus more than tripled, from 1.2 percent in 2006 to 4.1 percent during the reporting year.

The US systems business and the car body assembly line in Toledo, which has been operating at a high production level in the first year, had a major impact on the improved sales and earnings position. But the press dies and assembly systems segments also contributed to the positive developments, after the prior year's restructuring, which had weighed on earnings.

KUKA Systems opened a new branch office in Moscow to address the increasing importance of the Russian market. A representative sales office has also been open since mid year in Korea. The office of the Indian subsidiary in Pune was officially opened during the year just ended. The rapid sales and orders received growth brought considerable changes to the company in China. The number of employees went from 58 to 86 within one year.

AUTOMOTIVE INDUSTRY CAPITAL SPENDING TO SURGE

The automotive industry's global investment last year reached almost € 62 billion. Ongoing pressure to bring new models to the market is fueling the capital spending trend.

The global automotive industry is currently having to deal with three major trends:

- ⋮ For one, it is under ever-increasing pressure to reduce CO₂ emissions as a result of the climate debate. The industry exhibitions in 2007 show that most manufacturers are working on new models to address these requirements. The focus is on new drive systems that use fossil fuels more efficiently and make use of regenerated energy. There will be a surge in engine development, which will benefit KUKA's engine and transmission systems assembly business. Using new, lighter materials also demands investment in manufacturing systems.
- ⋮ For another, the trend is favoring the development and manufacturing of small and subcompact cars, similar to the models that have been part of the Asian carmakers' product range for some time. Daimler is looking for a business associate for the small car business and is in the process of introducing the Smart car in the United States. Volkswagen has a similar model called the "Up" in its sights.

- ⋮ A further development in the year 2007 was low-cost vehicles. Renault's Dacia Logan achieved remarkable success, even in Europe, although the majority of the sales came from the Asian region. The current leader is the Tata Nano introduced at the end of 2007. It is currently the cheapest new car in the world. According to one forecast, at least 10 million economy cars priced at under USD 10,000 will have been sold worldwide by 2015.

Global car production in 2007 increased by 5 percent to 68 million vehicles. Most of the automotive industry growth came from Europe, at plus 5 percent, and China, which was up 20 percent. More than one million additional vehicles were built in each of these two regions. Substantial manufacturing increases were also experienced in India and Brazil. KUKA Systems has local representatives in the BRIC countries, including Russia, and its outstanding position will enable it to participate in the dynamic growth in these countries.

Production declined in the United States in 2007. The large and heavy vehicles offered by the American carmakers lost additional ground, with their market share shrinking to just over 50 percent. Asian manufacturers were the main beneficiaries. The continuing weakness of the US dollar is causing a number of European and Asian carmakers to consider adding to their manufacturing capacities in the United States.

AIRCRAFT INDUSTRY NEEDS MORE MANUFACTURING CAPACITY

Despite delivery problems with their wide-body aircraft, the A380 and the Dreamliner, Airbus and Boeing, the world's most important aircraft manufacturers, received more orders last year than ever before. Airbus has an order backlog of over 3,400 aircraft. 453 planes were delivered in 2007. Production capacity must be expanded, and despite the Power8 efficiency improvement program introduced by EADS, is being planned. Boeing too has an order backlog of 3,400 aircraft, which the company will hardly be able to manage with today's manufacturing capacity. This creates an opportunity for KUKA Systems, which can utilize its many years of automation experience and new ideas to implement planned projects.

BUSINESS OPERATIONS: SUCCESS IN ALL BUSINESS SEGMENTS

All of KUKA Systems' business segments contributed to the favorable development of the operating business and are an integral part of the growth strategy, which targets growth in sales of 5 percent per annum and an EBIT margin of 5 percent.

KUKA Systems' companies showcased their products at trade shows in various industries. Examples include Welding & Cutting Russia in Moscow, the CIMT exhibition in Beijing for machine tool manufacturers and Solar Munich, a solar industry trade show.

Car-body production is KUKA Systems' core business. This segment develops, designs and constructs sophisticated assembly systems, in which KUKA robots are employed to weld car bodies.

FURTHER INFORMATION

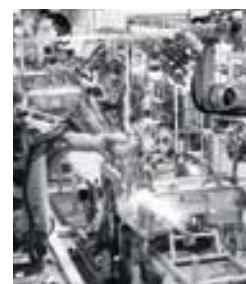
<http://www.kuka-systems.de/en>

Despite the difficult business situation faced by US carmakers, our American company posted an excellent result. Toward the end of last year, a slight improvement in price levels resulted in improved margins in the European market.

The KTPO pay-on-production contract at the Chrysler factory site in Toledo, Ohio, contributed to the car-body assembly business segment's earnings. At that location, we use our own system to build car bodies for the Jeep Wrangler, for which sales success was greater than expected. This was driven by high acceptance of the vehicle model in the American market, and the associated high capacity utilization of our factory.

The car-body manufacturing business segment received important orders during the financial year just ended.

Daimler ordered key components for the German factories building the new C-class, E-class and CLK bodies-in-white. Opel ordered systems for manufacturing car bodies for the new Astra at the European factories in England, Poland and Germany. Chrysler placed an order for a framing, box, side and finishing line in Saltillo, Mexico. A key contributor to winning the order was the successful and reliable collaboration in the past. In 2007, the Chinese KUKA Systems company received the largest single order since it was founded. A new manufacturing system for the complete body-in-white of a compact car is to be built and supplied to the Indian carmaker TATA in Pune. Volvo ordered a new manufacturing line to build the complete underbody of a compact SUV at its Belgian factory.



KUKA Systems car-body manufacturing line for the Jeep Wrangler in Toledo, Ohio, USA.

SYSTEMS DIVISION – KEY FIGURES

(in € millions)

	2006	2007	Change in %
Orders received	847.8	937.7	10.6
Sales revenues	832.8	900.0	8.1
EBIT	10.0	37.2	-
% of sales	1.2	4.1	-
% of capital employed (ROCE)	9.9	51.0	-
Capital employed	101.0	73.0	- 27.7
Employees (Dec. 31)	3.620	3.582	- 1.0

A major order was received during the course of the year from Daimler for the manufacturing systems for the Sprinter. It will be built at the Ludwigsfelde and Düsseldorf factories.

The assembly technology business unit's companies offers its automotive industry customers systems for assembling and testing engines, transmissions and axles. It is benefiting from the increased demand in more fuel-efficient engines, which according to all forecasts, will rise even more. KUKA Systems received an order from Cummins in the United States for a system that will not only be used to assemble diesel engines, but also test their functional performance and reliability. Diesel engines are currently not widely used in the United States. Thanks to support from the American company, testing was also added to the German company's portfolio last year. An order from ZF Sachs was noteworthy due its high degree of automation.



Pressing tools and press line by KUKA Systems press dies manufacturing.

The press dies business segment manufactures pressing tools for carmakers' and auto industry component suppliers' metal forming systems. Another pillar of the business is services. The business segment was successful in expanding its penetration of the Asian market. It received large orders from China to develop and supply pressing tools for side wall manufacturing for Audi and Daimler vehicles. A contract to jointly manufacture press tools with the Chinese company was concluded with Shanghai Volkswagen (SVW) in China. Further progress was made with strengthening and expanding the Slovenian subsidiary in Dubnica, including improvements in the cost structure.

Important products supported by the general industry business segment are KUKA Magnetarc and friction welding machines, robot cells, laser applications and systems for the aircraft and solar industries. Last year the business unit successfully landed trendsetting orders from new customers.

The most important order was a system for seam sealing at Daimler in Sindelfingen. The German and American KUKA companies together, in cooperation with the assembly systems business unit, won an order from Spirit AeroSystems for automating CFRP parts processing for aircraft manufacturing. Friction welding machines for the oil industry and robot cells for handling fluorescent tubes were introduced to the market for the first time. The first systems for manufacturing solar modules were sold to the solar industry. These customers, which are based in both Germany and the United States, are already showing interest in follow-up projects.

CORPORATE GOVERNANCE

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

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

DECLARATIONS OF COMPLIANCE

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

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

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

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

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

As of March 5, 2008, the identical declarations of the Executive Board and the Supervisory Board have been available on the company’s website at www.kuka.com.

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

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

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

MANAGEMENT AND COMPANY STRUCTURE

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

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

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

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

COOPERATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

EXECUTIVE BOARD

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

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

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

As a rule, the Executive Board members convene at least every fourteen days, and they also keep in constant close contact at other times. The Executive Board avoids conflicts of interest.

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

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

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

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



KUKA robot performs bending operations at an RAS multi-bend center.

Additional information about the compensation of the Executive Board is found in the notes to the Financial Statements for 2007 on page 125ff.

SUPERVISORY BOARD

The Supervisory Board is composed in accordance with the German Act on Company Co-Determination and consists of twelve members; six members are elected by the shareholders and six by the employees. There were no personnel changes on the Supervisory Board for the fiscal year 2007. The term of office of the members of the Supervisory Board expires at the end of the 2008 Annual General Meeting that resolves on the discharge of the Supervisory Board Members for the 2007 financial year. The company's 2008 Annual General Meeting on May 15, 2008 will decide about the seats for representatives of the shareholders on the Supervisory Board; the term of office of the Supervisory Board members elected there starts immediately after this Annual General Meeting. The election process for the election of the representatives of the employees to the Supervisory Board was initiated in October 2007; their term of office also starts immediately after this Annual General Meeting.



KUKA JET combines the advantages of an articulated robot and a linear axis.

To the extent that members of the Supervisory Board were employed in a controlling position with important business partners, transactions with them were subject to the standard terms and conditions for arms-length transactions. The members of the Supervisory Board complied and continue to comply with the criteria for independence under Section 5.4.2 CGC. Procedures continue to ensure that conflicts of interest are avoided (Section 5.5 CGC).

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

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

It has been agreed with the independent auditor that he/she will immediately report to the Supervisory Board any material findings or events that arise in the course of the audit of the annual financial statements. Finally, it will also be agreed with the independent auditor that he/she will inform the Supervisory Board and/or note in the audit report any finding of facts during the performance of the audit, indicating that the declarations issued by the Executive Board and Supervisory Board with respect to the Code are in any way incorrect (Section 7.2.3 CGC). As ordered, the auditor reviewed the interim report per June 30, 2007.

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

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

Additional information about the compensation of the Supervisory Board is found in the Notes to the Financial Statements for 2007 on page 130 / 131 of the annual report.

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

ANNUAL GENERAL MEETING

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

Each share has one vote. Unit shares are issued and global certificates are created. The shares are bearer shares. The Executive Board makes it easier for shareholders to exercise their voting rights in the Annual General Meeting by offering them the right to issue powers of attorney to proxies who are appointed by the company and are bound by directives of the shareholder. Shareholders present at the Annual General Meeting will also be able to reach the proxies appointed by the company at that meeting. It is also possible to issue powers of attorney to financial institutions, shareholder associations and other third parties.

ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Since 2004, the annual financial statements for the KUKA Group have been prepared in accordance with the International Accounting Standards (IAS) and the international Financial Reporting Standards (IFRS). The audit of the Annual Financial Statements and of the Group Annual Financial Statements is performed by an independent auditor, elected by the Annual General Meeting. Per proposal of the Supervisory Board, the Annual General Meeting 2007 elected Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditor for the annual accounts and group auditor for the fiscal year 2007 as well as for a potential review of the mid year report of the fiscal year 2007. The mid year report of the fiscal year 2007 was reviewed by an auditor for the first time based on the aforementioned resolution.

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

OPPORTUNITIES AND RISK MANAGEMENT

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

could jeopardize the continued existence of the KUKA Group and its operating companies, in order to make it possible to take measures to minimize, transfer or avoid risk. The risk strategy and policy is particularly guided by the business risks, financial markets risk, including currency risk, and the specific risks in the divisions – in each case from a short, intermediate and longer-term perspective. KUKA further optimized opportunity and risk management throughout the year 2007. The adaptation of opportunity and risk management to changes in the business environment is an ongoing task of the Executive Board.

Controlling is an essential tool of efficient risk management.

FINANCIAL REPORTING

The company informs its shareholders, the participants in the capital markets and the media about the condition as well as material business events at the company in particular through quarterly reports, mid year statements, the Annual Report, the financial press conference reporting on the annual financial statements, and the ordinary Annual General Meeting of Shareholders. In addition, it issues ad-hoc releases under article 15 German Securities Trading Act (WpHG), notices under article 15 a WpHG (Director's dealings) and under article 26 WpHG (Disclosure of shareholders and owners of certain financial instruments), holds conferences with analysts, talks with analysts and investors in Germany and abroad and issues other press releases.

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

REPORT ON COMPENSATION

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 an integral part of the management report.

COMPENSATION OF THE EXECUTIVE BOARD

The Executive Board members' compensation consists of fixed and variable components. The fixed components comprise a base salary and payments in kind. The variable components include annually recurring components tied to business performance, as well as components that offer long-range incentive and that are tied to risk taking. 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.

The variable component is granted in relation to KUKA Group business performance indicators such as EBIT, capital employed and cash flow. The associated details are established annually by mutual agreement. The variable components include a cap.

Effective January 1, 2007, the members of the Executive Board signed a further contract agreeing that the company at its sole discretion may award an additional variable incentive payment in the event of extraordinary performance.

In 2006, a transitional rule was applied for one member of the Executive Board, which guarantees payment in 2007 of the variable incentive due for 2006.

In addition, a phantom share program that provides a long-term incentive was established for the Executive Board for the first time 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, the revenue from phantom shares is based not only on 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. The present (next phase) program covers the period 2007 to 2009. At the beginning of the three-year period, the Supervisory Board's personnel committee establishes the amount to be allocated. This amount is divided by KUKA's current share price, which establishes the preliminary number of phantom shares. Also at the beginning of the three-year performance period, the personnel committee establishes an EVA (economic value added) for continuing operations (before taxes) based on the operative plan for the three reference years (EBIT minus minimum interest rate on capital employed (CE) $\times 0.11 = \text{EVA}$), which is based on the budget for the first business year of the three-year period and the plan for the two subsequent business years. The cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operating budget for the three years covered by the agreement. 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, by which the preliminary number of phantom shares is multiplied. At the upper limit, the number of phantom shares is double. 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 preceding the first meeting of the personnel committee 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 base compen-



KUKA CAMRob enables robots to understand CNC data.

sation in the form of KUKA shares starting in March of the following year. The obligation ends with the participant's departure from the KUKA Group. In the event of employment termination, initiated by either party, all allocated phantom shares expire.

The starting value for the phantom share program is defined as the average price of KUKA's stock between January 1 and the day preceding the first meeting of the company's Supervisory Board personnel committee in the following year. The value was € 21.25 for the first phantom share program and is € 21.913 for the current phantom share program.

The Supervisory Board's personnel committee will decide anew 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.

The company approved benefits from the company pension scheme for two members of the Executive Board, comprising vested rights to pension payments, as well as widow's and orphan's pensions.

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

COMPENSATION FOR 2007

Payments to members of the Executive Board during the 2007 business year totaled € 3,956,000. The amounts for the 2007 business year include fixed salary, payments in kind, variable target achievement and performance-based compensation and compensation in accordance with the phantom share program. This total includes all amounts that were paid out in 2007, or for which accruals were formed in the financial statements as of December 31, 2007, minus the amounts accrued for as of December 31, 2006.

The variable performance-related annual incentive payment had three equally weighted components related to achievement of target EBIT, capital employed and cash flow during the 2007 business year.

In the event the targets are achieved, the variable incentive is paid to each Executive Board member in the form of a predefined sum in euro. In the event of an over or under achievement of the targets, the variable incentive is prorated on the basis of the over or under achievement, which can result in a payment of twice the nominal amount at a maximum or a reduction to € 0.00 in the opposite case. In accordance with these rules, payments were made for the first time in 2007 based on the rules established in 2006.

The relationship between base salary and performance-based components on an individual basis is shown in the following table:

in € thousands	Fixed salary including payments in kind*	Variable Component	Addition in 2007 to accruals for the phantom share program for 2006 – 2008 and 2007 – 2009***	Total
Gerhard Wiedemann	420	914**	170	1,504
Dr. Jürgen Koch	334	736**	186	1,256
Bernd Liepert	314	736**	146	1,196
				3,956

* Payments in kind comprise the use of company cars, payment of hotel costs at the company's headquarters, travel costs and premiums for accident insurance. 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.

** Thereof € 200,000 performance-related variable compensation because of the sale of the Packaging division.

*** Thereof for the phantom share program 2006–2008 in € thousands: Gerhard Wiedemann 76, Dr. Jürgen Koch 116, Bernd Liepert 76 and for the phantom share program 2007–2009 in € thousands: Gerhard Wiedemann 94, Dr. Jürgen Koch 70, Bernd Liepert 70.

PHANTOM SHARE PROGRAM 2006 – 2008

	Volume granted in € (fair value at the time of the grant)	Initial share price of the KUKA shares in €	Preliminary number of phantom shares
Gerhard Wiedemann	100,000	21.25	4,706
Dr. Jürgen Koch	150,000	21.25	7,059
Bernd Liepert	100,000	21.25	4,706

PHANTOM SHARE PROGRAM 2007 – 2009

	Volume granted in € (fair value at the time of the grant)	Initial share price of the KUKA shares in €	Preliminary number of phantom shares
Gerhard Wiedemann	200,000	21.913	9,127
Dr. Jürgen Koch	150,000	21.913	6,846
Bernd Liepert	150,000	21.913	6,846

The extent to which members of the Executive Board are entitled to benefits from the company pension plan are as follows:

Mssrs Wiedemann and Liepert were entitled to company pension plan benefits from the Group's companies of which they were or are the CEO. These obligations were transferred to KUKA Aktiengesellschaft on April 1, 2006. The Group's companies will be charged for the time prior to the transfer.

The employer's pension commitment for Mr. Wiedemann includes a maximum old-age pension of € 36,000 per annum and for Mr. Liepert a maximum of € 6,000 per annum. It also includes provisions regarding a vocational and employment disability pension, widow's pension (60 percent of the old age pension) and orphan's pension (12 percent of the old-age pension for half-orphans and 24 percent for full orphans). If pension payments are started early, the payout is reduced by 1 percent of the final pension amount for each quarter year prior to the pensioner's 65th birthday that the pension payments begin.

In 2007, the following amounts were added to pension accruals:

in € thousands	Addition
Gerhard Wiedemann	40
Dr. Jürgen Koch	–
Bernd Liepert	2

The variable component payment for Mssrs Wiedemann and Liepert will be reduced by an amount equal to the annual contribution to the pension accrual from 2006 onward.



View of the KUKA robot assembly area in Augsburg.

In 2007, € 2,163,000 in salary and severance were paid to former members of the Executive Board. Of this amount, € 1,581,000 had already been accrued for as of December 31, 2006, so that € 582,000 affecting net income had to be shown for the 2007 financial year. The compensation for the former Executive Board members has the same structure as that shown in the executive compensation report for active Executive Board members, unless a portion of the variable components had been guaranteed in the previous year. Former Executive Board members did not participate in the phantom share program. The former Executive Board member, Mr. Dieter Schäfer, is permitted to use his company vehicle until December 30, 2008, the originally agreed end of the employment contract.

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 2007 for current pensions and vested pension benefits totals € 8,853,000, which compares with € 9,093,000 in 2006.

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.

COMPENSATION OF THE SUPERVISORY BOARD

Compensation structure

A resolution was passed at the annual general meeting of the company on June 1, 2006, which changed the bylaws 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 following the end of the business year.

The chairman of the Supervisory Board will be paid four times that amount, and the deputy chairman's compensation will be double. For chairing the annual general meeting, provided it was not being chaired by the chairman 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. Committee chairman 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 article 27, paragraph 3 of the MitbestG (German Act on Company Codetermination).

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 2006 and 2007

The principles outlined for compensation of the members of the Supervisory Board were already applicable to the compensation for the 2006 financial year due in 2007. The following table compares the compensation of the members of the Supervisory Board for the 2006 and 2007 business years.

in € thousands	Accrual in 2007 (compensation for 2007)	Payment in 2007 (compensation for 2006)
Dr. Rolf Bartke, Chairman of the Supervisory Board and Chairman of the personnel committee	165	165
Mirko Geiger, deputy chairman of the Supervisory Board	90	90
Walter Prues	60	60
Dr. Reiner Beutel	60	60
Dr. Herbert Meyer, Chairman of the audit committee	75	75
Pepyn René Dinandt	30	30
Dr.-Ing. Helmut Leube	30	30
Jürgen Kerner	30	30
Herbert R. Meyer	30	30
Fritz Seifert	30	30
Wilhelm Steinhart	30	30
Dr. Herbert Demel (to June 1, 2006)		13
Prof. Dr.-Ing. Gerd Hirzinger (as of June 1, 2006)	30	18

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GROUP INCOME STATEMENT

of KUKA Aktiengesellschaft for the period Jan. 1 – Dec. 31, 2007

in € thousands	NOTE	2006*	2007
SALES REVENUE	1	1,164,557	1,286,367
Cost of sales		- 946,560	- 1,028,137
GROSS PROFIT		217,997	258,230
Selling expenses		- 76,141	- 83,378
Research and development expenses		- 35,486	- 30,776
General and administrative expenses		- 88,174	- 69,349
Other operating income and expenses	2	- 528	- 4,278
Amortization of goodwill	7	- 950	0
EARNINGS FROM OPERATING ACTIVITIES (EBIT)		16,718	70,449
Write-off of financial assets	8	- 6	- 91
Interest income	9	7,852	5,476
Interest expense	9	- 21,641	- 13,379
FINANCIAL RESULTS		- 13,795	- 7,994
EARNINGS BEFORE TAX		2,923	62,455
Taxes on income	10	- 5,053	- 13,638
EARNINGS FROM CONTINUING OPERATIONS		- 2,130	48,817
Earnings from operating activities of discontinued operations		1,804	- 2,687
Result from the disposal of discontinued operations		- 64,480	71,798
RESULT FROM DISCONTINUED OPERATIONS	11	- 62,676	69,111
ANNUAL NET LOSS / PROFIT		- 64,806	117,928
Annual net loss / profit attributable to minority interests		- 170	49
Annual net loss / profit attributable to KUKA		- 64,636	117,879
Earnings per share (basic)	12	- 2,43	4,43
(of that discontinued operations)	12	(- 2,36)	(2,60)

* In accordance with IFRS 5, the amounts for continuing operations in the income statement for 2006 are presented on a comparable basis.

GROUP BALANCE SHEET

of KUKA Aktiengesellschaft as at December 31, 2007

ASSETS

in € thousands	NOTE	Dec. 31, 2006	Dec. 31, 2007
NON-CURRENT ASSETS			
Fixed assets	13		
Intangible assets	14	135,890	69,497
Property, plant and equipment	15	153,517	91,928
Participations in associated companies	16	2,279	36
Financial investments	16	1,588	1,631
		293,274	163,092
Long-term tax receivables		8,878	12,821
Deferred taxes	10	45,537	31,104
		347,689	207,017
CURRENT ASSETS			
Inventories	17	231,089	150,020
Receivables and other assets			
Trade receivables	18	252,477	178,912
Receivables from construction contracts	18	116,800	92,995
Receivables from affiliated companies	18	3,608	3,585
Other assets, prepaid expenses and deferred charges	19	39,463	32,472
		412,348	307,964
Cash and cash equivalents	20	74,900	223,171
		718,337	681,155
ASSETS HELD FOR SALE	21	6,478	0
		1,072,504	888,172

EQITY AND LIABILITIES

in € thousands	NOTE	Dec. 31, 2006	Dec. 31, 2007
EQUITY	22		
Subscribed capital	23	69,160	69,160
Capital reserve	24	29,984	26,581
Revenue reserves	25	19,942	136,437
Minority interests	26	1,458	1,356
		120,544	233,534
NON-CURRENT LIABILITIES, PROVISIONS AND ACCRUALS	27		
Non-current financial liabilities	28	76,548	59,059
Other non-current liabilities	29	18,525	11,519
Pensions and similar obligations	30	140,302	73,859
Deferred taxes	10	9,923	4,719
		245,298	149,156
CURRENT LIABILITIES	27		
Current financial liabilities	28	82,230	516
Trade payables		209,470	148,880
Advances received		95,002	35,374
Liabilities from construction contracts	18	75,147	72,403
Accounts payable to affiliated companies		836	144
Other current liabilities and deferred income	29	93,649	85,319
Provision for taxes	31	23,036	36,561
Other provisions	32	127,292	126,285
		706,662	505,482
		1,072,504	888,172

STATEMENT OF RECOGNIZED INCOME AND EXPENSE

in € millions	2006	2007
Currency translation differences	- 3.2	- 8.3
Market valuation of hedges	0.2	0.0
Actuarial gains and losses on defined benefit pension plans and similar commitments	6.0	9.9
Deferred taxes on items offset directly against equity	- 2.3	- 3.2
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY	0.7	- 1.6
Group annual net loss / profit	- 64.8	117.9
TOTAL INCOME AND EXPENSE RECOGNIZED IN EQUITY	- 64.1	116.3
of which: attributable to minority interests	- 0.2	0.0
of which: attributable to KUKA	- 63.9	116.3
Changes in accounting policies	3.7	6.7

The development of Group equity was as follows:

NOTE	23	24	25				26		
			Revenue reserves						
in € millions	Sub- scribed capital	Capital reserve	Other revenue reserves	Currency translation gains/losses	Market valuation hedges	Net retained earnings	Equity to share- holders	Minority interests	Total
Dec. 31, 2005	69.2	99.5	5.2	0.5	- 0.2	0.0	174.2	0.6	174.8
Changes in ownership	-	-	- 2.4	-	-	-	- 2.4	1.1	- 1.3
Income and expense recognized directly in equity	-	-	3.7	- 3.2	0.2	-	0.7	-	0.7
Capital increase from convertible bond	-	11.3	-	-	-	-	11.3	-	11.3
Withdrawal/Additions from retained earnings / to capital reserve	-	- 80.9	16.1	-	-	64.6	- 0.2	-	- 0.2
Other changes	-	-	-	-	-	-	0.0	-	0.0
Group net loss for the year	-	-	-	-	-	- 64.6	- 64.6	- 0.2	- 64.8
Dec. 31, 2006	69.2	29.9	22.6	- 2.7	0.0	0.0	119.0	1.5	120.5
Changes in ownership	-	-	0.2	-	-	-	0.2	- 0.1	0.1
Income and expense recognized directly in equity	-	-	6.7	- 8.3	-	-	- 1.6	-	- 1.6
Withdrawal/Additions from retained earnings / to capital reserve	-	-	-	-	-	-	0.0	-	0.0
Other changes	-	- 3.4	-	-	-	-	- 3.4	-	- 3.4
Group net profit for the year	-	-	-	2.8	-	115.1	117.9	-	117.9
Dec. 31, 2007	69.2	26.5	29.5	- 8.2	0.0	115.1	232.1	1.4	233.5

CASH FLOW STATEMENT

in € millions	2006*	2007
NET LOSS / INCOME FOR THE YEAR	- 64.8	117.9
Result from the disposal of discontinued operations	64.5	- 71.8
Amortization of intangible assets	15.4	9.1
Depreciation of tangible assets	26.4	20.0
Write-off of financial assets	0.1	0.1
Other non-payment related expenses / income	10.6	5.9
CASH FLOW	52.2	81.2
Result on the disposal of assets	- 2.0	- 17.0
Changes in provisions	22.7	23.6
Changes in current assets and liabilities		
Changes in inventories	18.6	- 8.8
Changes in receivables and deferred charges	- 30.1	11.5
Changes in liabilities and deferred income (excl. financial debt)	- 3.1	- 28.2
CASH FLOW FROM OPERATING ACTIVITIES	58.3	62.3
(of that discontinued operations)	(- 21.9)	(- 9.9)
Payments from disposals of fixed assets	6.5	39.1
Payments for capital expenditures on intangible assets	- 13.9	- 14.8
Payments for capital expenditures on tangible assets	- 19.9	- 15.9
Payments for investments in financial assets	- 1.0	- 1.0
Outgoing payments in connection with the sale of consolidated companies and other business units	21.4	154.3
Payments for the acquisition of consolidated companies and other business units	0.0	- 0.4
CASH FLOW FROM INVESTING ACTIVITIES	- 6.9	161.3
(of that discontinued operations)	(16.7)	(- 3.9)
FREE CASH FLOW	51.4	223.6
Proceeds from the issuance of bonds and liabilities similar to bonds	67.4	0.0
Payments for repaying liabilities due to banks and liabilities similar to bonds	- 176.3	- 71.2
CASH FLOW FROM FINANCING ACTIVITIES	- 108.9	- 71.2
(of that discontinued operations)	(- 2.2)	(3.9)
PAYMENT-RELATED CHANGES IN CASH AND CASH EQUIVALENTS	- 57.5	152.4
(of that discontinued operations)	(- 7.4)	(- 9.9)
Exchange rate-related and other changes in cash and cash equivalents	6.6	- 4.1
(of that discontinued operations)	(0.0)	(- 3.5)
CHANGES IN CASH AND CASH EQUIVALENTS	- 50.9	148.3
Cash and cash equivalents at the beginning of the period	125.8	74.9
(of that discontinued operations)	(7.4)	(13.4)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**	74.9	223.2
(of that discontinued operations)	(0.0)	(0.0)
(of that continuing operations)	(74.9)	(223.2)

* The capital flow statement for 2006 was adjusted in line with Option 3 according to IAS 19.93A.

** Funds on hand correspond to the item "Cash and cash equivalents" on the balance sheet.

Please see discussion of the cash flow statement in the Notes to the financial statements, p. 172.

GROUP SEGMENT REPORTING

■ SEGMENT REPORTING BY DIVISION

in € millions	Robotics		Systems	
	2006	2007	2006	2007
Group external sales revenue	334.2	380.0	823.3	897.2
as a % of Group sales revenue	28.7	29.5	70.7	69.7
Intra-Group sales	39.1	32.9	9.5	2.8
SALES REVENUE BY DIVISION	373.3	412.9	832.8	900.0
EBIT	22.4	33.6	10.0	37.2
as a % of sales revenues of the division	6.0	8.1	1.2	4.1
as a % of Group external sales revenue	6.7	8.8	1.2	4.1
as a % of capital employed (ROCE)	24.3	34.6	9.9	51.0
Capital Employed (annual average) *	92.2	97.1	101.0	73.0
Assets *	195.4	239.7	419.0	367.1
Liabilities *	113.6	142.5	349.1	331.6
Capital expenditure	12.5	16.1	10.0	6.9
Depreciation / amortization of intangible and tangible assets	13.3	12.2	12.1	11.3
Impairment losses on intangible and tangible assets	0.1	0.5	1.0	0.5
Payroll (annual average)	1,877	1,958	3,555	3,599

■ SEGMENT REPORTING BY REGION

in € millions	Germany		Rest of Europe	
	2006	2007	2006	2007
Group external sales revenue	478.0	465.4	263.7	257.6
as a % of Group sales revenue	41.0	36.2	22.6	20.0
Capital Employed (annual average)	74.1	68.1	48.8	50.6
Assets *	417.9	396.1	130.4	138.4
Capital expenditure	15.3	20.1	2.9	3.3
Payroll (annual average)	3,305	3,240	1,233	1,229

* Balance sheet items for the prior year were adjusted to the new continuing operations structure for the sake of comparability.

KUKA Aktiengesellschaft, other
Companies and Reconciliation /
Consolidation items

Continuing operations

	2006	2007	2006	2007
	7.1	9.2	1,164.6	1,286.4
	0.6	0.8	100.0	100.0
	- 48.6	- 35.7	-	-
	- 41.5	- 26.5	1,164.6	1,286.4
	- 15.7	- 0.4	16.7	70.4
	-	-	1.4	5.5
	-	-	1.4	5.5
	-	-	8.1	41.6
	12.0	- 0.7	205.2	169.4
	86.7	13.5	701.1	620.3
	93.0	72.3	555.7	546.4
	0.3	3.4	22.8	26.4
	2.5	2.4	27.9	25.9
	-	-	1.1	1.0
	137	111	5,569	5,668

USA/Canada

Other Regions / Reconciliation

Continuing operations

	2006	2007	2006	2007	2006	2007
	314.8	414.3	108.1	149.1	1,164.6	1,286.4
	27.0	32.2	9.4	11.6	100.0	100.0
	85.8	58.4	- 3.5	- 7.7	205.2	169.4
	178.7	116.9	- 25.9	- 31.1	701.1	620.3
	4.0	2.3	0.6	0.7	22.8	26.4
	869	986	162	213	5,569	5,668

KUKA GROUP NOTES FOR THE 2007 FINANCIAL YEAR

GENERAL COMMENTS

By resolution of the Annual General Meeting of May 16, 2007, IWKA Aktiengesellschaft was renamed KUKA Aktiengesellschaft and the company headquarters relocated from Karlsruhe to Augsburg. KUKA Aktiengesellschaft prepares its Group consolidated financial statements in accordance with 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) as applicable in the European Union. The statements comply with all standards (IFRS / IAS) and interpretations (IFRICs) for which application is mandatory for the 2007 financial year. As a general rule, the accounting and valuation 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 2007 financial year. In addition, the existing option with respect to the recognition of actuarial gains and losses in connection with provisions for pensions provided for under IAS 19 was exercised to the effect that the latter are now recognized directly in equity and are no longer reported in the income statement. The income statement has been prepared for the first time according to the cost of sales method, which is the standard international presentation format. The figures for the prior year have been adjusted accordingly for comparison purposes. The newly applied standards and interpretations are listed under "changes in accounting and measurement 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.

The Group consolidated financial statements have been prepared in EURO. Unless otherwise noted, all amounts are stated in millions of euro (€ million). The report on emoluments represents an exception, providing information in thousands of euros (€ thousand).

The Executive Board authorized the consolidated financial statements for publication on March 3, 2008.

CONSOLIDATION, ACCOUNTING AND MEASUREMENT POLICIES

CONSOLIDATION

The Group consolidated financial statements are based on the financial statements of the KUKA Aktiengesellschaft and those of the consolidated subsidiaries and were prepared according to the uniform accounting and valuation policies for the Group. The consolidation of investments in subsidiaries capital was performed by elimination of the carrying amount of the participation against the proportionate equity in the subsidiary restated as at the date of 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, as well as 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.

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 Euro. 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 directly in the revenue reserves.

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 14.

Self-developed software and other development costs

Development costs for newly developed products or internally generated intangible assets (for instance, software) were capitalized according to the criteria of IAS 38 provided that the technical feasibility and commercialization of the newly developed products are assured and that this will result in an inflow of economic benefits to the Group. 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.

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 or unit-based method. Moreover, the value recognized for capitalized development costs 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.

Property, plant and equipment

Property, plant and equipment for continuing operations 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.

In addition to directly attributable costs, the costs of production for internally generated assets also include a proportionate share of overhead costs. Interest on borrowed capital is recognized as an expense when it is incurred.

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

	in 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 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 realisable 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 attaching to them will be complied with and that the grants will be received.

Government grants related to assets (for instance 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.

Financial and operating leasing

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.

To the extent that the KUKA Group has entered into operating leasing according to IAS 17, lease or rent payments are directly recognized as expense in the income statement. Relevant total future costs are reported in item 15.

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 originated financial assets (for instance, trade receivables or trade payables) as well as derivative financial instruments (transactions to hedge the risk of a change in value).

Derivative financial instruments are financial contracts whose value is derived from the price of an underlying asset (for instance, 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 nearly exclusively 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/ 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 financial investments

In the KUKA Group, participations in continuing business units that are not material to the net assets, financial position and results of operations of the Group are reported under financial assets available for sale. They are recognized at cost or at fair value derived from the anticipated discounted cash flows. 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 costs of acquisition 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.

Derivatives with a positive fair value that are not part of a hedging relationship 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 on 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.

If the fair value of derivatives that are not part of a hedging relationship 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 that are used to hedge the fair value of foreign currency receivables or payables recognized on the balance sheet are not accounted for under hedge accounting and are consequently classified as being held for trading. Gains and losses arising from changes in the fair value of these derivatives are recognized directly under operating results in the income statement, as are changes in the underlying transactions.

Accounting for hedging instruments within the restrictive framework of the hedge accounting rules must differentiate between fair value hedges and cash flow hedges.

Fair value hedges are used to hedge the risk of changes in the fair value of contractual obligations under orders received or committed (pending transactions). Changes in the fair value of the underlying transactions and of the associated hedging instruments are recognized directly in the income statement when the transactions expire as well as on each balance sheet date and generally balance each other out.

Cash flow hedges are used to hedge the risk of changes in the value of future cash flows. Until it is realized, the change in fair value is retained in equity as a reserve and is reclassified as gains or losses on the income statement in the same periods in which the underlying transaction affects profit or loss.

IAS 39 imposes strict requirements for the use of hedge accounting. KUKA complies with these as follows: At the initiation of a hedging transaction, both the relationship between the financial instrument used for hedging and the underlying transaction, and the hedging strategy and objectives are documented. This includes the specific matching of hedging instruments with the corresponding assets/liabilities or (committed) future transactions, as well as an estimate of the degree of effectiveness of the hedging instruments used. The effectiveness of existing hedges is monitored continuously; if a hedging relationship becomes ineffective, the ineffective positions are immediately unwound.

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. Interest on borrowed capital is not capitalized. 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 and when the circumstances that previously caused the inventories to be written down no longer exist, the amount of the write-down is 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 per 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 respectively liabilities from construction 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. If necessary, provisions are recognized for impending losses.

Deferred taxes

According to IAS 12, deferred taxes have been recorded for all temporary differences between the carrying values 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 and periodicity are 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 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. Starting in this financial year, actuarial gains and losses are recognized directly in equity (the so-called "Option 3.") Reference is made to the discussion in the section on "Changes in accounting and measurement policies" on page 110.

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.

No provisions were recognized for future expenses, since the latter 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.

Revenue recognition

Construction contracts (IAS 11) are accounted for by the percentage-of-completion method. Other revenues are recognized by using the completed-contract method 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 includes indirect costs, including the depreciation and amortization of production plants and intangible assets as well as any write-downs of inventories. KUKA accounts for provisions for product warranties as part of the cost of sales at the time of revenue recognition. Pending 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 and measurement methods, the Company has made the following significant 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 and measurement methods. 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 unit 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 unit 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 14.

Deferred tax assets

Deferred tax assets are recognized for all tax loss carry-forwards that have not yet been used 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 a significant exercise of discretion on the part of management, based on 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 10.

Pensions and other post-employment benefits

Expenditures under defined-benefit plans and other post-employment medical 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.

CHANGES IN ACCOUNTING AND MEASUREMENT POLICIES

The effect of changes in accounting and measurement policies on the Group financial statements of KUKA Aktiengesellschaft are shown below.

IAS 19 – Employee Benefits

Since the revision of IAS 19 published in December of 2004, the standard provides for an option (known as Option 3) to recognize actuarial gains and losses separate from results for the period and directly in equity. In accordance with the corridor method used by the KUKA Group to date, these amounts are recognized in the income statement and on the balance sheet if the higher of the present value of the sum of the obligations and the fair value of the plan assets at the end of the prior period is exceeded by more than 10 percent (10 percent corridor). Amounts outside of this corridor will in future be amortized as income or expense over the average future remaining working life of the eligible employees. Actuarial losses that fall within the corridor represent a deficit in the funding of the obligation being recognized. Under Option 3, the full amount of actuarial gains and losses must be recognized directly in equity in the year in which they arise. The amortization option is eliminated.

For the sake of greater transparency, the KUKA Group has elected this option for its reporting and to change to accounting in accordance with Option 3 as of December 31, 2007. The amounts recognized directly in equity are disclosed in the “Statement of recognized income and expense”

The retrospective application constitutes a change in accounting policies according to IAS 8. Accordingly it is necessary to adjust the accounting treatment of actuarial gains and losses as of January 1, 2006. This has an effect on the net results for the period, equity capital, the provision for pensions as well as deferred taxes. The following components of the Group financial statements are affected by the change:

- ⋮ Group Income Statement and Group Balance Sheet
- ⋮ Statement of recognized income and expense
- ⋮ Segment Reporting

In the income statement, the adjustment of the comparison figures for the 2006 financial year improves earnings before taxes from continued operations by € 0.5 million. Taking deferred taxes included in the income statement in the amount of € 0.2 million into account, earnings from continuing operations improve by € 0.3 million to € – 2.1 million.

Due to the higher amounts for the provision for pensions and as a result of the lower equity capital of the companies being disposed of, the effect on the Discontinued Operations after accounting for deferred taxes is to improve the results from the disposal in 2006 by € 4.3 million.

On the balance sheet as of December 31, 2006, the provision for pensions increases by € 8.2 million and other assets decrease by € 2.0 million. Deferred tax assets are higher by € 3.3 million, deferred tax liabilities decrease by € 0.7 million. Equity capital drops by € 6.2 million to € 120.5 million. Earnings per share for the 2006 financial year increase by € 0.17 as a result of the adjustment (of which € 0.16 relates to Discontinued Operations).

The adjustment amounts for periods prior to the financial year 2006 are an increase of € 23.4 million (of which € 16.7 million relates to Continuing Operations) in the provision for pensions, a rise in deferred tax assets by € 9.1 million (of which € 6.5 million relates to Continuing Operations) and a drop in equity capital by € 14.3 million (of which € 10.2 million relates to Continuing Operations).

If the 2007 consolidated financial statements for the Group had been prepared according to the previous method, the effects would be as follows: In the income statement, the results from Continuing Operations would decrease by € 0.1 million after accounting for deferred taxes of € 0.1 million recognized in profit or loss. The results from the disposal of Discontinued Operations would deteriorate by € 2.4 million. On the balance sheet as of December 31, 2007 the reported equity capital would be lower by € 3.5 million, the amount recognized as a provision for pensions would be higher by € 4.9 million. Deferred tax assets would increase by € 1.4 million.

For the 2007 financial year, the amount of the adjustment reflected in earnings per share is € – 0.20; of this € – 0.09 are attributable to Discontinued Operations. The application of the previous method would consequently result in earnings per share of € 4.23. Of this amount, € 2.51 are attributable to Discontinued Operations.

IFRS Standards and Interpretationen 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, they will only become effective at a later date and were not applied to the present Group consolidated financial statements under early adoption. Their impact on the Group consolidated financial statements of the KUKA Aktiengesellschaft has not yet been completely analyzed. Consequently, the anticipated effects as described in the footnotes to the table only represent a first estimate.

Standard / Interpretation	Effective date	Planned adoption by KUKA AG
IFRS 8 – Operating Segments	Jan. 1, 2009	2009 Financial year
IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions	Mar. 1, 2007	2008 Financial year
Changes to IFRS 2 – Share-based Payment	Jan. 1, 2009	2009 Financial year*
IFRS 3 – Business Combinations (revised)	July 1, 2009	2010 Financial year*
IAS 1 – Presentation of Financial Statements (revised)	Jan. 1, 2009	2009 Financial year*
IAS 23 – Borrowing Costs (revised)	Jan. 1, 2009	2009 Financial year*
IAS 27 – Consolidated and Separate Financial Statements according to IFRS (revised)	July 1, 2009	2010 Financial year*
Changes to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements	Jan. 1, 2009	2009 Financial year*
IFRIC 12 – Service Concession Arrangements	Jan. 1, 2008	2008 Financial year*
IFRIC 13 – Customer Loyalty Programs*	July 1, 2008	2008 Financial year*
IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Jan. 1, 2008	2008 Financial year*

* Pending adoption by the European Union.

IFRS 8 Operating Segments

IFRS 8 was published in November of 2006 and must be adopted for the first time for financial years starting on or after January 1, 2009. IFRS 8 requires the disclosure of information about the operating segments of an entity and takes the place of the obligation to define primary (business) and secondary (geographic) segment reporting formats for a company. IFRS 8 takes what is termed the management approach, according to which segment reporting is determined solely by the financial information that is used by the decision makers of the entity for the internal control and management of the enterprise. The main parameters for this are the internal reporting and organization structure as well as the financial information that is used to make decisions about the allocation of resource and to assess performance.

The Group has not elected for an early adoption of IFRS 8 and continues to apply IAS 14 Segment Reporting. The new standard will have an effect on the nature and format of financial information that is disclosed about the operating segments of the Group, but not on the recognition and measurement of assets and liabilities in the consolidated financial statements.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The interpretation IFRIC 11 was published in November of 2006 and must be adopted for the first time for financial years starting on or after March 1, 2007. In accordance with this interpretation, agreements under which employees are granted rights to equity instruments of an entity must be accounted for as equity-settled share-based payments transactions even if the entity acquires those instruments from a third party or if the shareholders provide the instruments needed.

Due to the low volume of share-based payments in the Group, the first-time adoption of this new regulation is not expected to have a material effect on the consolidated financial statements in the future.

Changes to IFRS 2 – Share-based Payment

The changes to IFRS 2 were published in January of 2008 and must be adopted for the first time for financial years starting on or after January 1, 2009. The changes relate on the one hand to the clarification that the term “vesting conditions” refers exclusively to conditions related to service and performance. On the other hand the rules governing the accounting for an early cancellation of share-based payment plans is also extended to cases of cancellation by the employees. The transitional provisions require a retrospective application of the new rules.

Due to the low volume of share-based payments in the Group, the first-time adoption of this new regulation is not expected to have a material effect on the consolidated financial statements in the future.

IFRS 3 Business Combinations (revised)

The changes to IFRS 3 were published in January of 2008 and must be adopted for the first time for financial years starting on or after July 1, 2009. The standard was comprehensively revised under the IASB-FASB convergence project. The principal changes relate, in particular, to the introduction of a right of election relative to measurement of minority interests between recognition at a pro-rata share of identifiable net assets (so-called purchased goodwill method) or the so-called full goodwill method, according to which the entire goodwill of the acquired company must be recognized, including the portion attributable to the minority shareholders. Other aspects to be emphasized include the remeasurement, through profit or loss, of already existing equity interest when control is acquired for the first time (acquisition in stages), the mandatory recognition of a consideration contingent upon future events at the time of acquisition as well as the recognition of transaction costs in the income statement. The transitional provisions anticipate a prospective application of the new rules. There are no changes affecting assets and liabilities arising from business combinations prior to the initial adoption of the new standard.

Since we currently have no knowledge of any business combinations in 2009, it is not possible to provide a definitive assessment of the effects of applying this standard for the first time.

IAS 1 – Presentation of Financial Statements (revised)

The revised Standard IAS 1 was published in September of 2007 and must be adopted for the first time for financial years starting on or after January 1, 2009. The new version of the Standard includes significant changes to the presentation and disclosure of financial information in the annual financial statements. The innovations include, in particular, the introduction of a statement of comprehensive income comprising both net profit / loss generated during a period as well as unrealized gains and losses that have, to date, been recognized directly in equity, and that replaces the income statement in its present form. In addition it will now be necessary to prepare a balance sheet as of the beginning of the comparison period in addition to the balance sheet as of the balance sheet reporting date and the balance sheet as of the prior reporting date, if and when the entity applies accounting and measurement methods retrospectively, corrects an error or reclassifies a line item in the annual financial statements.

The new standard will have an effect on the nature and format of financial information that is disclosed about the Group, but not on the recognition and measurement of assets and liabilities in the consolidated financial statements.

IAS 23 Borrowing Costs (revised)

The revised Standard IAS 23 was published in March of 2007 and must be adopted for the first time for financial years starting on or after January 1, 2009. The standard requires the capitalization of borrowing costs that are attributable to a qualifying asset. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The standard anticipates a prospective application of the new rules.

In accordance with the transitional provisions of the Standard, the Group will apply the same prospectively. Starting as of January 1, 2009, borrowing costs attributable to qualifying assets will accordingly be capitalized. There are no changes with respect to borrowing costs incurred that have been recognized directly as an expense. Due to the low use of borrowings in the financial year of the first-time adoption, the initial application of the new regulations is not expected to have any material effect on the consolidated financial statements.

IAS 27 Consolidated and Separate Financial Statements according to IFRS (revised)

The modified Standard IAS 27 was published in January of 2008. The changes made must be applied for the first time to financial years beginning on or after July 1, 2009. The changes result from the joint IASB / FASB project to revise the accounting rules for business combinations. The changes relate primarily to the accounting for non-controlling interests (minority interests) which will, in future, participate fully in the losses of the consolidated company, and to accounting for transactions that result in the loss of control over a subsidiary, the effects of which must be treated as profit or loss. In contrast, the effect of the disposal of ownership interests that do not result in a loss of control shall be recognized directly in equity. The transitional provisions, which generally require a retrospective application for the adopted changes, require a prospective application for the events listed above. There are consequently no changes affecting assets and liabilities arising from such transactions prior to the initial adoption of the new standard.

Since neither the above-referenced transactions nor a negative balance for minority interests appear probable from today's perspective, the application of this standard will have no effects on the consolidated financial statements.

Changes to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements

The changes to IFRS 32 and to IAS 1 were published in February of 2008 and must be adopted for the first time for financial years starting on or after January 1, 2009. The changes relate to the classification of callable partnership capital as either equity or liabilities. Under the rules to date, entities were forced by statutory rights of call in some cases to recognize paid-in partnership capital as a financial liability. In the future, this paid-in partnership capital is to be generally classified as equity capital, provided that a settlement at fair value is agreed and that the paid-in contributions represent a subordinated claim to the net assets of the entity.

Given the legal form of the parent company and the relevant provisions of the law and the company statutes, the new regulations will have no future effect on the classification, measurement and presentation of partnership contributions in the consolidated financial statements of the Group.

IFRIC 12 Service Concession Arrangements

The interpretation IFRIC 12 was published in November of 2006 and must be adopted for the first time for financial years starting on or after January 1, 2008. The interpretation governs the accounting treatment of obligations assumed and rights obtained in connection with entering into service concession arrangements.

Due to the low volume of service concession arrangements in the Group, the first-time adoption of this new regulation is not expected to have a material effect on the consolidated financial statements of the Group in the future.

IFRIC 13 Customer Loyalty Programs

The interpretation IFRIC 13 was published in June of 2007 and must be adopted for the first time for financial years starting on or after July 1, 2008. According to this interpretation, customer loyalty awards granted to customers must be accounted for as a separately identifiable component of the sales transaction(s) in which they were granted. Accordingly, part of the fair value of the consideration received is allocated to the award credited and accrued as a liability. The revenue is recognized in the period in which the customer awards granted are either exercised or expire.

Since the Group currently has no customer loyalty program, this interpretation is not expected to have any effect on the consolidated financial statements of the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The interpretation IFRIC 14 was published in July of 2007 and must be adopted for the first time for financial years starting on or after January 1, 2008. This interpretation provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset.

Since the Company's defined benefit pension plan is currently in a deficit position, this interpretation is not expected to have any effects on the net assets, financial position and results of operations of the Group.

IFRS standards and interpretations that are mandatory as of the 2007 financial year**Adjustments to IAS 1 Disclosures on Capital**

This change resulted in new disclosures that enable users of financial statements to evaluate an entity's objectives, policies and processes for managing capital. The new disclosures are presented in the notes to the financial statements under other comments on financial instruments.

IFRS 7 Financial Instruments: Disclosure

This standard requires disclosures that enable the user of financial statements to evaluate the impact of financial statements on the financial position and the results of operations of the Group as well as the nature and scope of the risks resulting from these financial instruments. The resulting new disclosures affect the entire set of financial statements. However, the adoption has no effect on the net assets, financial position and results of operation of the Group. The relevant comparison data was adjusted.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in which an entity identifies the existence of hyperinflation in the economy of its functional currency when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. The first-time application of this interpretation had no effect on the consolidated financial statements of the Group.

IFRIC 8 Scope of IFRS 2

IFRIC 8 clarifies that IFRS 2 Share-based Payment is also applicable to agreements in cases in which an entity cannot identify specifically at least some or all of the goods or services received as a consideration. This applies especially if the fair value of the equity instruments granted appears to be higher than the value of the goods or services received. The adoption of this interpretation did not result in any effect on the consolidated financial statements of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

According to this interpretation, an entity is required, when it first becomes a party to a contract involving a combined (structured) instrument, to assess whether the contract combines an embedded derivative. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows. Since KUKA is not party to any contracts containing embedded derivatives that require to be separated from the host contract, IFRIC 9 had no effects on the net assets, financial position and results of operations of the Group.

IFRIC 10 Interim Financial Reporting and Impairments

IFRIC 10 establishes that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost in any subsequent financial statements. Since the Group has not recognized any such reversal of expenses related to impairment losses, this interpretation has not resulted in any effect on the net assets, financial position and results of operation of the Group.

SCOPE OF CONSOLIDATION

In addition to KUKA Aktiengesellschaft, the Group consolidated financial statements include ten companies registered in Germany (prior year 22) as well as 33 companies domiciled outside of Germany (prior year 50) on whose behalf KUKA Aktiengesellschaft exercises directly or indirectly uniform control.

The following changes to the scope of consolidation occurred in 2007:

FIRST-TIME CONSOLIDATIONS

The following companies, which had previously not been consolidated because of their relative insignificance (new formations in 2006), were included in the scope of consolidation for the first time this year:

Systems division:

- ⋮ KUKA Automation Equipment (India) Pvt. Ltd., Pune / India

Robotics division:

- ⋮ KUKA Roboter Austria GmbH, Linz / Austria

In addition, KUKA Robotics (India) pvt. Ltd., Haryana / India, was acquired in April of 2007, and immediately added to the Group of consolidated companies for the first time. KUKA Roboter GmbH acquired 100.0 percent of the shares for a purchase price of € 9.2 thousand. The balance sheet assets of the company at the time of acquisition totaled € 494 thousand. The incorporation of the first-time consolidations had no material effect on the net assets, financial position and results of operations of the Group.

DECONSOLIDATIONS DUE TO DIVESTMENTS

Due to the sale of the Packaging division to Funds of the investment company Odewald & Compagnie, the following companies were no longer included in the scope of consolidation as of April 19, 2007:

- ⋮ A+F Automation + Fördertechnik GmbH, Kirchlingern
- ⋮ Benz & Hilgers GmbH, Neuss
- ⋮ BW International Inc., Davenport / USA
- ⋮ BW International (Holdings) Ltd., Altrincham / Great Britain
- ⋮ BWI plc, Altrincham / Great Britain
- ⋮ ERCA Formseal Iberica S.A., Barcelona / Spain
- ⋮ ERCA Formseal S.A., Les Ulis / France
- ⋮ Fabrima Máquinas Automáticas Ltda., São Paulo / Brazil
- ⋮ GASTI Verpackungsmaschinen GmbH, Schwäbisch Hall
- ⋮ HASSIA Verpackungsmaschinen GmbH, Ranstadt
- ⋮ Hassia Redatron Packaging Machinery Pvt. Ltd., Pune / India
- ⋮ IWKA Packaging USA Inc, Morganville / USA
- ⋮ Hüttlin GmbH, Steinen

- ⋮ IWK Packaging Machinery Ltd., Bangkok / Thailand
- ⋮ IWK Verpackungstechnik GmbH, Stutensee
- ⋮ IWKA Packaging Systems GmbH, Kirchleugern
- ⋮ IWKA Packaging Verwaltungs GmbH, Stutensee
- ⋮ IWKA Packaging OOO, Moscow / Russia
- ⋮ IWKA PACSYSTEMS Inc., Fairfield / USA
- ⋮ R.A. Jones Inc., Covington / USA
- ⋮ Packaging Technologies Inc., Davenport / USA
- ⋮ Tecmar SA, Mar del Plata / Argentina

In addition, 4 unconsolidated affiliated companies and two associated companies were disposed of as part of this sale.

OTHER CHANGES TO THE SCOPE OF CONSOLIDATION

In the 2007 financial year, the following mergers took place between companies within the scope of consolidation:

- ⋮ KUKA Service Solutions GmbH, Augsburg into KUKA Systems GmbH, Augsburg (effective January 1, 2007)
- ⋮ KUKA Werkzeugbau Schwarzenberg GmbH, Schwarzenberg into KUKA Systems GmbH, Augsburg (effective January 1, 2007)
- ⋮ KUKA SysTec GmbH, Günzburg into Bopp & Reuther Anlagen-Verwaltungsgesellschaft mbH, Mannheim (effective January 1, 2007)
- ⋮ IWKA Holding Corp., Sterling Heights / USA into KUKA Flexible Production Systems Corporation, Sterling Heights / USA (effective June 30, 2007)
- ⋮ Autoplan GmbH, Augsburg into HLS Ingenieurbüro GmbH, Augsburg (effective December 1, 2007)
- ⋮ Farman Industries S.A.S., Tours / France, including
- ⋮ Farman Produits Standards S.A.S., Tours / France, into KUKA Systems France S.A., St. Cloud Cedex / France (effective January 1, 2007)
- ⋮ GECOM-Société Groupement Etudes Carrosserie Outillage Mecanique S.A., Plaisir / France, into KUKA Systems France S.A., St. Cloud Cedex / France (effective January 1, 2007)
- ⋮ Société Tourangelle d'Entreprises Electriques S.A., St. Pierre des Corps / France, into KUKA Systems France S.A., St. Cloud Cedex / France (effective December 31, 2007)

ASSOCIATED COMPANIES

Companies in which it is possible for KUKA Aktiengesellschaft, directly or indirectly, to exercise a significant influence (associated companies), are recorded on the balance sheet by the equity method.

In the 2007 financial year, no companies were accounted for using the equity method since the equity investments were of minor significance for an assessment of the Group's net assets, financial position and results of operations. In the prior year PAM-PAC Machines Private Ltd., Mumbai / India was accounted for using the equity method. The company was disposed of as part of the sale of the Packaging division.

DISCONTINUED OPERATIONS

IFRS 5 requires a separate disclosure of assets (companies) that are no longer intended to remain as part of continuing operations but are intended for disposal.

The following criteria, which are intended to ascertain that the sale of these companies is highly probable, were adhered to, and companies to which they applied were classified as Discontinued Operations:

- ⋮ The management level authorized to make the necessary decisions must be committed to the planned sale. Additionally, active efforts to identify a buyer must have been initiated. The companies intended for sale must be actively marketed for sale at a price that approximately corresponds to their current fair value.
- ⋮ These companies must be available for immediate sale in their present condition.
- ⋮ The likelihood must be strong that the execution and closing of this sale can be expected within twelve months from the date of reclassification.

As of the date of the classification as Discontinued Operations, the long term assets of these companies are no longer subject to scheduled depreciation. The assets and liabilities are recognized at the lower of their carrying amount or fair value less costs to sell.

The prior year numbers for the Discontinued Operations have been separately disclosed in the income statement with no valuation adjustment. No prior-period adjustment has been made on the balance sheet.

On the basis of the criteria in IFRS 5, the following companies were classified as Discontinued Operations (while the prior year has been taken into account) as at the dates stated:

- ⋮ EX-CELL-O-Gruppe (as at September 30, 2005)
 - ⋮ EX-CELL-O GmbH, Eislingen / Fils
 - ⋮ EX-CELL-O Machine Tools, Inc., Sterling Heights / USA
 - ⋮ EX-CELL-O Machines S.A.S., Paris / France
 as well as two non-consolidated participations were sold to the Maxcor Group, New York by contract dated December 29, 2005, effective as at December 31, 2005 / January 1, 2006.

- ⋮ Flexible Solution-Group (as at December 31, 2005)
 - ⋮ IWKA Balg- und Kompensatoren-Technologie GmbH, Stutensee
 - ⋮ American BOA Inc., Cumming / USA
 - ⋮ BOA AG, Rothenburg / Switzerland
 - ⋮ SAS Souplesse Fonctionnelle Systematique, Chassieu / France
 - ⋮ Tubest Flexible Solutions S.A., Fere en Tardenois / France
 as well as eleven non-consolidated or associated companies. The Flexible Solutions Group was sold to the financial investor Odewald & Compagnie by contract of December 22, 2005, effective as at

December 31, 2005 / January 1, 2006. The companies had already been classified as part of Discontinued Operations as of December 31, 2005.

- ⋮ Bopp & Reuther Sicherheits- und Regelarmaturen GmbH, Mannheim and C.H. Zikesch Armaturentechnik GmbH, Essen, as well as two non-consolidated participations (as at December 31, 2005). Negotiations were conducted prior to the financial statement date of the prior year, and were concluded on February 22, 2006 with the sale of the companies to the financial investor Tequity retroactive to January 1, 2006. The companies had already been classified as part of Discontinued Operations as of December 31, 2005.
- ⋮ Boehringer-Gruppe (as at December 31, 2005)
 - ⋮ Boehringer Werkzeugmaschinen GmbH, Göppingen
 - ⋮ Boehringer Werkzeugmaschinen Vertriebsgesellschaft mbH, Göppingen
 - ⋮ FMS Drehtechnik Schaffhausen AG, Schaffhausen / Switzerland
 - ⋮ George Fischer-Boehringer Corp., Farmington Hills / USA
 - ⋮ UBJ-Boehringer Inc., Mississauga / Canada,as well as two non-consolidated equity investments were sold to companies in the Maxcor Group by contract dated November 22 / 23, 2006 and effective as of December 21, 2006. In 2006 the companies had been classified as part of Discontinued Operations.
- ⋮ J.W. Froehlich-Gruppe (as of June 25, 2006):
 - ⋮ J.W. Froehlich Maschinenfabrik GmbH, Leinfelden-Echterdingen
 - ⋮ JW Froehlich (UK) Ltd., Laindon / Great BritainThe two companies were sold to J.W. Froehlich Verwaltungs GmbH by contract dated June 26 and effective as of June 30, 2006. In 2006 the companies had been classified as part of Discontinued Operations.
- ⋮ HASSIA-Redatron GmbH, Butzbach (June 30, 2006)

By contract dated September 8, 2006, the company was sold to PILTZ Verwaltungsgesellschaft effective as of October 1, 2006. The company has been classified as part of Discontinued Operations in 2006.
- ⋮ GSN Maschinen-Anlagen-Service GmbH, Rottenburg (June 30, 2006)

By contract dated November 13, 2006, the company was sold to its Management effective as of November 21, 2006. The company has been classified as part of Discontinued Operations in 2006.
- ⋮ ARO-Gruppe (June 30, 2006)
 - ⋮ ARO Schweißmaschinen GmbH, Augsburg
 - ⋮ ARO Soudometal Resistance Welding S.A.-N.V., Brussels / Belgium
 - ⋮ ARO Controls S.A.S., Chateau-du-Loir / France

- : ARO S.A.S., Château-du-Loir / France

- : Savair Inc., Chesterfield / USA

The Group was sold to Langley Holdings plc., Retford / Great Britain on December 11, 2006.

In 2006 the companies had been classified as part of Discontinued Operations.

- : Companies of the Packaging division (April 19, 2007):

- : A+F Automation + Fördertechnik GmbH, Kirchleugern

- : Benz & Hilgers GmbH, Neuss

- : BW International Inc., Davenport / USA

- : BW International (Holdings) Ltd., Altrincham / Great Britain

- : BWI plc, Altrincham / Great Britain

- : ERCA Formseal Iberica S.A., Barcelona / Spain

- : ERCA Formseal S.A., Les Ulis / France

- : Fabrima Máquinas Automáticas Ltda., São Paulo / Brazil

- : GASTI Verpackungsmaschinen GmbH, Schwäbisch Hall

- : HASSIA Verpackungsmaschinen GmbH, Ranstadt

- : Hassia Redatron Packaging Machinery Pvt. Ltd., Pune / India

- : IWKA Packaging USA Inc, Morganville / USA

- : Hüttlin GmbH, Steinen

- : IWK Packaging Machinery Ltd., Bangkok / Thailand

- : IWK Verpackungstechnik GmbH, Stutensee

- : IWKA Packaging Systems GmbH, Kirchleugern

- : IWKA Packaging Verwaltungs GmbH, Stutensee

- : IWKA Packaging OOO, Moscow / Russia

- : IWKA PACSYSTEMS Inc., Fairfield / USA

- : R.A. Jones Inc., Covington / USA

- : Packaging Technologies Inc., Davenport / USA

- : Tecmar SA, Mar del Plata / Argentina

as well as four non-consolidated participations and two associated companies.

The group was sold to a fund of the investment company Odewald & Compagnie Gesellschaft für Beteiligungen mbH, Berlin on April 19, 2007. In the prior year, the companies had been allocated to the Packaging segment.

NOTES ON THE GROUP INCOME STATEMENT

The income statement gives priority to the presentation of continuing operations as they would appear after the disposal of Discontinued Operations. Accordingly, the results of Discontinued Operations are presented as a single line in the income statement, with further details discussed under Item 11.

1 SALES REVENUES

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

The breakdown of sales revenues by business divisions and regions is shown in segment reporting.

In connection with construction contracts, sales revenues in the amount of € 638.8 million were recognized in the reporting year (compared to € 506.1 million in the prior year) according to the percentage of completion method.

2 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 or general and administrative expenses or otherwise reported separately.

This includes income (€ 5.0 million; prior year € 6.6 million) and expenses (€ 4.6 million; prior year € 6.3 million) from foreign currency transactions. Other income of € 3.6 million (prior year € 6.4 million) exceeds other expenses by € 0.4 million (prior year € 2.1 million). Other taxes totaled € 5.1 million compared to € 2.9 million in the prior year.

3 COST OF MATERIALS

The cost of materials in the 2007 financial year totaled € 748.9 million (prior year: € 676.8 million).

in € millions	2006	2007
Cost of raw materials, supplies and goods purchased	520.9	549.4
Cost of purchased services	155.9	199.5
	676.8	748.9

4 PERSONNEL EXPENSE AND PAYROLL

Personnel expenses in the 2007 financial year were equal to € 332.0 million (prior year: € 318.2 million).

Personnel costs are directly attributed to the functional categories on the basis of cost centers.

in € millions	2006	2007
Wages and salaries	264.4	277.6
Social security payments and contributions for retirement benefits and provident funds	53.8	54.4
(of that for retirement benefits)	(1.5)	(3.5)
	318.2	332.0

On average for the year (incl. Discontinued Operations) the KUKA payroll was:

	Total 2006	Total 2007	of that, Germany	of that, Abroad
Wage earners	3,534	2,446	1,061	1,385
Salaried employees	5,635	3,676	2,295	1,381
Trainees / apprentices	282	185	158	27
	9,451	6,307	3,514	2,793
(of that Continuing operations)	(5,569)	(5,668)	(3,240)	(2,428)

5 TOTAL EMOLUMENTS OF EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

The members of the Executive Board are listed on page 167. Unlike other data in the notes, these figures are stated in thousands of Euros.

Compensation of the Executive Board

The Executive Board members' compensation consists of fixed and variable components. The fixed components comprise a base salary and payments in kind. The variable components include annually recurring components tied to business performance, as well as components that offer long-range incentive and that are tied to risk taking.

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.

The variable component is granted in relation to KUKA Group business performance indicators such as EBIT, capital employed and cash flow. The associated details are established annually by mutual agreement. The variable components include a cap.

Effective January 1, 2007, the members of the Executive Board signed a further contract agreeing that the company at its sole discretion may award an additional variable incentive payment in the event of extraordinary performance.

In 2006, a transitional rule was applied for one member of the Executive Board, which guarantees payment in 2007 of the variable incentive due for 2006.

In addition, a Phantom Share Program that provides a long-term incentive was established for the Executive Board for the first time 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, the revenue from phantom shares is based not only on the increase in share value, but the entire 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 associated voting rights.

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. The present (next phase) program covers the period 2007 to 2009. At the beginning of the three-year period, the Supervisory Board's personnel committee establishes the amount to be allocated. This amount is divided by KUKA's current share price, which establishes the preliminary number of phantom shares. Also at the beginning of the three-year performance period, the personnel committee establishes an EVA (economic value added) for continuing operations (before taxes) based on the operative plan for the three reference years [EBIT minus minimum interest rate on capital employed (CE) x 0.11 = EVA], which is based on the budget for the first business year of the three-year period and the plan for the two subsequent business years. The cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operating budget for the three years covered by the agreement. 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, by which the preliminary number of phantom shares is multiplied. At the upper limit, the number of phantom shares is double. 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 of the first meeting of the personnel committee in the following year).

Each Executive Board member participating is obligated to apply 25 percent of the gross amount paid out in April 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 compen-

sation in the form of KUKA shares starting in March of the following year. The obligation ends with the participant's departure from the KUKA Group. In the event of employment termination, initiated by either party, all allocated phantom shares expire.

The starting value for the Phantom Share Program is defined as the average price of KUKA's stock between January 1 and the day of the first meeting of the company's Supervisory Board personnel committee in the following year. The value was € 21.25 for the first Phantom Share Program and is € 21.913 for the current Phantom Share Program.

The Personnel Committee of the company's Supervisory Board will decide anew 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 an KUKA shareholder. It promotes share ownership among members of KUKA's Executive Board and thereby ties the interests of these corporate members even more closely to the interests of the shareholders.

Changing success targets or comparative parameters retroactively is prohibited.

The company approved benefits from the company pension scheme for two members of the Executive Board, which comprise vested rights to pension payments, as well as widows and orphans pensions.

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

Compensation for 2007

Payments to members of the Executive Board during the 2007 business year totaled € 3,956 thousand. The amounts for the 2007 business year include fixed salary, payments in kind, variable target achievement and performance-based compensation and compensation in accordance with the Phantom Share Program. This total includes all amounts that were paid out in 2007, or for which accruals were recognized in the financial statements dated December 31, 2007, minus the amounts accrued for as of December 31, 2006.

The variable performance-related annual incentive payment had three equally weighted components related to achievement of target EBIT, capital employed and cash flow during the 2007 business year.

In the event the targets are achieved, the variable incentive is paid to each Executive Board member in the form of a predefined sum in Euro. In the event of an over or under achievement of the targets, the variable incentive is prorated on the basis of the over or under achievement, which can result in a payment of twice the nominal amount or a reduction to € 0.00 in the opposite case. In accordance with these rules, payments were made for the first time in 2007 based on the rules established in 2006.

The relationship between base salary and performance-based components on an individual basis is shown in the following table:

in € thousands	Fixed salaries incl. payments in kind*	Variable Payments	Addition in 2007 to provisions for the Phantom Share Program for 2006–2008 and 2007–2009***	Total
Gerhard Wiedemann	420	914**	170	1,504
Dr. Jürgen Koch	334	736**	186	1,256
Bernd Liepert	314	736**	146	1,196
				3,956

* Payments in kind comprise the use of company cars, payment of hotel costs at the company's headquarters, travel costs and premiums for accident insurance. 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 Executive Board.

** Thereof € 200,000 performance-related variable compensation because of the sale of the Packaging division.

*** Thereof for the Phantom Share Program 2006–2008 in € thousands: Gerhard Wiedemann 76, Dr. Jürgen Koch 116, Bernd Liepert 76 and for the Phantom Share Program 2007–2009 in € thousands: Gerhard Wiedemann 94, Dr. Jürgen Koch 70, Bernd Liepert 70.

■ PHANTOM SHARE PROGRAM 2006–2008

	Volume granted in € (fair value at the time of the grant)	Initial share price of the KUKA shares in €	Preliminary numbers of phantom shares
Gerhard Wiedemann	100,000	21.25	4,706
Dr. Jürgen Koch	150,000	21.25	7,059
Bernd Liepert	100,000	21.25	4,706

☰ PHANTOM SHARE PROGRAM 2007 – 2009

	Volume granted in € (fair value at the time of the grant)	Initial share price of the KUKA shares in €	Preliminary numbers of phantom shares
Gerhard Wiedemann	200,000	21.913	9,127
Dr. Jürgen Koch	150,000	21.913	6,846
Bernd Liepert	150,000	21.913	6,846

Provisions to cover the expected payouts are recognized in accordance with conditions as of the balance sheet date. For this purpose, the preliminary number of phantom shares, weighted by the success factor achieved to date, is multiplied by the KUKA share price on the reference date and this amount is recognized as provisions prorated over time. The amounts recognized as provisions are:

☰ PHANTOM SHARE PROGRAM 2006 – 2008

	Amount of the provision as of Dec. 31, 2007
Gerhard Wiedemann	101
Dr. Jürgen Koch	151
Bernd Liepert	100

☰ PHANTOM SHARE PROGRAM 2007 – 2009

	Amount of the provision as of Dec. 31, 2007
Gerhard Wiedemann	94
Dr. Jürgen Koch	70
Bernd Liepert	71

The extent to which members of the Executive Board are entitled to benefits from the company pension plan are as follows:

Mssrs Wiedemann and Liepert were entitled to company pension plan benefits from the Group's companies of which they were or are the CEO. These obligations were transferred to KUKA Aktiengesellschaft on April 1, 2006. The Group's companies will be charged for the time prior to the transfer.

The employer's pension commitment for Mr. Wiedemann includes a maximum old-age pension of € 36 thousand p. a. and for Mr. Liepert a maximum of € 6 thousand p. a. It also includes provisions regarding a vocational and employment disability pension, widow's pension (60 percent of the old age pension) and orphan's pension (12 percent of the old-age pension for half-orphans and 24 percent for full orphans). If pension payments are started early, the payout is reduced by 1 percent of the final pension amount for each quarter year prior to the pensioner's 65th birthday that the pension payments begin.

In 2007, the following amounts were added to pension accruals:

in € thousands	Addition
Gerhard Wiedemann	40
Dr. Jürgen Koch	–
Bernd Liepert	2

The variable incentive payment for Mssrs. Wiedemann and Liepert will be reduced by an amount equal to the annual contribution to the pension accrual from 2006 onward.

In 2007, € 2,163 thousand in severance and salary were paid to former members of the Executive Board. Of this amount, € 1,581 thousand had already been accrued for as of December 31, 2006, so that € 582 thousand affecting net income had to be shown for the 2007 financial year. The compensation for the former Executive Board members has the same structure as that shown in the executive compensation report for active Executive Board members, unless a portion of the variable incentive payments had been guaranteed in the previous year. Former Executive Board members did not participate in the Phantom Share Program. The former Executive Board member, Mr. Dieter Schäfer, is permitted to use his company vehicle until December 30, 2008, the originally agreed to end of the employment contract.

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 provisions included for this group of persons in 2007 for current pensions and expected pension benefits totals € 8,853 thousand, which compares with € 9,093 thousand in 2006.

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.

COMPENSATION OF THE SUPERVISORY BOARD

Compensation Structure

A resolution was passed at the annual general meeting of the company on June 1, 2006, which changed the bylaws 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 thousand, payable after 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 is not being chaired by the head of the Supervisory Board, and for membership in one or more committees that are not of an interim nature, Supervisory Board members will be paid an additional sum of € 30 thousand. 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 article 27, paragraph 3 of the MitbestG. (German Act on Company Codetermination).

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 2006 and 2007

The principles outlined for compensation of the members of the Supervisory Board were already applicable to the compensation for the 2006 financial year due in 2007. The following table compares the compensation of the members of the Supervisory Board for the 2006 and 2007 business years.

in € thousands	Payment in 2007 (compensation for 2006)	Accrual in 2007 (compensation for 2007)
Dr. Rolf Bartke Chairman of the Supervisory Board and Chairman of the Personnel Committee	165	165
Mirko Geiger Deputy Chairman of the Supervisory Board	90	90
Walter Prues	60	60
Dr. Reiner Beutel	60	60
Dr. Herbert Meyer Chairman of the Audit Committee	75	75
Pepyn René Dinandt	30	30
Dr.-Ing. Helmut Leube	30	30
Jürgen Kerner	30	30
Herbert R. Meyer	30	30
Fritz Seifert	30	30
Wilhelm Steinhart	30	30
Dr. Herbert Demel (to June 1, 2006)	13	
Prof. Dr.-Ing. Gerd Hirzinger (as of June 1, 2006)	18	30

6 DEPRECIATION AND AMORTIZATION OF TANGIBLE AND INTANGIBLE ASSETS (EXCL. GOODWILL)

Depreciation and amortization of tangible fixed assets and intangible assets (excluding goodwill) totaled € 26.9 million for the 2007 financial year (prior year: € 28.0 million). Of this total, € 15.5 million (prior year: € 14.4 million) were recognized as cost of sales.

7 WRITE-OFFS OF GOODWILL (PRIOR YEAR)

In 2006, the goodwill recognized in relation to D.V. Automation Ltd., Surrey / Great Britain in the amount of € 1.0 million was written off entirely.

8 WRITE-OFFS OF FINANCIAL ASSETS

The write-downs of financial assets in the amount of € 0.1 million relate to shares in Tölzer & Wagner Elektrotechnik GmbH, Rohrbach, which were written down to their net realizable value.

9 INTEREST INCOME / EXPENSE

in € millions	2006	2007
Other interest and similar income	7.8	5.5
(of that, related to affiliated companies)	(5.3)	(0.5)
	7.8	5.5
Interest and similar expenses	21.6	13.4
(of that, related to affiliated companies)	(0.7)	(0.4)
NET INTEREST INCOME / EXPENSE	- 13.8	- 7.9

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. Interest and similar expenses include the interest portion of additions to the provision for pensions in the amount of € 3.7 million (prior year € 3.7 million). In addition this item includes LC and commitment fees, refinancing costs and interest on loans received. The convertible bond also added € 4.7 million to net interest expense for the financial year.

10 TAXES ON INCOME / DEFERRED TAXES

Tax expense

Income tax expense breaks down by origin as follows:

in € millions	2006	2007
Current taxes	- 9.0	12.0
Deferred taxes		
from temporary differences	15.7	- 0.2
from loss carry-forwards	- 1.7	1.8
	5.0	13.6

The theoretical tax expense calculated on the basis of net earnings before taxes in the amount of € 62.5 million (prior year € 2.9 million) and the applicable tax rate of 39.0 percent (prior year 39.0 percent) for KUKA companies in Germany are reconciled to actual tax expenses as follows:

in € millions	2006	2007
THEORETICAL TAX EXPENSE	1.1	24.4
Tax rate-related differences	0.9	- 0.8
Tax reductions due to tax-exempt income	- 0.6	- 0.7
Tax increases due to non-deductible expenses	0.9	1.7
Back taxes paid (+) and tax credits received (-) for prior years	- 4.1	- 3.1
Tax refund claims according to the changes in sec. 37 par. 4 to 6 of the German Corporate Income Tax Act	- 8.9	- 5.3
Non-deductible goodwill amortization	0.3	0.0
Changes to allowance on deferred taxes	16.9	- 9.7
Changes in tax rates due to the German Business Tax Reform in Germany	0.0	7.1
Other differences	- 1.5	0.0
TAXES ON INCOME (ACTUAL TAX EXPENSE)	5.0	13.6

In principle, deferred taxes were recognized on the basis of the applicable tax rate for each company in question. By way of simplification, the calculation of deferred taxes for consolidation measures that have an effect of profit or loss, was based on a uniform underlying tax rate of 30 percent, compared to 39 percent in the prior year. In 2007, the corporate income tax reform had a net effect on deferred taxes in the income statement equal to € 7.1 million or € 14.5 million on deferred tax assets and € 7.4 million on write-downs of deferred tax assets.

An increase of € 6.6 million, gross, in the corporate income tax credit balance to a gross balance of € 20.9 million was recognized on the basis of an outside tax audit for the years 1998 through 2001. After discounting, an amount of € 12.8 million is now reported as non-current tax receivable and an amount of € 1.8 million is reported as current tax receivable. In consequence of the recognition at present value, this results in a one-time income from taxes in the amount of € 5.3 million, which is reported as part of the effects from the outside tax audit. After taking income tax credit balances and tax reversal effects into account, the overall result of the outside tax audit was a need to recognize liabilities for additional payments (taxes and interest).

The additional expenses resulting from the outside tax audit have been recognized accordingly in the 2007 annual financial statements. In this connection, the part of the retroactive charges, which applies to the companies in the packaging division that have meanwhile been sold, is reported under Discontinued Operations.

Deferred tax assets and deferred tax liabilities

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

in € millions	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007
Non-current assets	10.6	1.7	13.9	14.6
Current assets	27.0	33.3	64.9	37.7
Provisions	39.1	17.9	2.3	0.1
Liabilities	29.9	15.3	3.4	10.9
	106.6	68.2	84.5	63.3
Balancing item	- 74.6	- 58.6	- 74.6	- 58.6
Valuation allowance	- 16.1	- 2.5	-	-
	15.9	7.1	9.9	4.7
Deferred taxes on temporary differences	15.9	7.1	9.9	4.7
Deferred taxes on tax loss carry-forwards	29.6	24.0	-	-
	45.5	31.1	9.9	4.7

Valuation allowance to the carrying value 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 valuation allowance in subsequent periods.

The impact on tax expense of changes to the write-downs for temporary valuation differences and loss carry-forwards is a tax income of € 17.1 million (prior year: tax expense of € 16.9 million). Of that amount, € 7.1 million result from changes due to the corporate tax reform in Germany for 2008 and beyond.

The recognized values on the balance sheet were written off in the event that the tax benefits that they represent are no longer expected to be realized. In the amount recognized as at December 31, 2007, valuation allowances were recorded in the amounts of € 1.7 million (prior year € 16.1 million) for temporary valuation differences and € 23.6 million (prior year € 47.2 million) for loss carry-forwards. To the extent that loss carry-forwards were not written off, it is expected that the potential tax benefits

will be realized in the next three years as a result of taxable earnings that are deemed probable on the basis of the companies' business plans. As at December 31, 2007, the amount for tax-loss carry-forwards not yet used was € 164.0 million, compared to € 211.9 million in 2006.

Of these – largely written-down – loss carry-forwards, € 130.2 million are related to German companies and thus not subject to expiration. € 11.4 million loss carry-forwards that will expire in the years from 2020 onward are carried in the USA. In addition, the total amount includes loss carry-forwards in the amount of € 1.5 million in Great Britain, € 16.1 million in France and € 4.8 million in other countries, which are not subject to expiration.

In accordance with IAS 12, deferred tax items must be recognized for the difference between the pro-rata equity of a subsidiary recognized on the Group balance sheet and the 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 amount will be realized. Since both the KUKA Aktiengesellschaft as well as the subsidiaries in question are corporations, these differences are predominantly tax exempt under § 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, if any (e. g., those resulting from the 5 percent flat-rate allocation under § 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.

Deferred tax liabilities

The amount of € 4.7 million for deferred taxes as at December 31, 2007 is related to temporary valuation differences compared to the amounts recognized in the financial statements for tax purposes. The prior year's figure was € 9.9 million.

in € millions	Status as at Jan. 1	Changes to the scope of consolidation, exchange rate differences, net unrealised adjustments, reclassification in Disc. Operations			Status as at Dec. 31
		Consumption	Reduction	Additions	
2006	8.0	– 2.0	0.6	4.5	9.9
2007	9.9	– 0.8	6.3	1.9	4.7

11 RESULT FROM DISCONTINUED OPERATIONS

The following table shows a breakdown of earnings from operating activities of Discontinued Operations:

in € millions	2006	2007
SALES REVENUE	616.4	88.0
Changes in inventories of finished goods and work in process	11.6	11.4
Own costs capitalized	2.4	0.2
TOTAL OUTPUT	630.4	99.6
Other operating income	8.3	0.1
	638.7	99.7
Cost of materials	- 289.5	- 44.0
Personnel expense	- 226.3	- 37.2
Depreciation / amortization on intangible assets and tangible assets	- 12.9	- 2.2
Other operating expenses	- 103.6	- 15.5
	- 632.3	- 98.9
EARNINGS FROM OPERATING ACTIVITIES	6.4	0.8
EARNINGS FROM FINANCING ACTIVITIES	- 6.0	- 3.1
INCOME FROM ORDINARY ACTIVITIES	0.4	- 2.3
Taxes on income	1.4	- 0.4
EARNINGS FROM OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	1.8	- 2.7
Result recognized on disposal	- 66.2	74.1
Tax impact of result on disposal	1.7	- 2.3
RESULT FROM THE DISPOSAL OF DISCONTINUED OPERATIONS	- 64.5	71.8
RESULT FROM DISCONTINUED OPERATIONS	- 62.7	69.1

Result from the disposal of Discontinued Operation in the current financial year include gains on the disposal of companies in the Packaging division in the amount of € 69.4 million. In comparison to September 30, 2007, this includes the reversal of provisions of approximately € 6.6 million which had been recognized for risks associated with the sale. This mainly reflects a reassessment of the risks and possible use of the provisions after the passage of time. This was partially offset, in particular, by the recognition of an adequate amount as provision for tax risks and associated interest expenses. Of the provisions for guarantees in connection with the sale of Boehringer Werkzeugmaschinen GmbH that were recognized in the prior year, € 2.0 million were reversed due to expiration of guarantees over time. In addition, payments of € 0.4 million were received in the financial year on a seller's loan that had been written off in the prior year; this amount was recognized as income.

Results recognized on the disposal of Discontinued Operations in the financial year 2006 include losses on the sale of the companies of the Boehringer Group (€ 36,2 million), the ARO Group (€ 19,6 million), the GSN Maschinen-Anlagen-Service GmbH (€ 3,7 million), the J. W. Froehlich Group (€ 2,4 million), the HASSIA-Redatron GmbH (€ 2,5 million) as well as the Bopp & Reuther Sicherheits- und Regelarmaturen Group (€ 0,7 million). The disposal of the EX-CELL-O Group resulted in a gain on disposal of € 0.7 million. In addition, allowances for losses were recognized in connection with sellers' loans and a total of € 1.3 million was recognized as aggregate expenses in connection with the sale of the companies. The gain on the sale of IWKA Regler u. Kompensatoren Vertriebsgesellschaft m.b.H., Vienna, in the amount of € 0,9 million was recognized as an offsetting item. As a result of the change to recognition in equity of actuarial gains and losses on provisions for pensions that was made in 2007, losses on disposal show a decrease of € 4.3 million compared to the amounts reported in the annual financial statements for the prior year.

Positive purchase prices were achieved in the prior year for the sales of the ARO Group (€ 5.1 million), the J.W. Froehlich Group (€ 16.4 million) and IWKA Regler u. Kompensatoren Vertriebsgesellschaft m.b.H. Vienna / Austria (€ 1.5 million). No proceeds could be achieved for the other sales.

12 EARNINGS PER SHARE

Undiluted earnings per share break down as follows:

	2006	2007
Net loss / profit for the year after minority interests (in € millions)	- 64.60	117.90
(of that discontinued operations)	(- 62.70)	(69.10)
Weighted average number of shares outstanding	26,600,000	26,600,000
EARNINGS PER SHARE (IN €)	- 2.43	4.43
(of that discontinued operations)	(- 2.36)	(2.60)

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.

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 2,646,063 shares. Since the average share price in 2007 remained below the conversion price so that a conversion would have been unfavorable for the bond holders, there was no diluting effect in 2007.

NOTES ON THE GROUP BALANCE SHEET

13 NON-CURRENT ASSETS

SCHEDULE OF CHANGES IN FIXED ASSETS 2007

in € thousands	Acquisition / Manufacturing Costs							Status as at Dec. 31, 2007
	Status as at Jan. 1, 2007	Reclassification as discontinued operations	Exchange-rate differences	Changes to scope of Consolidation	Additions	Disposals	Reclassifications	
I. INTANGIBLE ASSETS								
1. Rights and similar assets	48,083	- 18,930	- 444	0	7,675	5,152	165	31,397
2. Self-developed software and other development costs	18,580	- 10,518	0	0	6,447	0	0	14,509
3. Goodwill	118,158	- 61,525	0	0		0		56,633
4. Advances paid	161	- 161	0	0	201	0	- 165	36
	184,982	- 91,134	- 444	0	14,323	5,152	0	102,575
II. TANGIBLE ASSETS								
1. Land, similar rights and buildings including buildings on land owned by third parties	197,833	- 67,334	- 2,276	0	792	15,507	288	113,796
2. Technical plant and equipment	112,270	- 35,981	- 577	150	2,538	1,711	3,552	80,241
3. Other equipment, factory and office equipment	106,257	- 37,208	- 873	27	6,585	7,634	633	67,787
4. Advances paid and construction in progress	1,507	- 1,043	- 2	0	2,182	5	- 1,663	976
	417,867	- 141,566	- 3,728	177	12,097	24,857	2,810	262,800
III. FINANCIAL INVESTMENTS								
1. Participations in affiliated companies	5,648	- 372	0	- 293	693	25	0	5,651
2. Participations in associated companies	2,479	- 2,443	0	0	0	0	0	36
3. Other participations	320	0	0	0	272	286	0	306
4. Other loans	1,034	- 44	- 50	0	0	51	0	889
	9,481	- 2,859	- 50	- 293	965	362	0	6,882
	612,330	- 235,559	- 4,222	- 116	27,385	30,371	2,810	372,257

Status as at Jan. 1, 2007	Reclassifi- cation as discontinued operations	Exchange- rate differences	Changes to scope of Consoli- dation	Additions		Disposals	Accumulated Depreciation		Net carrying amount
				Reclassifi- cations	Status as at Dec. 31, 2007		Status as at Dec. 31, 2007		
37,659	- 16,034	- 276	0	4,426	4,353	0	21,422	9,975	
4,437	- 3461	0	0	3,684	0	0	4,660	9,849	
6,996	0	0	0	0	0	0	6,996	49,637	
0	0	0	0	0	0	0	0	36	
49,092	- 19,495	- 276	0	8,110	4,353	0	33,078	69,497	
95,539	- 36,046	- 385	0	4,001	3,845	0	59,264	54,532	
85,365	- 30,819	- 389	2	7,249	1,119	- 251	60,038	20,203	
83,446	- 31,761	- 568	2	7,518	7,320	251	51,568	16,219	
0	0	0	0	2	0	0	2	974	
264,350	- 98,626	- 1,342	4	18,770	12,284	0	170,872	91,928	
4,857	- 109	0	0	10	5	0	4,753	898	
200	- 200	0	0	0	0	0	0	36	
34	0	0	0	82	82	0	34	272	
523	- 44	- 50	0	0	1	0	428	461	
5,614	- 353	- 50	0	92	88	0	5,215	1,667	
319,056	- 118,474	- 1,668	4	26,972	16,725	0	209,165	163,092	

III SCHEDULE OF CHANGES IN FIXED ASSETS 2006

in € thousands	Acquisition / Manufacturing Costs							Status as at Dec. 31, 2006
	Status as at Jan. 1, 2006	Reclassification as discontinued operations	Exchange-rate differences	Changes to scope of Consolidation	Additions	Disposals	Reclassifications	
I. INTANGIBLE ASSETS								
1. Rights and similar assets	48,162	- 5,259	- 687	2,010	4,844	1,325	338	48,083
2. Self-developed software and other development costs	38,015	0	0	0	6,182	25,617	0	18,580
3. Goodwill	127,345	- 9,152	0	- 402	367	0	0	118,158
4. Advances paid	482	- 232	- 7	0	170	0	- 252	161
	214,004	- 14,643	- 694	1,608	11,563	26,942	86	184,982
II. TANGIBLE ASSETS								
1. Land, similar rights and buildings including buildings on land owned by third parties	237,358	- 36,259	- 5,248	2,768	1,964	2,884	134	197,833
2. Technical plant and equipment	122,179	- 14,931	- 863	4,448	5,455	4,972	954	112,270
3. Other equipment, factory and office equipment	124,112	- 16,504	- 1,549	3,302	8,287	11,820	429	106,257
4. Advances paid and construction in progress	1,007	- 303	- 4	12	2,398	0	- 1,603	1,507
	484,656	- 67,997	- 7,664	10,530	18,104	19,676	- 86	417,867
III. FINANCIAL INVESTMENTS								
1. Participations in affiliated companies	23,206	- 4,274	- 1	- 12,156	544	1,671	0	5,648
2. Participations in associated companies	3,262	- 17	0	0	569	1,335	0	2,479
3. Other participations	320	0	0	0	0	0	0	320
4. Other loans	1,161	- 1	- 56	1	0	71	0	1,034
	27,949	- 4,292	- 57	- 12,155	1,113	3,077	0	9,481
	726,609	- 86,932	- 8,415	- 17	30,780	49,695	0	612,330

Status as at Jan. 1, 2006	Reclassifi- cation as discontinued operations	Exchange- rate differences	Changes to scope of Consoli- dation	Additions		Disposals	Accumulated Depreciation		Net carrying amount
				Reclassifi- cations	Status as at Dec. 31, 2006		Status as at Dec. 31, 2006		
36,469	- 4,009	- 460	1,355	5,551	1,247	0	37,659	10,424	
22,584	0	0	0	7,470	25,617	0	4,437	14,143	
6,996	0	0	- 996	996	0	0	6,996	111,162	
0	0	0	0	0	0	0	0	161	
66,049	- 4,009	- 460	359	14,017	26,864	0	49,092	135,890	
103,957	- 12,175	- 1,735	201	5,749	424	- 34	95,539	102,294	
92,103	- 11,279	- 830	1,251	8,658	4,594	56	85,365	26,905	
96,421	- 12,318	- 1,182	1,462	10,011	10,926	- 22	83,446	22,811	
0	0	0	0	0	0	0	0	1,507	
292,481	- 35,772	- 3,747	2,914	24,418	15,944	0	264,350	153,517	
12,330	- 2,956	0	- 3,340	115	1,292	0	4,857	791	
217	- 17	0	0	0	0	0	200	2,279	
34	0	0	0	0	0	0	34	286	
578	0	- 56	0	1	0	0	523	511	
13,159	- 2,973	- 56	- 3,340	116	1,292	0	5,614	3,867	
371,689	- 42,754	- 4,263	- 67	38,551	44,100	0	319,056	293,274	

14 INTANGIBLE ASSETS

Changes to the individual items under intangible assets are disclosed in the schedule of movements in fixed assets. In the 2007 and 2006 financial years, no impairment losses were recognized on assets other than goodwill.

Goodwill

Recognized goodwill in the amount of € 49.6 million compares to 111.2 million a year earlier and breaks down as follows:

Profit center (prior year: Company) / in € millions	Dec. 31, 2006	Dec. 31, 2007
Body-in-white manufacturing (in 2006: KUKA Systems Corp. North America, Sterling Heights / USA, HLS Ingenieurbüro GmbH, Augsburg and KUKA Service Solutions GmbH, Augsburg)	40.7	40.7
Assembly systems (in 2006: B&K Corp., Saginaw / USA and LSW Maschinenfabrik GmbH, Bremen)	4.7	4.7
Robotics Automotive (in 2006: KUKA Roboter GmbH, Augsburg and KUKA ProTec GmbH, Augsburg)	3.8	3.8
Companies of the Packaging division	61.6	–
Others / less than one million €	0.4	0.4
	111.2	49.6

To date, the Cash Generating Units that constitute the basis for the goodwill impairment tests corresponded to the legal entities. In a departure from this, the cash generating unit for KUKA Systems Corp. North America was the KUKA Systems Group.

In the reporting period, the organization structure was adjusted in the course of the restructuring and realignment of the Group to fit the new requirements. The Group is managed and controlled on the basis of newly defined and uniformly differentiated profit centers. Internal reporting is now based on these units. Starting in 2007, as a result of these organizational changes, the individual profit center generally represents the smallest cash generating unit. In the Robotics division, the customer service business is allocated to the “Automotive” and “General Industry” profit centers on a pro-rata basis.

The following table shows the discount rates for WACC before taxes used in the impairment tests performed in the 2007 financial year:

in %	2006	2007
Planning period	2007 – 2009	2008 – 2010
Systems	12.8	12.9
Robotics	12.9	13.2
Packaging	11.0	–

In this context, the cost of equity capital was determined on the basis of segment-specific peer groups. A growth discount of 0.5 percent (prior year 1.0 percent) was applied as perpetuity.

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 weighted on the basis of the average capital structure of the respective peer group. The expected average tax rate of the peer group of 35 percent was chosen as the tax rate.

In the prior year, goodwill of 1.0 million for D.V. Automation Ltd., Surrey / Great Britain, which is part of the Systems division, was fully written off.

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 that includes according to IAS attributable direct costs as well as an appropriate allocation for overheads and depreciation.

Following the sale of the Packaging division, 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. Total expenditures for research and development for the reporting period were € 30.8 million compared to € 35.5 million in 2007

Development costs with a total carrying value of € 9.8 million from the years 2005 to 2007 compared to € 14.1 million the year prior have been capitalized according to IAS 38. Net additions for 2007 totaled € 2.8 million. In the 2006 financial year, amortization exceeded additions by € 1.3 million. Amortization is applied using a unit-based or straight-line method over the respective expected useful life of generally three years or less.

15 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, are shown under item 13. The major focus of capital expenditures in the financial year is described in the Management Report.

Subsidies in the amount of € 0.1 million were deducted from the cost of purchase or cost of production for tangible assets during the financial year, compared to € 0.1 million the year prior.

The amounts for depreciation, amortization and impairment losses are as follows:

in € millions	2006	2007
DEPRECIATION OF TANGIBLE ASSETS		
Scheduled	18.4	17.8
Non-scheduled	0.1	1.0
	18.5	18.8

In the 2007 financial year, impairment losses of € 1.0 million are related to a machine of the Systems division (write-down to the net realizable value) as well as a developed property in the Robotics division (closing of the location as well as change of the useful life).

In the prior year, impairment losses of € 0.1 million were related to an underutilized machine in the Robotics division.

The following amount has been capitalized for tangible assets in consequence of finance leases, in which the KUKA Group acts as the lessee:

in € millions	Dec. 31, 2006 Net carrying amount	Dec. 31, 2007 Net carrying amount
Land and buildings	1.3	1.8
Technical plant and equipment	0.1	0.0
	1.4	1.8

Leases for real estate and other facilities, other equipment, factory and office equipment regularly include a purchase option. The remaining terms of the leases are one year. The underlying interest rate of the contracts is 5.5 percent p.a. Future payments due under finance leases and the present value of future lease payments, for which the corresponding amounts have been recognized as other liabilities, are shown in the following table:

in € millions	Dec. 31, 2006 Total	Dec. 31, 2007 Total	Up to one year
Minimum lease payments	0.2	0.1	0.1
Present value	0.2	0.1	0.1

■ COMMITMENTS FROM LEASES AND RENTAL AGREEMENTS

in € millions	Dec. 31, 2006	Dec. 31, 2007
Up to one year	20.6	15.4
Between one and five years	60.0	48.5
More than five years	67.4	53.1
	148.0	117.0

In addition to leases for passenger cars, office and factory buildings, liabilities from leases and rental agreements in connection with operating leases also include leasing commitments in connection with the financing of a plant for the production of Jeep Wrangler car bodies in Toledo / USA.

16 PARTICIPATIONS IN ASSOCIATED COMPANIES AND FINANCIAL INVESTMENTS

The breakdown of the items under financial non-current assets is shown under item 13.

The summary financial information about the associated companies is shown in the following table.

in € millions	2006	2007
Total balance sheet assets	9.6	3.8
Total liabilities	3.4	3.0
Total sales revenue	16.9	4.5
Profit/loss for the period	1.1	0.0

The carrying amount derecognized on the sale of the shares in PAM-PAC Machines Pvt. Ltd. Mumbai, India, during the reporting period was € 2.2 million.

17 INVENTORIES

in € millions	Dec. 31, 2006	Dec. 31, 2007
Raw materials and supplies	61.2	48.1
Work in process	115.6	63.3
Finished goods, Goods purchased	27.6	21.9
Advances paid	26.7	16.7
	231.1	150.0

Total inventories disclosed on the balance sheet in the amount of € 150.0 million compare with € 231.1 million in 2006 and have been recognized at net realizable values. The write-down, relative to gross value, was € 30.2 million versus € 74.7 million the year prior.

The carrying value of inventories subject to restraint on disposal is not material.

18 RECEIVABLES

in € millions	Dec. 31, 2006		Dec. 31, 2007	
	Total	of that more than one year	Total	of that more than one year
Trade receivables	252.5	1.6	178.9	0.0
Receivables from construction contracts	116.8	0.0	93.0	0.0
Receivables from affiliated companies	3.6	0.0	3.6	0.0
	372.9	1.6	275.5	0.0

The following table breaks down receivables from continuing operations by age and recoverability:

in € millions / Status as at Dec. 31, 2007	Net carry- ing amount	of which: neither im- paired nor in arrears as at the balance sheet date	of which: not impaired as of the balance sheet date but in arrears by					of which: with spec. bad debt allowance
			less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	more than 180 days	
Trade receivables	178.9	123.9	23.3	9.4	5.2	9.7	6.0	1.4
Receivables from affiliated companies	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	182.5	127.5	23.3	9.4	5.2	9.7	6.0	1.4

in € millions / Status as at Dec. 31, 2006	Net carry- ing amount	of which: neither im- paired nor in arrears as at the balance sheet date	of which: not impaired as of the balance sheet date but in arrears by					of which: with spec. bad debt allowance
			less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	more than 180 days	
Trade receivables	162.6	115.8	19.4	9.7	3.2	5.0	7.0	2.5
Receivables from affiliated companies	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	166.2	119.4	19.4	9.7	3.2	5.0	7.0	2.5

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	2006	2007
Impairment losses / Status as at Jan. 1	6.9	7.4
Additions (Expenses related to impairment losses)	3.4	3.1
Use	- 2.2	- 2.3
Reversals	- 0.7	- 0.8
IMPAIRMENT LOSSES / STATUS AS AT DEC. 31	7.4	7.4

The total amount of additions of € 3.1 million (2006: € 3.4 million) breaks down into additions for specific bad debt allowances of € 2.1 million (2006: € 2.9 million) and portfolio bad debt allowances in the amount of € 1.0 million (2006: € 0.5 million). Reversals reflect € 0.7 million (2006: € 0.3 million) in specific bad debt allowances that were not required to be used as well as € 0.1 million (2006: € 0.4 million) in portfolio bad debt allowances that were not required to be used.

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 construction contracts in the amount of € 492.8 million were offset against advances received in the amount of € 399.8 million. In 2006 these figures were € 489.7 million and € 448.0 million respectively. This resulted in receivables of € 93.0 million compared to € 116.8 million the year prior and liabilities of € 72.4 million versus € 75.1 million a year earlier. In the case of payables from construction contracts advances received exceed the costs incurred and the earnings portion.

19 OTHER ASSETS, PREPAID EXPENSES AND DEFERRED CHARGES

in € millions	Dec. 31, 2006		Dec. 31, 2007	
	Total	of that more than one year	Total	of that more than one year
Other assets, prepaid expenses and deferred changes	41.4	5.7	32.5	1.0

Other assets include tax refund claims in the amount of € 10.7 million (prior year: € 8.5 million).

The following table breaks down other assets for continuing operations by age and recoverability.

in € millions	Net carrying amount	of which: neither impaired nor in arrears as at the balance sheet date	of which: not impaired as of the balance sheet date but in arrears by					of which: with spec. bad debt allowance
			less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	more than 180 days	
Dec. 31, 2006	15.7	15.6	0.0	0.0	0.0	0.0	0.0	0.1
Dec. 31, 2007	15.4	15.0	0.0	0.0	0.0	0.0	0.0	0.4

With respect to existing other assets that were neither impaired nor in default, there were no indications as of the balance sheet date that the obligors would not meet their payment obligations.

Impairment losses on other assets developed as follows:

in € millions	2006	2007
Impairment losses/ Status as at Jan. 1	3.3	4.4
Additions (Expenses related to impairment losses)	1.2	0.1
Use	0.0	- 1.2
Reversals	- 0.1	- 0.6
IMPAIRMENT LOSSES/ STATUS AS AT DEC. 31	4.4	2.7

20 CASH AND CASH EQUIVALENTS

This item comprises 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.

21 ASSETS HELD FOR SALE / DISCONTINUED OPERATIONS

As of December 31, 2007, there were no Discontinued Operations nor assets held for sale.

On the balance sheet date for the prior year, the company reported a property and buildings of B&R Anlagenverwaltungs GmbH, Mannheim in this category with a net carrying amount of € 6.5 million.

22 EQUITY / TREASURY SHARES

Changes to equity, including changes without effect on profit or loss are disclosed in the statement of recognized income and expense on page 98.

The Executive Board of KUKA Aktiengesellschaft was authorized by resolution of the Annual General Meeting of May 16, 2007 to buy back own shares up to a volume of ten percent of share capital through October 31, 2008. The Executive Board was authorized, subject to the approval of the Supervisory Board, to assign the treasury shares thus acquired to a third party as compensation for the acquisition of an equity interest.

The Executive Board was further authorized, subject to the approval of the Supervisory Board, to withdraw the treasury shares acquired on the basis of this authorization, without such withdrawal or the execution thereof requiring a further resolution of the Annual General Meeting. The Executive Board did not exercise this authorization during the financial year 2007.

In 2007, the company purchased own shares for KUKA employees as part of an employee stock ownership program [Article 71, paragraph 1 no. 2 of the AktG (German Corporation Act)] and resold these to the employees. A total of 65,969 shares of common stock were purchased and resold.

23 SUBSCRIBED CAPITAL

The share capital totals € 69,160,000.00, and is divided into 26,600,000 individual no-par value shares issued to bearer.

On the basis of a resolution by the Annual General Meeting of KUKA Aktiengesellschaft of July 4, 2003, the capital stock is to be conditionally increased by up to € 19,500,000.00 by issuing up to € 7,500,000 new shares. The conditional capital increase shall only be carried out to the extent that option and / or conversion rights are exercised by the holders of option rights and / or conversion rights to be issued by the company or its directly or indirectly majority owned companies in Germany or abroad on or before July 4, 2008 (article 5, paragraph 6 of the bylaws).

On May 9, 2006, KUKA Aktiengesellschaft partially exercised the respective authorization to issue options and or convertible bonds 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 € 26.07648 per share to no-par value shares of KUKA Aktiengesellschaft issued to the bearer. Capital is thereby conditionally increased – subject to the anti-dilution provisions in the bond terms and conditions – by a maximum of 2,660,000 shares. The bond was subsequently listed on the EUROMtf market of the Luxembourg stock exchange.

A resolution passed at the annual general meeting of KUKA Aktiengesellschaft on June 1, 2006 authorized the Executive Board to increase the company's share capital on one or several occasions, subject to approval by the Supervisory Board, until May 31, 2011 up to a total of € 34,500,000, by issuing new shares in the name of the bearer against cash contributions and/or contributions in kind. The shareholders shall be granted subscription rights; however, subject to approval by the Supervisory Board, the Executive Board is authorized to exclude the shareholder subscription rights prescribed by law (i) for fractional amounts (ii) to the extent this is required in order to grant the holders subscription rights to new shares, as per the resolution passed at the annual general meeting on July 4, 2003, in the quantities to which they would be entitled by exercising their conversion or option rights related to convertible debentures and/or warrants issued by KUKA Aktiengesellschaft or its companies (iii) for increases in equity against cash contributions or under the conditions described in more detail in the bylaws (article 4, paragraph 5, second paragraph, third subitem), and to the extent the number of shares issued under exclusion of subscription rights in accordance with article 186, paragraph 3, clause 4 AktG (German Corporation Act) does not exceed 10 percent of total share capital, neither at the point in time the authorization becomes effective nor the time of exercising the authorization (iv) for capital increases against contributions in kind for the purpose of acquiring companies or parts of companies (article 4, paragraph 5 of the bylaws).

24 CAPITAL RESERVE

To offset the net loss for the year, € 80,932 thousand were withdrawn from the capital reserve in the prior year.

25 REVENUE RESERVES

The revenue reserves comprise:

- ⋮ Accumulated retained earnings of KUKA Aktiengesellschaft and its consolidated subsidiaries
- ⋮ Consolidation and currency translation effects
- ⋮ Measurement of financial derivatives and actuarial gains and losses included in provisions for pensions

26 MINORITY INTERESTS

This item primarily comprises the minority stake held by third parties in KUKA Enco Werkzeugbau spol. s. r. o., Dubnica, Slovakia. The changes to this item are detailed in the development of Group equity.

27 MATURITY OF LIABILITIES

2007

in € millions	Remaining maturity			Dec. 31, 2007 Total
	up to one year	between one and five years	more than five years	
Liabilities due to banks	0.1	0.0	0.0	0.1
Convertible bond	0.4	59.1	0.0	59.5
FINANCIAL LIABILITIES	0.5	59.1	0.0	59.6
Liabilities from construction contracts	72.4	0.0	0.0	72.4
Advances received	35.4	0.0	0.0	35.4
Trade payables	148.9	0.0	0.0	148.9
Accounts payable to affiliated companies	0.1	0.0	0.0	0.1
Other liabilities				
Notes payable	1.1	0.0	0.0	1.1
Other liabilities and deferred income	84.2	8.8	2.7	95.7
(of that for taxes)	(15.3)	(0.0)	(0.0)	(15.3)
(of that for social security payments)	(1.8)	(0.0)	(0.0)	(1.8)
(of that liabilities relating to personnel)	(48.6)	(6.9)	(2.7)	(58.2)
(of that for leases)	(3.7)	(0.1)	(0.0)	(3.8)
(of that fair values of foreign exchange and interest rate contracts)	(1.4)	(1.0)	(0.0)	(2.4)
	342.6	67.9	2.7	413.2

2006

in € millions	Remaining maturity			Dec. 31, 2006 Total
	up to one year	between one and five years	more than five years	
Liabilities due to banks	69.3	19.7	0.0	89.0
Convertible bond	0.4	56.9	0.0	57.3
Liabilities similar to bonds	12.5	0.0	0.0	12.5
FINANCIAL LIABILITIES	82.2	76.6	0.0	158.8
Liabilities from construction contracts	75.1	0.0	0.0	75.1
Advances received	95.0	0.0	0.0	95.0
Trade payables	209.5	0.1	0.0	209.6
Accounts payable to affiliated companies	0.8	0.0	0.0	0.8
Other liabilities				
Notes payable	2.3	0.0	0.0	2.3
Other liabilities and deferred income	91.3	14.0	4.5	109.8
(of that for taxes)	(15.5)	(0.0)	(0.0)	(15.5)
(of that for social security payments)	(3.1)	(0.0)	(0.0)	(3.1)
(of that liabilities relating to personnel)	(57.9)	(10.5)	(2.8)	(71.2)
(of that for leases)	(0.2)	(0.0)	(0.0)	(0.2)
(of that fair values of foreign exchange and interest rate contracts)	(1.3)	(0.0)	(0.0)	(1.3)
	556.2	90.7	4.5	651.4

The following schedules show the contractually agreed undiscounted interest and principal payments for financial instruments falling under IFRS 7:

December 31, 2007

in € millions (Financial year – 2007)	Total repayments of principal	Cashflows 2008		Cashflows 2009		Cashflows 2010 – 2012		Cashflows 2013 ff.	
		Inter-est	Prin-cipal	Inter-est	Prin-cipal	Inter-est	Prin-cipal	Inter-est	Prin-cipal
Non-current financial liabilities	69.0	2.6	0.0	2.6	0.0	5.2	69.0	0.0	0.0
Current financial liabilities	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Trade payables	148.9	0.0	148.9	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities from construction contracts	72.4	0.0	72.4	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable to affiliated companies	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	1.9	0.0	0.0	0.0	1.7	0.0	0.2	0.0	0.0
(of that for leases)	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
[of that Derivatives with a hedging relationship (hedge accounting)]	1.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Other current liabilities	51.1	0.0	51.1	0.0	0.0	0.0	0.0	0.0	0.0
(of that for leases)	3.7	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
[of that Derivatives with a hedging relationship (hedge accounting)]	1.4	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0

December 31, 2006

in € millions (prior year)	Total repayments of principal	Cashflows 2007		Cashflows 2008		Cashflows 2009 – 2011		Cashflows 2012 ff.	
		Inter-est	Prin-cipal	Inter-est	Prin-cipal	Inter-est	Prin-cipal	Inter-est	Prin-cipal
Non-current financial liabilities	87.9	3.4	0.0	3.2	6.1	8.3	81.8	0.0	0.0
Current financial liabilities	59.1	1.9	29.1	1.3	0.0	0.8	30.0	0.0	0.0
Trade payables	169.7	0.0	169.7	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities from construction contracts	74.2	0.0	74.2	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable to affiliated companies	0.8	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.7	0.0	0.2	0.0	0.0	0.0	0.3	0.0	0.2
Other current liabilities	37.7	0.0	37.7	0.0	0.0	0.0	0.0	0.0	0.0
(of that for leases)	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
[of that Derivatives without a hedging relationship (held for sale)]	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
[of that Derivatives with a hedging relationship (hedge accounting)]	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0

This includes all financial instruments that were held as of the balance sheet date and for which payments were already contractually agreed. Amounts denominated in foreign currency are translated in each case using the spot rate on the balance sheet date. Variable interest payments from financial instruments were determined on the basis of the last interest rate fixing prior to December 31, 2007 or 2006. Financial liabilities that are callable at any time are always reported in the earliest time bucket. Payment flows from derivatives (foreign exchange forward / futures contracts) are shown on a net basis, i.e. as the balance of incoming and outgoing cash flows.

28 FINANCIAL LIABILITIES / FINANCING

In connection with the refinancing of the KUKA Group by a syndicated loan, the term loan agreed under this arrangement was used to pay off existing financial obligations. In accordance with the loan agreement, this term loan was repaid using the proceeds from the sale of the Packaging division.

The remaining existing financial liabilities mainly represent the convertible bond issued in May of 2006.

Fixed interest rate agreements with an original maturity \geq one year, repayment amount \geq € 5 million

FIXED INTEREST RATE AGREEMENTS (2007)

Financial instrument	Net carrying amount in € millions	Fair value in in € millions	Original maturity	Notional interest rate
Convertible bond*	59.4	78.9	2006 – 2011	3.75 % p.a.

FIXED INTEREST RATE AGREEMENTS (2006)

Financial instrument	Net carrying amount in € millions	Fair value in in € millions	Original maturity	Notional interest rate
Loan against promissory notes	12.0	12.5	2000 – 2007	6.10 % p.a.
Convertible bond*	57.3*	70.0	2006 – 2011	3.75 % p.a.
Accrued interest	0.5	–	–	–
	69.8	82.5		
Loan	5.0	5.0	2002 – 2007	5.81 % p.a.
Loan	15.0	14.9	2004 – 2009	4.95 % p.a.
Loan	6.0	5.7	2005 – 2009	3.99 % p.a.
Loan	6.0	5.5	2005 – 2010	3.50 % p.a.
Loan	5.0	4.9	2003 – 2008	4.61 % p.a.
Accrued interest	0.6	–	–	–
	37.6	36.0		
	107.4	118.5		

* In addition € 11.3 million were recognized as a share of equity capital.

The market value of fixed-interest loans was determined by using the mark-to-market method. The market value of the convertible bond was determined using the closing price in floor trading at the Frankfurt Stock Exchange on December 28, 2007.

⌘ FIXED INTEREST LOAN WITH AN ORIGINAL MATURITY ≥ ONE YEAR, REPAYMENT AMOUNT < € 5 million (2006)

Financial instrument	Net carrying amount in € millions	avg. Original maturity	avg. Notional interest rate
Loan	1.2	7 years	3.54 % p.a.

⌘ VARIABLE INTEREST RATE LIABILITIES DUE TO BANKS (2007)

Financial instrument / in millions	Net carrying amount		avg. Notional interest rate	Year of latest maturity
Liabilities due to banks	0.4 BRL	0.1 EUR	34.23 % p.a.	2008

⌘ VARIABLE INTEREST RATE LIABILITIES DUE TO BANKS (2006)

Financial instrument / in millions	Net carrying amount		avg. Notional interest rate	Year of latest maturity
Liabilities due to banks	20.2 EUR	20.2 EUR	4.70 % p.a.	2009
Liabilities due to banks	8.8 USD	6.7 EUR	6.58 % p.a.	2010
Liabilities due to banks	15.1 GBP	22.5 EUR	7.21 % p.a.	2008
Liabilities due to banks	- others	0.8 EUR	13.21 % p.a.	
	50.2 EUR			

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 values in Euro.

Convertible bond

In May 2006, KUKA placed a convertible bond with a face value of € 69 million, collateralized by KUKA Aktiengesellschaft, via its subsidiary KUKA Finance B. V.; Amsterdam / Netherlands. The bond was issued in denominations of € 50,000 each and grants rights for conversion into up to 2,646,062 no-par value shares of KUKA Aktiengesellschaft.

The conversion price is € 26.07648 per share. The conversion rate is 1,917 shares by unit of denomination. Subject to a resolution by the annual general meeting on the distribution of a dividend for the 2007 financial year and dependent on the performance of the KUKA share price, the conversion rate will, in all probability, increase. This adjustment 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 bonds at any time at the nominal amount, also 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 DE000A0GRMCO / WKN A0GRMC). The last price quoted for the bond on the Frankfurt stock exchange in 2007 was 114.40 percent.

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). Including the issuing costs allocated proportionately to the equity and debt components, the effective interest rate rises to 8.25 percent. 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 2007 financial year, interest expense of € 4.7 million was booked in connection with the bond account.

Syndicated loan

KUKA Aktiengesellschaft and 31 subsidiaries had closed on December 22, 2006 a syndicated loan for € 475 million with a select group of banks. The lead banks of the syndicate are Landesbank Baden-Württemberg, Dresdner Bank AG and Bayerische Hypo- und Vereinsbank AG. They are joined by Bayerische Landesbank, the Royal Bank of Scotland and Deutsche Bank. The syndicated loan 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 12 companies in this business division as parties to the contract, the term loan was repaid and the line of credit for LCs was reduced by € 20 million. Under this agreement, the KUKA Group now still has access to € 115 million in revolving cash lines (including up to € 40 million for LCs) as well as € 190 million in credit lines for LCs. The latter are particularly important for KUKA in connection with the financing of plant construction deals.

The first opportunity for an extension was utilized in the 2007 financial year with the approval of the consortium. The loan agreement currently runs through December 2010. An option to extend it for another year is also available in 2008.

The availability as well as the terms and conditions for this financing are tied to performance indicators (Covenants) to be determined quarterly. Given the outstanding condition of the KUKA Group in terms of credit worthiness, there will, according to the present state of knowledge, also be no problem in satisfying these covenants over the entire term.

The amounts drawn under this arrangement are guaranteed by all KUKA parties to the contract. To this end, the companies signed collateral agreements in January of 2007. As of the balance sheet date, utilization of the line of credit for LCs totaled € 118.2 million; the existing cash line was not used.

Credit lines from insurance companies

Credit lines for LCs in the amount of € 50 million have been committed by credit insurance companies. Utilization of these lines is equal to € 6.6 million in case of the Zurich Group and € 2.7 million for Euler-Hermes Kreditversicherungs AG.

Asset-backed securities program

In December 2006, an ABS program was issued with the support of Bayerische Landesbank. Under this program, trade receivables of KUKA Roboter GmbH in an amount of up to € 25 million can be sold in regular tranches to the participating company, which is not included in the Group. The latter finances the purchase of the receivables by issuing securities on the capital market. 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.

As of the balance sheet date, utilization of the program was equal to € 13.9 million (December 31, 2006: € 11.7 million). A cash deposit of € 3.9 million (December 31, 2006: € 2.3 million) was furnished as security and is being 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 € 0.3 million (December 31, 2006: € 0.0 million).

29 OTHER NON CURRENT/CURRENT LIABILITIES AND DEFERRED INCOME

Liabilities arising from finance leases are recognized at the present value of future lease payments and disclosed as other liabilities. Liabilities for vacation pay, flex-time credits and the statutory German early retirement scheme (Altersteilzeit), are recognized under other liabilities. Trade payables include payments due on outstanding supplier invoices.

30 PENSION PROVISIONS AND SIMILAR OBLIGATIONS

Starting in the 2007 financial year, actuarial gains and losses are recognized directly in equity at the time in which they occur (Option 3 in accordance with IAS 19.93A). The figures for the prior year were adjusted accordingly (c. f. section on Changes in Accounting and Measurement Policies).

Accordingly, provisions for pensions developed as follows:

in € million	Status as at Jan. 1	Changes to the scope of consolidation, exchange rate differences, reclassification in disc. Operations, Other	Consumption	Reduction	Additions	Actuarial gains and losses (directly in equity)	Status as at Dec. 31
2006	154.5	- 4.4	10.4	0.0	6.6	- 6.0	140.3
2007	140.3	- 54.7	6.0	0.0	4.2	- 9.9	73.9

The change in accounting policies results in an increase in the provisions for pensions of € 16.7 million under continuing operations as an adjustment amount for periods prior to the 2006 financial year. On the balance sheet as of December 31, 2006, the provision is increased by € 8.2 million while other assets are decreased by € 2.0 million.

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 such 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 companies 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 € 1.7 million compared to € 7.7 million in 2006. Liabilities for health insurance coverage in the current financial year generated expenses of € 0.1 million compared to € 0.2 million the year prior.

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 compare to € 14.4 million in 2006 and 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.

After the sale of the Packing division, 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:

■ ACTUARIAL ASSUMPTIONS

Dec. 31	Germany		USA		Others	
	2006	2007	2006	2007	2006	2007
Demographic assumptions	RT 2005 G	RT 2005 G	83 GAM	RP 2000	PA92 projected (GB)	IPS55 (I); TV88/90 (F)
Discount factor	4.25 %	5.50 %	5.75 %	6.00 %	5.20 %	4.50 – 5.50 %
Expected rate of return on assets	N/A	N/A	7.37 %	8.00 %	6.70 %	N/A
Wage dynamics	0.00 – 2.50 %	0.00 – 2.50 %	3.50 %	N/A	N/A	0.00 – 1.50 %
Pension dynamics	1.50 – 2.50 %	2.00 – 2.50 %	N/A	N/A	3.00 %	0.00 – 2.00 %
Changes in cost of medical services	N/A	N/A	6.20 %	5.00 – 9.00 %	N/A	N/A

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.

For funded plans, the pension obligations calculated according to the projected- united-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

in € millions	Germany		USA		Others		Total	
	2006	2007	2006	2007	2006	2007	2006	2007
Present value of pension benefits covered by provisions	104.8	70.6	5.7	1.7	1.9	1.1	112.4	73.4
Present value of funded pension benefits	-	-	32.0	3.6	68.8	0.0	100.8	3.6
Defined benefit obligation	104.8	70.6	37.7	5.3	70.7	1.1	213.2	77.0
Fair value of plan assets	-	-	29.3	3.1	45.6	0.0	74.9	3.1
Net obligation	104.8	70.6	8.4	2.2	25.1	1.1	138.3	73.9
Overfunding, plan assets (-)	-	-	-	-	-	-	-	-
Unrecognized past service costs	-	-	2.0	0.0	-	-	2.0	-
Balance sheet amount as of Dec. 31	104.8	70.6	10.4	2.2	25.1	1.1	140.3	73.9
of that pension provisions	104.8	70.6	10.4	0.0	25.1	0.0	140.3	73.9
of that asset (-)	-	-	0.0	0.0	-	-	0.0	0.0

As a result of the increase in market rates observed in all relevant regions since the reference date for the prior year, higher discount rates were applied respectively for the discounting of pension obligations resulting, ceteris paribus, in a lower 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 OBLIGATIONS

in € millions	Germany		USA		Others		Total	
	2006	2007	2006	2007	2006	2007	2006	2007
Net obligations as of Jan. 1	111.7	104.8	42.1	37.7	68.6	70.7	222.4	213.2
of which funded in a separate fund	-	-	35.6	32.0	65.3	68.8	100.9	100.8
of which funded by provisions	111.7	104.8	6.5	5.7	3.3	1.9	121.5	112.4
Changes to the scope of consolidation	- 0.7	- 22.9	-	- 31.8	- 1.5	- 69.4	- 2.2	- 124.1
Current service costs	1.1	0.6	0.7	0.1	0.4	0.0	2.2	0.7
Interest expense	4.3	3.4	2.1	0.3	3.1	0.0	9.5	3.7
Plan changes	-	-	-	0.1	-	- 0.1	-	0.0
Payments	- 7.1	- 5.7	- 2.5	- 0.2	- 2.0	- 0.1	- 11.6	- 6.0
Actuarial gains (-)/and losses (+)	- 3.8	- 9.6	- 0.3	- 0.2	0.8	0.0	- 3.3	- 9.8
Currency translation	-	-	- 4.5	- 0.7	1.3	0.0	- 3.2	- 0.7
Other changes	- 0.7	-	0.1	-	-	-	- 0.6	-
Net obligations as of Dec. 31	104.8	70.6	37.7	5.3	70.7	1.1	213.2	77.0
of which funded in a separate fund	-	-	32.0	3.6	68.8	-	100.8	3.6
of which funded by provisions	104.8	70.6	5.7	1.7	1.9	1.1	112.4	73.4

Current service costs and interest expenses totaling € 4.4 million compare to benefit payments of € 6.0 million during the financial year. The reduction of the defined benefit obligation results mainly from reductions of € 124.1 million due to changes in the scope of consolidation following the sale of the Packaging division and from actuarial gains of € 9.9 million accrued during the financial year.

■ PENSION EXPENSE FOR DEFINED BENEFIT PLANS

in € millions	Germany		USA		Others		Total	
	2006*	2007	2006*	2007	2006*	2007	2006*	2007
Current service costs	1.1	0.6	0.7	0.1	0.4	0.0	2.2	0.7
Interest expense	4.3	3.4	2.1	0.3	3.1	0.0	9.5	3.7
Expected return on plan assets	-	-	-2.3	-0.2	-2.8	-	-5.1	-0.2
Plan curtailments	-	-	-	-	-	-0.1	-	-0.1
Unrecognized past service costs	-	-	-0.2	0.1	-	-	-0.2	0.1
Pension expenses from defined benefit commitments	5.4	4.0	0.3	0.3	0.7	-0.1	6.4	4.2

* amounts not adjusted

Pension expense for defined benefit plans decreased by € 2.4 million to € 4.2 million. This is mainly due to the departure of the Packaging division. This is partly offset by the December 31, 2006 increase in the discount rate over that for the previous year, which resulted in higher interest expenses.

■ DEVELOPMENT OF PLAN ASSETS IN THE FINANCIAL YEAR

in € millions	USA		Others		Total	
	2006	2007	2006	2007	2006	2007
Fair value as at Jan. 1	31.4	29.3	41.1	45.6	72.5	74.9
Changes to the scope of consolidation	-	-26.2	-	-45.6	-	-71.8
Expected returns on plan assets	2.3	0.3	2.8	-	5.1	0.3
Actuarial gains/losses	0.6	0.0	0.7	-	1.3	0.0
Currency translation	-3.4	-0.3	0.9	-	-2.5	-0.3
Employer contributions	0.6	0.2	2.0	-	2.6	0.2
Payments	-2.2	-0.1	-1.9	-	-4.1	-0.1
Fair value as at Dec. 31	29.3	3.2	45.6	0.0	74.9	3.2

The actual return on plan assets from external pension funds was € 0.3 million (prior year: € 6.4 million). The decrease is mainly attributable to the sale of the Packaging division.

As of December 31, 2007, the plan assets of € 3.2 million broke down into shares in stock funds equal to 70 percent, holdings of bonds and separate assets with a corresponding investment focus equal to another 25 percent and shares in a separate real estate fund equal to 5 percent.

31 PROVISION FOR TAXES

in € millions	Status as at Jan. 1, 2007	Changes to the scope of consolidation, exchange rate differ- ences, reclassification in disc. Operations	Use	Reversals	Additions	Status as at Dec. 31, 2007
Provision for Taxes	23.1	- 1.9	1.8	0.1	17.3	36.6

Of the total provision for taxes, € 34.9 million (prior year: € 22.3 million) are related to income taxes and € 1.7 million (prior year: € 0.8 million) are related to other taxes.

The items included in the provision for taxes have a remaining maturity of up to one year.

32 OTHER PROVISIONS

in € millions	Status as at Jan. 1, 2007	Changes to the scope of consolidation, exchange rate differences, reclassification in disc. Operations	Changes to the scope of consolidation, exchange rate differences, reclassification in disc. Operations			Status as at Dec. 31, 2007
			Use	Reversals	Additions	
Warranty commitments and risks from pending transactions	52.2	- 5.0	24.5	7.5	29.9	45.1
Liabilities arising from restructurings	11.0	- 1.7	6.9	0.4	1.8	3.8
Other provisions	64.1	- 12.2	24.6	3.6	53.7	77.4
	127.3	- 18.9	56.0	11.5	85.4	126.3

Other provisions and accruals for warranty commitments and risks from pending transactions include provisions for impending losses from pending transactions of € 16.9 million (prior year: € 17.4 million) and warranty risk of € 28.3 million (prior year: 34.8 million).

The restructuring obligations represent settlements and restructuring expenses at several companies.

Of the other provisions, € 30.6 million (prior year: € 27.3 million) relate among other items, to costs still to be incurred for orders already invoiced and litigation risk of € 8.7 million (prior year: € 7.8 million). The reversals of € 3.0 million are related to the provisions for costs still to be incurred.

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

CORPORATE ORGANS

SUPERVISORY BOARD

Dr. Rolf Bartke

Esslingen, Chairman, Industrial engineer,
EADS N. V., Amsterdam / Netherlands **
J&R Carter Partnership Foundation,
Atlanta / USA **
SAF-Holland S. A., Luxembourg **
SFC Smart Fuel Cell AG, Brunenthal *
SORTIMO North America Inc., Atlanta / USA **
Keiper Recaro Group, Kaiserslautern **

Mirko Geiger ***

Heidelberg, Deputy Chairman
1st Secretary of IG Metall trade union, Heidelberg
Heidelberger Druckmaschinen AG *

Dr. Reiner Beutel

Gemrigheim, (MBA equivalent)
Fischer-Maschinenbau GmbH & Co. KG,
Gemrigheim **
Mirror Controls International, Montfoort /
Netherlands (Chairman of the Board of
Directors) **

Pepyn René Dinandt

Munich, Member of the Management Board of
SMS GmbH, Düsseldorf (until Nov. 15, 2007)
Member of the Executive Board of Conergy AG,
Hamburg (since Nov. 15, 2007)
Cincinnati Extrusion GmbH, Vienna / Austria
(until Nov. 15, 2007) *

Prof. Dr.-Ing Gerd Hirzinger

Seefeld, Director of DLR Institute for Robotics
and Mechatronics, Wessling

Jürgen Kerner ***

Königsbrunn, 1st Secretary of IG Metall
trade union,
Augsburg branch
MAN AG, Munich *
MAN Diesel SE, Augsburg *
MAN Roland AG, Offenbach *
Eurocopter Deutschland GmbH, Donauwörth *

Dr. Helmut Leube

Herrsching, Member of the Executive Board
of Webasto AG, Stockdorf (until Jan. 31, 2008)
Chairman of the Executive Board of DEUTZ AG,
Cologne (since Feb. 1, 2008)
Webasto Roof Systems Inc., Rochester Hills / USA
(Chairman) (until Jan. 31, 2008) **

Dr. Herbert Meyer

Königstein/Taunus, (MBA equivalent)
Director of Deutsche Prüfstelle für Rechnungs-
legung DPR e. V.
Financial Reporting Enforcement Panel, Berlin
(since July 1, 2007)
DEMAG Cranes AG, Düsseldorf (since Feb. 2007) *
Deutsche Beteiligungs AG, Frankfurt am Main *
Sektellerei Schloss Wachenheim AG,
Wachenheim *
Webasto AG, Stockdorf (since Sep. 2007) *
Verlag europa Lehrmittel GmbH, Haan
(Advisory Board) **
Goss International Corporation / USA **

Dipl.-Ing (FH) Herbert R. Meyer ***

Augsburg, Chairman of the Works Council
KUKA Systems GmbH, Augsburg

* Supervisory Board member of the following companies

** Membership in comparable German and foreign control bodies of business enterprises

*** Employee Representative

Walter Prues ***

Augsburg, Chairman of the KUKA Group Works Council

Fritz Seifert ***

Schwarzenberg, Chairman of the Works Council of KUKA Systems GmbH, Toolmaking division, Schwarzenberg
Deputy Chairman of the KUKA Group Works Council (since Sep. 21, 2007)

Wilhelm Steinhart ***

Friedberg, Staff member holding commercial power of attorney of KUKA Systems GmbH, Augsburg

Dr. jur. Wolf Hartmut Prellwitz

Karlsruhe, Honorary Chairman

EXECUTIVE BOARD**Dipl.-Ing. Gerhard Wiedemann**

Graben, CEO
Member of the Executive Board of VDMA, Frankfurt (since January 2008)

Dr. Jürgen Koch

Königstein / Taunus
Dresdner Bank AG (Advisory Board) **
Börsenrat Stuttgarter Börse **
Allianz Deutschland AG (Advisory Board, Bayern) **

Dipl.-Math. Bernd Liepert

Meitingen
KUKA Roboter GmbH, Augsburg
(Chairman of the Executive Board) **
KUKA ProTec GmbH, Augsburg
(Member of the Executive Board) **

* Supervisory Board member of the following companies

** Membership in comparable German and foreign control bodies of business enterprises

*** Employee Representative

SCHEDULE OF SHAREHOLDINGS OF KUKA AKTIENGESELLSCHAFT

As of December 31, 2007

Name and registered office of the company	Currency	Share of Equity in %	Equity in tds. in local currency	Net profit for the year in tds. in local currency	Method of Consolidation	Segment
GERMANY						
Bopp & Reuther Anlagen-Verwaltungsgesellschaft mbH, Mannheim	EUR	100.00	40,832	9,142	K	SO
Freadix FryTec GmbH, Augsburg	EUR	100.00	50	0 ⁴	NK	SO
HLS Ingenieurbüro GmbH, Augsburg	EUR	100.00	1,481	- 71	K	SY
Institut für angewandte Systemtechnik Bremen GmbH, Bremen	EUR	11.25	511	0 ⁴	B	SY
IWK Unterstützungseinrichtung GmbH, Karlsruhe	EUR	100.00	26	0	NK	SO
IWKA Anlagen-Verwaltungsgesellschaft mbH, Augsburg*	EUR	100.00	2,173	0 ¹	K	SO
IWKA Packaging GmbH, Karlsruhe*	EUR	100.00	47,492	0 ¹	K	SO
IWKA Produktionstechnik GmbH, Augsburg	EUR	100.00	1,767	- 99	K	SO
KUKA Dienstleistungs-GmbH, Augsburg*	EUR	100.00	792	0 ¹	K	SO
KUKA InnoTec GmbH, Augsburg	EUR	51.00	264	16 ⁴	NK	RO
KUKA ProTec GmbH, Augsburg*	EUR	100.00	2,366	0 ¹	K	RO
KUKA Roboter GmbH, Augsburg*	EUR	100.00	25,520	0 ¹	K	RO
KUKA Systems GmbH, Augsburg*	EUR	100.00	20,759	0 ¹	K	SY
KUKA Unterstützungskasse GmbH, Augsburg	EUR	100.00	25	0	NK	SY
LSW Maschinenfabrik GmbH, Bremen	EUR	100.00	615	- 1,936	K	SY
Schmidt Maschinentechnik GmbH, Niederstotzingen	EUR	100.00	- 6,455	2 ^{3 4}	NK	SY
BELGIUM						
KUKA Automatisering + Robots N.V., Houthalen	EUR	100.00	5,133	970	K	SY
KUKA Automotive N.V., Houthalen	EUR	100.00	193	42	K	SY
FRANCE						
KUKA Automatismes + Robotique S.A.S., Villebon-sur-Yvette	EUR	100.00	4,089	406	K	RO
KUKA Systems France S.A., Montigny-le-Bretonneux	EUR	100.00	- 5,026	- 5,230	K	SY
GREAT BRITAIN						
Thompson Friction Welding Ltd., Halesowen , incl.	GBP	100.00	1,626	93 ²	K	SY
D.V. Automation Ltd., Halesowen	GBP	100.00	-	-	K	SY
KUKA Automation + Robotics Ltd., Halesowen	GBP	100.00	-	-	K	SY
LSW UK Ltd., Harlow	GBP	100.00	-	-	K	SY
ITALY						
i.B.D. S.r.l., Turin	EUR	45.00	864	15 ⁴	A	RO
KUKA Roboter Italia S.p.A., Rivoli	EUR	100.00	1,313	- 469	K	RO

Name and registered office of the company	Currency	Share of Equity in %	Equity in tds. in local currency	Net profit for the year in tds. in local currency	Method of Consolidation	Segment
NETHERLANDS						
metaalwarenfabriek's-Hertogenbosch B.V., Tilburg	EUR	100.00	–	– ³	NK	SO
KUKA Finance B.V., Rotterdam	EUR	100.00	746	44	K	SO
AUSTRIA						
KUKA Roboter Austria GmbH, Linz	EUR	100.00	130	– 120	K	RO
SPAIN						
KUKA Sistemas de Automatización S.A., Vilanova i La Geltru	EUR	100.00	2,538	47	K	RO
OTHER EUROPE						
KUKA Roboter Schweiz AG, Dietikon / Switzerland	CHF	100.00	2,032	555	K	RO
HLS Czech s.r.o., Mlada Boleslav / Czech republic	CZK	100.00	4,895	874	K	SY
Société Anonyme des Usines Farman S.R.L., Cluj / Romania	ROL	100.00	– 6	7 ⁴	NK	SY
KUKA Robotics Hungária Ipari Kft., Taksony / Hungary	EUR	100.00	14,435	3,099	K	RO
AG Novosibirsk Fleischkonservenkombinat, Novosibirsk / Russia	RUB	10.00	–	– ⁶	B	SO
KUKA Sistemy OOO, Togliatti / Russia	RUB	100.00	10,500	– ⁶	NK	SY
KUKA Robotics OOO, Moskau / Russia	RUB	100.00	4,814	– 566	NK	RO
KUKA-VAZ Engineering, Togliatti / Russia	RUB	70.00	6,019	– 2,023 ⁴	NK	SY
KUKA Svetsanläggningar + Robotar AB, Västra Frölunda / Sweden	SEK	100.00	15,102	3,222	K	SY
KUKA Enco Werkzeugbau spol. s.r.o., Dubnica nad Váhom / Slovakia	SKK	65.00	79,089	2,562	K	SY
NORTH AMERICA						
KUKA Systems Corporation North America , Sterling Heights, incl.	USD	100.00	87,898	32,158 ²	K	SY
B & K Corporation, Saginaw	USD	100.00	–	–	K	SY
KUKA Robotics Corp., Sterling Heights	USD	100.00	–	–	K	RO
KUKA Toledo Production Operations, LLC., Troy, Michigan	USD	100.00	–	–	K	SY

Name and registered office of the company	Currency	Share of Equity in %	Equity in tds. in local currency	Net profit for the year in tds. in local currency	Method of Consolidation	Segment
LATIN AMERICA						
KUKA Systems do Brasil Ltda., São Bernado do Campo SP/Brazil	BRL	100.00	- 2,900	30	K	SY
KUKA Roboter do Brasil Ltda., São Paulo/Brazil	BRL	100.00	1,430	8	K	RO
KUKA Flex de Mexico, S. de R.L. de C.V., Mexico City/Mexico	MXN	100.00	-	- ^{2a}	K	SY
KUKA Recursos, S. de R.L. de C.V., Mexico City/Mexico	MXN	100.00	-	- ^{2a}	K	SY
KUKA de Mexico S. de R.L. de C.V., Mexico, D.F./Mexico	MXN	100.00	29,124	5,248	K	RO
ASIA/AFRICA/OTHERS						
KUKA Automation Equipment (Shanghai) Co., Ltd., Shanghai/China	CNY	100.00	4,647	2,459	K	SY
KUKA Flexible Manufacturing Systems (Shanghai) Co., Ltd., Shanghai/China	CNY	100.00	7,106	- 2,985	K	SY
IWKA ASIA PACIFIC Ltd., Hong Kong/China	HKD	100.00	-	- ³	NK	SO
HLS Autotechnik (India) Pvt. Ltd., Pune/India	INR	72.00	9,126	2,156	K	SY
KUKA Automation Equipment (India) Pvt. Ltd., Pune/India	INR	100.00	28,370	17,404	K	SY
KUKA Robotics (India) Pvt. Ltd., Haryana/India	INR	100.00	4,402	3,549	K	RO
KUKA Robot Automation Korea Co. Ltd., Kyunggi Kunpo Sanbon/South Korea	KRW	100.00	2,168	190	K	RO
KUKA Robot Automation Malaysia Sdn Bhd, Kuala Lumpur/Malaysia	MYR	99.99	160	- 551	K	RO
KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City/Taiwan	TWD	99.90	- 4,103	- 11,830	NK	RO
KUKA Robotics Japan K.K., Tokyo/Japan	JPY	100.00	37,338	- 2,662	NK	RO

* Companies that have made use of the exemption pursuant 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

^{2a} included in the Group Balance Sheet and Group Income Statement of KUKA Systems Corp. North America

³ Shelf company

⁴ fiscal year ending Dec. 31, 2006

⁵ fiscal year ending June 30, 2007

⁶ not specified

Typ of consolidation

K fully consolidated companies as at Dec. 31, 2007

NK non-consolidated companies as at Dec. 31, 2007

E consolidated by the equity method as at Dec. 31, 2007

A associated companies as at Dec. 31, 2007

B companies, in which participations are held as at Dec. 31, 2007

Divisions

SY SYSTEMS

RO ROBOTICS

SO OTHERS

OTHER NOTES

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 opportunities and threats for the various business fields within the Group.

Segment reporting is designed to accommodate the new structure of the KUKA Group and comply with the IFRS 5 criteria with regard to accounting for Discontinued Operations. As a result of the new continuing operations structure, the KUKA Group was engaged in the reporting years 2006 and 2007 in two major business fields: KUKA Systems and KUKA Robotics. The KUKA Aktiengesellschaft and additional participations that are supplementary to the operating activities of the KUKA group have been aggregated in a separate area. In addition, this column also includes the cross-divisional major consolidation and reconciliation items. The attribution of the Group companies to the business segments is shown in the schedule of Shareholdings.

In a change from the prior year, IWKA Produktionstechnik GmbH, the holding company of the former production technology division, as well as KUKA Dienstleistungs GmbH, the facility management company at the Augsburg location, were reassigned to the "Other" segment. The prior years were not adjusted on grounds of materiality.

The breakdown of sales revenue by region is based on customer location / place of delivery. Capital employed and assets, capital expenditure and payroll are calculated on the basis of the company location.

The notional calculations for segment reporting rely on the following principles:

- ⋮ Group external sales revenue shows the divisions' respective percentage of the Group's consolidated sales revenue for continuing operations of the Group as presented in the income statement.
- ⋮ Intra-group sales revenues are related sales transacted between segments.
Transfer prices for intra-Group sales are determined at the market level.
- ⋮ Sales revenues for the divisions include revenues from sales to third parties as well as sales to other segments.
- ⋮ EBIT reflects operating earnings; that is, the earnings from ordinary activities – including goodwill impairment charges, if any – before result from financing activities.
- ⋮ ROCE (return on capital employed) is the ratio of operating earnings (EBIT) to capital employed, which is largely non-interest bearing. The calculation of ROCE uses an average figure for capital employed.

- ⋮ Capital employed comprises:
 - Intangible assets and tangible assets
 - Working capital consists of:
 - ⋮ inventories,
 - ⋮ Receivables from construction contracts,
 - ⋮ trade receivables
 - ⋮ other receivables and assets,
 - ⋮ prepaid expenses and deferred changes,
 - ⋮ balance of payables and receivables versus affiliated companies, if not classified as financial transactions.
 - less
 - ⋮ other provisions, excluding major provisions for restructuring
 - ⋮ liabilities from construction contracts,
 - ⋮ advance payments received,
 - ⋮ trade payables,
 - ⋮ other liabilities except for liabilities similar to bonds,
 - ⋮ deferred income.

- ⋮ Thus capital employed represents the difference between
 - ⋮ operating assets and
 - ⋮ non-interest bearing borrowed capital.

- ⋮ Segment assets encompass all assets included in Capital Employed plus participations. Segment liabilities encompass all liability items included in Capital Employed plus pensions provisions and similar obligations as well as major liabilities arising from restructurings.

- ⋮ Capital expenditures are related to additions to property, plant and equipment and intangible assets.

- ⋮ Amortization / depreciation are related to plant, property and equipment and intangible assets.

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 the 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. None of the cash and cash equivalents is subject to restraints on disposal.

Cash flow from operating activities is derived indirectly starting with annual net profit / loss.

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.

The initial consolidations resulted in amounts to be recognized as additions to fixed assets of € 0.2 million (prior year: € 9.7 million), additions to inventories equal to € 0.0 million (prior year: € 11.3 million), as well as to receivables and other assets equal to € 0.1 million (prior year: € 13.6 million), cash and cash equivalents of € 0.4 million (prior year: € 6.6 million). On the liability side, the initial consolidations required the recognition of reserves in the amount of € 0.0 million (prior year: € 1.9 million), liabilities due to financial institutions in the amount of € 0.0 million (prior year: € 2.3 million), and other liabilities including trade payables and liabilities to affiliated companies in the amount of € 0.4 million (prior year: € 24.2 million).

The sales price for the companies in the former Packaging division was € 176.1 million and was settled in cash funds. The proceeds from the sale of companies are net of cash and cash equivalents in the amount of € 15.9 million (prior year: € 16.2 million). The resulting amounts for derecognition were € 107.8 million in fixed assets, € 97.5 million in inventories as well as € 121.4 million in receivables and other assets. The liabilities to be taken into account included provisions of € 77.0 million, liabilities due to financial institutions of € 23.3 million as well as other liabilities including trade payables and liabilities to affiliated companies of € 158.9 million.

Cash inflows / outflows from operating activities also include the following items: Interest paid in the amount of € 12.8 million (prior year € 17.2 million), interest received in the amount of € 4.3 million (prior year: € 2.4 million) and income taxes paid in the amount of € 0.9 million (€ 0.3 million).

FINANCIAL INSTRUMENTS

In the following, the carrying amounts of financial instruments for continuing operations (comparable to the prior year) are broken down according to the measurement categories in IAS 39:

NET CARRYING AMOUNT OF THE FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORIES

in € millions	Abbreviation	Status as at Dec. 31, 2006	Status as at Dec. 31, 2007
Available-for-sale Financial Assets	AfS	3.4	1.2
Loans and Receivables	LaR	358.1	511.6
Financial Assets Held for Trading	FAHfT	0.3	1.2
Financial Liabilities Measured at Amortised Cost	FLAC	417.4	327.9
Financial Liabilities Held for Trading	FLHfT	0.1	0.0

The composition of the carrying amounts as well as the fair values are shown in the following table:

■ NET CARRYING AMOUNT AND FAIR VALUES BY MEASUREMENT CATEGORIES FOR 2007

in € millions	IAS 39- measure- ment categories	Net carrying amount/ Status as at Dec. 31, 2007	of that: other assets and liabili- ties not covered by IFRS 7	Net carrying amount of the financial instruments/ Status as at Dec. 31, 2007	Fair value/ Status as at Dec. 31, 2007
ASSETS					
Financial investments		1.7	0.0	1.7	1.7
(of that loans)	LaR	0.5	0.0	0.5	0.5
(of that participations)	Afs	1.2	0.0	1.2	1.2
Trade receivables	LaR	178.9	0.0	178.9	178.9
Receivables from construction contracts	LaR	93.0	0.0	93.0	93.0
Receivables from affiliated companies	LaR	3.6	0.0	3.6	3.6
Other assets, prepaid expenses and deferred charges		32.5	17.1	15.4	15.4
[of that Derivatives without a hedging relationship (held for sale)]	FAHfT	1.2	0.0	1.2	1.2
[of that Derivatives with a hedging relationship (hedge accounting)]	n. a.	1.7	0.0	1.7	1.7
(of that Other)	LaR	29.6	17.1	12.5	12.5
Cash and cash equivalents	LaR	223.2	0.0	223.2	223.2
LIABILITIES					
Non-current financial liabilities	FLAC	59.1	0.0	59.1	59.1
Current financial liabilities	FLAC	0.5	0.0	0.5	0.5
Trade payables	FLAC	148.9	0.0	148.9	148.9
Liabilities from construction contracts	FLAC	72.4	0.0	72.4	72.4
Accounts payable to affiliated companies	FLAC	0.1	0.0	0.1	0.1
Other non-current liabilities and provisions		11.5	9.6	1.9	1.9
(of that for leases)	n. a.	0.1	0.0	0.1	0.1
[of that Derivatives with a hedging relationship (hedge accounting)]	n. a.	1.0	0.0	1.0	1.0
(of that Other)	FLAC	10.4	9.6	0.8	0.8
Other current liabilities, prepaid expenses and deferred charges		85.3	34.2	51.1	51.1
(of that for leases)	n. a.	3.7	0.0	3.7	3.7
[of that Derivatives with a hedging relationship (hedge accounting)]	n. a.	1.3	0.0	1.3	1.3
(of that Other)	FLAC	80.3	34.2	46.1	46.1

NET CARRYING AMOUNT AND FAIR VALUES BY MEASUREMENT CATEGORIES FOR 2006

in € millions	IAS 39- measure- ment categories	Net carrying amount/ Status as at Dec. 31, 2006	of that: other assets and liabili- ties not covered by IFRS 7	Net carrying amount of the financial instruments/ Status as at Dec. 31, 2006	Fair value/ Status as at Dec. 31, 2006
ASSETS					
Participations in associated companies	AfS	2.3	0.0	2.3	2.3
Financial investments		1.6	0.0	1.6	1.6
(of that loans)	LaR	0.5	0.0	0.5	0.5
(of that participations)	AfS	1.1	0.0	1.1	1.1
Trade receivables	LaR	162.6	0.0	162.6	162.6
Receivables from construction contracts	LaR	115.2	0.0	115.2	115.2
Receivables from affiliated companies	LaR	3.6	0.0	3.6	3.6
Other assets, prepaid expenses and deferred charges		33.7	18.0	15.7	15.7
Derivatives without a hedging relationship (held for trading)	FAHfT	0.3	0.0	0.3	0.3
Derivatives with a hedging relationship (hedge accounting)	n. a.	0.7	0.0	0.7	0.7
(of that Other)	LaR	32.7	18.0	14.7	14.7
Cash and cash equivalents	LaR	61.5	0.0	61.5	61.5
LIABILITIES					
Non-current financial liabilities	FLAC	75.8	0.0	75.8	75.8
Current financial liabilities	FLAC	59.5	0.0	59.5	59.5
Trade payables	FLAC	169.7	0.0	169.7	169.7
Liabilities from construction contracts	FLAC	74.2	0.0	74.2	74.2
Accounts payable to affiliated companies	FLAC	0.8	0.0	0.8	0.8
Other non-current liabilities and provisions	FLAC	15.1	14.4	0.7	0.7
Other current liabilities, prepaid expenses and deferred charges		70.4	32.7	37.7	37.7
(of that for leases)	n. a.	0.2	0.0	0.2	0.2
(of that Derivatives without a hedging relationship (held for sale))	FLHfT	0.1	0.0	0.1	0.1
(of that Derivatives with a hedging relationship (hedge accounting))	n. a.	0.7	0.0	0.7	0.7
(of that Other)	FLAC	66.7	30.0	36.7	36.7

Except for equity investments in associated companies and financial investments, the assets mainly have short remaining maturities. The carrying amounts as of the balance sheet date are therefore approximately equal to the fair value.

Except for long-term financial liabilities and other non-current liabilities and provisions, the liabilities generally have short remaining maturities. The amounts recognized on the balance sheet approximate fair values. The fair value of the convertible bond, which is broken down on the balance sheet into an equity and a debt component, is shown in the section on financial liabilities/financing.

Derivatives with a hedging relationship relate solely to foreign exchange forward/futures contracts that are accounted for according to the rules for fair value hedges.

The net results break down by measurement category as follows:

☰ NET PROFIT / LOSS BY IAS 39 MEASUREMENT CATEGORIES FOR 2007

in € millions	Net gains/losses	Total interest income/expenses	Fee income/expenses
Loans and Receivables (LaR)	- 2.4	5.2	0.0
Available-for-Sale Financial Assets (AFS)	- 0.1	0.0	0.0
Financial Instruments Held for Trading (FAHfT und FLHfT)	0.8	0.0	0.0
Financial Liabilities Measured at Amortised Cost (FLAC)	2.9	- 9.4	- 1.7
TOTAL	1.4	- 4.2	- 1.7

☰ NET PROFIT / LOSS BY IAS 39 MEASUREMENT CATEGORIES FOR 2006

in € millions	Net gains/losses	Total interest income/expenses	Fee income/expenses
Loans and Receivables (LaR)	- 4.0	7.2	0.0
Available-for-Sale Financial Assets (AFS)	0.0	0.4	0.0
Financial Instruments Held for Trading (FAHfT und FLHfT)	1.5	0.0	0.0
Financial Liabilities Measured at Amortised Cost (FLAC)	2.7	- 17.4	- 0.1
TOTAL	0.2	- 9.8	- 0.1

The net losses in the measurement category “Loans and Receivables” mainly reflect the results of impairment losses and reversals of impairment losses on receivables and other assets; net gains from “Financial Liabilities Measured at Amortized Cost” reflect gains from the derecognition of liabilities. Translation effects accounts comprise losses of € 0.4 million (prior year: € 1.1 million) on assets in the measurement category “Loans and Receivables” as well as gains of € 0.8 million (prior year: € 1.5 million) on “Financial Instruments Held for Trading”. In connection with fair value hedges, exchange rate hedging transactions generated € 1.3 million in exchange rate gains (prior year: € 1.3 million) which are offset by an equal amount of exchange rate losses on the underlying transactions.

Interest income on financial instruments in the category of “Loans and Receivables” originate from the investment of cash and cash equivalents. Net interest expense from financial liabilities in the measurement category of “Financial Liabilities Measured at Amortized Cost” mainly represents interest expense on the convertible bond as well as financial liabilities due to financial institutions.

Transaction costs for financial liabilities due to financial institutions that are not included in the effective interest rate are reported as fee expense.

FINANCIAL RISK MANAGEMENT AND FINANCIAL DERIVATES

Principles of risk management

The KUKA Group is exposed among others 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 and non-derivative hedging instruments are used for this purpose, depending on the risk assessment; the Group basically only hedges the risks that affect its cash flow. Derivatives are exclusively used as hedging instruments, i. e., not for trading or speculative purposes. To reduce the credit risk, hedging transactions are generally only concluded with leading financial institutions whose credit rating is excellent.

The fundamentals of the Group’s financial policy are established each year by the Board of Management and overseen by the Supervisory Board. 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.

Treasury regards effective management of the market risk as one of its main tasks. For this, the department performs simulation calculations using different most-likely and worst-case scenarios.

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. the risks resulting from the translation of assets and liabilities of foreign KUKA operations into the Group's reporting currency, are generally not hedged. These risks could also be hedged after approval by the CFO. In the area of investments of KUKA, there were no major risks from foreign currency transactions on the 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.

Treasury hedges the major risks arising from these. Currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies. At the reporting date, there are no major financial liabilities in foreign currencies. All intragroup loans denominated in foreign 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 being denominated in a currency that is not the functional currency and being 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 effects for the periods are determined by applying 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 major 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 major effects on the variables considered in this connection.
- ⋮ In the case of fair value hedges designed for hedging currency risks, the changes in the fair values of the hedged item and the hedging instruments attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity either.
- ⋮ Currency derivatives are always assigned to non-derivative hedged items, so these instruments also do not have any currency effects.

The following currency scenarios arise for the main foreign currencies used by the Group:

If the Euro had gained 10 percent against the US dollar at December 31, 2007 (2006), Group profits would have been € 0.1 million (€ 0.2 million) lower. If the Euro had lost 10 percent against the US dollar at December 31, 2007 (2006), Group profits would have been € 0.1 million (€ 0.2 million) higher.

If the Euro had gained 10 percent against the Japanese yen at December 31, 2007 (2006), Group profits would have been € 0.6 million higher (€ 0.1 million). If the Euro had lost 10 percent against the Japanese yen at December 31, 2007 (2006), Group profits would have been € 0.6 million lower (€ 0.1 million).

If the US dollar had gained 10 percent against the CA dollar at December 31, 2006, Group profits would have been € 0.5 million higher. If the US dollar had lost 10 percent against the CA dollar at December 31, 2006, Group profits would have been € 0.5 million lower. With the same changes at December 31, 2007, the effect on Group profits would have been insignificant.

If the Euro had gained 10 percent against other major currencies at December 31, 2007, Group profits would have been € 1.9 million higher. If the Euro had lost 10 percent against other major currencies at December 31, 2007, Group profits would have been € 1.9 million lower. The two main items of € 1.9 million relate to € / CNY with € 1.2 million and € / GBP with € 0.5 million. With the same changes at December 31, 2007, the effect on Group profits would have been insignificant.

If the US dollar had gained 10 percent against other major currencies (ignoring € and CAD) at December 31, 2007 (2006), Group profits would have been € 0.3 million (€ 0.4 million) higher. If the US dollar had lost 10 percent against other major currencies at December 31, 2007 (2006), Group profits would have been € 0.3 million (€ 0.4 million) lower.

Interest rate risks

Risks from interest rate changes at KUKA are essentially the result of short-term investments in the Euro. 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 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. convertible bonds) 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.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2007, profit or loss would have been € 2.2 million € higher (lower) (in 2006, with a negative net liquidity, the profit or loss would have been € 0.27 million lower (higher)). The hypothetical effect of € 2.2 million results solely from the financial investments totaling € 222.5 million at variable interest rates.

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 cannot meet their contractual obligations and the KUKA Group thus suffers a financial loss. With regard to financing activities, 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 by each company (locally). Business relations with critical major customers (e. g. US OEMs) and the associated credit risks are subject to separate monthly credit rating monitor at Group Board level. Credit risks must be taken into account through specific bad debt allowances.

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.

Liquidity risks

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. For this, KUKA has, amongst other things, concluded a syndicated loan agreement with a syndicate of banks. Detailed information is provided in the Group notes under item 28 Financial liabilities / Financing in the section headed syndicated loan.

CONTINGENT LIABILITIES

Liabilities from guarantee agreements result primarily from securities for funds drawn against credit lines for LCs, as well as from leasing contracts.

in € millions	2006	2007
Liabilities from guarantees	12.7	5.8
Liabilities from warranty agreements	20.5	19.7
Other commitments	15.2	5.3
of that purchase commitments	(11.8)	(2.4)
of that other financial commitments	(3.4)	(2.9)

MANAGEMENT OF CAPITAL

The primary goals of managing capital for the KUKA Group are the support of ongoing business operations by providing adequate financial resources and the increase of the enterprise value.

This requires adequate shareholders' equity (Leverage ratio as the key indicator) and a minimum return on capital employed (ROCE as the key indicator) equal to internal corporate targets.

The ROCE figures achieved in the 2007 reporting year are discussed in the management report section on "Net assets"; the medium-term targets are discussed in the management report section on "Business operations and Group structure".

The KUKA Group monitors its capital on the basis of net liquidity. Net liquidity represents cash and cash equivalents less short and long-term liabilities due to financial institutions. The development of net liquidity in the 2007 reporting year is presented in the management report section on "Net assets".

PAY-ON-PRODUCTION MODELS

KUKA Toledo Production Operations LLC., Toledo / USA, which was consolidated for the first time in the 2005 financial year, produces for the Jeep®Wrangler for Chrysler under a pay-on-production model. As part of this project the company has been supplying bodies-in-white to Chrysler since July 2006 already. To finance this project, an operative lease was agreed with a local municipality and a bank syndicate providing the financing. Under this framework, significant portions of the necessary investments in buildings and equipment are leased. The total volume of investments to be financed by the lessor on the basis of the operating lease at the balance sheet date is equal to a total amount of USD 123.3 million. A major portion of the equipment was supplied by the former KUKA Flexible Production Systems Corp., Sterling Heights / USA, currently KUKA Systems Corporation North America, Sterling Heights / USA.

The sale of Chrysler by the Daimler AG in August 2007 led to a lowering of Chrysler's credit worthiness. The sale of Chrysler also triggered a "change of control" clause (see page 67: Events after the Balance Sheet Date), which resulted in prepayment of the financing for the Jeep Wrangler body-in-white production on the part of KUKA. This prepayment of the financing provides an opportunity to secure and stabilize the expected income and cash flows from KTPO. Moreover, the Jeep Wrangler brand also offers above-average growth and development prospects, in which KUKA will be able to participate. Risks arise from the greater dependency on passenger car sales and production volumes on the American car market and the expenses of the refinancing incurred by KUKA as a result of the lower rating.

LEGAL DISPUTES

KUKA Aktiengesellschaft and its Group companies are not party to any court or arbitration proceedings that could have a material impact on the financial position of the companies or of the Group or did have such material impact in the two preceding years.

Financial costs arising from other court or arbitration proceedings have been recognized through a sufficient level of provisions at the Group companies in question or there is an adequate amount of insurance or similar coverage and they have been taken into account at the Group level.

RELATED PARTY DISCLOSURES

In accordance with International Accounting Standard 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.

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		Products and services provided by related companies to the KUKA Group	
		2006	2007	2006	2007
KUKA InnoTec GmbH, Augsburg / Germany	51	0.0	0.0	0.7	0.3
KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City / Taiwan	100	1.2	1.9	0.3	0.0
KUKA Robotics Japan K.K., Tokio / Japan	100	0.0	0.3	0.0	0.1
Others less than € one million		0.1	0.0	0.4	0.1
		1.3	2.2	1.4	0.5
COMPANIES SOLD DURING THE FINANCIAL YEAR					
IWK Machines D'Emballage S.A.S., Honfleur / France	0	0.4	0.0	0.3	0.0
IWKA PacSystems Ltd., Blacknest / United Kingdom	0	0.4	0.0	0.1	0.0
		0.8	0.0	0.4	0.0
		2.1	2.2	1.8	0.5

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 primarily comprise commissions and sales to non-consolidated sales and service organizations. 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.

The following table lists the material amounts owing by related parties to fully consolidated KUKA Group companies:

in € millions	Interest	Group receivables from related companies	
	in %	Dec. 31, 2006	Dec. 31, 2007
KUKA Robot Automation Taiwan Co. Ltd., Taipei / Taiwan	100	2.3	3.2
Others less than € one million		0.0	0.3
		2.3	3.5

Current liabilities are € 0.1 million compared to € 0.2 million the year before and are not considered material either on an individual basis or from an overall Group perspective.

Interest income and expense arising on transactions entered into with related companies relate primarily to KUKA Aktiengesellschaft and result from loans granted to non-consolidated affiliated companies. The loans are granted at prevailing market rates.

No business subject to reporting rules was conducted between any KUKA Group companies and members of the KUKA Aktiengesellschaft's Executive or Supervisory Boards.

AUDIT FEES

The fee for the Auditor Ernst & Young AG recognized as expense in 2007 totals € 2.0 million (prior year € 2.3 million). A total of € 0.8 million (prior year € 0.8 million) was recognized as financial statement audit fees. € 0.2 million (prior year € 0.5 million) represented expenses for tax advisory services. An amount of € 0.5 million (prior year € 0.9 million) was recognized as expenses for certifications, valuations. Other services provided by the Auditor totaled to € 0.5 million (prior year € 0.1 million).

KUKA AKTIENGESELLSCHAFT DIVIDEND

The Executive Board and the Supervisory Board will propose at the Annual General Meeting the distribution of dividends in the amount of € 1.00 per no-par share, or a total distribution of € 26.6 million.

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 11, 2008) and of the Supervisory Board (February 25, 2008) are available for inspection by any interested party on the company's website at www.KUKA.de.

ANNOUNCEMENTS IN ACCORDANCE WITH ARTICLE 26 (1) OF THE GERMAN SECURITIES**TRADING ACT (WpHG)**

The notices received in the 2007 financial year are listed below:

cominvest Asset Management GmbH, Frankfurt am Main, Germany, sent us the following notice in its letter dated February 7, 2007:

"We herewith notify you, in accordance with Article 21 para. 1 WpHG in combination with Article 32 para. 2 InvG that on February 2, 2007, our share of the voting rights in IWKA Aktiengesellschaft, Am Hartwald 3, 76275 Ettlingen, passed the notification threshold of 3 % and now totals 3.09 % (822,557 votes). Of the above, 0.84 % (222,500 votes) of the voting rights are allocated to us in accordance with Article 22 para. 1 sentence 1 item 6 WpHG."

Union Investment Luxembourg S. A., Luxembourg, informed us in its letter dated April 13, 2007 according to Article 21 para. 1 WpHG, that on April 12, 2007, its share of the voting rights in IWKA AG passed the threshold of 3 % and is currently 3.03 % (number of votes: 806,446).

Mr. Bryan Fenwick-Smith, Monaco, Monaco, informed us on June 8, 2007, according to Article 21 para. 1 WpHG that on June 7, 2007, his share of the voting rights in IWKA AG, Karlsruhe, Germany, passed the threshold of 3 % of the votes and is now 3.27 % (870,000 votes).

UBS AG, Zurich, Switzerland, notified us of the following in a letter dated August 6, 2007:

"We herewith inform you according to Article 21 para. 1 WpHG that on July 31, 2007, our share of the voting rights in KUKA Aktiengesellschaft (DE 0006204407), Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 3 % and is now 3.42 % (910,934 voting shares)."

UBS AG, Zurich, Switzerland, notified us of the following in a letter dated August 21, 2007:

"We herewith inform you according to Article 21 para. 1 WpHG that on August 1, 2007, our share of the voting rights in KUKA Aktiengesellschaft (DE 0006204407), Zugspitzstraße 140, 86165 Augsburg, fell below the threshold of 3 % and is now 1.355 % (360,457 voting shares)."

cominvest Asset Management GmbH, Frankfurt am Main, Germany, notified us of the following in its letter dated August 22, 2007:

"We herewith inform you in accordance with Article 21 para. 1 WpHG in combination with Article 32 para. 2 InvG that on August 21, 2007, our share of the voting rights in KUKA (formerly IWKA) Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, fell below the notification threshold of 3 % and is now 2.96 % (786,686 votes). Of these, 0.58 % (154,300) of voting rights are allocated to us in accordance with Article 22 para. 1 sentence 1 item 6 WpHG."

JPMorgan Asset Management Holdings Inc., New York, USA, notified us of the following in its letter dated August 22, 2007:

“In accordance with Article 21 para. 1 WpHG, we herewith inform you that on August 23, 2007, the share of the voting rights held by JPMorgan Asset Management Holdings Inc. in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 3% and is now 3.17% (842,315 shares). The voting rights are allocated to JPMorgan Asset Management Holdings Inc. according to Article 22 para. 1 sentence 1 item 6 in combination with Article 22 para. 1 sentence 2 WpHG.”

Landesbank Baden-Württemberg, Stuttgart, Germany, informed us of the following in its letter dated September 21, 2007:

“We herewith inform you acc. to Article 21 para. 1 WpHG that, with the notice of registry from Mannheim County Court dated September 10, 2007, which reached us on September 14, 2007, our hitherto existing subsidiary LBBW Spezialprodukte-Holding GmbH, Stuttgart, Germany, was merged, by the entry in the Commercial Register dated September 5, 2007, with our subsidiary Bensel Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH, Mannheim, Germany, as the absorbing company. The share of the voting rights held by Landesbank Baden-Württemberg in KUKA AG was 5.12% (1,362,177 voting rights) on September 5, 2007. Of these, 4.84% (1,287,477 votes) are allocated to Landesbank Baden-Württemberg in accordance with Article 22 para. 1 sentence 1 item 1 WpHG. The voting rights allocated to Landesbank Baden-Württemberg are held via the following companies controlled by it, whose share of the voting rights in KUKA AG is each 4.84% (1,287,477 votes): Bensel Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH, Mannheim, Germany. Süd-Kapital-Beteiligungs-Gesellschaft mbH, Stuttgart, Germany.

We herewith inform you acc. to Article 21 para. 1 WpHG in combination with Article 24 WpHG that on September 5, 2007, the share of the voting rights held by Bensel Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH in KUKA AG passed the threshold of 3% and totaled 4.84% (1,287,477 votes) on that day. These voting rights are allocated to Bensel Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH in full in accordance with Article 22 para. 1 sentence 1 item 1 WpHG.

The voting rights allocated to Bensel-Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH are held via the following company controlled by it whose share of the voting rights in KUKA AG 4.84% (1,287,477 voting rights):

Süd-Kapitalbeteiligungs-Gesellschaft mbH, Stuttgart, Germany.

We herewith inform you according to Article 21 para. 1 WpHG in combination with Article 24 WpHG that the share of the voting rights held by Süd-Kapitalbeteiligungs-Gesellschaft mbH in KUKA AG on September 5, 2007 was 4.84% (1,287,477 voting rights).

The address of Landesbank Baden-Württemberg is: Landesbank Baden-Württemberg, Am Hauptbahnhof 2, 70173 Stuttgart, Germany.

The address of Bensel-Verwaltungs- und Beratungs-Gesellschaft für Vermögensanlagen mbH is: Augustaanlage 33, 68165 Mannheim, Germany.

The address of Süd-Kapitalbeteiligungs-Gesellschaft mbH is: Süd-Kapitalbeteiligungs-Gesellschaft mbH, Königsstraße 10c, 70173 Stuttgart, Germany.

The address of KUKA AG is: KUKA AG, Zugspitzstraße 140, 86165 Augsburg, Germany.”

Union Investment Luxembourg S. A., Luxembourg, Luxembourg, informed us in its letter dated October 9, 2007 according to Article 21 WpHG that on October 9, 2007, its share of the voting rights in KUKA AG fell below the threshold of 3 % and was 2.5 % (number of voting rights: 665,446) on that day.

Fidelity International, Tadworth, Surrey, United Kingdom, acting on behalf of and with the full authority of Fidelity Management & Research Company and FMR LLC (formerly fmr Corp.), informed us in a letter dated October 12, 2007, of the following:

“We herewith inform you on behalf of and with the full authority of Fidelity Management & Research Company, 82, Devonshire Street, Boston, Massachusetts 02109, USA, according to Article 21 (1) WpHG that on October 11, 2007, the share of the voting rights held by Fidelity Management & Research Company in KUKA AG, Zugspitzstraße 140, 86165 Augsburg, Germany, fell below the threshold of 5 % and is now 4.72 % (1,255,270 shares). The voting rights are allocated to Fidelity Management & Research Company according to Article 22 (1) 1 item 6 WpHG. In summary, we inform you on behalf of and with the full authority of FMR LLC, 82 Devonshire Street, Boston, Massachusetts 02109, USA, according to Article 21 (1) WpHG that on October 11, 2007, the share of the voting rights held by FMR LLC in KUKA AG, Zugspitzstraße 140, 86165 Augsburg, Germany, fell below the threshold of 5 % and is now, including the proportion named in section 1, 4.96 % (1,320,170 shares). The voting rights are allocated to FMR LLC according to Article 22 (1) 2 WpHG in combination with Article 22 (1) item 6 WpHG. The share of the voting rights held by FA Diversified International is 4.72 % of these voting rights.”

FMR LLC, Boston, USA, informed us of the following in a letter dated October 16, 2007:

“We herewith inform you according to Article 21 (1) WpHG that on October 15, 2007 the share of the voting rights held by FMR LLC, 82 Devonshire Street, Boston, Massachusetts 02109, USA, in KUKA AG, Zugspitzstrasse 140, 86165 Augsburg, Germany, passed the threshold of 5 % and is now 5.18 % (1,376,705 shares). The voting rights are allocated to FMR LLC according to Article 22 (1) 2 WpHG in combination with Article 22 (1) item 6 WpHG. FA Diversified International’s share of the voting rights is 4.95 % of these voting rights.”

FMR LLC, Boston, USA, notified us of the following in a letter dated October 17, 2007:

“We herewith inform you according to Article 21 (1) WpHG that on October 16, 2007, the share of the voting rights held by FMR LLC, 82 Devonshire Street, Boston, Massachusetts 02109, USA, in KUKA AG, Zugspitzstraße 140, 86165 Augsburg, Germany, fell below the threshold of 5 % and is now 4.89 % (1,301,507 shares). The voting rights are allocated to FM RLLC according to Article 22 (1) 2 WpHG in combination with Article 22 (1) 1 item 6 WpHG. FA Diversified International’s share of the voting rights is 4.67 % of these voting rights.”

FMR LLC, Boston, USA, notified us of the following in a letter dated October 29, 2007:

“We herewith inform you according to Article 21 (1) WpHG that on October 26, 2007, the share of the voting rights held by FMR LLC, 82 Devonshire Street, Boston, Massachusetts 02109, USA, in KUKA AG, Zugspitzstraße 140, 86165 Augsburg, Germany, fell below the threshold of 3 % and is now 2.76 % (732,992 shares). The voting rights are allocated to FMR LLC according to Article 22 (1) 2 WpHG in combination with Article 22 (1) 1 item 6 WpHG.”

Fidelity International, Tadworth, Surrey, United Kingdom, acting on behalf of and with the full authority of Fidelity Management & Research Company, sent us the following announcement in a letter dated October 30, 2007:

“We herewith inform you on behalf of and with the full authority of Fidelity Management & Research Company, 82 Devonshire Street, Boston, Massachusetts 02109, USA, according to Article 21 (1) WpHG that on October 25, 2007 the share of the voting rights held by Fidelity Management & Research Company in KUKA AG, Zugspitzstrasse 140, 86165 Augsburg, Germany, fell below the threshold of 3% and is now 2.88% (765,098 shares). The voting rights are allocated to Fidelity Management & Research Company according to Article 22 (1) 1 item 6 WpHG.”

Artemis Investment Management Ltd., London, United Kingdom, informed us in a letter dated October 31, 2007 – which was received by KUKA Aktiengesellschaft on December 18, 2007 – that on October 26, 2007, the share of the voting rights held by the Artemis European Growth Fund in KUKA Aktiengesellschaft passed the threshold of 3% and was 4.14% (1,100,000 shares). Furthermore, on October 26, 2007 the share of the voting rights held by Artemis Investment Management Ltd. in KUKA AG passed the threshold of 3% and is 4.14% (1,100,000 shares). These voting rights are held directly by the Artemis European Growth Fund and are allocated in full to Artemis Investment Management Ltd. according to Article 22 para. 1 sentence 1 item 6 WpHG.

Comment by the issuer:

This voting right notice, which was only received by KUKA Aktiengesellschaft on December 18, 2007, is a notice issued by Artemis Investment Management Ltd. correcting the original notice dated October 31, 2007, in which the share of the voting rights was given as 4.86%.

Voting right announcements of JP Morgan Chase Group dated November 12, 2007:

1. JPMorgan Chase & Co., New York, USA, informed us of the following in a letter dated November 12, 2007:

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 7, 2007 the share of the voting rights held by JPMorgan Chase & Co. in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 5% and is now 5.17% (1,374,425 shares). The voting rights allocated to JPMorgan Chase & Co. according to Article 22 para. 1 sentence 1 item 6 WpHG in combination with Article 22 para. 1 sentence 2 WpHG are 5.15% (1,369,618 shares) and come from JPMorgan Asset Management Holdings Inc. In addition, JPMorgan Chase & Co. is allocated further voting rights of 0.02% (4,807 shares) according to Article 22 para. 1 sentence 1 item 1 WpHG.

2. JPMorgan Asset Management Holdings Inc., New York, USA, informed us of the following in a letter dated November 12, 2007:

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 7, 2007 the share of the voting rights held by JPMorgan Asset Management Holdings Inc. in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 5% and is now 5.15%

(1,369,618 shares). The voting rights are allocated to JPMorgan Asset Management Holdings Inc. according to Article 22 para. 1 sentence 1 item 6 in combination with Article 22 para. 1 sentence 2 WpHG and come from JPMorgan Asset Management (UK) Limited amongst others.

3. JPMorgan Asset Management (UK) Ltd., London, United Kingdom, informed us of the following in its letter dated November 12, 2007:

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 7, 2007 the share of the voting rights held by JPMorgan Asset Management (UK) Limited in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 5% and is now 5.04% (1,339,590 shares). All voting rights are allocated to JPMorgan Asset Management (UK) Limited according to Article 22 para. 1 sentence 1 item 6 WpHG.

Comment by the issuer:

As of November 7, 2007, the JPMorgan Chase Group holds 5.17% of the voting shares in total.

Voting right announcements from JPMorgan Chase Group dated November 21, 22 and 23, 2007:

1. JPMorgan Chase & Co., New York, USA, informed us of the following in its letter dated November 22, 2007:

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 19, 2007 the share of the voting rights held by JPMorgan Chase & Co. in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, fell below the threshold of 5% and is now 4.77% (1,269,845 shares). The voting shares allocated to JPMorgan Chase & Co. according to Article 22 para. 1 sentence 1 item WpHG in combination with Article 22 para. 1 sentence 2 WpHG total 4.67% (1,2542,582 shares) and come from JPMorgan Asset Management Holdings Inc. In addition, JPMorgan Chase & Co. is allocated further voting rights of 0.10% (27,235 shares) according to Article 22 para. 1 sentence 1 item 1 WpHG.

2. JPMorgan Asset Management Holdings Inc., New York, USA, informed us of the following in a letter dated November 23, 2007 (correction):

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 15, 2007 the share of the voting rights held by JPMorgan Asset Management Holdings Inc. in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, fell below the threshold of 5% and is now 4.996% (1,328,946 shares). The voting rights are allocated to JPMorgan Asset Management Holdings Inc according to Article 22 para. 1 sentence 1 item 6 in combination with Article 22 para. 1 sentence 2 WpHG and come from JPMorgan Asset Management (UK) Ltd, amongst others.

3. JPMorgan Asset Management (UK) Limited, London, United Kingdom, informed us of the following in a letter dated November 21, 2007:

In accordance with Article 21 para. 1 WpHG we herewith inform you that on November 14, 2007 the share of the voting rights held by JPMorgan Asset Management (UK) Limited in KUKA Aktiengesellschaft, Zugspitzstraße 140, 86165 Augsburg, fell below the threshold of 5% and is now 4.90% (1,304,464 shares). All voting rights are allocated to JPMorgan Asset Management (UK) Limited according to Article 22 para. 1 sentence 1 item 6 WpHG.

Comment by the issuer:

As of November 19, 2007, the JPMorgan Chase Group holds 4.67% of the voting rights in total.

UBS AG, Zurich, Switzerland, sent us the following announcement with its letter dated December 20, 2007:

“We herewith inform you according to Article 21 WpHG that on December 17, 2007 our share of the voting rights in KUKA Aktiengesellschaft (DE 0006204407) Zugspitzstraße 140, 86165 Augsburg, passed the threshold of 3% and is 3.09% (820,803 voting shares). Of that, UBS AG is allocated 0.08% of the voting rights (21,152 voting shares) in accordance with Article 22 para. 1 sentence 1 item 1 WpHG.”

UBS AG, Zurich, Switzerland, informed us of the following in a letter dated December 21, 2007:

“We herewith inform you according to Article 21 para. 1 WpHG that on December 18, 2007 our share of the voting rights in KUKA Aktiengesellschaft (DE 0006204407) Zugspitzstraße 140, 86165 Augsburg, fell below the threshold of 3% and is 2.54% (675,143 voting shares). Of this, UBS AG is allocated 0.02% of the voting rights (5,457 voting shares) in accordance with Article 22 para. 1 sentence 1 item 1 WpHG.”

EVENTS AFTER THE BALANCE SHEET DATE

KUKA Aktiengesellschaft published the following Ad hoc announcement on February 29, 2008:

“KUKA Aktiengesellschaft has reached agreement with Chrysler LLC and the financing banks regarding the prepayment of the financing of the manufacturing facility of KUKA’s American subsidiary KUKA Toledo Production Operations LLC (“KTPO”). The prepayment of the financing, funds for which will come from the KUKA Group’s existing net liquidity, will lead to an increase in assets as a result of the purchase of the manufacturing facility and a decrease in net liquidity of about EUR 85 million.”

Augsburg, March 3, 2008

KUKA Aktiengesellschaft

The Executive Board

Wiedemann

Dr. Koch

Liepert

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report:

“We have audited the consolidated financial statements prepared by KUKA Aktiengesellschaft, Augsburg, comprising, the income statement, the balance sheet, statement of recognized income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2007. 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 Sec. 315a (1) HGB [“Handelsgesetzbuch”: “German Commercial Code”] are the responsibility of the parent company’s management. 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 Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). 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 management, 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 IFRS’s as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (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.”

Stuttgart, March 5, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft

Prof. Dr. Wollmert, German Public Auditor

Ketterle, German Public Auditor

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 group management report 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 3, 2008

The Executive Board

Wiedemann

Dr. Koch

Liepert

BALANCE SHEET

of KUKA Aktiengesellschaft as at December 31, 2007

ASSETS

in € thousands	Dec. 31, 2006	Dec. 31, 2007
NON-CURRENT ASSETS		
Intangible assets	1,403	3,026
Property, plant and equipment	29,088	16,435
Financial investments	205,312	220,990
	235,803	240,451
CURRENT ASSETS		
Receivables and other assets		
Receivables from affiliated companies	187,879	105,837
Other assets	12,005	20,535
	199,884	126,372
Cash and cash equivalents	42,109	85,729
	241,993	212,101
PREPAID EXPENSES AND DEFERRED CHARGES	36	323
	477,832	452,875

EQUITY AND LIABILITIES

in € thousands	Dec. 31, 2006	Dec. 31, 2007
EQUITY		
Subscribed capital	69,160	69,160
Capital reserve	18,666	18,666
Revenue reserves	0	0
Net retained earnings	0	73,698
	87,826	161,524
PROVISIONS AND ACCRUALS		
Pension provisions	12,258	11,925
Provision for taxes	15,818	25,425
Other provisions	34,470	34,064
	62,546	71,414
LIABILITIES		
Liabilities due to financial institutions	52,597	0
Liabilities similar to bonds	12,544	0
Trade payables	1,702	2,166
Accounts payable to affiliated companies	254,937	210,454
Liabilities to provident funds	2,661	2,585
Other liabilities and deferred income	3,019	4,732
	327,460	219,937
	477,832	452,875

INCOME STATEMENT

of KUKA Aktiengesellschaft for the period from January 1 – December 31, 2007

in € thousands	2006	2007
Other operating income	19.300	24.124
Personnel expense	- 8.997	- 9.353
Depreciation and amortization of tangible and intangible assets	- 2.359	- 2.219
Other operating expenses	- 35.510	- 27.969
Income from participations	4.704	77.892
Impairments and reversal of impairments of financial assets	- 17.000	9.000
Net interest income / expense	- 9.037	- 7.206
INCOME FROM ORDINARY ACTIVITIES	- 48.899	64.269
Extraordinary income	- 37.722	0
Taxes on income	5.689	9.429
ANNUAL NET PROFIT / LOSS	- 80.932	73.698
Withdrawal from capital reserve	80.932	0
Additions to retained earnings	0	0
AMOUNT OF BALANCE SHEET PROFIT	0	73.698

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 Ernst & Young AG, Stuttgart, and were certified without reservations in an opinion dated March 5, 2008.

A copy of the complete annual financial statements of KUKA Aktiengesellschaft can be requested from KUKA Aktiengesellschaft, Investor Relations, p. o. Box 43 12 69 in 86072 Augsburg.

Financial calendar

MAY 6, 2008	First-quarter interim report
MAY 15, 2008	Annual general meeting, Augsburg
AUGUST 5, 2008	Annual report to mid-year
NOVEMBER 4, 2008	Interim report for the first nine months
FEBRUARY 3, 2009	Preliminary figures for financial 2008
MARCH 12, 2009	Press conference presenting the annual financial statements
MARCH 12, 2009	DVFA Analysts' Conference
APRIL 29, 2009	Annual General Meeting, Augsburg
APRIL 29, 2009	First-quarter interim report
AUGUST 4, 2009	Annual report to mid-year
NOVEMBER 3, 2009	Interim report for the first nine months

This financial report was published on March 19, 2008 and is available in German and English from KUKA AG's investor relations department.

IMPRESSUM

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Key figures 10-year overview*

GERMAN COMMERCIAL CODE (HGB)

KUKA GROUP		1998	1999	2000	2001	2002	2003
Orders received	in € millions	1,764	1,815	2,189	2,280	2,361	2,304
Order backlog (Dec. 31)	in € millions	1,040	1,164	1,109	1,122	1,102	1,065
Sales revenues	in € millions	1,603	1,844	2,220	2,290	2,312	2,287
of that export	%	51	55	67	65	61	61
EBIT	in € millions	80.2	69.8	50.8	68.9	73.4	81.1
in % of sales	%	5.0	3.8	2.3	3.0	3.2	3.5
Net income / loss for the year	in € millions	39.5	31.4	31.0	31.2	22.5	23.4
Cashflow	in € millions	92.6	92.7	109.2	104.3	94.1	96.2
Capital expenditures	in € millions	59.1	89.4	73.6	53.1	64.0	63.2
Depreciation	in € millions	45.2	61.8	70.6	67.6	68.4	73.9
Total assets	in € millions	975	1,510	1,589	1,577	1,515	1,502
Equity	in € millions	274	300	354	367	387	388
Equity ratio	%	28	20	22	23	26	26
Employees (Dec. 31)		11,265	13,312	12,859	12,823	13,089	13,231
of that export	%	27	38	41	40	41	41

* Prior years were not adjusted.

IFRS

2004	2005	2006	2007
2,340	1,641	1,620	1,344
1,011	1,016	669	529
2,352	1,613	1,566	1,286
64	66	65	64
111.9	- 30.7	33.7	70.4
4.8	- 1.9	2.2	5.5
48.8	- 147.5	- 69.4	117.9
115.6	- 49.4	52.2	81.2
67.5	39.4	29.7	26.4
58.6	47.6	38.4	26.9
1,660	1,553	1,071	888
358	189	127	233
22	12	12	26
13,209	8,974	8,123	5,732
42	43	46	43

ADDITIONAL INFORMATION : WWW.KUKA.COM

