AUTOMATION CHANGES.

IWKA ANNUAL REPORT **2006**

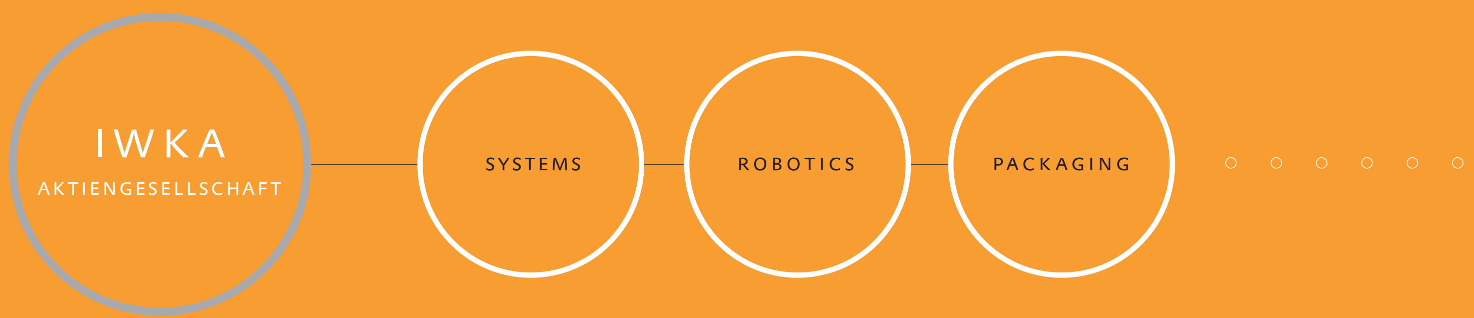
IWKA automation technologies

KEY FIGURES

IWKA GROUP KEY FIGURES		2003	2004	2005	2006
Orders received	€ millions	2,304	1,688	1,468*	1,620*
Order backlog (Dec. 31)	€ millions	1,065	764	609.1*	668.5*
Sales revenues	€ millions	2,339	1,681	1,436*	1,566*
of which outside Germany	%	61	62	66*	65*
EBIT	€ millions	107.0	108.1	-42.9*	33.7*
Return on sales	%	4.6	6.4	-3.0*	2.2*
EBT	€ millions	79.4	96.3	-59.6*	15.7*
Net income for the year	€ millions	45.6	48.8	-147.5	-69.4
Capital employed	€ millions	760.3	463.3	389.6*	332.9*
ROCE	%	14.1	23.3	-11.0*	10.1*
Cash flow	€ millions	102.9	115.6	-49.4	52.2
Free cash flow	€ millions	39.4	94.5	-23.5	51.4
Capital expenditure	€ millions	69.4	46.4	35.1*	29.7*
Depreciation	€ millions	58.3	39.6	43.7*	38.4*
Total assets	€ millions	1,646	1,660	1,553	1,071
Equity	€ millions	323	358	189	127
Equity ratio	%	20	22	12	12
Earnings per share	€	1.70	1.83	-5.45	-2.60
Free cash flow per share	€	1.48	3.55	-0.88	1.93
Dividend per share	€	0.66	0.66	–	–
Dividend yield (end-of-year)	%	4.1	3.3	–	–
Employees (Dec. 31)		13,231	9,153	7,939*	8,123*
of which outside Germany	%	41	42	41*	46*

* The figures are based on continuing operations (the prior year was adjusted for comparison purposes).

IN 2006, IWKA CONDUCTED BUSINESS AS AN AUTOMATION GROUP AND FOCUSED ON ITS CORE COMPETENCIES; NAMELY, SYSTEMS, ROBOTICS AND PACKAGING. AFTER FINISHING THE RESTRUCTURING PHASE, THE COMPANY EMBARKED ON IMPLEMENTING ITS GLOBAL GROWTH STRATEGY.



IWKA's automotive unit targets an attractive market with long-term growth potential. The Eastern European and Asian markets in particular are launch pads for further expansion.

The cross-market recognition of the savings potential of robots will make it possible to be successful with ever-increasing numbers of applications outside the classic metal-processing industry. These growth markets include logistics, medical technology and the entertainment sector. IWKA is expanding its activities in these lucrative markets in alliance with systems partners specializing in the sectors.

Growth in the Packaging division's sector will be driven primarily by higher consumer spending around the globe. Here IWKA does business in rewarding niche markets such as dry and pasty food products packaging and is benefiting from the rising demand for pharmaceutical and cosmetic products.

"IWKA focuses on the fields of business that promise high growth and profits – markets in which the company can achieve global technology leadership."

GERHARD WIEDEMANN, DIPL.-ING., CEO

GERHARD WIEDEMANN, DIPL.-ING, born 1946, has been a member of the Executive Board since April 1, 2006 and CEO of IWKA 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.

LETTER TO SHAREHOLDERS

Dear shareholders,

the year 2006 was an important year for the IWKA Group. I am convinced that this year of restructuring the company, together with the divestitures and internal adjustments, was urgently needed. The IWKA Group separated from some of its companies to cover the essentials. The 2006 business year now belongs to the past.

This annual report demonstrates that, step-by-step, the changes are already beginning to take hold. We are delighted that operational business results in all divisions are trending higher. Although, as they were in 2005, after-tax profits will once again be negative as a result of disposal costs of approximately € 80 million, the numbers – higher orders received and sales revenues, and an EBIT well into positive territory – clearly demonstrate: this company has a solid foundation. Its net debt has been substantially reduced, it is better financed and it has impressive growth potential.

IWKA now focuses primarily on the fields of business that promise high growth and profits – markets in which the companies can achieve global technology leadership. The company's core competencies are in all sectors in which robotics are applied, plus the design and implementation of highly automated production systems for almost any industry task that entails processing metallic and non-metallic materials. IWKA is an automation company partnering with the automotive industry, and aims to do the same for example in the aerospace and logistics industries. This is our guiding principle.

In order to be able to offer our customers new technical solutions to improve quality and their return on investment, it is essential that we engage in efficient research and development and minimize the time to market for our innovations. We reinvest in these core competencies. One example is the acquisition last year of omniMove, a specialist for mobile platforms. It represents a first step toward driving the service robots business forward. There will be further acquisitions in the future to expand our portfolio along these lines.

I consider my most important task in the coming months to further expand the growth potential of IWKA, taking advantage of the momentum due to the improved general economic conditions.

IWKA is on the move again. Following the successful restructuring, our strategy remains focused on generating growth, while continuously and systematically improving the company's profitability.

I know that the past business year was not always easy for our employees. All the more reason to thank our staff for continuing to offer the company their full creativity and commitment. The Executive Board recognizes the valuable contribution all employees have made to the successful restructuring of the company.

The numerous announcements at IWKA, together with personnel changes and a temporary share price drop, gave our customers, business partners and shareholders cause to raise questions. Thank you very much for your continued trust – you will not regret it.

Sincerely,

Gerhard Wiedemann, Dipl.-Ing.

CHAIRMAN OF THE EXECUTIVE BOARD

"Following the successful restructuring, our strategy remains focused on generating growth, while continuously and systematically improving the company's profitability."

DR. JÜRGEN KOCH, CFO
PACKAGING DIVISION

"The Robotics division will respond to continuing globalization by offering more innovations and attractive products. This includes an increased local presence where it has customers."

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

DR. JÜRGEN KOCH, born 1957, has been a member of the Executive Board of IWKA Aktiengesellschaft since April 1, 2006 and is its Financial Director as well as responsible for the Packaging division. 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 financial director at Pfleiderer AG, based in Neumarkt/Oberpfalz. Dr. Jürgen Koch is married and has two children.

BERND LIEPERT, DIPL.-MATH., born in 1962, has been a member of the Executive Board of IWKA 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 became a member of the executive committee in 1998. He has been the CEO of KUKA Roboter GmbH since 2000. Bernd Liepert is married and has two children.

"The conditions that will allow IWKA's companies to build on improved earnings from their operating businesses and return to sustained profitability were established in 2006. The Group is strictly oriented toward the expectations of the financial markets and capital investors"

DR. ROLF BARTKE, CHAIRMAN OF THE SUPERVISORY BOARD

DR. ROLF BARTKE, born 1947, is Chairman of the Supervisory Board of IWKA 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 DaimlerChrysler Group. From 1995 to 2006, he headed up the Mercedes-Benz Vans business unit. Rolf Bartke is married and has a son.

SUPERVISORY BOARD REPORT

The 2006 business year just ended was a year of transition for IWKA Aktiengesellschaft. Whereas the year 2005 was characterized by a deep-seated restructuring process that impacted every one of the Group's areas, the year 2006 ended with improved operating performance effected by numerous divestitures. This established the conditions that will allow IWKA's companies to build on improved earnings from their operating businesses and return to sustained profitability. The Group is strictly oriented toward the expectations of the market and capital investors.

Against this background, the Supervisory Board was intensively involved in the corporation's business situation and consulted with the Executive Board, which it supervised in the interests of the shareholders and employees. The Executive Board held timely and in detail inform the Supervisory Board about the company's business situation and financial position. It was continuously involved in decisions of material importance and for particularly important or urgent issues, also between the regular meetings. When necessary, it also handed down decisions through written correspondence.

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 corporate developments and pending decisions and be in a position to support the Executive Board in its deliberations. The Supervisory Board and the Executive Board met several times to jointly consult on important business issues and the further development of the company. The Executive Board complied with the Supervisory Board's standard rules of procedure, which stipulate that certain transactions require its prior approval.

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

The following committees were established by the Supervisory Board: the Personnel Committee, the Audit Committee, Strategy Committees and the committee described in para. 27 of the German Act on Company Co-Determination (Mitbestimmungsgesetz).

During the 2006 financial year, the Supervisory Board met seven times, including one extraordinary meeting.

On January 27, 2006, the subject of discussion centered around the strategic direction of IWKA Aktiengesellschaft. During the Supervisory Board meeting, the committee was also given the first indications regarding the publication of preliminary figures for IWKA's completed business year 2005.

The March 28, 2006 meeting dealt with IWKA Aktiengesellschaft's and the IWKA Group's financial statements for 2005 and the preparations for the resolutions for the June 1, 2006 Annual General Meeting. The Supervisory Board ultimately gave its approval for the IWKA Group's strategic concept, which had been the subject of discussion at the Supervisory Board's meeting in January 2006.

At the meeting on June 1, 2006 – just before the Annual General Meeting – the agenda items included preparation for the Annual General Meeting and a report on the status of the divestments planned by the Group.

In order to avoid future conflicts of interest, Dr. Herbert Demel submitted his resignation as a member of the Supervisory Board effective the end of the June 1, 2006 Annual General Meeting. The Supervisory Board shareholder representatives nominated Professor Gerd Hirzinger, Dr.-Ing., Director of the DLR-Institute for Robotics und Mechatronics, based in Seefeld, as Dr. Demel's successor and

Supervisory Board shareholder representative effective the end of the June 1, 2006 Annual General Meeting. Following a favorable vote by the shareholders, Prof. Hirzinger began to exercise his mandate as a member of the Supervisory Board.

The Supervisory Board meeting immediately following the Annual General Meeting on June 1, 2006 dealt with the results of the shareholder meeting.

The Executive Board will continue to press ahead with further strategic realignment of the Group. The Supervisory Board established two temporary working strategic committees to track this process. These met twice; once in July and once in September 2006. They participated in discussions about the future business policies and direction of the Group.

At the next regular Supervisory Board meeting on September 21 and 22, 2006, the Supervisory Board reviewed the results of the meetings of the strategic committees and the realignment of the core business divisions: Automotive, Robotics and Packaging. With the approval of the Supervisory Board, the Executive Board decided that the IWKA Group would continue to implement its strategy of concentrating on its core competencies and would analyze the impact of an even greater focus on Systems (Automotive) and Robotics in conjunction with that. The Executive Board therefore analysed possibilities to sell the Packaging division. The agenda also included a review of the 2006 business results and IWKA's divestment processes for 2006. The Supervisory Board also conducted efficiency tests for corporate governance as outlined in section 5.6 of the Corporate Governance Code.

The Supervisory Board held its last regular meeting of the year on December 8, 2006. It discussed and adopted the budget for 2007 as well as the mid-term plan to 2008. It again reviewed the status of the divestment process for the current business year. The Supervisory Board gave its approval for the sale of the ARO Group.

All members of the Supervisory Board participated in over half of the Supervisory Board meetings in 2006.

The Supervisory Board handed down decisions through written correspondence during the reporting period, particularly in connection with the placement of a convertible bond, as well as in conjunction with the sale of Bopp & Reuther Sicherheits- und Regelarmaturen Group, the J.W. Froehlich Group, the processing of the sale of the EX-CELL-O Group, the sale of the Boehringer Group and IWKA Aktiengesellschaft's relocation to Augsburg.

Again during the 2006 business year, there were major personnel changes at the Executive Board level of the company, which were closely related to the continued restructuring of the IWKA Group.

In order to integrate the operational management of the IWKA Group's divisions more tightly into IWKA Aktiengesellschaft, Mr. Gerhard Wiedemann, CEO of KUKA Schweissanlagen GmbH through December 31, 2006, and Mr. Bernd Liepert, CEO of KUKA Roboter GmbH, were added to the Executive Board of IWKA Aktiengesellschaft and became full members effective April 1, 2006.

Dr. Jürgen Koch was named a full member of the Executive Board of IWKA Aktiengesellschaft and its Chief Financial Officer effective April 1, 2006.

Mr. Dieter Schäfer, until that point in time the Executive Board member responsible for controlling and the Packaging division, left the Executive Board of the company effective the close of August 31, 2006.

After restructuring the IWKA Group, Mr. Wolfgang-Dietrich Hein resigned from his position as CEO, as a board member and Labor Director of IWKA Aktiengesellschaft effective the close of December 31, 2006.

During an extraordinary Supervisory Board meeting on December 22, 2006, Mr. Gerhard Wiedemann, member of the Executive Board, was elected CEO and Labor Director of IWKA Aktiengesellschaft effective January 1, 2007.

The Personnel Committee consisting of four Supervisory Board members convened five times in 2006 and in accordance with the law discussed contractual conditions related to upcoming Supervisory Board personnel decisions and the legal relations between the company and the individual Executive Board members, as well as the departed Executive Board members. The chairman informed the members of the Supervisory Board about the agenda items and adopted resolutions.

The Audit Committee met five times to discuss items related to the annual financial statements and to discuss, among other things, preparation for the respective quarterly reports. The Audit Committee thus intensively supported the Supervisory and Executive Boards' tasks and provided the panel with important information in preparation for making its decisions.

The committee described in para. 27, para. 3 of the German codetermination act did not meet.

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. There were no conflicts of interest as defined in section 5.5 of the Corporate Governance Code. 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 12, 2007 by the Executive Board and on February 23, 2007 by the Supervisory Board.

WORK WITH THE AUDITORS

The annual financial statements and management report of IWKA Aktiengesellschaft as of December 31, 2006, as well as the consolidated annual financial statements and Group management report as of December 31, 2006, including the accounting were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, who issued an unqualified audit opinion on them. As required under the German Act on Corporate Control and Transparency (KonTraG), the IWKA Group risk management system was also audited.

Prior to appointing the auditors of the two financial statements, the Audit Committee Chairman and the Supervisory Board Chairman conducted in-depth discussions with the auditors regarding audit issues, scope and fees. In December 2006, the auditor gave the Audit Committee Chairman and the Supervisory Board Chairman a detailed explanation of the preliminary audit results. Thereafter, the auditor also immediately reported any findings that arose during the course of the audits that were material to the Supervisory Board's work.

On March 16, 2007, the Audit Committee reviewed the two annual financial statements in detail with the auditors, focusing on any significant issues that had arisen during the audit. It recommended that the Supervisory Board approve the IWKA Aktiengesellschaft's annual financial statements and the IWKA Group's consolidated 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 27, 2007 regarding the annual financial statements in order to report on material findings in the audit and to provide additional information.

ANNUAL FINANCIAL STATEMENTS FOR 2006 ADOPTED

Having completed its own review, the Supervisory Board raises no objections and concurs with the findings of the auditor.

The Supervisory Board approves the annual financial statements and management report of IWKA Aktiengesellschaft for the financial year 2006 as established by the Executive Board. Thus the annual financial statements are adopted.

The Supervisory Board likewise approves the consolidated annual financial statements and the Group management report of IWKA Aktiengesellschaft for the year 2006 established by the Executive Board.

NOTES RE ARTICLE 171, PARA. 2, SENTENCE 2 SECOND CLAUSE OF AKTG (GERMAN CORPORATION ACT) IN CONJUNCTION WITH ARTICLES 289, PARA. 4 AND 315 PARA. 4 OF HGB (GERMAN COMMERCIAL CODE)

Ad 1: The total share capital of IWKA Aktiengesellschaft is € 69,160,000 consisting of 26,600,000 no-par value shares issued to the bearer.

Ad 6: Executive Board members are nominated and dismissed in accordance with articles 84 and 85 of German Corporation Act (AktG.). The bylaws of IWKA Aktiengesellschaft are changed according to articles 119, para. 1, item 5 and 133 and following of German Corporation Act (AktG.) together with articles 20 and 22 of IWKA Aktiengesellschaft's bylaws.

Ad 7: A resolution passed at the Annual General Meeting of IWKA 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 of convertible bonds and/or warrants with conversion or option rights issued by IWKA Aktiengesellschaft or its companies in accordance with the resolution of the Annual General Meeting on July 4, 2003, subscription rights to new shares, in the quantities to which they would be entitled by exercising their conversion or option rights (iii) for increases in equity against cash contributions 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 German Corporation Act (AktG) does not exceed 10 percent of the 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).

Based on the resolution of the Annual General Meeting of IWKA Aktiengesellschaft on July 4, 2003, 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 (Article 5, paragraph 6 of the bylaws).

On May 9, 2006, IWKA Aktiengesellschaft partially exercised the respective authorization to issue options and or convertible bonds and the conditional capital described above by privately placing a convertible bond issue guaranteed by IWKA Aktiengesellschaft with a nominal value of € 69,000,000 through its 100-percent-owned Dutch subsidiary IWKA 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 IWKA Aktiengesellschaft issued to the bearer. Currently capital is thereby conditionally increased by a maximum of 2,660,000 shares. 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 IWKA Aktiengesellschaft on June 1, 2006, the company is authorized to buy back its own shares up to a total of 10 percent of the total capital at the time the resolution was passed, under the conditions described in more detail in the resolution. Furthermore, subject to approval by the Supervisory Board, the Executive Board is authorized to sell the treasury shares thus acquired to third parties, for the purposes of listing on foreign stock exchanges on which they had previously not been approved for trading, or to withdraw the treasury shares, under the conditions described in further detail in the resolution.

Ad 8: The Convertible Notes Underwriting Agreement between IWKA Finance B.V., IWKA Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Landesbank Baden-Württemberg dated April 24, 2006, which is the basis of the private placement of the convertible bonds, contains a standardized change of control rule, according to which the bond issuer (IWKA Finance B.V.) and the guarantor (IWKA Aktiengesellschaft) publish the change of control as soon as it becomes known in a leading newspaper with general readership in Luxemburg, probably Luxemburger Wort, and to publish the record date 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 on the said record date from the bond issuer. In this case the conversion ratio will be aligned more closely with the Convertible Notes Underwriting Agreement.

Control in the aforementioned sense means direct or indirect legal or economic interest in shares, which together guarantee more than 30 percent of the voting rights of IWKA Aktiengesellschaft or in the case of an offer to purchase shares, circumstances in which the shares 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 IWKA Aktiengesellschaft at the same time the offer became unconditional.

Under the terms of a contract signed on December 20, 2006, IWKA Aktiengesellschaft and its material consolidated companies signed a syndicated loan agreement valued at € 475 million with a bank consortium led by Bayerischen Hypo- und Vereinsbank AG, Dresdner Bank AG and Landesbank Baden-Württemberg, which covers the material debt requirements of the IWKA Group (including filing of bank guarantees). The contract includes a standardized change of control clause 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 IWKA Aktiengesellschaft. If IWKA 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 IWKA Aktiengesellschaft.

THANKS TO THE EMPLOYEES

The challenges of the year 2006 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.

Karlsruhe, March 27, 2007

SUPERVISORY BOARD

Dr. Rolf Bartke

CHAIRMAN

CORPORATE GOVERNANCE

Good Corporate Governance is a fundamental principle of IWKA Aktiengesellschaft. This applies especially to the cooperation between the Executive Board and the Supervisory Board. Moreover, compliance with these provisions is continuously monitored and intensified.

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 December 2002, have in each case been made available for inspection by any interested party on the company's website at www.iwka.de.

The identically worded declarations in accordance with article 161 German Corporation Act (AktG) and the German Corporate Governance Code as amended on June 12, 2006 that have been issued by the Executive Board (February 12, 2007) and of the Supervisory Board (February 23, 2007) read as follows:

"IWKA Aktiengesellschaft has complied with, and continues to comply with, the recommendations of the Government Commission on the German Corporate Governance Code of June 12, 2006, which were published in the electronic edition of the Bundesanzeiger (German Federal Gazette) dated July 24, 2006, subject to the following exception:

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

Moreover, IWKA Aktiengesellschaft adheres to nearly all proposals contained in the code."

As of March 20, 2007, the declarations of the Executive Board and the Supervisory Board have been available to all interested parties on the company's website at www.iwka.de.

In accordance with article 17 paragraph 1 of the articles of incorporation of the Company, every member of the Supervisory Board, in addition to reimbursement for expenses, receives a fixed consideration in the amount of € 30,000, which is payable after the end of the financial year.

The variable compensation based on the dividend, which had been applicable previously, attracted criticism as not serving the intended purpose. Moreover taking rulings by the court of last instance into account, there was and presently still is significant legal uncertainty regarding the permissibility of variable compensation for the Supervisory Board. For this reason, the Supervisory Board proposed a change to the articles of incorporation to the Annual General Meeting on June 1, 2006 under which the members of the Supervisory Board receive a fixed consideration. The Annual General Meeting adopted this change. No new insights with respect to the legal assessment that resulted in this change to the articles of incorporation have emerged in recent months. It is intended to submit relevant draft resolutions to the Annual General Meeting in 2008; in making this statement, we are assuming that there will be greater legal certainty by that time with respect to the permissibility of adequate models for variable compensation for the Supervisory Board.

MANAGEMENT AND COMPANY STRUCTURE

The key goals for the year 2006 was to achieve an operating profit and to spin off discontinued operations. The latter process was completed with the sale of the IWKA Balg- und Kompensatoren-Technologie Group, the Bopp & Reuther Sicherheits- und Regelarmaturen Group, the J.W. Froehlich-Group, HASSIA-Redatron GmbH, GSN Maschinen-Anlagen-Service GmbH, the Boehringer Group and the ARO Group in 2006.

In September 2006, the Executive Board decided with the approval of the Supervisory Board that within the context of its strategy of focusing on core competencies, the IWKA Group should further sharpen its concentration and it is therefore now reviewing a stronger emphasis on the divisions Systems (Automotive) as well as Robotics.

In this context, the Executive Board was examining the possibility of a sale of the Packaging division.

IWKA Aktiengesellschaft, headquartered in Karlsruhe, is the ultimate parent company of the IWKA Group, which currently comprises the following three divisions:

- Systems (previously Automotive)
- Robotics
- Packaging

In the first months of 2007, the company started the process of relocating its business operations to Augsburg, given that approximately 70 percent of the activities of the IWKA Group are already operating in or managed from this location. This will strengthen the efficiency of the management of the Group by IWKA Aktiengesellschaft. As already reported last year, this management structure takes the place of the previously practiced principle of decentralized management; the latter will only be continued to the extent that the operating units will act as independent legal entities and that they are responsible for their business and thus also for their results. Controlling the implementation of established targets will be achieved through project and risk management, strong financial management as well as executive staff development, marketing strategies and the opening up of markets outside of Germany.

With this restructuring we continue to pursue the objectives of increasing transparency in the IWKA Group, of promoting growth and of regaining and increasing the profitability of the divisions.

EXECUTIVE BOARD

The 2006 financial year again saw significant changes in the membership of the company's Executive Board, which are closely linked to the continuing restructuring of the IWKA Group. Details are presented in the Report of the Supervisory Board dated March 27, 2007.

The three members of the Executive Board of the company as of January 1, 2007 are: Gerhard Wiedemann, the Chairman of the Executive Board, is responsible in particular for strategic corporate development, public relations, senior Group executives 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 M&A as well as the Packaging division, and Bernd Liepert is responsible for the Robotics division, as well as for information and communications technology.

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 ensures that conflicts of interest are avoided. For the rest, the assignment of responsibility and cooperation on the Executive Board are governed by the rules of procedure as well as the organization chart.

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

Additional information about the compensation of the Executive Board is found in the Notes to the Financial Statements for 2006 on page 113.

SUPERVISORY BOARD

The Supervisory Board is composed in accordance with the German Act on Company Co-Determination and consists of twelve members; six members are elected by the shareholders and six by the employees. The Supervisory Board is elected for a five-year term of office that 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. In order to avoid future conflicts of interest, Dr. Herbert Demel, who was elected to the Supervisory Board, together with the other representatives of the shareholders, at an extraordinary General Meeting on November 9, 2005 resigned his office at the end of the Annual General Meeting on June 1, 2006. On the same day, the Annual General Meeting elected Prof. Dr.-Ing. Gerd Hirzinger as his successor.

To the extent that a member of the Supervisory Board was employed in a controlling position at an important business partner, transactions with the latter 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).

No member of the Supervisory Board attended less than half of the meetings of the Supervisory Board in the past financial year (Section 5.4.8 CGC).

The objectives described in this report and the strategy of the IWKA Group adopted in September of 2006 led to very close communications within the Supervisory Board as well as with the Executive Board continuing through 2006.

The Supervisory Board convened for four ordinary meetings in the first half of 2006 and two ordinary meetings in the second half of the year. A further, extraordinary, meeting was held in 2006, which was occasioned by matters related to the Executive Board.

In urgent cases, the Supervisory Board also adopted resolutions by written procedure. The approval requirements for certain Executive Board transactions – as stipulated in the rules of procedure for the Supervisory Board – were adhered to.

The Supervisory Board has formed four committees from among its members: the Personnel Committee, the committees pursuant to article 27 para. 3 German Labor-Management Co-Determination Act (MitbestG), the Audit Committee and Strategy Committees.

As in past years, the Chairman of the Supervisory Board and the Chairman of Audit Committee arrange to receive information about audit activities from the independent auditor in advance of Supervisory Board meetings. It has been agreed with the independent auditor that he 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. It has finally also been agreed with the independent auditor that he 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).

In the past year, the Supervisory Board again reviewed the efficiency of its activities (Section 5.6 CGC) at its meeting in September of 2006 and will continue this practice.

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 2006 on page 117 of the annual report.

ANNUAL GENERAL MEETING

The Annual General Meeting this year will be convened for the first time in Augsburg on May 16, 2007. The company thereby fully satisfies the demand of the financial markets to close out the past financial year by presentation to the Annual General Meeting on a timely basis.

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.

In the context of its strategy for the IWKA Group, the Executive Board already reported in 2006 that even now approximately 70 percent of the business of the IWKA Group is operated from Augsburg. For this reason, the Executive Board decided with the approval of the Supervisory Board to move the IWKA Aktiengesellschaft to Augsburg. It is planned to propose an amendment to the Articles of Incorporation to the Annual General Meeting on May 16, 2007, under which the company name "IWKA Aktiengesellschaft" will be changed to "KUKA Aktiengesellschaft" and the headquarters of IWKA Aktiengesellschaft will be relocated from Karlsruhe to Augsburg.

ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Since 2004, the annual financial statements for the IWKA 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. The review of the independence of the auditor, the issuing of the audit assignment to him, 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.

CONTROL AND RISK MANAGEMENT

A detailed description of risk management at the IWKA Group is included in the chapter on risk management of the Annual Report on pages 45 – 48. In accordance with legal requirements, the aim of risk management is the early recognition of risks that could jeopardize the continued existence of the IWKA 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. IWKA further optimized risk management throughout the past year. The adaptation of risk management to changes in the business environment is an ongoing task.

In this context, 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, interim financial statements, the Annual Report, the press conference reporting on the annual financial statements and the 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 (previously article 25 WPHG) (disclosable shareholder share ownership), 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 page 162 of this annual report and on the website at www.iwka.de.

REPORT ON COMPENSATION

Compensation of the Executive Board

The report on compensation forms part of the corporate governance report and summarizes the basic principles used to establish the compensation of the Executive Board of IWKA Aktiengesellschaft and explains the structure and level of the Executive Board's remuneration.

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 IWKA 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.

For three members of the Executive Board, an earlier/transitional set of rules was partially used, which guaranteed a percentage of the variable compensation component having been paid together with the monthly salary, or which guaranteed the variable compensation component for 2006 to be paid in 2007.

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 IWKA shares will be paid annually during the life of the plan for each virtual share held. However, there are no associated voting rights.

The duration of the program is three calendar years. The present program covers the period 2006 to 2008. At the beginning of the three-year period, the Supervisory Board's Personnel Committee establishes the amount to be granted. This amount is divided by IWKA's current share price, which establishes the preliminary number of phantom shares. The Personnel Committee also establishes the EVA (Economic Value Added) of continuing operations (before taxes) at the beginning of the three-year performance period (EBIT minus minimum interest rate on capital employed (CE) x 0.11 = EVA). The EVA is calculated on the basis of the operating budget, which takes into consideration the budget of the first financial year of the three-year period and the planning of the two following financial years. The cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operating planning from 2006 to 2008. 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. Payment is based on the final number of phantom shares at the closing share price (average share price of IWKA shares between January 1, 2009 and the day of the first meeting of the Personnel Committee in 2009).

Each Executive Board member participating is obligated to apply 25 percent of the gross amount paid out to the purchase of IWKA shares at the then current market value. This share purchase serves to build up a level of holdings established at 50 percent of annual compensation in the form of IWKA shares starting in March 2009. The obligation ends with the participant's departure from the IWKA Group. In the event of termination initiated by either party, all allocated phantom shares lapse.

The starting value for the first phantom share program was established at € 21.25, which represents the average price of IWKA shares between January 1 and March 1, 2006, the day of the first meeting of the Personnel Committee of the company's Supervisory Board for the year 2006.

The 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 number of phantom shares finally assigned at the end of the performance period depends on the success factor achieved. The number of preliminary phantom shares granted at the beginning of the plan will be multiplied by this factor. At the upper limit, the number of phantom shares is double.

The objective of the program is to ensure that every member of the Executive Board is also an IWKA shareholder. It promotes share ownership among members of IWKA'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 three 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 2006

Payments to members of the Executive Board during the 2006 business year totaled € 2,704 thousand. The amounts for the 2006 business year include fixed salary, payments in kind, guaranteed variable compensation, performance-based compensation and compensation in accordance with the phantom share program. This total includes all amounts regardless of whether they were actually paid in 2006 or an accrual formed in the annual financial statements as of December 31, 2006.

The variable annual incentive payment was based on target achievements related to EBIT, capital employed and cash flow during the 2006 business year. For EBIT and capital employed, these incentive payments were based 50 percent on the division for which the Executive Board member is responsible, and 50 percent on the IWKA Group. For EBIT and capital employed, only continuing operations apply, whereas discontinued operations also apply to cash flow. In addition, EBIT, capital employed and cash flow were included in the calculation of the variable incentive at one-third each. 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 thousand in the opposite case. No payments were made according to these rules in 2006, since they were first agreed to in 2006.

Instead, in 2006, payments were made exclusively on the basis of the guaranteed variable compensation component for three members of the Executive Board.

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

in € thousands	Fixed salaries including payments in kind*	Performance-related	Provision for the phantom share program	Total
Wolfgang-Dietrich Hein (until Dec. 31, 2006)	627	267 (guaranteed)	–	894
Dr. Jürgen Koch (from April 1, 2006)	224	354 (guaranteed)**	35	613
Bernd Liepert (from April 1, 2006)	236	240**	25	501
Dieter Schäfer (until August 31, 2006)	194	40 (guaranteed)	–	234
Gerhard Wiedemann (from April 1, 2006)	237	200**	25	462

* Payments in kind comprise the use of company cars, payment of hotel costs at the headquarters of the company and premiums for casualty and D&O insurance. The premium for D&O insurance, unlike that for casualty 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.

** Provision recognized as of December 31, 2006; payment in 2007.

Phantom share program	Volume granted in € (Fair value at the time of the grant)	Initial share price of the IWKA shares in €	Preliminary number in phantom shares
Wolfgang-Dietrich Hein	–	–	–
Dr. Jürgen Koch	150,000	21.25	7,059
Bernd Liepert	100,000	21.25	4,706
Dieter Schäfer	–	–	–
Gerhard Wiedemann	100,000	21.25	4,706

Other compensation paid to former board members, who left the board in 2006

Mr. Schäfer, who resigned from his position on the Executive Board effective August 31, 2006, continued to receive payment of his monthly fixed salary from September to December 2006. The total gross amount was € 100,000 plus a payment in kind of € 4,000. In January 2007, he received a severance payment of € 631,000. The company vehicle may continue to be used as usual until December 30, 2008, the original end date of the employment contract (taxable benefit).

Mr. Hein, whose contract ended prematurely on December 31, 2006, received a severance payment of € 620,000 in January 2007.

The aforementioned amounts paid to Mr. Schäfer and Hein are included in the total amounts paid to former members of the Executive Board shown in the Notes that form part of the annual financial statements for December 31, 2006.

In 2006, the following amounts were added to pension accruals:

in € thousands	Addition
Wolfgang-Dietrich Hein	–
Dr. Jürgen Koch	–
Bernd Liepert	3
Dieter Schäfer	130
Gerhard Wiedemann	59

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

Mr. Schäfer resigned from the Executive Board of the company in 2006 with a vested interest in future pension benefits.

Messrs. 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 IWKA Aktiengesellschaft on April 1, 2006. The Group's companies will be charged for the time prior to the transfer.

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

Compensation of the Supervisory Board

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 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 € 30,000. 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, para. 3 of the German Act on Company Co-determination (MitbestG).

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 meeting plus applicable value added tax. This option may only be declared once per year.

For payments due in 2006 for the 2005 business year, the previous provisions of the bylaws still applied, according to which compensation consisted of a fixed and variable component. The fixed component was € 6,000 and the variable component was based on the dividend approved by the Annual General Meeting. If a dividend was approved, €1,000 were paid for each percentage point the total dividend distribution was greater than 4 percent of the total share capital. The fixed component was payable after the end of the financial year and the variable component after adoption of the respective resolution by the Annual General Meeting. No variable component was paid in 2006. The chair of the Supervisory Board received four times the base compensation and the deputy chair was paid double the amount. For chairing the Annual General Meeting, provided it was not being chaired by the head of the Supervisory Board, and for membership in one or more committees that were not of an interim nature, Supervisory Board members were paid an additional sum equivalent to their annual remuneration; committee chairs were paid at most 1 1/2 times the annual compensation, even if they chaired of several committees or were members of another committee. The aforementioned ruling did not apply to the committee according to article 27, para. 3 of the German Act on Company Co-determination (MitbestG).

Compensation for the years 2005 and 2006

in € thousands	Payment in 2006 (Compensation for 2005)	Provisions recognized 2006 (Compensation for 2006)
Dr. Rolf Bartke, Chairman of the Supervisory Board and Chairman of the Personnel Committee (since Nov. 9, 2005)	5	165
Mirko Geiger, Deputy Chairman of the Supervisory Board	18	90
Walter Prues	12	60
Dr. Reiner Beutel (since Nov. 9, 2005)	2	60
Dr. Herbert Meyer, Chairman of the Audit Committee (since Nov. 9, 2005)	2	75
Pepyn René Dinandt (since Nov. 9, 2005)	1	30
Dr.-Ing. Helmut Leube (since Nov. 9, 2005)	1	30
Jürgen Kerner	6	30
Herbert R. Meyer	6	30
Fritz Seifert	6	30
Wilhelm Steinhart	6	30
Dr. Herbert Demel (until June 1, 2006)	1	13
Prof. Dr.-Ing. Gerd Hirzinger (since June 1, 2006)	*	18
Reinhard Engel, former Chairman of the Supervisory Board and former Chairman of the Personnel Committee (until Nov. 9, 2005)	28	
Volker Doppelfeld (until Nov. 9, 2005)	10	
Prof. Jürgen Hubbert (until Nov. 9, 2005)	5	
Dr.-Ing. Mathias Kammüller (until Nov. 9, 2005)	5	
Hans-Jörg Platzek (until Nov. 9, 2005)	5	
Dipl.-Kfm. Christian L. Vontz (until Nov. 9, 2005)	5	

* In accordance with the articles of incorporation, payment is only made in 2007.

IWKA EQUITY

STOCK MARKETS

Despite significant price corrections in May/June, developments on the German stock markets were very satisfying. For the fourth year in a row, they were higher than the previous year. Unexpected strong corporate earnings growth and an economy that also exceeded expectations were the main drivers of the improved share prices. The DAX, the index of Germany's thirty largest listed companies, climbed 22.0 percent last year. The 50 mid-cap companies on the MDAX fared even better, and by the end of the year the index had reached an all-time high of 9,400 points, an increase of 29.0 percent over the beginning of the year. Because of its considerably stronger profit momentum, the MDAX has now beaten the DAX for six years.

Key figures IWKA equity

		2002	2003	2004	2005	2006
Number of shares	millions	26.60	26.60	26.60	26.60	26.60
Earnings per share	€	0.85	1.70	1.83	-5.45	-2.60
Dividend per share	€	0.66	0.66	0.66	–	–
Dividend yield (end-of-year)	%	6.40	4.10	3.30	–	–
Share price high for the year	€	15.40	16.90	20.60	23.15	24.75
Share price low for the year	€	9.55	10.20	16.00	15.62	14.02
Share price closing at year end	€	10.30	16.00	20.20	18.25	19.36
Year-over-year change	%	-23.40	55.30	26.20	-9.60	6.10
P/E ratio	(end-of-year)	12.10	9.40	11.00	–	–
Market capitalization (end-of-year)	in € millions	274.00	425.00	537.30	485.45	515.00
Average daily volume	units	42,000	70,000	80,000	91,250	165,000

IWKA EQUITY

On December 31, 2006, IWKA's share price was 6.1 percent higher than at the start of the year. During the first half, its price rose in parallel with the market and in early April reached an interim high of € 24.75. In August, IWKA issued an ad hoc announcement regarding another step to focus the company's business activities, which led to additional write-downs in discontinued operations. The share price subsequently dropped to a low for the year of € 14.02. However, the stock recovered these losses by the end of the year.

Due to the strong fluctuations in the share price, the number of shares traded was about 81 percent higher than during the previous year. Average trading volume was 165,000 shares each day the markets were open, which compares to 91,250 a year earlier.

INVESTOR RELATIONS

One of the Executive Board's goals was to intensify its focus on investor relations. The new strategy was presented in March during a four-day road show that covered the most important European financial centers (London, Zurich and Frankfurt). In June, the Executive Board visited investors in the

United States (New York, Boston and Chicago). The total number of days on the road tripled. In addition, the company gave presentations to potential investors at conferences sponsored by the Commerzbank and Metzler Bank in Frankfurt, the Landesbank Baden-Württemberg in Stuttgart and the Bayerische HypoVereinsbank in Munich.

SHAREHOLDER STRUCTURE

The latest shareholder structure analysis dated February 15, 2007 revealed a trend reversal in the evolution of the target group. The steady increase in foreign investors seen over the past five years did not continue; instead German private and institutional investors returned to the IWKA share. The number of private investors rose to 30.7 percent from 29.5 percent in 2005 and domestic institutional investors to 16.5 percent from 10.5 percent the year prior. Nevertheless, foreign investors still held 52.8 percent compared to 60.0 percent in 2005 and were still the largest shareholder group. The number of accounts holding IWKA shares was 14,680 compared to 15,720 last year.

CONVERTIBLE BOND

As part of the refinancing of the company's long-term debt, IWKA Aktiengesellschaft placed a convertible bond issue with a nominal value of € 69.0 million through its 100-percent-owned Dutch subsidiary IWKA Finance B.V. on May 9, 2006.

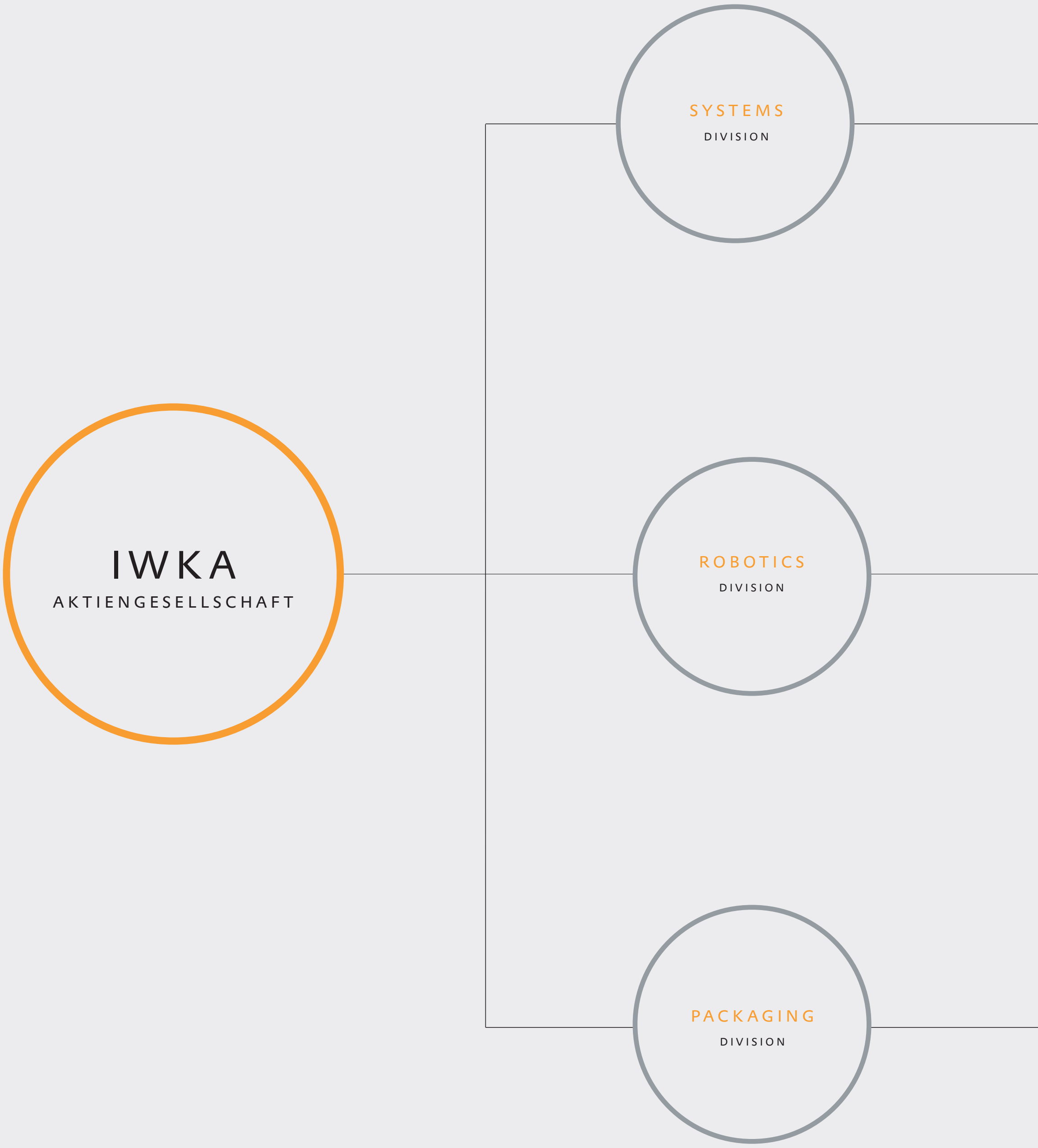
The convertible bond has a term of 5 1/2 years (until November 2011), pays interest at 3.75 percent p.a. and is convertible to IWKA shares at a conversion rate of € 26.08. The convertible bond has been listed on the EuroMTF market of the Luxembourg Stock Exchange since November 9, 2006 (ISIN DE 000A0GRMC0/WKN A0GRMC).

Share price: trend chart January 1, 2006 – December 31, 2006

Index January 2006 = 100

GROUP STRUCTURE

IN 2006, IWKA CONDUCTED BUSINESS AS AN AUTOMATION GROUP AND FOCUSED ON ITS CORE COMPETENCIES; NAMELY, SYSTEMS, ROBOTICS AND PACKAGING. AFTER FINISHING THE RESTRUCTURING PHASE, THE COMPANY EMBARKED ON IMPLEMENTING ITS GLOBAL GROWTH STRATEGY.



The complete survey of IWKA's Group companies can be found on page 152–154.

KUKA SCHWEISS-ANLAGEN GROUP

- KUKA SCHWEISSANLAGEN GMBH (D)
- KUKA FLEXIBLE PRODUCTION SYSTEMS CORP. (USA)
- KUKA TOLEDO PRODUCTION OPERATIONS, LLC. (USA)
- KUKA AUTOMATION EQUIPMENT SHANGHAI (CHINA)

ASSEMBLY AND TESTING GROUP

- LSW MASCHINENFABRIK GMBH (D)
- B & K CORP. (USA)

KUKA ROBOTER GROUP

- KUKA ROBOTER GMBH (D)
- KUKA PROTEC GMBH (D)
- KUKA ROBOTICS HUNGARIA IPARI KFT. (HUNGARY)
- KUKA ROBOTICS CORP. (USA)
- KUKA AUTOMATISME + ROBOTIQUE S.A.S. (F)
- KUKA ROBOTER ITALIA S.P.A. (I)
- KUKA ROBOTER DO BRASIL LTDA. (BR)
- KUKA ROBOT AUTOMATION KOREA CO. LTD. (ROK)

DAIRY GROUP

- HASSIA VERPACKUNGS-MASCHINEN GMBH (D)
- ERCA FORMSEAL S.A. (F)
- GASTI VERPACKUNGS-MASCHINEN GMBH (D)
- BENZ & HILGERS GMBH (D)
- A+F AUTOMATION + FÖRDERTECHNIK GMBH (D)

PHARMA/COSMETICS GROUP

- IWK VERPACKUNGSTECHNIK GMBH (D)
- HÜTTLIN GMBH (D)
- MANESTY (GB)
- KP AEROFILL (GB)

FOOD GROUP

- R.A. JONES INC. (USA)
- PACKAGING TECHNOLOGIES INC. (USA)
- FABRIMA MÁQUINAS AUTOMÁTICAS LTDA. (BR)

THE 2006 BUSINESS YEAR JUST ENDED WAS A YEAR OF TRANSITION FOR THE IWKA GROUP. WHEREAS IN 2005 THE COMPANY IMPLEMENTED A DEEP-SEATED INTERNAL RESTRUCTURING PROGRAM THAT ENCOMPASSED ALL OF THE GROUP'S DIVISIONS, THE YEAR 2006 WAS MARKED BY DIVESTITURES, BUT ENDED WITH ALREADY IMPROVED OPERATING PERFORMANCE. THIS ESTABLISHED THE PREREQUISITES THAT ENABLED IWKA TO RETURN TO SUSTAINABLE PROFITABILITY IN ITS OPERATING BUSINESSES BASED ON RESULTS THAT WERE ONCE AGAIN STABLE.

STRATEGY AND ORGANIZATION

ORGANIZATION

IWKA develops products and solutions used to automate industrial production processes. The Group is organized into the following three divisions:

- Systems
- Robotics
- Packaging

The Systems and Robotics divisions are based in Augsburg. From here, the Group controls its worldwide network of sales and manufacturing companies. The Packaging division's companies are primarily managed from Karlsruhe/Stutensee and are mainly located in Europe and the United States.

All the divisions compete globally, predominantly with other European suppliers. The automotive manufacturers themselves also compete with the Systems division; added to that are numerous Japanese competitors in the robotics area.

STRATEGY

Following the completion of the restructuring of the previously broad-based group in 2006, in 2007 IWKA will focus on sectors in which it has or can achieve a global technology leadership position. Already today, the company is an international market leader, in both the development and construction of highly automated production systems and the robotics industry. They are at the core of the IWKA Group's growth strategy.

Growth strategy.

Companies doing business in the automotive industry are working on expanding their customer base, particularly in Asia and North America. Last year, the Group was able to land two large reference-grade systems orders that use KUKA robots as the core component, both in India and North America.

The general industry business, which includes all applications outside the automotive industry, is systematically being expanded. The Robotics division is working with systems partners to expand its sales network covering the United States and Asia. The target markets for this area are primarily the plastics processing industry, logistics and medical technology, as well as the food and metals processing industries. In addition, new markets for robot applications are continuously opening up.

The Systems division is currently concentrating on the aerospace industry in order to diversify its business. A high demand for automation solutions has emerged in this industry over the past number of years as a result of the increasing demand for commercial airliners. The division is also looking at other new markets for systems business.

INTERNAL MANAGEMENT SYSTEM

The Group and its companies are primarily managed on the basis of the following key indicators:

- EBIT
- ROCE
- EVA
- Free cash flow

The target values for these key parameters are set for the Group and for the different divisions. Actual results are continuously monitored and checked by way of internal reporting processes. Plan deviations are analyzed together with management and agreement is reached on corrective measures required to achieve the targets.

PROFIT TARGETS

In implementing its strategic objectives, the IWKA Group strives for sustained growth in all of its core business areas. This is the basis for a return to superior profits in the divisions. It enables the Group to achieve a higher return on capital employed (ROCE). As soon as the company's cash flow and earnings situation permit, it plans to return to paying regular dividends. It also plans to substantially reduce debt to improve its balance sheet and equity ratio. The general goal remains to sustainably improve shareholder value so that the expectations of the capital markets and shareholders will be fulfilled.

ECONOMIC CLIMATE

GLOBAL ECONOMIC SITUATION

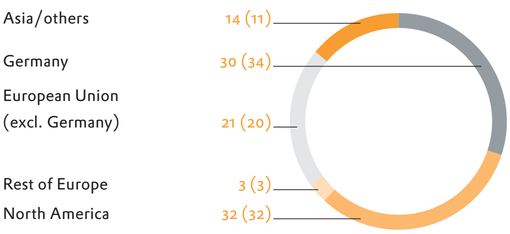
The global economic expansion abated only slightly during the course of 2006. The global economy grew 3.8 percent last year compared to 4 percent a year earlier. The gross domestic product of the United States rose 3.3 percent in 2006. Growth was thus considerably weaker than had been experienced over the past few years.

In 2006, China's economy posted its strongest growth since 1995: It came in at 10.7 percent, 0.3 percentage points higher than the previous year. The country became the world's second largest market for cars in 2006. Economic development in the emerging and transition countries was very satisfactory in 2006. Economic momentum in the up-and-coming national economies of South and East Asia remained high. The oil-producing countries of the Middle East and the Commonwealth of Independent States (CIS) continued to exhibit strong growth rates. Most countries in Latin America, particularly the oil-producing countries Venezuela and Mexico, as well as Africa, also profited from the high raw material prices right to the end. Substantially higher profits and significantly improved financing conditions stimulated capital spending in Europe. In 2006, investments for plants in the Eurozone climbed 5.1 percent, compared with 2.7 percent in 2005. The Eurozone's economic expansion accelerated significantly. Growth in 2006 is estimated at 2.7 percent, which may again be slightly higher than Germany's.

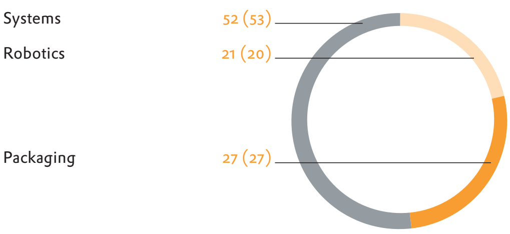
Investments for plants climbed 5.1 percent in the Eurozone.

The German economy grew by 2.5 percent last year, its strongest increase since 2000. Growth was increasingly driven by domestic demand, which was mainly stimulated by extremely brisk investment activity. But thanks to the turnaround in the job market, even the consumer sector became more buoyant after years of stagnation. The savings rate fell slightly for the first time since 2000.

Orders received 2006 by region[1]
(in percent)



Orders received 2006 by division[1]
(in percent)



[1] Prior year's figures in brackets.

MECHANICAL AND PLANT ENGINEERING SECTOR DEVELOPED SATISFYINGLY

The German plant and engineering sector has posted excellent growth over the past four years and again last year, was able to report rising numbers month after month. However, not all sectors benefited equally. Above all, last year's growth in the automotive industry supplier sector was below average. Overall, manufacturing rose about five percent and reached a new record of € 158 billion. The growth is increasingly driven by domestic demand. In October alone, it was 30 percent higher than at the same time a year prior.

Manufacturing rose about five percent.

The year 2006 turned out to be a satisfying year for the German automotive industry, thanks in particular to the upswing in registrations during the last two months of the year. Almost 3.5 million new vehicles were registered in Germany, the highest number in seven years. The effect of consumers purchasing in advance of the value added tax increase was therefore stronger than had been anticipated. Overall however, the export market is now more important than the domestic market. German manufacturers achieved another export record and shipped nearly 3.9 million passenger vehicles, an increase of 2.5 percent, to foreign markets. Internationally, German manufacturers are well positioned. They have established a significant lead over other European competitors. They continue to gain market share in the United States, while American manufacturers face slowing sales and shrinking market shares. According to Autodata, a total of 16.5 million vehicles were sold in the United States, 2.6 percent less than in 2005. The high fuel prices caused consumers to turn to more fuel-efficient models, which primarily hurt the American manufacturers.

BUSINESS PERFORMANCE

The 2006 business year just ended was a year of transition for the IWKA Group. Whereas in 2005 the company implemented a deep-seated internal restructuring program that encompassed all of the Group's divisions, the year 2006 was marked by divestitures, but ended with already improved operating performance. This established the prerequisites that enabled IWKA to return to sustainable profitability in its operating businesses based on results that were once again stable.

RISING ORDERS RECEIVED

Orders received growth continued in all three divisions.

Orders received and sales revenues from the IWKA Group's continuing operations were about 10 percent and about 9 percent higher respectively than the prior year. All three divisions shared in the positive business development. Orders received from continuing operations were € 1,619.8 million in 2006, 10.4 percent higher than 2005's € 1,467.6 million. A small part of the increase resulted from new consolidations of some companies.

The Systems division expanded its business in 2006. The division continues to be an expert partner for the automotive industry, but is increasingly developing expertise in complementary fields of application. Orders received rose 7.7 percent in the past 12 months, and were € 847.8 million in 2006. This compares to € 786.9 million in 2005. The restructuring measures introduced in the Robotics division in 2005 and early 2006 contributed to the improvement in the profit situation as well as the delightful progress in the order situation. In 2006 the division reported that orders received, which reached € 382.3 million, were 13.0 percent higher than the prior year's figures. The positive business trend is primarily the result of an increasing number of orders from general industry, as well as new orders from carmakers. IWKA Packaging also posted better figures in 2006. Orders received climbed 12.5 percent, to € 436.0 million from € 387.6 million in 2005.

The share of orders received by the Group's foreign subsidiaries rose from 38 percent in 2005 to 42 percent.

The Group's orders received level in the North American market was almost the same as the year before; 31.8 percent compared to 32.1 percent. The total share of orders from Germany was 29.8 percent compared to 34.1 percent in 2005. It is still IWKA's second largest market. The European Union's share (excluding Germany) was 21.5 percent, up from the prior year's 19.9 percent.

The share of orders received from automotive industry business partners and their subsuppliers during the reporting period was 60.9 percent. The food industry followed at 18.5 percent, pharmaceuticals and cosmetics industry were at 8.6 percent and the general mechanical and plant engineering sector at 3.6 percent.

Order backlog at the end of last year was € 668.5 million and was therefore considerably above the prior year's € 609.1 million.

SALES REVENUES UP FROM LAST YEAR

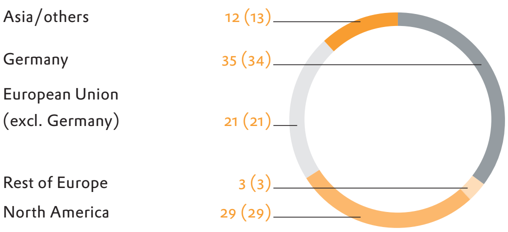
Sales revenues from continuing operations came in at € 1,566.0 million, beating the previous year's revenues of € 1,435.9 million by 9.1 percent. The upward trend in business development in all three divisions contributed to sales revenue growth, which ranged between 4 and 15 percent. Here too, a small portion of the increase is attributable to new consolidation of some companies.

All three divisions contributed to sales revenue growth.

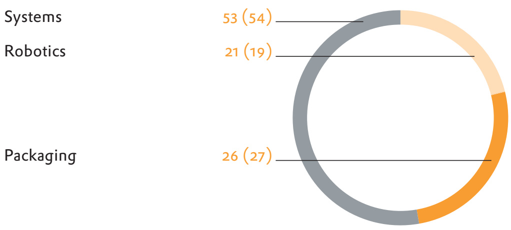
The Systems division's sales revenues jumped to € 832.8 million, 7.8 percent higher than the € 772.5 million achieved in 2005. The Robotics division's 2006 sales revenues of € 373.3 million were 15.4 percent higher than 2005's € 323.6 million. The Packaging division's revenues came in at € 403.9 million in 2006, 4.1 percent above the € 387.9 million generated a year earlier.

Sales revenues from discontinued operations were € 215.0 million. The portfolio restructuring process was completed in 2006. Over the course of the year, GSN Maschinen-Anlagen-Service GmbH, HASSIA-Redatron GmbH, as well as the ARO, Boehringer, EX-CELL-O, IWKA Balg- und Kompensatoren-Technologie, Bopp & Reuther Sicherheits- und Regelarmaturen and J.W. Froehlich Groups were all sold.

Sales revenues 2006 by region[1]
(in percent)



Sales revenues 2006 by division[1]
(in percent)



[1] Prior year's figures in brackets.

CAPITAL EXPENDITURE

The IWKA Group spent € 29.7 million on property plant and equipment and intangible assets for its business divisions during the 2006 financial year. Last year the figure was € 35.1 million. Companies exercised restraint when it came to capital spending in consideration of the current earnings situation.

The capital spending focused on expanding the Group's international market presence, improving manufacturing quality and efficiency, as well as further advancing its technical expertise.

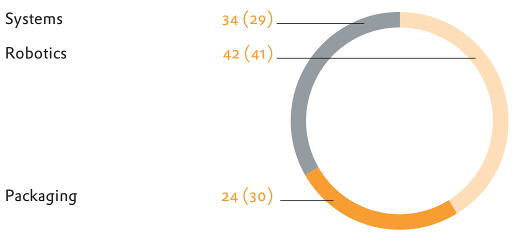
PROCUREMENT GLOBALIZED

Like many other companies, IWKA was not always able to avoid substantial increases in raw material prices during 2006. Prices for aluminum and steel products were up to 15 percent higher; the price of copper was up by as much as 66 percent. Consolidating the purchases of goods required throughout the Group, together with the increasingly international orientation of procurement activities, enabled better terms to be negotiated when buying, while at the same time cutting back on the number of items and suppliers. Global blanket agreements with suppliers and stable prices for many goods and services benefited all participating business units. Further improvements were achieved in the American market, where procurement was also coordinated and total purchasing volumes bundled.

Extension of a procurement software application.

Another important step was the continued extension of a procurement software application to which purchasers in all of the Group's companies have access. It provides them with an overview of existing supply contracts, together with terms and conditions and contact persons. A supplier information system complements the procurement tool.

Capital expenditure 2006 by division[1]
(in percent)



[1] Prior year's figures in brackets.

EARNINGS

Expanding total output and the elimination of one-time restructuring costs enabled the IWKA Group to generate earnings from operating activities in 2006 that were well into positive territory. High book losses resulting from the divestitures caused the overall result after taxes to turn negative.

In 2006, consolidated sales revenues from the IWKA Group's continuing operations rose to € 1,566.0 million, 9.1 percent higher than the prior year thanks to growth in all three divisions. Total output rose by 5.6 percent to € 1,544.7 million. A minor part of the growth resulted from new consolidations of some companies.

The higher total output was accompanied by a 6.2 percent increase over the previous year in the cost of materials. The new total was € 844.4 million. The materials usage ratio at 54.7 percent was thus almost the same as the previous year's 54.4 percent. On the other hand, personnel expense rose only slightly at € 465.6 million and was 1.1 percent higher than last year. This is the result of restructuring measures implemented at the beginning of 2006 in the Robotics division and in the Packaging division's German companies. The IWKA Group's personnel expense ratio was therefore 30.1 percent in 2006, compared to 31.5 percent in 2005. Depreciation on intangible assets and property, plant and equipment fell 12.1 percent to € 38.4 million as a result of lower extraordinary write-downs. Lastly, there was a 15.1 percent drop in other operating expenses, which ended at € 213.8 million, mainly as a result of the elimination of one-time restructuring costs as well as reduced provisions for orders that were expected to generate losses.

Personnel expense rose only slightly.

Group income statement (in € millions)

	2006	2005
Sales revenues	1,566.0	1,435.9
Earnings from operating activities	33.7	-42.9
Financial result	-18.1	-16.7
Taxes on income	-4.9	0.6
Result from discontinued operations	-80.1	-88.4
Annual net loss/profit	-69.4	-147.5

EBIT CONSIDERABLY HIGHER

The IWKA Group's EBIT was considerably higher than the prior year, thanks in particular to the elimination of restructuring costs. Furthermore, the expanding business volume led to higher earnings contributions from all divisions. The Robotics division contributed the highest amount, € 22.4 million, which compares to € -22.8 million last year. The Packaging division generated earnings from operating activities of € 17.3 million, also up from the prior year's € 7.3 million. The earnings contribution from the Systems division reached € 9.8 million, which compares to € -14.5 million in 2005.

Elimination of restructuring costs.

The final EBIT, including head office costs, which were impacted by one-time effects, totaling € 15.8 million, was € 33.7 million versus € -42.9 million last year. At 2.2 percent, return on sales passed the threshold of 2 percent announced in August 2006.

Net interest was impacted by rising interest rates and deteriorated to € -18.5 million in 2006, down 18.0 percent. After deducting income taxes of € 4.9 million, final earnings from continuous operations were 10.8 million as opposed to € -59.1 million in 2005.

HIGH BOOK LOSSES RESULTING FROM DIVESTITURES

Book losses of € 68.7 million were attributable to the sale of the various companies and groups. Including operating losses of € 11.4 million, the result from discontinued operations in 2006 was € -80.1 million. This compares to € -88.4 million a year earlier. The IWKA Group's overall operating earnings after taxes in 2006 were therefore € -69.4 million. A year prior, the result was € -147.5 million.

FINANCIAL POSITION

FINANCIAL MANAGEMENT GOALS AND PRINCIPLES

The financing needs of the Group's companies are bundled, which ensures that key financial risks are centrally managed. IWKA Aktiengesellschaft manages and mitigates the risks associated with groupwide credit, liquidity, interest and exchange risks. Risk hedging is done almost exclusively by actively using standard derivatives to hedge the underlying transaction. IWKA has issued standing orders related to managing financial risks to all of the Group's companies.

GROUP FINANCING AND LIQUIDITY MANAGEMENT

Rolling monthly budget.

The Group's financing department must ensure that the operational and investment financing requirements of the Group's companies are adequately covered at all times. The necessary information is generated by a group-wide, rolling monthly budget with a planning horizon of up to twelve months.

The IWKA Group's financing requirements are primarily covered by banks and capital market instruments (commercial paper, convertible bond). The individual Group companies are financed either through participation in a cash pooling system; (e.g., in Germany, Great Britain and the United States,) or through lines of credit from local banks, which are established centrally by IWKA AG's finance department.

To secure adequate liquidity, the IWKA Group had loans and confirmed credit lines from numerous national and international banks totaling € 315 million and working capital guarantees valued at € 275 million as of December 31, 2006. IWKA AG also has a commercial paper program in the amount of € 200 million.

These credit lines and loans were repaid at the beginning of 2007 using a syndicated loan of € 475 million with a minimum term of three years, together with working capital guarantees from credit insurance companies totaling € 50 million. The syndicated loan complements the financing of € 69 million secured on April 24, 2006 by the placement of a convertible bond. An ABS Program launched in December 2006 (regular sale of receivables) totaling up to € 25 million rounds out the IWKA Group's refinancing.

New syndicated loan.

Group cash flow statement / in € millions	2006	2005
Cash flow	52.2	-49.4
Other operating changes	6.1	-2.5
Cash flow from investing activities	-6.9	28.4
Free cash flow	51.4	-23.5

CASH FLOW CLEARLY POSITIVE

Because the loss for 2006 was generated primarily from disposals of discontinued operations, which had no cash impact, the IWKA Group's cash flow as at December 31, 2006 of € 52.2 million was substantially higher than the prior year's € -49.4 million. At the same time, investment expenditures were partially offset by the sale of companies, so that cash flow from investing activities was only slightly negative at € -6.9 million. Free cash flow therefore reached € 51.4 million as at December 31, 2006 compared to € -23.5 million at the same time in 2005.

As of the December 31, 2006 period end, financial liabilities according to currency were as follows: EUR, 81.3 percent; US dollar, 4.4 percent; GBP, 14.2 percent; other currencies 0.1 percent.

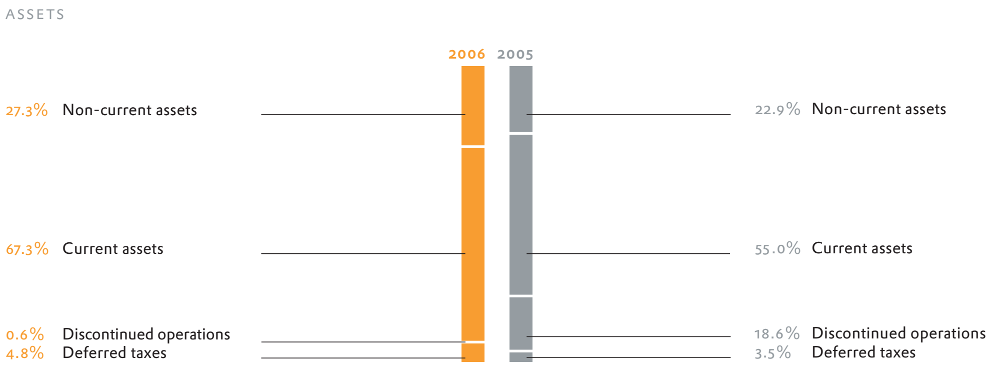
NET WORTH

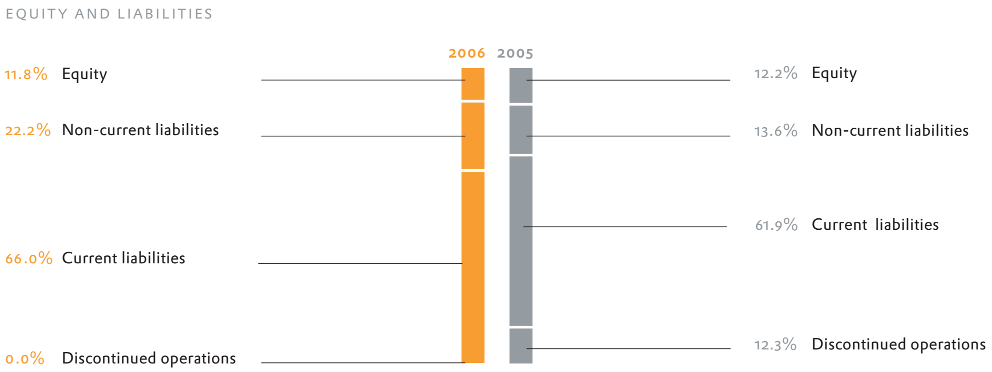
MEASURES TO FREE UP BOUND CAPITAL SHAPE BALANCE SHEET

The IWKA Group's total assets were reduced in 2006, particularly as result of divestitures. As of December 31, 2005, discontinued operations were comprised of IWKA Balg- und Kompensatoren-Technologie Group, the EX-CELL-O Group, the Bopp & Reuther Sicherheits- und Regelarmaturen Group and the Boehringer Group. These companies left the IWKA Group during the 2006 business year. As a result, discontinued operations' assets as of December 31, 2006 fell by € 289.7 million. A property valued at € 6.5 million was added. Furthermore, the ARO Group, the J.W. Froehlich Group, HASSIA-Redatron GmbH and GSN Maschinen-Anlagen-Service GmbH were reclassified as discontinued operations as of June 30, 2006, and were sold by the end of the year. Above all, these disposals reduced the trade receivables and property, plant and equipment balance sheet items. Overall, current assets dropped € 134.0 million to € 720.3 million and plant, property and equipment fell € 38.7 million to € 153.5 million. The IWKA Group's total assets as of December 31, 2006 came in at € 1,071.1 million, 31.0 percent or € 482.2 million lower than a year earlier.

Discontinued operations' assets fell by € 289.7 million.

Group assets and financial structure as at Dec. 31





NET DEBT CUT BY HALF

Substantial reduction in short-term financial liabilities.

On the liability side, the main improvement came from current liabilities, provisions and accruals, which fell in parallel with reduced total assets and were € 254.8 million lower on December 31, 2006 than a year earlier. The main impact here was from a € 145.3 million reduction in short-term financial liabilities, which ended at € 82.2 million. The disposal of the discontinued operations led to a reduction in liabilities from discontinued operations of € 191.8 million. The € 69.4 million loss for the 2006 business year also caused total equity to fall to € 126.7 million. Overall, the IWKA Group's equity ratio; i.e., the relationship between total equity and total assets, as at December 31, 2006 was an unsatisfactory 11.8 percent. Last year it was 12.2 percent.

The IWKA Group's net debt; i.e., short and long-term liabilities towards creditors minus cash and cash equivalents fell to € 83.9 million as of December 31, 2006, which was € 92.0 million less than the prior year's € 175.9 million. However, the gearing of 170.4 percent (ratio of net debt including pension accruals to equity) at the end of the 2006 financial year remained below the 165.9 percent of last year.

The Group's average consolidated net debt (short-, medium-and long-term financial liabilities minus cash and cash equivalents) was cut during the 2006 business year and fell € 46 million to € 201 million.

RETURN ON CAPITAL EMPLOYED NOW POSITIVE

During the 2006 business year, capital employed by the IWKA Group, particularly in the Systems division, was € 56.7 million lower, ending at € 332.9 million. The return on capital employed; i.e., EBIT in relation to capital employed, abbreviated ROCE, was once again positive and came in at 10.1 percent versus -11.0 percent in 2005. The Robotics division has already achieved a satisfactory level of 24.3 percent. The Packaging and Systems divisions came in at 11.8 percent and 9.7 percent respectively.

ROCE came in at 10.1 percent.

IWKA EQUITY

On December 31, 2006, IWKA's share price was 6.1 percent higher than at the start of the year. During the first half, its price rose in parallel with the market and in early April reached an interim high of € 24.75. In August, IWKA issued an ad hoc announcement regarding another step to focus the company's business activities, which led to additional write-downs in discontinued operations. The share price subsequently dropped to a low for the year of € 14.02. However, the stock recovered these losses by the end of the year.

Due to the strong fluctuations in the share price, the number of shares traded was about 81 percent higher than during the previous year. Average trading volume was 165,000 shares each day the markets were open, which compares to 91,250 a year earlier.

NOTES AS PER ARTICLE 315, PARA. 4 OF HGB (GERMAN COMMERCIAL CODE)

Ad 1: The total share capital of IWKA Aktiengesellschaft is € 69,160,000 consisting of 26,600,000 no-par value shares issued to the bearer.

Ad 6: Executive Board members are nominated and dismissed in accordance with articles 84 and 85 of German Corporation Act (AktG.). The bylaws of IWKA Aktiengesellschaft are changed according to articles 119, para. 1, item 5 and 133 and following of German Corporation Act (AktG.) together with articles 20 and 22 of IWKA Aktiengesellschaft's bylaws.

Ad 7: A resolution passed at the Annual General Meeting of IWKA 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 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 on account of convertible debentures and/or warrants issued by IWKA Aktiengesellschaft or its companies 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 (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, section 3, clause 4 German Corporation Act (AktG.) 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, para. 5 of the bylaws).

Based on the resolution of the Annual General Meeting of IWKA Aktiengesellschaft on July 4, 2003, 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 (Article 5, clause 6 of the bylaws).

On May 9, 2006, IWKA Aktiengesellschaft partially exercised the respective authorization to issue options and or convertible bonds by privately placing a convertible bond issue guaranteed by IWKA Aktiengesellschaft with a nominal value of € 69,000,000 through its 100-percent-owned Dutch subsidiary IWKA 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 IWKA Aktiengesellschaft issued to the bearer. Capital is thereby conditionally increased by a maximum of 2,660,000 shares. 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 IWKA Aktiengesellschaft on June 1, 2006, the company is authorized to buy back its own shares up to a total of 10 percent of the total capital at the time the resolution was passed, under the conditions described in more detail in the resolution. Furthermore, subject to approval by the Supervisory Board, the Executive Board is authorized to sell the treasury shares thus acquired to third parties, for the purposes of listing on foreign stock exchanges on which they had previously not been approved for trading, or to withdraw the treasury shares, under the conditions described in further detail in the resolution.

Ad 8: The Convertible Notes Underwriting Agreement between IWKA Finance B.V., IWKA Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Landesbank Baden-Württemberg dated April 24, 2006, which is the basis of the private placement of the convertible bonds, contains a change of control rule typical of the industry, according to which the bond issuer (IWKA Finance B.V.) and the guarantor (IWKA Aktiengesellschaft) publish the change of control as soon as it becomes known in a leading newspaper with general readership in Luxemburg, probably Luxemburger Wort, and to publish the record date 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 on the said record date from the bond issuer. This serves to make the conversion ratio align more closely with the Convertible Notes Underwriting Agreement.

Control in the aforementioned sense means direct or indirect legal or economic interest in shares, which together guarantee more than 30 percent of the voting rights of IWKA Aktiengesellschaft or in the case of an offer to purchase shares, circumstances in which the shares 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 IWKA Aktiengesellschaft at the same time the offer became unconditional. Under the terms of a contract signed on December 20, 2006, IWKA Aktiengesellschaft and its material consolidated companies signed a syndicated loan agreement valued at € 475 million with a bank consortium led by Bayerischen Hypo- und Vereinsbank AG, Dresdner Bank AG and Landesbank Baden-Württemberg, which covers the material debt requirements of the IWKA 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 IWKA Aktiengesellschaft. If IWKA 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 IWKA Aktiengesellschaft.

RISK MANAGEMENT

The IWKA Group conducts business around the globe, which exposes the company to a variety of risks. It is not possible to do business as an entrepreneur without being prepared to accept calculated risks. The goal is to systematically and continually improve shareholder value and achieve our targets while knowingly accepting unavoidable risk. The key is to keep risks that we can influence manageable.

IWKA 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 managers of the divisions and subsidiaries are directly responsible for the early identification, control and communication of risks. Risk coordinators in the business units ensure that the reporting process is uniform. The risk management system is coordinated by an administrator at Group headquarters and is an integral part of the overall budgeting, control and reporting process.

Keep risks that we can influence manageable.

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

MARKET AND BUSINESS RISKS

IWKA is exposed to the changing investment plans of its regular customers in the various market subsectors. Since it conducts business around the globe, IWKA is also exposed to country risks, exchange-rate fluctuations, financial and technical risks and the risk of substantial price increases of key raw materials.

During the 2006 financial year, the company continued to implement its group-wide cost-cutting and efficiency improvement programs to address the business impact of the general economic conditions. The Group's portfolio restructuring contributes significantly to reducing the Group's business risks. Direct exposure to automotive industry investment cycles was reduced when Boehringer und EX-CELL-O were sold.

SYSTEMS

A risk mitigator is the regional diversification.

A key risk associated with plant construction is the complexity of IWKA's products, the long duration of the project-management phase and the infrequency of the orders received. In addition, revenues and profits are at risk when carmakers' production quantities do not increase, or even decline. In some cases, this also led to an oversupply of bidders. A risk mitigator is the regional diversification introduced by the now significant business activities in the United States (approx. 35 percent of sales). As part of the reshaping of the value chain, carmakers are increasingly attempting to outsource manufacturing activities. This enables subsuppliers to participate in new business opportunities. IWKA limits the risks of the new pay on production business models using structured financing and having appropriate contractual agreements. In addition, the division is building its first systems for customers outside the automotive industry.

ROBOTICS

The risks in the robotics markets relate primarily to the continuing price pressure in the automotive industry.

The steadily increasing cost consciousness of major automotive companies is causing them to keep their robots in service longer, which in turn leads to lower spending on replacements. KUKA Roboter can only counter such trends by continually developing new products and applications that offer customers quantifiable financial advantages and have very short paybacks. An effort to expand the customer base in the automotive industry is showing first signs of success (Tata/India, Toledo/USA). The inherent risk of developing and implementing applications for new general industry markets is higher in some areas.

PACKAGING

Business in the European companies continues to be dominated by high exports, and is thereby also particularly sensitive to the value of the US dollar versus the euro. In this case, the regional diversification of the sales, of which about 33 percent are generated in the United States, have been working against the division. In addition, rationalization in the marketplace and cyclic capital spending affect the demand for packaging machines. Higher prices for steel, particularly the stainless steel preferred in the packaging industry, also erodes the margins we are able to achieve with our products. As part of its strategy to focus on high-end products, the division sold some smaller subsidiaries.

CORPORATE STRATEGY RISKS

The goal of IWKA's divisions is to be among the technology and market leaders in their target markets. Enhancing their technologies through coordinated innovation programs is therefore of key importance. To a large extent, this also entails identifying the opportunities and risks of technical innovations in a timely manner and evaluating their feasibility.

Using efficient quality assurance systems in combination with regular certification programs helps convince our customers that we offer high quality and strengthens our companies' positions in their target markets.

Using efficient quality assurance systems

Acquisitions and investments go hand-in-hand with complex risk factors. Acquisitions and integration projects at IWKA are therefore managed using predefined processes. This is monitored by an M&A department based at headquarters.

PERSONNEL RISKS

IWKA Aktiengesellschaft 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 a particularly high demand for well educated and motivated workers in growth markets. There is also evidence of an increasing shortage of qualified personnel, particularly in the technical area. Appropriate in-house qualification programs are required to counter this. 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.

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.

INFORMATION SYSTEMS RISKS

All business processes are modeled on a modern IT system. The growing information technology-related risk associated with the rapidly increasing integration of IT-supported business processes demands that IWKA continuously analyze and optimize its current information technologies in order to ensure the highest possible level of security.

FINANCIAL RISKS/EXCHANGE RATE RISKS

IWKA manages and, if necessary, hedges against, the risks associated with group-wide credit, liquidity, interest and exchange requirements. Risk hedging related to interest and currency exchange rates (price change risks) is done almost exclusively by actively using standard derivatives to hedge the underlying transaction. Both the trading and use of derivatives is regulated by internal guidelines and undergoes continuous internal risk analysis. In addition, it is monitored annually by the public auditors. Transaction-related currency exchange risks are hedged using forward foreign exchange contracts (primarily futures and swap transactions). The risk associated with the volatility of leading currencies and the resulting exchange risk (competitive risk) is mitigated by having production facilities in several countries.

SUMMARY

Primarily exposed to market risks.

Considering the risks from an overall perspective, it is clear that the IWKA Group is primarily exposed to market risks. In particular, this includes the business cycle and the dependence on important major customers in the automotive and consumer sectors. Risks resulting from value-added processes are controlled by our risk management system, and their potential negative impact is therefore limited.

In summary, there are risks associated with high raw material prices, continued price pressures and exchange rates, which the Group is addressing by implementing numerous performance improvement and cost cutting programs. The IWKA 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.

RESEARCH AND DEVELOPMENT

THE AIM IS GLOBAL TECHNOLOGY LEADERSHIP

Effective research and development are of great strategic importance to the IWKA Group. It provides the products and services that establish recognition of the IWKA Group among its customers as an innovative problem solver. A steady stream of innovations is the only thing that can guarantee that IWKA's companies will stay ahead of their competitors, and be able to offer the most productive solutions, both now and in the future.

During the reporting period, R&D processes at KUKA Roboter's companies were re-engineered and merged under one umbrella at the Augsburg location. The geographic proximity to the manufacturing plant ensures higher efficiency and shorter time to market.

Research and development activities merged at the Augsburg location.

IWKA's development process has the following objectives:

1. Develop products with even greater customer benefits
2. Achieve efficient flexibility regarding number of product variants and product quantities through standardization and modularization
3. Generate cost and time-to-market advantages.
4. Minimize product life-cycle costs

In 2006, IWKA spent € 38.1 million on R&D, 2.4 percent of sales. Many new developments and product innovations that were implemented in the course of executing customer orders are not included in the development budget. The actual expenditure on research and development was therefore considerably in excess of this figure.

Although IWKA's R&D is mainly financed internally and carried out in-house, to some extent it is supplemented by working with third parties. This third-party involvement consists partly of research and development alliances with universities and research institutions, which help speed up development. In addition, external services are used to support design and simulation tasks in order to ensure development processes are efficient and to enable better focusing on core competencies.

Research and development

	2002	2003	2004	2005	2006
Expenses (in € millions)	60.3	59.7	59.3	43.5	38.1
Percentage of sales revenues (in %)	2.6	2.6	2.5	2.7	2.4

INNOVATION IN THE SYSTEMS SECTOR

The Systems division was able to further optimize the efficiency and flexibility of its systems by collaborating with the new functional entities KUKA Workplace Automation (KWA) and KUKA TurnFlex. KWA deals with material handling systems that considerably reduce human involvement in the supply of components to manufacturing systems. Elaborate and costly technology is avoided by using gravity to deliver the materials. KUKA TurnFlex builds manufacturing stations for systems that combine type flexibility with overlapping process sequences. Waiting times dictated by technical constraints when changing models are eliminated by swapping out type-specific jigs and fixtures while welding is in progress. As a result, welding robots in TurnFlex stations operate almost without interruption.

DIGITAL FACTORY

The real system is gradually generated in the virtual, digital world.

With the introduction of the digital factory to systems building, data and information become especially important. They reflect the state of readiness of a system, from the initial design right through planning, assembly and commissioning and on to actual operation. An image of the real system is gradually generated in the virtual, digital world. By using simulations and realistic 3-D animations, details of the system's components and processes can be examined and optimized in the virtual world. The interactions between the system components and the processes are made visible, enabling any problems to be detected early. This helps improve the flexibility, productivity and quality of a customer's system and to minimize IWKA's own risks associated with the success of the project. Implementation time and costs are reduced.

In order to provide the employees involved in this process with the necessary information in a way they can easily use it, KUKA Schweissanlagen developed a service-oriented user architecture into which the information and support processes are integrated as services. This approach also ensures optimum communication with customers and enables the company to be seen as a competent partner.

INNOVATION IN THE ROBOTICS SECTOR

Bundling development activities at a single location was a milestone in the five-point plan to reengineer the Robotics division. Merging these activities under one roof makes the development process more efficient and shortens the time to go from idea to actual product.

MAN-MACHINE COOPERATION THANKS TO KUKA SAFE ROBOT TECHNOLOGY

With the development of its Safe Robot Technology, KUKA introduced a crossover technology that enables robots to work in a team with humans. It can be used to partially automate manufacturing processes cost-effectively and in ways that were previously unthinkable. The two key components that enable direct interaction between humans and robots are called Safe Operation and Safe Handling. Safe Operation Technology monitors axis speeds and accelerations and ensures that the robot operates safely. Safe Handling is a tool that enables users to enter the robot work area safely and to guide the machine manually. Safety related control tasks that were previously controlled by an external safety PLC in the robot cell are now executed directly by the robot controller. KUKA Safe Robot thereby opens the door to completely new systems concepts in every imaginable sector.

RESEARCH PROJECTS DRIVE INNOVATIONS

At the start of 2006, the Federal Ministry of Education and Research (BMBF) launched a government-funded program called GENESYS. The goal of the development program is to develop a flexible robot cell that is able to take parts from a container whose length, shape and weight are unknown, and which may also be jammed against one another. The aim of the Robotics division's project is to develop general concepts and prototypes for handling various types of packages, in order to be able to implement future applications more quickly and cost-effectively.

The division showcased KUKA's Augmented Reality Viewer (AR) at CEBIT 2006. This software application considerably simplifies setting up, commissioning and programming a complex robotic system by projecting robot controller data on a live video image of the robot manufacturing cell. Real world, base and tool coordinate systems, as well as motion and path information, can all be projected directly into the user's field of vision. It is also possible to completely simulate programmed robot movements in the real cell.

Simulate programmed robot movements in the real cell.

Preliminary AR concepts were developed and implemented using KUKA robots in order to evaluate the basic suitability of these techniques for industrial robotics as part of research and development activities associated with the BMBF-sponsored Morpha research project, which ran from 1999 to 2003. The project focused on user training, programming and operation as well as service and maintenance. It demonstrated that there are interesting ways to support users, particularly in the area of robot training. One way is to use software that allows users to simulate a real robot application, thereby eliminating the risk of collisions between the robot, tools and components. Programming errors are found and corrected before the program is executed in the real world.

Other BMBF-sponsored projects included KomRob and Papas. KUKA Roboter participated in several working groups on both projects. The mechanics, sensors and actuators in mechatronics systems are increasingly integrated and controlled through software, enabling new faster and more precise robot systems to be built. The associated programming packages are more and more intuitive.

INTERNATIONAL PRIZES REWARD INNOVATIVE RESEARCH

Collision avoidance software module receives award.

At this year's International Conference on Intelligent Robots and Systems in Beijing, KUKA Roboter received the Invention and Entrepreneurship Award in Robotics and Automation. The prize was handed out for a collision avoidance software module. An example of an application is a medical system, where a robot is used to position a recumbent patient while a second robot guides a radiation source. Both robots "know" the instantaneous position of the other robot, and using an internal geometric model are able to detect impending interference in real time, thereby avoiding collisions. The collision avoidance system is also becoming more and more important in industrial environments, because robots are more frequently reprogrammed or flexibly guided using sensors.

KUKA Roboter placed second in a logistics innovation competition sponsored by the Munich Technical University on the occasion of the 15th Materialflusskongress (logistics trade fair) in Germany for an innovative 3-D vision system based on laser triangulation. VDI's Gesellschaft Fördertechnik Materialfluss Logistik awarded a prize for a sensor system that KUKA Roboter has already applied in the United States for order picking at a Coca Cola distribution center. The robot moves a projected laser beam across the top of the highest palette position. A CCD camera uses this to generate a 3-D height profile. This determines the position of the packages on the palette. The robot then uses its grippers to pick up these packages.

At Euroblech 2006 in Hanover, the spotlight was on KUKA Roboter's new KR 175 spot. The Augsburg-based company's new specialty spot welding robot received the MM award from the popular trade journal MM Maschinenmarkt. It received a special award in the joining and fastening technology category as the most innovative product of the year in this area.

INNOVATION IN THE PACKAGING SECTOR

Requirements for customized low cost packaging.

The Packaging division presented its new open mold technology, an FFS system that meets customer requirements for customized low cost packaging. The machine is designed to provide a far greater variety of shapes for dairy industry cups and rounds out the top end of the particular product group. It is rated for up to 36,000 cups per hour.

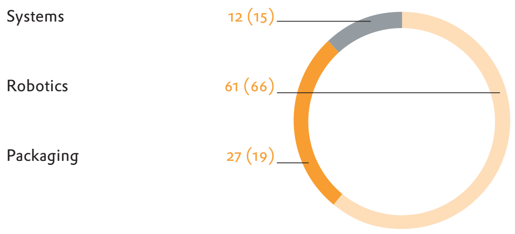
A+F Automation + Fördertechnik presented its A+F SetLine at Anuga 2006 in Cologne. It consists of an A+F Packer that can be flanged directly to an existing filling system. The compact machine makes it possible to extract up to 60,000 cups per hour from the filling machine's cell plates and to place these as individual cups or cup sets with a head clip or a full package on empty racks. Customers save space and the capital cost of a separate cup clip machine with an auxiliary packer and unpacker. Because cup conveying systems, which are prone to problems, are eliminated, the efficiency of the line also improves.

The American company R.A. Jones introduced its Jones Adjustable Pouch King, a new continuous, horizontal FFS bagging machine, to the market. Best in class for speed and productivity, it also offers previously unheard of bag size flexibility. The machine fills up to 500 bags per minute, and the bag size can be quickly changed, again and again. Almost any bag size is possible. The machine is equipped with a remote filling module that meets special flexibility and cleanliness specifications and an innovative patented sealing module guarantees a constant temperature profile.

Best in class for speed and productivity.

Manesty developed a containment coater that guarantees contamination-free coating of strong pills and integrates intelligent solutions for loading and unloading the pills. A prototype was presented at Achema in Frankfurt.

Research and development 2006 by division[1]
(in percent)

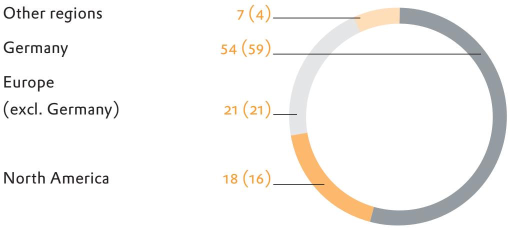


[1] Prior year's figures in brackets.

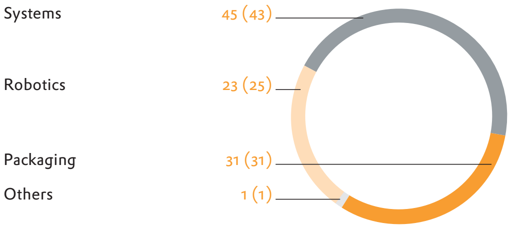
EMPLOYEES

The IWKA Group had 8,123 employees as at December 31, 2006, which compares to 7,939 at the same time a year earlier. The number of employees fell as a result of personnel restructuring measures, but the reduction was offset by the consolidated companies that were added to the Group and the start-up of the pay on production contract in Toledo, Ohio. The workforce consisted of 3,066 blue-collar and 4,806 white-collar workers, as well as 251 trainees. Last year, a key component of the personnel department's work was the subject of training.

Employees 2006 by region[1]
(in percent)



Employees 2006 by division[1]
(in percent)



[1] Prior year's figures in brackets.

STARTING A CAREER AT IWKA

Specialists and managers of tomorrow.

Personal and professional continuing education of all employees is a key management responsibility of the divisions and their companies. The focus is on the specialists and managers of tomorrow. Classic apprenticeships in training workshops, and the various company departments and the vocational schools are supplemented by in-house training programs.

In fall 2006, thirty apprentices began their professional careers at the Augsburg-based companies. Along with 105 other young people, they are now receiving training in professions that will assure them a good future. Twenty-four are taking commercial courses, and eighty-one practical apprenticeships in areas such as mechatronics, IT, tool and die making and industrial business.

At IWKA Packaging, twenty-six apprentices are being trained in industrial mechanics, industrial business management, automation electronics, tool and die making and mechanical engineering (community college).

IMPLACEMENT DAYS HELP NEW RECRUITS GET STARTED

IWKA wants to make it easy for young people to start work. For example, KUKA Roboter invites all new apprentices to what are known as implacement days. These are two days during which the newcomers take the opportunity to become familiar with the company, their supervisors and colleagues. Apprentices who have been with the company for some time assume the role of mentor. A trainer guides them through adventure-based team building activities. The apprentices get to know one another better and better as they take part in reaction time and focusing exercises on rock climbing walls, spider webs and orientation games. Mutual trust is considerably strengthened. To round out the implacement days, attendees receive information on the training courses offered at KUKA Roboter, as well as the company and organization. One participant concluded: "After completing the program, which was a success, the new recruits went home armed with the knowledge that they were capable of being confident team players when they begin their training."

An apprenticeship at KUKA Schweissanlagen starts with an introduction to the company and a survey of the expectations that the company and apprentices have of one another. On the second day, the young people embark on a rally that takes them right through the company. The new apprentices form small teams and track an actual order as it is processed. How did KUKA get the order? What is required to fulfill the order? What tools are used? How is the purchasing done? The young people find answers to these and other questions by visiting the various departments and being shown the actual business processes. Written training documentation and senior apprentices support the teams. The teams then present the results to one another. In addition to providing an overview of the company and its structure, the company rally promotes team spirit and helps the apprentices get to know each other. On the third day, the agenda includes a visit to an automobile manufacturer's car body production facility. Here the trainees inspect a system built by KUKA Schweissanlagen and have an opportunity to question those responsible for the project about the actual work processes and challenges. The goal of the three-day introductory seminar is not only to provide a good introduction to a new stage in life; the young people also receive motivational inspiration so that the successful completion of their training forms the basis of a long-term working relationship.

Training forms basis of a long-term working relationship.

The Packaging division also has an integration training program that has been used for years to tie what was learned at school to daily life in the working world and start their careers off on a solid footing. The trainees experience and learn about work practices, teamwork, communications and presentation techniques, as well as the ground rules of an operation, during a several-day outside seminar combined with in-house classes and sessions in the apprentice workshop. This gives the new recruits self-confidence and enables them to persist in their daily work routines.

COMPLEMENTARY TRAINING DURING APPRENTICESHIPS SUPPORTS STRENGTHS AND CAPABILITIES

The focus of the career training in all companies is on independence, process orientation, management skills and business oriented thoughts and actions. IWKA gives apprentices the opportunity to systematically advance their careers in addition to acquiring comprehensive technical expertise. New recruits can further their education in parallel with their apprenticeships.

A modular apprenticeship-oriented training program accompanies the new recruits during their entire apprenticeship term and prepares them for specific career paths. The core subjects include legal basics, preparation for examinations, concept management, marketing basics, communications methods and information on financial controlling and in-house processes. Advanced specialist programs that supplement the basics round out the program. Subjects covered in the weekly two-to three-hour training sessions include topics such as wellness and stress management. In addition, apprentices attend an English language course during the entire duration of the schooling.

INTERNATIONAL TRAINING

Intercultural skills, language skills and independence are especially important for qualifying the future leaders of a global group of companies. This is why all three divisions offer particularly gifted apprentices an opportunity to gain their first international experience.

An international exchange program has formed the basis of these endeavors since 1998. All of IWKA's companies take advantage of the attractive opportunity to send apprentices who demonstrate good to very good performance to another country. Participants normally spend four weeks working at one of the Group's subsidiaries around the world. To date, the destination countries were usually the United States, France, Great Britain or Spain. Last year, Belgium and China were added. The apprentices actively participate in preparation, execution and wrap-up activities. Workshops help prepare the apprentices for the challenges ahead and coworkers who have international experience provide supplementary coaching.

Four weeks working around the world.

In addition to gaining an understanding of the overall work situation and interacting with foreign colleagues, the focus of the program is to strengthen personal development, promote independence and improve language skills.

PARTICIPATION IN EMPLOYEE SHARE PROGRAM (MAP) 2006

Again in 2006, IWKA gave employees of the German companies the opportunity to share in the success of the Group by participating in an employee share program, as it had already done since 2003.

All eligible employees were given the opportunity to buy shares of IWKA at the current share price during a specified period of time, and thereby establish additional financial reserves and build long-term assets.

Employees were granted a discount of €1.50 per share. They are also rewarded for not quickly reselling their shares. At the close of the first, third and fifth years, participants receive one bonus share for every 10 they acquired under the MAP program. The number of shares employees own therefore increases by 30 percent over the five-year period.

The number of shares employees own increases by 30 percent.

By purchasing shares, employees strengthen the equity of the Group and demonstrate their loyalty to the company. Furthermore, employee shareholders acquire the same rights as other shareholders of the company; e.g., voting and information rights, and can exercise these rights by actively participating in the Annual General Meeting.

SUPPLEMENTARY REPORT

No significant events occurred after the period end.

OUTLOOK

The global economy remains on track for growth. The international monetary fund is forecasting worldwide growth of 4.9 percent for 2007 following growth of 5.1 percent in 2006. Industrialized nations are expecting 2.4 percent better economic performance for the current year.

This year, the economy of the United States could grow at less than the expected long-term trend. The central bank has tightened monetary policy more than elsewhere, while federal budgetary policies face restrictions. Gross domestic product should rise by 2.5 to 2.6 percent.

The key driver of the world economy continues to be the BRIC countries excluding Brazil. According to forecasts, continued strong growth is expected in China, India, Russia and other emerging nations. China's exports could outperform those of the United States in 2007 and the country may replace Germany as the world's top exporter in 2008. The Chinese government has established a growth target of eight percent for 2007. Whether its efforts to dampen the economy are successful remains to be seen. India's economic growth also remains strong. A solid foundation supports the growth of many Indian companies. They are benefiting from the rising incomes and consumer demand of an ever larger middle class. Further momentum is provided by the trend of Western companies outsourcing services to India and rising government spending on infrastructure.

Europe is reassuming its role as the engine of the world economy.

The Kiel Institute for the World Economy thinks that while the US economy is slowing, Europe appears to be reassuming its role as the engine of the world economy. Sentiment indicators point to a sustained rebound in the Eurozone and the entire European Union, although the new EU countries will continue to grow faster than the EU average. Financial policies are providing a damper, not only in Germany.

The German economy will continue to trend higher in 2007 despite the VAT increase. Germany is thus again playing a stronger supporting role in the Eurozone than it has of late.

RAW MATERIAL PRICES: PAST THEIR PEAK

In fall 2006, raw material prices presumably reached their peak. Experts expect them to weaken somewhat in 2007. Whether this will be a short-term correction or the beginning of a long-term price trend is not yet clear. The consensus is that economic fundamentals will in future have a greater impact on raw material price trends than political factors or market speculation.

MECHANICAL ENGINEERING SECTOR RAISES FORECAST

The German Engineering Federation (VDMA) raised its growth forecast for 2007 from two to four percent in late December 2006. Although exports are still the main driver of the growth, there is also optimism surrounding domestic demand in 2007. In October alone, domestic demand was 30 percent higher than at the same time a year prior. In December, growth then fell back to 8 percent higher than the same month a year earlier. The mechanical engineering industry is currently experiencing an above-average capacity utilization of 91 percent, which could slow production growth.

IWKA EXPECTS OPERATING RESULTS TO TREND HIGHER

The Systems division is expecting further stabilization for the current business year; however, market development will not be uniform. Europe will stabilize at a high level and the Eastern European markets and Russia will continue to become more attractive. Most importantly, the shift in demand toward smaller, more fuel-efficient vehicles will force US manufacturers to offer new models. In Asia, especially China and India, the trend toward increased automation will continue. Diversification of activities within the automotive process chain, as well as the aerospace sector, will have a stabilizing influence on economic fluctuations and will help ensure sustainable growth. In addition, the Systems division is having ever greater success transferring its technical and project management expertise to related business areas. Positive business results are therefore expected from this division despite its difficult market environment.

Growth of six percent per annum for robots.

The International Federation of Robotics is forecasting stable growth of six percent per annum for robots for the next number of years. The general industry markets in particular will expand further. In 2005, the robot market in this segment was already twice as large as in the automotive sector. And the need for robots, particularly in industrial sectors such as logistics, foodstuffs, plastics, machine building and medical technology continues to grow. But the need in the automotive industry also remains as high as always.

For the Robotics division, this means further growth in the automotive sector. By increasing the pace of offering new innovative solutions to the automotive industry, it will be able to find new customers worldwide. KUKA Roboter can benefit from business relationships it has been cultivating for years to further expand the market, particularly in this sector.

At the same time, it will systematically continue to implement the strategy of also concentrating on customers in general industry. Here too, the outlook is good. Europe is the world's second-largest market for industrial robots, following Japan, and Germany is the largest market in Europe. Even though forecasts for the domestic market are good, the highest growth rates are expected in Asia. The Robotics division will respond to progressive globalization by offering more innovations and attractive products. This includes an increased local presence where it has customers.

Around the world, the demand for packaging machines is growing. A study titled "World Packaging Machinery" published by Freedonia, an American market research group, predicts that demand will grow at an annual rate of 4.9 percent and reach more than 33 billion US dollars by 2010. The most important markets are Europe, the United States and Asia and the highest rates of growth are expected in China, India and Russia.

The market researchers are expecting the highest growth rates in the packaging segment to be in the pharmaceuticals and cosmetics sectors as a result of rising prosperity and increasing health awareness. IWKA Packaging considers itself to be in an excellent position and expects steady growth over the next number of years.

Sustained growth in all of its core business areas.

In implementing its strategic objectives, the IWKA Group strives for sustained growth in all of its core business areas. This is the basis for a return to superior profits in the divisions. This enables the group to achieve a higher return on capital employed (ROCE). As soon as the company's cash flow and earnings situation permit, it plans to return to paying a dividend. It also plans to substantially reduce debt to improve its balance sheet and equity ratio. The general goal remains to sustainably improve shareholder value so that the expectations of the capital markets and shareholders will be fulfilled.

At the time of completing this annual report, IWKA was still at an exploratory stage regarding the sale of the Packaging division. The IWKA Group will continue to focus on its strategy of further rationalization and is analyzing the impact of an even greater focus on the Systems and Robotics divisions.

TOP PRODUCTION FLEXIBILITY FOR CAR BODY PRODUCTION

Ability to manufacture six models and more on a single line

HIGHLY EFFICIENT AXLE MANUFACTURING

Joining of high-tech axles with two cast iron control arms and one steel torsion profile

SPEEDING UP
PRODUCTION PROCESSES

Automated drilling and riveting processes using cooperating robots

PERFECT CORROSION
PROTECTION
OF CAR BODIES

Flexible and reliable application of gluing and sealing materials

MORE EFFICIENT DRIVE TRAIN COMPONENT MANUFACTURING

Inertia welding machines with compression ratings of 1,000 t and precision in the µ range

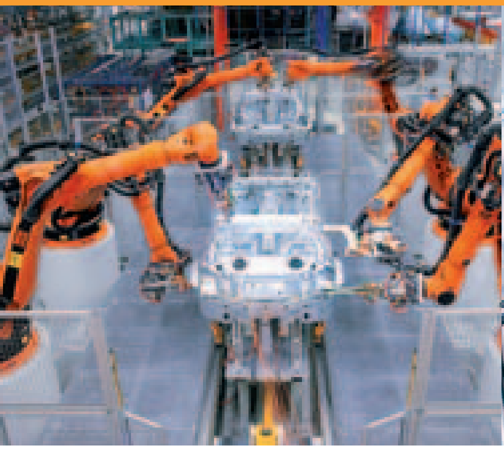
ELEGANT LINE CONTROL

Laser welding of car bodies

AUTOMATION CHANGES. KUKA Schweissanlagen's future is not only in new technologies such as laser welding. The portfolio also includes value added services such as customized servicing and financing concepts.

EXCERPT FROM PORTFOLIO OF SERVICES

- Systems e.g., for car body production
- Assembly systems; e.g., for joining disks
- Robot cells for wing manufacturing



SYSTEMS IS THE IWKA GROUP'S LARGEST DIVISION. THIS DIVISION INCLUDES THE KUKA SCHWEISSANLAGEN GROUP AS WELL AS THE COMPANIES BELONGING TO THE LSW AND B&K ASSEMBLY AND TESTING TECHNOLOGY GROUP. THE FOCUS IS ON PLANT ENGINEERING AND TECHNOLOGIES FOR CAR BODY PRODUCTION, DRIVETRAIN COMPONENTS AND ENGINEERING SERVICES.

Systems division key figures

in € millions	2006	2005	Change in %
Orders received	847.8	786.9	7.7
Sales revenues	832.8	772.5	7.8
EBIT	9.8	-14.5	–
% of sales	1.2	-1.9	–
% of capital employed (ROCE)	9.8	-11.8	–
Capital employed	101.0	122.6	-17.6
Employees (Dec. 31)	3,677	3,422	7.5

SYSTEMS DIVISION

Systems is the IWKA Group's largest division. Its 3,700 employees concern themselves with ideas, concepts and solutions in the field of automated manufacturing. Customers include companies in the automotive sector and its suppliers, aerospace and other industries. The products and services offered cover almost all tasks involved in the industrial processing of metallic and non-metallic materials. KUKA Schweissanlagen GmbH manages nineteen subsidiaries, together with sales offices in Europe, the United States and Asia. Together they ensure that the company has excellent contact to its customers. Orders received rose 7.7 percent in the past 12 months, ending at € 847.8 million as of December 31, 2006. This compares to € 786.9 million in 2005. Sales revenues, which reached € 832.8 million, were also 7.8 percent higher than the € 772.5 million achieved in 2005.

The EBIT of € 9.8 million is a substantial improvement over the 2005 result of € -14.5 million. This includes budgeted charges for the start-up of the pay on production contract for the Jeep Wrangler in Toledo/Ohio. Certain structural measures were also charged against the division's earnings.

MARKET STIMULI RESULTING FROM CHANGED PURCHASER BEHAVIOR AND MORE COMPETITORS

Market growth in 2006 was very inconsistent. Many emerging nations are just beginning to see rising consumer demand for cars, while growth rates persist in the industrialized countries on a high level. For example, in the North American free-trade zone, car manufacturing in the first half of 2006 rose by 2 percent, in the European Union by 1.5 percent, and in Japan by 4 percent. In contrast, in the non-EU countries of Eastern Europe, production climbed 5.4 percent, in South America it jumped by 18 percent and in Asian countries, particularly China and India, by 18.5 percent.

There are considerable differences in the situation for carmakers in the various markets. With few exceptions, the established automakers compete fiercely in the mature markets of the United States, the European Union and Japan, mainly because of their similar model offerings and comparable product quality. Nevertheless, all manufacturers were still able to achieve success because of their model policies. New models are predicted to help maintain or improve market shares. Almost all premium-brand carmakers have announced that they will round out their model portfolio in the lower segment. This requires conversion, expansion or new construction of manufacturing systems.

All manufacturers were able to achieve success because of their model policies.

A number of successful manufacturers are trying to further expand their market share on the basis of international production facilities and development centers; they are investing in regions in which they are present, but which they have not yet fully penetrated. The new locations are intended to contribute to further optimizing cost structures and to further enhance products for these markets. In addition to economic advantages, the manufacturers are expecting to improve their image and therefore generate additional demand.

When they open production facilities in other regions, automotive companies increasingly use suppliers close to the new locations. Here the Systems division has an outstanding starting position thanks to its international presence.

Manufacturers that until now had focused almost exclusively on their domestic markets are starting to enter the international markets, particularly from Asia. These companies are well positioned in their home regions. Offerings that suit the target group together with higher employment and wages have contributed to rising demand and higher quantities in these areas. The aim is to now mirror this success in international markets. The key differentiator is usually a low price. Selling into international markets along with rising demand, as well as wider competition among manufacturers in domestic markets, means processes need to be optimized and automated to ensure quality. In China and Russia, the automotive sector is considered one of the main industries driving technical progress, and is supported accordingly.

Selling into international markets means processes need to be optimized and automated.

It is expected that the various strategies of the different manufacturers will lead to increased demand for automated systems.

IMPORTANT ORDERS FROM THE AUTOMOTIVE INDUSTRY

Celebrations at DaimlerChrysler's Düsseldorf and Ludwigsfelde plants kicked off the start of production for the Sprinter's successor. KUKA Schweissanlagen was the general contractor and had installed a special system for the car body manufacturing facility, which is capable of producing a total mix of over 1,000 different models. At the beginning of the year, the division received orders from DaimlerChrysler to manufacture the C-Class at its two German factories in Sindelfingen and Bremen.

Total mix of over 1,000 models.

The assembly systems unit received an order from DaimlerChrysler to supply and install two new system sections, as well as to upgrade existing systems that seal the seams of the C-, E- and S-Class at the Sindelfingen factory.

India's largest carmaker, Tata Motors, ordered a complete car body assembly system for a new model of the Indigo compact car from IWKA's Systems division. Three versions of the car will be manufactured: hatchback, station wagon and coupe. Tata Motors aims to utilize the highly automated production system, which will be built in the town of Pune in western India, to offer cars that meet international quality standards. KUKA received an additional order package to upgrade and automate press lines.

The division received orders from Chery and FAW-VW in China for systems to build car bodies for new models. Robot cells for inert gas welding were sold to an automotive supplier in Russia. Orders from Magna Steyr included Magnetarc welding machines for manufacturing car axles, which went to its Canadian and South Korean locations. In Brazil, KUKA Schweissanlagen received an order to automate a press line.

KUKA SCHWEISSANLAGEN RECEIVES GLOBAL SUPPLIER AWARD FOR 2006

For the fourth time, the DaimlerChrysler Group awarded prizes to suppliers with outstanding performance in the areas of quality, technology, costs and logistics. KUKA Schweissanlagen received the Supplier Award 2006 for "Production, Equipment & Services". The prize is one of the most coveted awards handed out by carmakers. DaimlerChrysler certified that KUKA Schweissanlagen's corporate culture fosters top performance and partnerships based on trust, leading to above-average results and long-term success.

Corporate culture fosters top performance.

AEROSPACE

The problems of aerospace companies continually made headlines in the media. In spite of this, both major companies are building aircraft at a record pace and will continue to do so because of their order backlog. This will require changes to the manufacturing process. They are under increasing pressure to use flexible and cost-effective automation. While complex special designs were the rule until now, more and more opportunities to apply robotic solutions are emerging. As a robotics manufacturer, KUKA's international presence and its association with the systems builder KUKA Schweissanlagen is a competitive advantage that enables the company to offer a comprehensive response to the growing demands of the aerospace industry.

Pressure to use flexible and cost-effective automation.

KUKA has received orders to deliver tools and robot cells from various manufacturers in this industry. For example, Airbus ordered a system with cooperating robots and a stationary drilling/riveting head, which is used to manufacture parts of an aircraft wing. In the United States, KUKA delivered equipment for the modernization of NATO's Hercules C-130 cargo plane.

KUKA Schweissanlagen also received orders from customers outside the automotive and aerospace industries. KUKA Schweissanlagen shipped flexible robot cells for roll seam welding of dishwasher housings to BoschSiemens. Schott ordered robot systems for handling and palletizing thin sheets of glass for LCD screens and other displays.

POSITIVE BUSINESS RESULTS EXPECTED

The Systems division did a good job overcoming the challenges of a difficult year – selective capacity and organizational adjustments at a number of companies led to improved competitiveness and better cost structures. At the same time, high price and cost pressures remain unabated. Although an adequate number of projects in the marketplace noticeably relieved some pressure, large project orders are currently still in short supply. IWKA Systems catered to the growing importance of the service business by making the operating units directly responsible for these activities.

The division is expecting further stabilization for the current business year; however, markets will develop along different paths. Europe will stabilize on a high level and the Eastern European markets and Russia will keep on becoming more attractive. KUKA is already represented by a subsidiary at the largest Russian carmaker Avtovaz in Togliatti. Another company in Moscow will reinforce its presence in this growth market.

In the United States, the available capacity in the plant engineering area has been reduced. The current favorable situation will continue during the course of 2007. Most importantly, the shift in demand toward smaller, more fuel-efficient vehicles will force US manufacturers to offer new models.

Trend toward increased automation in Asia.

In Asia, especially China and India, the trend toward increased automation will continue. KUKA is therefore intensifying its regional commitment and will participate in this growth. To this end, the Chinese subsidiary will be further expanded. A new company was founded in India and the Systems division will have its own representative in Korea by the end of 2007 to meet the needs of the strong expansion in the automotive industry.

Diversification of activities within the automotive process chain, as well as the aerospace sector, will have a stabilizing influence on economic fluctuations and will help ensure sustainable growth. In addition, Systems is increasingly successfully transferring its technical and project management expertise to related business areas.

The Systems division is therefore expecting positive business results in 2007 despite the difficult environment.

NEW JEEP WRANGLER – NEW BODY BUILT BY KUKA

The Jeep Wrangler is a legend. The rugged, dark green vehicle known as Willys MA was developed for the United States Army six decades ago, and it has long since become the top pick of off-road enthusiasts. In 2006, production of this American legend recommenced. Its appearance remains (almost) unchanged, but it has received a strong injection of high-tech. Better ground clearance, an enhanced drive train and improved handling make the car more fun to drive. The most obvious change: A four-door version will be offered for the first time.

As remarkable as the vehicle itself is the way the new old champion of off-road vehicles is being built; namely, under the terms of a pay on production contract. Three key suppliers manufacture subassemblies for DaimlerChrysler on their specially built production lines in the Toledo Supplier Park. Only the final assembly is done at the customer's factory. KUKA Schweissanlagen is one of these three suppliers and manufacturers the complete car body, which it sends to the paint shop. Here Magna Steyr takes over before it is sent to OMMC's (Hyundai Mobis) chassis assembly line. They too built their own systems and invoice the customer for the number of units completed. This cooperation agreement was developed together with DaimlerChrysler. The concept was borrowed from the Smart Manufacturing facility in Hambach, Alsace. Here too, chassis are manufactured, painted and preassembled at the company's own expense and payment is made according to the number of units produced.

The key suppliers invest their capital and share the entrepreneurial risk, thereby also gaining the opportunity to participate in the model's market success. KUKA Schweissanlagen founded a special company to manufacture the Jeep body in Toledo: KTPO, which is short for KUKA Toledo Production Operations LLC. It currently has 230 employees and builds eight different types of car bodies for the Jeep Wrangler. KUKA had virtually no design constraints concerning the type of system it used. It could therefore apply its own processes and more or less use its own off-the-shelf components. Materials flow efficiently through the building, from the central material receiving area right through to shipping. Of the 245 KUKA robots used, 168 are welding robots. Particularly noteworthy are the 11 robots used for folding the doors and flaps – a novelty in the US market.

The applied systems technology is future proof and from a technical perspective, can be used to manufacture a mix of more than the two different types of Jeeps. Provisions has already been made to integrate new models in the future.

Crucial test passed.

The system passed the crucial test quite a while ago. On August 29, 300 guests and media representatives were invited to watch the successful start of production. "We are making a long-term commitment and will do everything we can to actively contribute to the success of this project here in Toledo," said Gerhard Wiedemann, who at the time was the CEO of KUKA Schweissanlagen GmbH and is today the head of IWKA Aktiengesellschaft. DaimlerChrysler publicly declared its satisfaction with the production startup. The order trend for the new Jeep looks very promising.

Jeep annually sells over 600,000 units of its various models around the world. A solid brand such as this is one of the prerequisites required for KUKA Schweissanlagen to take the entrepreneurial risk of investing in its own production systems. The second fundamental requirement of such a pay on production contract is a relationship between the manufacturer and the supplier that is based on strong, mature mutual trust.

JUICE BAG PALLETIZING

High-speed palletizing of products of all sizes

HANDLING ROOF TILES

Packaging by the ton

REMOVING CAST PARTS

Huge potential to save on expensive machines

AUTOMATIC PACKING OF BAKED GOODS

Hygienic, fast and safe

HANDLING OF ALL TYPES OF BOTTLES

All sizes, all types of containers and crates

CHEESE PRODUCTION

Stirring, transportation and cutting – many steps in a single process products of all sizes

HANDLING FROZEN GOODS

Working "around-the-clock" at extremely low temperatures

HANDLING FRAGRANCE CONTAINERS

Also for delicate products using sensitive gripping systems

AUTOMATION CHANGES. KUKA Roboter offers customers solutions that are state-of-the-art and more. Often these solutions make it possible to use new methods and ideas, and increase the efficiency, safety and flexibility of production systems. In the future, the interaction between robots and peripheral equipment will be intensified, which will open up completely new application areas and market potential.

EXCERPT FROM PORTFOLIO OF SERVICES

○ Handling beverage containers

○ Handling roof tiles

○ Handling baked goods

THE ROBOTICS DIVISION DEVELOPS, BUILDS AND SELLS INDUSTRIAL ROBOTS, ROBOT SERVICES AND ROBOT CONTROLLERS. THE KUKA ROBOT GROUP IS A TECHNOLOGY LEADER IN THE ROBOTICS AND ROBOTIC CONTROLS SECTOR. BASED ON ITS EXPERIENCE IN THE AUTOMOTIVE INDUSTRY, TO WHICH IT SUPPLIES SOPHISTICATED ENGINEERING SOLUTIONS, KUKA ROBOTER IS CONTINUOUSLY EXPANDING ITS PRODUCT PORTFOLIO FOR USE IN GENERAL INDUSTRY MARKETS.

Robotics division key figures

in € millions	2006	2005	Changes in %
Orders received	382.3	338.4	13.0
Sales revenues	373.3	323.6	15.4
EBIT	22.4	-22.8	–
% of sales	6.0	-7.0	–
% of capital employed (ROCE)	24.3	-22.1	–
Capital employed	92.2	103.3	-10.7
Employees (Dec. 31)	1,838	1,936	-5.1

ROBOTICS DIVISION

Automation transfers repetitive work to machines, enabling employees to engage in activities requiring higher qualifications. In this area, customers look for solutions, not individual products. All suppliers must respond accordingly.

For the Robotics division's customers, the key to higher productivity and efficiency is automation "made by KUKA Roboter". It enhances product quality, reduces cost-intensive material consumption and cuts the use of scarce energy resources. KUKA Roboter therefore concentrates on offering intelligent high-tech solutions for sectors such as plastics, metals, food, logistics and foundries, as well as aerospace and the glass and wood sectors. Defining technology trends secures the market for the future, as well as the competitive position. These trends include robots – robot cooperation, human-machine cooperation, manufacturing assistance and modular, new interactive robots, as well as expanding the scope of supply to include application modules.

About 250 employees are involved in KUKA Robotics research and development, both inside and outside the company. This minimizes time to market. KUKA is now the only robot manufacturer building large quantities of robots in Germany. This required considerable investment in the Augsburg manufacturing facility over the past number years. Today, the plant is one of the most modern in the world.

The Augsburg plant is one of the most modern in the world.

The Robotics division has achieved a turnaround. The restructuring measures introduced in 2005 and last year contributed as much to the further improvement of profits as did the higher order levels. By the end of 2006, the division was able to report that orders received, which reached € 382.3 million, were 13.0 percent higher than the prior year's € 338.4 million. Sales revenues were also higher than a year earlier, rising 15.4 percent from € 323.6 million in 2005 to € 373.3 million in 2006. After a negative result last year, EBIT was also significantly better. On December 31, 2006 it was € 22.4 million, which compares to the previous year's € -22.8 million.

KUKA ROBOTICS GROWTH BEATS MARKET

The positive business trend is as much the result of an increasing number of orders from general industry, as it is of new orders from carmakers and their suppliers. The strategy to increasingly turn to customers in the general industry in addition to the important automotive business is correct. KUKA Robotics first started in this direction in 2000. The accelerated entry into the plastics and logistics area is a good example of successfully applying robots in new markets. The goal to generate 50 percent of orders from general industry has been achieved. At the same time, the leading international position as a supplier of industrial robots to the automotive industry has been maintained.

50 percent of orders from general industry.

The general industry business was expanded in all regions. In the North American region, growth was significant, up 40 percent over the previous year. Major projects contributed to this success story. For example, an order valued at € 7 million was received from the entertainment sector. A well-known company in the beverage industry awarded a repeat order for palletizing valued at nearly € 1 million.

Thanks to the increased implementation of innovative solutions for the automotive industry, it has also been possible to acquire new customers around the world in this sector. Orders received from the automotive industry in the European region rose 8 percent and reached €107.8 million. Automotive sector orders from the Asia-Pacific region more than tripled and ended at € 9.2 million. Worldwide, growth in orders from the automotive industry in all three regions was a substantial 7 percent higher than the prior year and closed at € 176.8 million.

KUKA Robotics strengthened its market leadership position.

A whole series of important orders were booked in 2006. In contrast to the trend and substantial drop in orders from the automotive industry in 2005, KUKA Robotics further strengthened its market leadership position. Price pressure and a saturated competitive field continued to shape this sector in 2006. In spite of this, KUKA Robotics was able to win some large project orders. For example, BMW awarded the complete contract for welding the front and rear axle subframes for the new 5- and 7-Series BMW to KUKA Robotics. The division was also able to gain a foothold again in the French car market. Renault gave KUKA Robotics the order for manufacturing both the Megane's successor and a delivery van. The successful business relationship with the Russian carmaker Avtovaz was further strengthened and expanded.

SERVICE ROBOTICS, MARKET OF THE FUTURE

Service robots and robots for home use are becoming technology drivers for the traditional robotics industry. The "behavior" of such robots must be technically mature. They must be aware of their environment so that they do not harm humans, animals or property in any way. They must use their kinematic capabilities intelligently, the same as humans do. They must be modular and be equipped for fine manipulation and gripping. It is possible to imagine applications from caring for older or unwell people, right through to helping around the house and entertainment. Alone the replacement of people who work under poor conditions will offer many opportunities to use robot technologies. Industrial robotics can be the basis of intelligent solutions for testing, logistics, baggage handling or motion control.

KUKA's lightweight robot.

KUKA Roboter presented a series of new trendsetting products, both hardware and software at Automatica 2006, the world's leading trade show for robotics. KUKA's lightweight robot generated considerable interest. It was developed in partnership with the Institute for Robotics and Mechatronics at Germany's Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt (DLR)). The lightweight robot design is based on the human arm. It is modular and the standard version has seven degrees of freedom. Its integrated sensors enable the robot to yield to external forces, as is required for fine assembly and joining tasks. In addition, the integrated sensors allow all of the robot's axes to be manually positioned, making it suitable for direct interaction with humans (e.g., programming by guiding it through the required motions). Because it is made using carbon fiber reinforced polymers, the robot weighs only 14 kg, which is also its payload capacity. This payload-to-robot weight ratio is better than that of conventional robots. Target applications for KUKA's lightweight robot include assisting humans in production environments and in medical and service tasks.

In order to enter the market for mobile robotics, KUKA Roboter acquired the omniMove division of Salzgitter-based IC Industrial Consulting GmbH. OmniMove's precision mobile platforms are suitable for many mobile tool applications – and in future will also be used with robots. omniMove products are particularly well established in the aerospace industry. In addition to the aerospace industry, these technical options are also interesting in the field of service robotics – the key topic of the future for robotics.

Entering the market for mobile robotics.

INNOVATIVE WELDING PRODUCTS

KUKA's latest welding product, the KR 175 spot, advances the company's technological expertise in the welding area to the next step. The innovative product is used in high efficiency solutions developed together with KUKA Schweissanlagen GmbH, which serve the needs of both business units' customers. Cost-reduction is guaranteed and performance remains the same. The robot is specially designed for point-to-point motions. The integrated welding controller makes it a high-performance processing machine. The costly and troublesome system interfaces between robot and welding controllers are a thing of the past. Users no longer have to work in two different control environments; instead, they use the KUKA control panel to steer both the robot movement and the welding process. This saves an entire system interface. It is also easier for the programmer to optimize the process, because motion control and welding parameters can be changed from the central robot operator interface.

KUKA JET technology combines the flexibility of a KUKA articulated robot with the speed of a linear axis. The modified robot is mounted upside down or laterally on a linear axis. Because of the linear axis, the robot has no axis 1. The KUKA JET makes complex unloading operations possible, even for bulky components, as well as enabling space-saving factory floor concepts to be used. The solution is ideal for handling tasks in the fields of injection molding, die casting, machine tools and logistics. The fast linear axis helps minimize cycle times.

Ideal for handling tasks.

GREATER FOCUS ON UNIVERSITY CONTACTS

KUKA Roboter GmbH is part of an extensive network of colleges, universities and other institutions that deal in robotics in the broadest sense of the word. KUKA supports the College of Computing at Georgia Tech (faculty of computer science) in the United States, which works together with the KUKA

College of Computing ideal partner for developing new industry applications in the USA.

Chair of Robotics. It will be led by the internationally renowned robotics expert, Prof. Hendrik Christensen, PhD. The College of Computing is a leading American institution whose research focus is on the development of practical computer science solutions that primarily serve to further social and scientific progress. KUKA sees the organization as an ideal partner for developing new industry applications, above all since the body's research activities are ideally suited to the needs of industry. The State of Georgia is home to countless companies in the wood and food sectors, but also the textile industry, logistics and, of course, Coca Cola. One of KUKA's goals is to support the next generation of technical students and familiarize them with KUKA technologies. The company also benefits from closer ties to the US market and exposure to new opportunities in attractive business areas.

Political and economic developments make Russia a large and important market of the future, which will be supported by the technical expertise of tomorrow's engineers. KUKA Roboter GmbH has therefore entered into cooperation with the famous Stankin University in Moscow. Founded in 1930, it was established to produce highly qualified specialists for the industry of Soviet Russia. Today, Stankin University concentrates on machinery and machine-tool building and offers degrees in robotics. KUKA Roboter wants to support the university's efforts and has donated two robots so that would-be engineers have the best possible practical education in the forward-looking robotics sector. When they have completed their courses, the students have the opportunity to acquire a certificate subject to qualification by trainers from KUKA College.

OUTLOOK

The International Federation of Robotics is forecasting stable growth of six percent per annum for the next number of years. The general industry markets in particular will expand further. In 2005, the robot market in this sector was twice the size of that in the automotive sector. And the need for robots continues to expand, particularly in industry sectors such as food, plastics, machine building and logistics. But the need in the automotive industry also remains as high as always. For KUKA Roboter, this means further growth. By increasing the pace of offering new innovative solutions to the automotive industry, it will find new customers around the world. Here in particular, KUKA Roboter can benefit from business relationships it has been cultivating for years.

At the same time, it will systematically continue to implement the strategy of more intensively concentrating on customers in general industry. Here too, the outlook is good. Presently, only 15 of all possible automation solutions have actually been implemented. In other words, in many industries there is still in some cases considerable need to catch up in the area of automation. The replacement of people who work under poor conditions will offer many opportunities to use robot technologies. Industrial robotics can be the basis of new solutions for testing, logistics, baggage handling or motion control.

A good example is the use of robots in the metal processing industry; e.g., for loading and unloading, or linking or networking several machines using a master control concept. KUKA Roboter is discussing these ideas with reputable international manufactures. The first projects have already been implemented. New technologies and intelligent solutions in this area will generate new momentum. Robots are no longer stand-alone handling machines; instead, they form part of an automation solution that can also process upstream and downstream tasks such as quality control, assembly, packaging and palletizing. From now on, the production process needs to be regarded as a whole. The question is no longer simply how a part is delivered and removed from a machine tool. This results in more flexibility and lower unit costs.

Europe is the world's second-largest market for industrial robots, following Japan, and Germany is the largest market in Europe. Even though the forecasts for the domestic market are good, the highest growth rates are expected in Asia. KUKA Roboter will respond to ongoing globalization by offering more innovations and attractive products. This includes an increased local presence where it has customers. They are the focus of all activities.

Highest growth rates are expected in Asia.

BEVERAGE CANS

Wrap-around packaging of all types of beverage containers

AEROSOL CANS

Highly productive and environmentally friendly filling of aerosol cans

YOGURT CUPS

Attractive cups in various shapes

STICKPACK PACKAGING

Packaging of snacks and drugs for application from the hand into the mouth

PRODUCTS WITH EXTENDED SHELF LIFE

Extended shelf life (ambient) by packaging with aseptic machines

THERMOFORMED CUP MADE OF WHITE PP

Microwaveable cup for all types of foods

TABLETS

Blister packing and cartons for tablets

BUTTER AND SOUP CUBES

Exact weight conformance

AUTOMATION CHANGES. IWKA Packaging accompanies its partners into the future – through the integration of functions and systems, modular and standardized systems construction, as well as higher efficiencies. This enables IWKA Packaging to actively pave the way for their partners' business success – through comprehensive knowledge of process technologies and expertise in new, intelligent packaging.

EXCERPT FROM PORTFOLIO OF PRODUCTS

- Commissioning of cups
- Thermoformed cups made of PP
- Tube filling

DIVISIONS

THE PACKAGING DIVISION'S COMPANIES DEVELOP AND BUILD PACKAGING MACHINES FOR THE DAIRY, PHARMACEUTICALS AND COSMETICS INDUSTRIES, AS WELL AS THE FOOD INDUSTRY. THE DIVISION ALSO MANAGES PROJECTS FOR THE DESIGN AND CONSTRUCTION OF COMPLETE PACKAGING LINES AND IS INCREASINGLY BECOMING A SYSTEMS PARTNER TO ITS CUSTOMERS.

Packaging division key figures

in € millions	2006	2005	Changes in %
Orders received	436.0	387.6	12.5
Sales revenues	403.9	387.9	4.1
EBIT	17.3	7.3	–
% of sales	4.3	1.9	–
% of capital employed (ROCE)	11.8	4.9	–
Capital employed	146.8	149.4	-1.7
Employees (Dec. 31)	2,543	2,476	2.7

PACKAGING DIVISION

The Packaging division's companies develop, build and market processing and packaging solutions around the world for the dairy, pharmaceuticals and cosmetics industries, as well as the food industry. The in-house process technology expertise related to primary, secondary and tertiary packaging enables the division to also work in partnership with its customers to build systems. When it comes to implementing complete packaging lines, IWKA takes responsibility for the entire process, from planning right through to implementation and commissioning of the systems. Leading companies are confident in its proven expertise, make use of the ideas and developments of IWKA experts and rely on their advanced qualifications.

CONSUMER DEMAND REFLECTED IN PACKAGING BUSINESS

The Packaging division benefited from increased economic activity, which increasingly gained momentum during the course of 2006. In addition to rising exports and capital spending, consumer demand also picked up again. In this overall positive market environment, orders received in the food and packaging machine sectors in Germany rose 12 percent according to the trade association. Sales were up 9 percent.

Benefiting from increased economic activity.

The new structure introduced to the division in 2005, consisting of the dairy, pharmaceuticals and cosmetics and food subsegments, together with the approach to market under a uniform banner (IWKA Packaging) and shared corporate design paid off. Customers increasingly recognized IWKA Packaging as an international competitor offering complete systems. The new common sales and service organizations expanded the division's market presence, promoted collaboration among the companies and strengthened systems expertise.

IWKA Packaging's orders received came in at € 436.0 million, or a solid 12.5 percent higher than in 2005. Sales revenue rose 4.1 percent year-over-year and reached € 403.9 million. Earnings from operating activities tracked the positive business trend: In 2005 the division earned € 7.3 million and in 2006 EBIT was € 17.3 million. At the end of December, the Packaging division had 2,543 employees, 2.7 percent more than a year earlier.

PHARMACEUTICALS/COSMETICS ON THE RISE

The markets for medications and cosmetic products are growing. In addition, consolidations in the global pharmaceutical industry continue at a rapid pace. Growing competitive pressure, above all from generic manufactures, is forcing companies that engage in research to invest more heavily in new products. Cost awareness has also increased and pressure on suppliers of processing and packaging machines is rising.

Against this background, the chemical and pharmaceutical industry's leading trade show Achema, held in May 2006 in Frankfurt, was an important gauge of the performance capabilities of IWKA Packaging's pharmaceuticals/cosmetics subsegment. Hüttlin, Manesty, IWK and Fabrima presented their latest developments at a joint tradeshow booth.

Again in 2006, IWKA packaging was able to book numerous important orders. Colgate gave IWK an order for six high-performance tube filling lines for toothpaste, of which four will be used in Poland, one in Mexico and one in Brazil. Glaxo Smith Kline in the United States ordered two tube filling and sealing machines. Commercial Leagune and Psicofarma placed additional large orders. The recently introduced generation of blister machines was successfully launched and generated important orders last business year.

In the pharmaceuticals processing area, Hüttlin and Manesty received orders from some big pharmaceutical names such as Novartis, Sanofi Aventis and Sandoz to granulate, press and coat powders and granulates. In addition, the Packaging division received numerous orders from around the world from generic brand manufacturers and contract manufacturers.

One of the orders received by IWKA PACKAGING Systems was to act as general contractor for a stickpack line at Glaxo Smith Kline, into which a IWK cartoner will also be integrated.

DAIRY

Innovative handling and packaging solutions at the international Anuga FoodTec industry trade show in Cologne.

IWKA's Packaging and Robotics divisions joined forces to present innovative handling and packaging solutions and systems at the international Anuga FoodTec industry trade show in Cologne. A+F, Benz & Hilgers, HASSIA, Erca, GASTI, Packaging Technologies and KUKA Roboter had a joint booth and presented innovative packaging solutions.

HASSIA Packaging Machines and PACKAGING Systems together received an order from the Norwegian dairy Tine. In addition to supplying thermoforming machines for manufacturing twin cavity containers for yogurt, the group will assume responsibility for systems integration at the customer's site. HASSIA will be the general contractor and PACKAGING Systems will design the end packaging system. The order was signed in May 2006 and installation is planned for March 2007.

GASTI and A+F received a major order from South Tyrol's Milchhof Sterzing (one of the largest yogurt manufactures in northern Italy) for a yogurt filling system including end packaging. GASTI will supply a complete aseptic-type servo-driven Mastercup 162. This new model will be able to manufacture 40,000 cups per hour in a flexible format. Two different cup formats can be used. Combined with the A+F SetLine (complete end packaging line with palletizer, conveying system, SetLine sealing, palletizing system), this system is a worldwide reference installation. The order was signed in August 2006 and commissioning is planned for the end of March 2007.

HASSIA received a further large order for a thermoforming system from ConAgra in the United States and a large follow-up order from the US-based baby food manufacturer Gerber. Additional orders for aseptic thermoforming machines were also received from the Japanese dairy group Meiji Milk. GASTI was awarded additional orders from Pinar in Turkey, as well as Seoul Dairy in South Korea. ERCA received various orders from New Zealand and Chile.

FOOD

At the end of October, the American companies R.A. Jones, Packaging Technologies, PacSystems, IWKA Packaging USA together with KUKA Roboter had a 1,500 m^2 booth at Pack Expo in Chicago.

The trade publication Packaging Machinery Technology awarded Packaging Technologies the "Packaging Line of the Year" prize at this trade show. The award was presented for a turnkey line at the American company Green Mountain Coffee Roasters. On this line, ground coffee is packaged in single-serve coffee cups and subsequently packed in cartons. The line stands out because of its high degree of flexibility and extremely small footprint. Because of the high demand from consumers for the end product and remarkably short and problem-free installation and commissioning, the customer was able to recover the investment costs in very short time. This is now the third line that Packaging Technologies has sold to the same customer. Packaging Technologies also acted as general contractor on this project.

The line stands out because of its high degree of flexibility and extremely small footprint.

A DOGASEPTIC built by GASTI with a cup loader and cup packer from A+F, which had been sold to an American customer, was also showcased at Pack Expo. R.A. Jones presented a new top loader and its Flexible Pouch King.

Packaging Technologies received an order for an FS machine from Reser Fine Foods, the largest contract packager of ready-made salads and sides. The company was the only manufacturer able to install such a machine exactly to the customer's specifications in only four weeks. Numerous well-known companies such as Gillette and Reckitt & Benckiser ordered aerosol systems.

Jones received several million-dollar orders from Kellogg's, which in addition to the supply of Jones cartoning and end-packing systems from A+F included the systems integration of the entire line. Jones also received another systems order from Gerber in the United States for a baby food line. The Mexican brewer Modelo Zacatecas purchased three high-performance beverage cartoning machines and Kraft in the United States ordered a cartoner for a stickpack line.

DEMAND FOR PACKAGING MACHINES SOARING

Demand will grow at an annual rate of 4.9 percent.

Around the world, the demand for packaging machines is growing. A study titled "World Packaging Machinery" published by Freedonia, an American market research group, predicts that demand will grow at an annual rate of 4.9 percent and reach more than 33 billion US dollars by 2010. The most important markets are Europe, the United States and Asia and the highest rates of growth are expected in China, India and Russia.

The market researchers are expecting the highest growth rates to be in the pharmaceuticals and cosmetics sectors as a result of rising prosperity and increasing health awareness. IWKA Packaging considers itself to be in an excellent position and expects steady growth over the next number of years.

At the time of completing this annual report, IWKA was at an exploratory stage regarding the sale of the Packaging division. The IWKA Group will continue to focus on its strategy of further concentration and is analyzing the impact of an even greater focus on the Systems and Robotics divisions.

GROUP FINANCIAL STATEMENTS.

GROUP FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

GROUP FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

of the IWKA Aktiengesellschaft for the period Jan. 1 – Dec. 31, 2006

in € thousands	Note	2006	2005*
Sales revenue	1	**1,566,027**	**1,435,912**
Changes in inventories of finished goods and work in process		-27,904	16,914
Own costs capitalized	2	6,593	9,970
Total output		**1,544,716**	**1,462,796**
Other operating income	3	51,311	45,921
		1,596,027	**1,508,717**
Cost of materials	4	-844,370	-795,426
Personnel expense	5	-465,631	-460,679
Depreciation and amortization of tangible and intangible assets	7	-38,435	-43,698
Other operating expenses	8	-213,847	-251,816
		-1,562,283	-1,551,619
Earnings from operating activities (EBIT)		**33,744**	**-42,902**
Other income from participations		0	85
Pro-rata share of income for the period of associated companies	9	569	975
Write-off of financial assets	10	-116	-2,077
Interest income	11	8,594	10,845
Interest expense	11	-27,134	-26,555
		-18,087	-16,727
Earnings before tax		**15,657**	**-59,629**
Tax expense/income	12	-4,889	584
Earnings from continuing operations		**10,768**	**-59,045**
Earnings from current activities of discontinued operations		-11,448	-23,783
Result from the disposal of discontinued operations		-68,697	-64,642
Result from discontinued operations	13	**-80,145**	**-88,425**
Annual net loss		**-69,377**	**-147,470**
Annual net loss attributable to minority interests		170	2,370
Annual net loss attributable to IWKA		69,207	145,100
Earnings per share	14	-2,60	-5,45
(of that discontinued operations)	14	(-3,01)	(-3,32)

* In accordance with IFRS 5, the amounts for continuing operations in the income statement for 2005 are presented on a comparable basis.

GROUP BALANCE SHEET

of the IWKA Aktiengesellschaft as at Dec. 31, 2006

ASSETS

in € thousands	Note	Dec. 31, 2006	Dec. 31, 2005
Non-current assets			
Fixed assets	15		
Intangible assets	16	135,890	147,955
Property, plant and equipment	17	153,517	192,175
Participations in associated companies	18	2,279	3,045
Financial investments	18	1,588	11,745
		293,274	**354,920**
Long-term tax receivables		**8,878**	**0**
Deferred taxes	12	**42,189**	**54,463**
		344,341	**409,383**
Current assets			
Inventories	19	231,089	278,005
Receivables and other assets	20		
Trade receivables		252,477	292,624
Receivables from long-term contracts	21	116,800	116,547
Receivables from affiliated companies		3,608	17,465
Receivables from companies, in which participations are held		0	61
Other assets, prepaid expenses and deferred charges		41,423	31,150
		414,308	457,847
Cash and cash equivalents	22	74,900	118,429
		720,297	**854,281**
Assets held for sale	23	**6,478**	**289,660**
		1,071,116	**1,553,324**

EQUITY AND LIABILITIES

in € thousands	Note	Dec. 31, 2006	Dec. 31, 2005
Equity	24		
Subscribed capital	25	69,160	69,160
Capital reserve	26	29,984	99,598
Revenue reserves	27	26,130	19,710
Minority interests	28	1,458	603
		126,732	**189,071**
Non-current liabilities, provisions and accruals	29		
Long-term financial liabilities	30	76,548	52,978
Other long-term liabilities	31	18,525	12,166
Pension provisions and similar obligations	32	132,056	137,832
Deferred taxes	12	10,593	8,018
		237,722	**210,994**
Current liabilities	29		
Short-term financial liabilities	30	82,230	227,511
Trade payables		209,470	171,975
Advances received		95,002	107,423
Liabilities from long-term contracts	21	75,147	88,547
Accounts payable to affiliated companies		836	3,019
Other short-term liabilities and deferred income	31	93,649	126,344
Provision for taxes		23,036	26,837
Other provisions	33	127,292	209,809
		706,662	**961,465**
Liabilities from discontinued operations	23	**0**	**191,794**
		1,071,116	**1,553,324**

DEVELOPMENT OF GROUP EQUITY

in € millions	Subscribed capital	Capital reserve	Other revenue reserves	Translation gains/losses	Market valuation hedges	Net retained earnings	Equity to share-holders	Minority interests	Total
			REVENUE RESERVES						
Dec. 31, 2004	**69.2**	**133.3**	**140.4**	**-3.7**	**-1.9**	**17.6**	**354.9**	**3.2**	**358.1**
IWKA Aktiengesellschaft dividend	–	–	–	–	–	-17.6	-17.6	–	-17.6
Changes in ownership	–	–	-9.6	–	–	–	-9.6	-0.2	-9.8
Exchange rate-related differences	–	–	–	4.2	–	–	4.2	–	4.2
Withdrawal from retained earnings/capital reserve	–	-33.8	-111.3	–	–	145.1	–	–	–
Other changes	–	–	–	–	1.7	–	1.7	–	1.7
Group net loss for the year	–	–	–	–	–	-145.1	-145.1	-2.4	-147.5
Dec. 31, 2005	**69.2**	**99.5**	**19.5**	**0.5**	**-0.2**	**–**	**188.5**	**0.6**	**189.1**
Changes in ownership	–	–	-2.4	–	–	–	-2.4	1.1	-1.3
Exchange rate-related differences	–	–	–	-3.2	–	–	-3.2	–	-3.2
Capital increase from convertible bond	–	11.3	–	–	–	–	11.3	–	11.3
Withdrawal from retained earnings/capital reserve	–	-80.9	11.7	–	–	69.2	–	–	–
Other changes	–	–	–	–	0.2	–	0.2	–	0.2
Group net loss for the year	–	–	–	–	–	-69.2	-69.2	-0.2	-69.4
Dec. 31, 2006	**69.2**	**29.9**	**28.8**	**-2.7**	**–**	**–**	**125.2**	**1.5**	**126.7**

GROUP CASH FLOW STATEMENT

in € millions	2006	2005
Net loss for the year	**-69.4**	**-147.5**
Result from the disposal of discontinued operations	68.7	64.6
Amortization of intangible assets	15.4	26.0
Depreciation of tangible assets	26.4	33.7
Write-off of financial assets	0.1	3.0
Other non-payment related expenses/income	11.0	-29.2
Cash flow	**52.2**	**-49.4**
Result on the disposal of assets	-2.0	-2.8
Changes in provisions	22.7	50.9
Changes in current assets and liabilities		
Changes in inventories	18.6	-3.5
Changes in receivables and deferred charges	-30.1	-42.0
Changes in liabilities and deferred income (excl. financial debt)	-3.1	-5.1
Cash flow from operating activities	**58.3**	**-51.9**
(of that discontinued operations)	(-21.9)	(-61.6)
Payments from disposals of fixed assets	6.5	9.1
Payments for capital expenditures on intangible assets	-13.9	-15.5
Payments for capital expenditures on tangible assets	-19.9	-36.8
Payments for investments in financial assets	-1.0	-3.9
Incoming/outgoing payments in connection with the sale of consolidated companies and other business units	21.4	75.5
Cash flow from investing activities	**-6.9**	**28.4**
(of that discontinued operations)	(16.7)	(62.5)
Free cash flow	**51.4**	**-23.5**
Dividends paid	0.0	-17.6
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	27.7
Cash flow from financing activities	**-108.9**	**10.1**
(of that discontinued operations)	(-2.2)	(5.2)
Payment-related changes in cash and cash equivalents	**-57.5**	**-13.4**
(of that discontinued operations)	(-7.4)	(6.1)
Exchange rate-related and other changes in cash and cash equivalents	6.6	2.6
(of that discontinued operations)	(0.0)	(0.1)
Changes in cash and cash equivalents	**-50.9**	**-10.8**
Cash and cash equivalents at the beginning of the period	125.8	136.6
(of that discontinued operations)	(7.4)	(1.2)
Cash and cash equivalents at the end of the period*	**74.9**	**125.8**
(of that discontinued operations)	(0.0)	(7.4)
(of that continuing operations)	(74.9)	(118.4)

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

GROUP SEGMENT REPORTING

SEGMENT REPORTING BY DIVISION

in € millions	Systems 2006	Systems 2005	Robotics 2006	Robotics 2005
Group external sales revenue	823.3	764.3	334.2	277.2
as a % of Group sales revenue	52.6	53.2	21.3	19.3
Intra-Group sales	9.5	8.2	39.1	46.4
Sales revenue by division	**832.8**	**772.5**	**373.3**	**323.6**
EBIT	**9.8**	**-14.5**	**22.4**	**-22.8**
as a % of sales revenues of the division	1.2	-1.9	6.0	-7.0
as a % of Group external sales revenue	1.2	-1.9	6.7	-8.2
as a % of capital employed (ROCE)	9.7	-11.8	24.3	-22.1
Capital Employed (annual average)*	101.0	122.6	92.2	103.3
Assets*	433.1	445.3	195.4	221.3
Liabilities*	361.4	351.8	115.0	141.1
Capital expenditure	10.0	9.9	12.5	14.4
Deprecation/amortization on intangible and tangible assets	13.1	13.1	13.4	18.3
Payroll (annual average)	3,705	3,495	1,877	1,984

SEGMENT REPORTING BY REGION

in € millions	Germany 2006	Germany 2005	Rest of Europe 2006	Rest of Europe 2005
Group external sales revenue	543.0	487.7	380.4	340.4
as a % of Group sales revenue	34.7	34.0	24.3	23.7
Capital Employed (annual average)*	96.5	119.7	86.6	117.1
Assets*	501.4	544.1	205.4	211.5
Capital expenditure	19.3	21.5	3.5	8.1
Payroll (annual average)	4,411	4,789	1,732	1,680

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

Packaging 2006	Packaging 2005	IWKA Aktiengesellschaft, other Companies and Reconciliation/ consolidation items 2006	IWKA Aktiengesellschaft, other Companies and Reconciliation/ consolidation items 2005	Continuing Operations 2006	Continuing Operations 2005
403.8	387.8	4.7	6.6	1,566.0	1,435.9
25.8	27.0	0.3	0.5	100.0	100.0
0.1	0.1	-48.7	-54.7	–	–
403.9	**387.9**	**-44.0**	**-48.1**	**1,566.0**	**1,435.9**
17.3	**7.3**	**-15.8**	**-12.9**	**33.7**	**-42.9**
4.3	1.9	-	-	2.2	-3.0
4.3	1.9	-	-	2.2	-3.0
11.8	4.9	-	-	10.1	-11.0
146.8	149.4	-7.1	14.3	332.9	389.6
287.5	275.5	36.4	81.2	952.4	1,023.3
247.4	179.4	149.1	124.8	872.9	797.1
6.9	10.3	0.3	0.5	29.7	35.1
9.4	9.4	2.5	2.9	38.4	43.7
2,559	2,527	81	105	8,222	8,111

USA/Canada 2006	USA/Canada 2005	Other regions/ Reconciliation 2006	Other regions/ Reconciliation 2005	Continuing Operations 2006	Continuing Operations 2005
446.1	419.2	196.5	188.6	1,566.0	1,435.9
28.5	29.2	12.5	13.1	100.0	100.0
135.8	124.7	14.0	28.1	332.9	389.6
260.4	258.4	-14.8	9.3	952.4	1,023.3
5.6	5.2	1.3	0.3	29.7	35.1
1,485	1,288	594	354	8,222	8,111

GROUP NOTES FOR THE 2006 FINANCIAL YEAR

GENERAL COMMENTS

IWKA 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 2006 financial year. Furthermore, the Group consolidated financial statements also comply with all standards and pronouncements as adopted by the IASB.

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 (€ millions).

The income statement has been prepared according to the total cost method.

CONSOLIDATION, ACCOUNTING AND VALUATION POLICIES

CONSOLIDATION POLICIES

The Group consolidated financial statements are based on the financial statements of IWKA 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 intercompany profits and losses are eliminated. The deferred tax entries required in connection with the consolidation processes have been recorded.

Guarantees and warranties that IWKA 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 in the income statement.

The annual financial statements of the consolidated foreign subsidiaries are translated from their functional currency (IAS 21) into EURO. For all foreign companies, this is the respective local currency, since they operate predominantly within their currency area. Accordingly, all assets and liabilities are translated at the rate effective on the balance sheet date. Equity is 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.

ACCOUNTING AND VALUATION POLICIES

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. This was done on the basis of data from the business plan.

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 notes under item 16.

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 six years, using either the straight-line or unit-based method. Moreover, the value recognized for capitalized development costs is subject to annual 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.

Tangible assets

Tangible assets for continuing operations are recognized at acquisition or production costs less scheduled depreciation. 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:

Years	
Software and other rights	3–5
Development costs	3–6
Buildings	25–50
Property-related 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 realizable value and the value in use of the asset in question. If the reasons for an impairment recorded in prior years no longer apply, the impairment is reversed.

Government grants

In accordance with IAS 20, government grants are recognized only if there is reasonable assurance that the conditions 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.

Finance and operating leases

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 IWKA 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 IWKA Group has entered into operating leases according to IAS 17, lease or rent payments are directly recognized as expense in the income statement. Relevant total future expenses are reported in item 17.

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).

IAS 39 differentiates between the following categories of financial instruments:

- financial assets at fair value through profit or loss (held for trading)
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

Unless otherwise noted, financial instruments are recognized at fair value. The fair value of an originated financial instrument is the price that could be obtained in the market; i.e., the price at which the financial instrument could be freely traded between parties.

In the IWKA Group, participations in continuing entities that are of minor significance to the net worth, financial position and earnings of the Group are treated as financial investments and carried at amortized cost or at fair value, since specific market values are not available.

Originated financial instruments that represent liabilities are carried at amortized cost.

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.

According to IAS 39, the IWKA Group recognizes all derivative financial instruments at fair value by the settlement date accounting method. Fair values are determined with the aid of standard financial mathematical techniques (mark to market method) or quoted prices.

Gains and losses arising from a change in the fair value of derivative financial instruments that do not fall within the scope of hedge accounting are recognized immediately in the income statement, as are the changes in the value of 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 value of a recognized asset or liability. Changes in the fair value of the underlying transactions and the associated hedging instruments are immediately recognized as profit or loss.

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.

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. 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.

Long-term contracts

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

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.

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. Actuarial gains and losses are only recognized when they exceed a range of ten percent of defined benefit obligations. In that case, they are distributed over the average remaining working life of the beneficiaries. 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 interest expense respectively interest income.

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.

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.

Revenue recognition

Aside from long-term contracts (IAS 11), all other sales revenue is recognized according to the completed-contract method in adherence to 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.

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 of the respective cash-generating units to which the goodwill has been allocated. To determine the value in use, Management must estimate the future cash flows of the respective cash generating units and further select an appropriate discount rate for calculating the present value of these cash flows. For details about the carrying amounts of the assets recognized as goodwill and the performance of the impairment tests please refer to the discussion under item 16.

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 12.

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.

New Accounting Standards

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 IWKA 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 IWKA Aktiengesellschaft
IFRS 7 – Financial instruments: disclosure	**	Jan. 1, 2007	2007 Fiscal year
Amendment of IAS 1 – Presentation of financial statements: disclosures about capital	**	Jan. 1, 2007	2007 Fiscal year
IFRIC 7 – Applying the restatement approach under IAS 29 – Reporting in hyperinflationary economies	*	Mar. 1, 2006	2007 Fiscal year
IFRIC 8 – Scope of IFRS 2	*	May 1, 2006	2007 Fiscal year
IFRIC 9 – Reassessment of Embedded Derivatives	*	Jun. 1, 2006	2007 Fiscal year
IFRIC 10 – Interim Financial Reporting and Impairments	*	Nov. 1, 2006	2007 Fiscal year
IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions	*	Mar. 1, 2007	2008 Fiscal year
IFRIC 12 – Service Concession Arrangements	*	Jan. 1, 2008	2008 Fiscal year
IFRS 8 – Operating Segments	**	Jan. 1, 2009	2008 Fiscal year

* No significant effects on the Group consolidated financial statements of IWKA Aktiengesellschaft are expected.

** This is expected to result primarily in additional disclosures to the Group consolidated financial statements of IWKA Aktiengesellschaft.

IAS 19 – Employee Benefits

The Group applied the changes to IAS 19 for the first time as of January 1, 2006. In consequence, additional disclosures are made containing information with respect to the trends in connection with the assets and liabilities of defined benefit plans and the assumptions underlying the components of the expenditures for defined benefit plans. The application of the new IAS 19 only resulted in additional disclosures for the 2005 and 2006 financial years. It did not result in a change of the accounting and measurement methods being used, since Management decided not to exercise the new option for the recognition of actuarial gains and losses outside of the income statement.

IAS 21 – Effects of Changes in Foreign Exchange Rates

The Group applied the changes to IAS 21 for the first time as of January 1, 2006. As a consequence, all translation differences from a monetary item that is part of a net investment of the Group in a foreign operation are recognized in the Group financial statements as a separate component of equity. This applies independent of the currency in which the monetary item is denominated. The application of this standard had no impact on the assets, financial position and results of operation as of December 31, 2006 or as of December 31, 2005.

IAS 39 Financial Instruments: Recognition and Measurement Accounting for Financial Guarantees (published in August 2005) – Change to the scope of application of IAS 39

Financial guarantees that are not insurance contracts are initially recognized at fair value and subsequently at the higher of (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue. The application of this amendment had no effect on the Group financial statements.

IAS 39 Financial Instruments: Accounting for the hedging of forecast internal transactions (published in April 2005)

This new regulation under IAS 39 allows the currency risk of a highly probable future internal transaction to be designated in the Group financial statements as the underlying transaction of a cashflow hedge, provided that the transaction is denominated in a currency other than the functional currency of the company and that the currency risk affects the consolidated income statement. Since the Group does not engage in such transactions, this amendment to IAS 39 had no effect on the Group financial statements.

IAS 39 Financial Instruments: Fair Value Option (published in June 2005)

This amendment to IAS 39 limits the possibility of measuring every financial asset or every financial liability at fair value through profit or loss. Since the Group does not use the fair value option, this amendment to IAS 39 had no effect on the Group financial statements.

IFRIC 4 – Determining whether an arrangement contains a lease

The Group applied IFRIC 4 for the first time as of January 1, 2006. This interpretation provides guidance for determining whether an agreement contains a lease that should be accounted for according to the rules governing leases. This change to the accounting and measurement policies had no effect on the assets, financial position and results of operations of the Group as of December 31, 2006 or as of December 31, 2005.

IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Funds

The Group applied IFRIC 5 for the first time as of January 1, 2006. This interpretation provides guidance for the accounting of interests in funds established to finance the decommissioning of assets of the Company. Since the company currently has no operations in countries in which such funds exist, the application of this interpretation had no effect on the Group financial statements.

IFRIC 6 – Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment

The Group applied IFRIC 6 for the first time as of January 1, 2006. The interpretation provides guidance for the recognition of a liability for the decommissioning of waste electrical and electronic equipment in accordance with the regulations of the EU Directive on Waste Electrical and Electronic Equipment. There were no effects on the Group financial statements as of December 31, 2006.

SCOPE OF CONSOLIDATION

In addition to IWKA Aktiengesellschaft, the Group consolidated financial statements include twenty-two companies registered in Germany (prior year 36) as well as fifty companies domiciled outside of Germany (prior year 46) on whose behalf IWKA Aktiengesellschaft holds directly or indirectly the majority of the voting rights. The following changes to the scope of consolidation occurred in 2006:

FIRST-TIME CONSOLIDATIONS

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

Systems Division:

- Autoplan GmbH, Augsburg
- GECOM-Societe Groupement Etudes Carroserie Outillage Mecanique S.A., Plaisir/France
- HLS Czech s.r.o., Mlada Boleslav/Czech Republic
- HLS Autotechnik (India) Pvt. Ltd., Pune/India
- KUKA Automotive N.V., Houthalen/Belgium
- KUKA Automacao do Brasil Ltda., Sao Bernardo do Campo SP/Brazil
- KUKA Enco Werkzeugbau spol. s.r.o., Dubnica nad Vahom/Slovak Republic
- KUKA Automation Equipment (Shanghai) Co., Ltd., Shanghai/China
- KUKA Flexible Manufacturing Systems Co., Ltd., Shanghai/China
- Farman Industries S.A.S., Tours/France
- Farman Produits Standards S.A.S., Tours/France

Robotics Division:

- KUKA Roboter do Brasil Ltda., Sao Paulo/Brazil
- KUKA Roboter Schweiz AG, Dietikon/Switzerland
- KUKA Robot Automation Korea Co. Ltd., Kyunggi Kunpo Sanbon (Seoul)/Korea
- KUKA de Mexico s.de R.L.de C.V., Mexico, D.F./Mexico
- KUKA Robot Automation (Malaysia) Sdn BhD, Kuala Lumpur/Malaysia

Packaging Division:

- IWKA Packaging Systems GmbH, Kirchlengern
- Hassia Redatron Packaging Machinery Pvt. Ltd., Pune/India
- IWK Packaging Machinery Ltd., Bangkok/Thailand
- IWKA Packaging OOO, Moskau/Russia
- Tecmar SA, Mar del Plata/Argentina

IWKA Packaging Verwaltungs GmbH, Stutensee, was newly formed in 2006 and included in the scope of consolidation as part of the Packaging Technology segment.

In addition, IWKA Finance B.V., Amsterdam/The Netherlands, was included in the scope of consolidation in the Other segment.

The incorporation of the first-time consolidations had no material effect on the net worth, financial position and earnings of the Group. However, the number of employees increased by 471.

DECONSOLIDATIONS DUE TO DIVESTMENTS

As part of the concentration on the core business and the associated streamlining of the portfolio, the following consolidated companies were disposed of:

- EX-CELL-O Group
  - EX-CELL-O GmbH, Eislingen/Fils
  - EX-CELL-O Machine Tools, Inc., Sterling Heights/USA
  - EX-CELL-O Machines S.A.S., Paris/France

  By contract dated December 29, 2005, the EX-CELL-O Group was sold to the Maxcor Inc. Group, New York, effective as of December 31, 2005/January 1, 2006.
- Flexible Solution Group
  - 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

  By contract dated December 22, 2005, the Flexible Solution Group was sold to the financial investor Odewald & Compagnie effective as of December 31, 2005/January 1, 2006.
- Bopp & Reuther Sicherheits- und Regelarmaturen GmbH, Mannheim, and C.H. Zikesch Armaturentechnik GmbH, Essen

  On February 22, 2006, the companies were sold to the financial investor Tequity retroactive as of January 1, 2006.
- IWKA Informationssysteme GmbH, Stutensee

  By contract dated May 31, 2006, the company was sold to its Management effective as of the same date.
- J.W. Froehlich Group
  - J.W. Froehlich Maschinenfabrik GmbH, Leinfelden-Echterdingen
  - JW Froehlich (UK) Ltd., Laindon/Great Britain

  By contract dated June 26, 2006, the two companies were sold to J.W. Froehlich Verwaltungs-GmbH effective as of June 30, 2006.
- HASSIA-Redatron GmbH, Butzbach

  By contract dated September 8, 2006, the company was sold to PILTZ Verwaltungsgesellschaft effective as of October 1, 2006.

- GSN Maschinen-Anlagen-Service GmbH, Rottenburg
  By contract dated November 13, 2006, the company was sold to its Management effective as of November 21, 2006.
- LN Manufacturing (Pty.) Ltd., Port Elizabeth/South Africa
  On November 10, 2006, the shares in the Company were transferred back to the previous minority shareholder effective as of the same date.
- ARO Group
  - ARO Schweißmaschinen GmbH, Augsburg
  - ARO Soudometal Resistance Welding S.A.-N.V., Brüssel/Belgium
  - ARO Controls S.A.S., Chateau-du-Loir/France
  - ARO S.A.S., Chateau-du-Loir/France
  - Savair Inc., Chesterfield/USA

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

  By contract dated November 22/23, 2006, the companies were sold to the Maxcor Group effective as of December 21, 2006.

A major part of the deconsolidated entities are part of discontinued operations and, to that extent, are disclosed separately.

- Mergers within the scope of consolidation (effective as of January 1, 2006)
  - KUKA Controls GmbH, Weingarten,
  - KUKA Industrietechnik GmbH, Augsburg, and
  - AMATEC Robotics GmbH, Germering,

    were merged into KUKA Roboter GmbH, Augsburg, and
  - Josef Heinrichs Verwaltungsgesellschaft mbH, Köln, and the
  - VAG Verwaltungsgesellschaft mbH, Mannheim,

    were merged into Bopp & Reuther Anlagen-Verwaltungsgesellschaft mbH, Mannheim, while the
  - Barry Wehmiller International GmbH, Stutensee,

    was merged into IWKA Packaging GmbH, Karlsruhe.

  EX-CELL-O Canada Ltd was shut down in the year 2006.

ASSOCIATED COMPANIES

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

This applies to the PAM-PAC Machines Private Ltd., Mumbai/India. The shares in IWKA Regler und Kompensatoren Vertriebsgesellschaft m.b.H., Vienna, were sold to the majority shareholder in the 2006 financial year.

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 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 Inc. 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 11 non-consolidated or associated companies.

  The Flexible Solution 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 2005, 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 Group (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 of the Maxcor Group by contract dated November 22/23, 2006 and effective as of December 21, 2006. The companies had already been classified as part of discontinued operations as of December 31, 2005.
- J.W. Froehlich Group (as of June 25, 2006):
  - J.W. Froehlich Maschinenfabrik GmbH, Leinfelden-Echterdingen
  - JW Froehlich (UK) Ltd., Laindon/Great Britain

  The two companies were sold to J.W. Froehlich Verwaltungs- GmbH by contract dated June 26 and effective as of June 30, 2006. In the prior year, the companies had been allocated to the Systems division.
- 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. In the prior year, the company had been allocated to the Packaging division.
- 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. In the prior year, the company had been allocated to the Systems division.
- ARO Group (June 30, 2006)
  - ARO Schweißmaschinen GmbH, Augsburg
  - ARO Soudometal Resistance Welding S.A.-N.V., Brüssel/Belgium
  - ARO Controls S.A.S., Chateau-du-Loir/France
  - ARO S.A.S., Chateau-du-Loir/France
  - Savair Inc., Chesterfield/USA

  The Group was sold to Langley Holdings plc., Retford/Great Britain on December 11, 2006. In the prior year, the companies had been allocated to the Systems division.

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. Discontinued operations have been treated accordingly, with profit/loss presented in a single line in the income statement and further detailed under item 13.

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 long-term contracts, sales revenues in the amount of € 509.8 million were recognized in the reporting year for customer-specific construction contracts according to the percentage of completion method. This compares to the prior year's figure of € 590.5 million.

2 OWN COSTS CAPITALIZED

Own costs capitalized primarily represent the capitalization of development costs according to IAS 38 "Intangible Assets".

3 OTHER OPERATING INCOME

Other operating income breaks down as follows:

in € millions	2006	2005
Income from the reduction of provisions	17.8	11.6
Income from the derecognition of liabilities	4.4	7.2
Income from cost allocations	2.9	6.0
Lease and rental income	3.8	3.3
Income from foreign currency transactions	6.3	3.3
Income from the disposal of assets	2.8	1.9
Income from the reversal of bad debt allowances	1.0	2.5
Income from subsidies and grants	2.3	2.7
Income from reimbursements	0.6	1.3
Other income	9.4	6.1
	51.3	**45.9**

Income from the reversal of provisions and the derecognition of liabilities is offset in part by corresponding expenses for the recognition of provisions under other operating expenses and/or the primary cost categories.

4 COST OF MATERIALS

in € millions	2006	2005
Cost of raw materials, supplies and goods purchased	665.0	656.8
Cost of purchased services	179.4	138.6
	844.4	**795.4**

5 PERSONNEL EXPENSE AND PAYROLL

in € millions	2006	2005
Wages and salaries	382.0	378.0
Social security expenses and contributions for retirement benefits and provident funds	83.6	82.7
(of that for retirement benefits)	(4.6)	(4.3)
	465.6	**460.7**

On average for the year the IWKA Group payroll (incl. discontinued operations) was:

	Inside Germany	Outside Germany	Total 2006	Total 2005
Wage earners	1,681	1,853	3,534	4,836
Salaried employees	3,169	2,466	5,635	6,343
Trainees/apprentices	225	57	282	358
	5,075	**4,376**	**9,451**	**11,537**
(of that in newly consolidated companies)	(15)	(456)	(471)	(158)

6 TOTAL EMOLUMENTS OF EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

The members of the Executive Board are listed on page 151.

Compensation of the Executive Board

Compensation Structure

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 IWKA 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.

For three members of the Executive Board, an earlier/transitional set of rules was partially used, which guaranteed a percentage of the variable compensation component and was paid together with the monthly salary, or that will be guaranteed in the 2007 upcoming variable compensation 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 IWKA shares will be paid annually during the life of the plan for each virtual share held. No voting rights are associated with the phantom shares.

The duration of the program is three calendar years. The present program covers the period 2006 to 2008. 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 IWKA's current share price, which establishes the preliminary number of phantom shares. The Personnel Committee also establishes the EVA (Economic Value Added) of continuing operations (before taxes) at the beginning of the three-year performance period (EBIT minus minimum interest rate on capital employed (CE) x 0.11 = EVA). The cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operating budget from 2006 to 2008. 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. Payment is based on the final number of shares at the closing share price (average share price of IWKA shares between January 1, 2009 and the day of the first sitting of the Personnel Committee in 2009).

Each Executive Board member participating is obligated to apply 25 percent of the gross amount paid out to the purchase of IWKA shares at the then current market value. This share purchase serves to build up a level of holdings established at 50 percent of annual compensation in the form of IWKA shares starting in March 2009. The obligation ends with the participant's departure from the IWKA Group. In the event of termination initiated by either party, all allocated phantom shares expire.

The starting value for the first phantom share program was established at € 21.25, which represents the average price of IWKA shares between January 1 and March 1, 2006, the day of the first meeting of the Personnel Committee of the company's Supervisory Board for the year 2006.

The 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 number of phantom shares finally assigned at the end of the performance period depends on the success factor achieved. The number of preliminary phantom shares allocated at the beginning of the plan will be multiplied by this factor. At the upper limit, the number of phantom shares is double.

The objective of the program is to ensure that every member of the Executive Board is also an IWKA shareholder. It promotes share ownership among members of IWKA'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 three 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 2006

Compensation to members of the Executive Board during the 2006 business year totaled € 2,704 thousand. The amounts for the 2006 business year include fixed salary, payments in kind, guaranteed variable compensation, performance-based compensation and compensation in accordance with the phantom share program. This total includes all amounts regardless of whether they were actually paid in 2006 or an accrual formed in the annual financial statements to December 31, 2006.

The variable annual incentive payment was based on target achievements related to EBIT, capital employed and cash flow during the 2006 business year. For EBIT and capital employed, these incentive payments were based 50 percent on the division for which the Executive Board member was responsible, and 50 percent on the IWKA Group. For EBIT and capital employed, only continuing operations apply, whereas discontinued operations also apply to cash flow. In addition, EBIT, capital employed and cash flow were included in the calculation of the variable incentive at one-third each. 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 thousand in the opposite case. No payments were made according to these rules in 2006, since they were first agreed to in 2006.

Instead, in 2006, payments were made exclusively on the basis of the guaranteed variable compensation component for three members of the Executive Board.

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*	Performance-related	Provision for the phantom share program	Total
Wolfgang-Dietrich Hein (until Dec. 31, 2006)	627	267 (guaranteed)	–	894
Dr. Jürgen Koch (from April 15, 2006)	224	354 (guaranteed)**	35	613
Bernd Liepert (from April 1, 2006)	236	240**	25	501
Dieter Schäfer (until August 31, 2006)	194	40 (guaranteed)	–	234
Gerhard Wiedemann (from April 1, 2006)	237	200**	25	462

* Payments in kind comprise the use of company cars, payment of hotel costs at the headquarters of the Company and premiums for casualty and D&O insurance. The premium for D&O insurance, unlike that for casualty 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.

** Provision recognized as of December 31, 2006; payment in 2007.

Phantom share program	Allocation volume in € (Fair value at the time of the grant)	Initial share price of the IWKA shares in €	Preliminary number of phantom shares
Wolfgang-Dietrich Hein	–	–	–
Dr. Jürgen Koch	150,000	21.25	7,059
Bernd Liepert	100,000	21.25	4,706
Dieter Schäfer	–	–	–
Gerhard Wiedemann	100,000	21.25	4,706

Other compensation paid to former board members, who left the board in 2006

Mr. Schäfer, who resigned from his position on the Executive Board effective August 31, 2006, continued to receive payment of his monthly fixed salary from September to December 2006. The total gross amount was € 100,000 plus a payment in kind of € 4000. In January 2007, he received a severance payment of € 631,000. The company vehicle may continue to be used as usual until December 30, 2008, the original end date of the employment contract (taxable benefit).

Mr. Hein, whose contract ended prematurely on December 31, 2006, received a severance payment of € 620,000 in January 2007.

The aforementioned amounts paid to Mr. Schäfer and Mr. Hein are included in the total amounts paid to former members of the Executive Board shown further below.

In 2006, the following amounts were added to pension accruals:

in € thousands	Addition
Wolfgang-Dietrich Hein	–
Dr. Jürgen Koch	–
Bernd Liepert	3
Dieter Schäfer	130
Gerhard Wiedemann	59

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

Mr. Schäfer resigned from the Executive Board of the company in 2006 with a vested interest in future pension benefits.

Messrs. 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 IWKA Aktiengesellschaft on April 1, 2006. The Group's companies will be charged for the time prior to the transfer.

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

Former members of the Executive Board and their surviving dependents received € 1.9 million (prior year € 0.8 million). In addition, amounts totaling € 2.3 million were paid out that had already been recognized as provisions in the prior year. A total of € 3.4 million had already been recognized in the prior year as provisions for salary and incentive payments.

Provisions for pension obligations to former members of the Executive Board of IWKA Aktiengesellschaft and their surviving dependents total € 11.2 million (€ 10.1 million).

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 at the end of the business year.

The chair of the Supervisory Board will be paid four times that amount, and the deputy chair's compensation will be double. For chairing the Annual General Meeting, provided it 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 € 30,000. 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, para. 3 of the German Act on Company Co-determination (Mitbestimmungsgesetz).

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.

For payments due in 2006 for the 2005 business year, the previous compensation rules still applied, according to which compensation consisted of a fixed and variable component. The fixed component was € 6,000 and the variable component was based on the dividend approved by the Annual General Meeting. If a dividend was approved, € 1,000 were paid for each percentage point the total dividend distribution was greater than 4 percent of the total share capital. The fixed component was payable at the end of the business year and the variable component after adoption of the respective resolution by the annual general assembly. No variable component was paid in 2006. The chair of the Supervisory Board received four times the base compensation and the deputy chair was paid double the amount. For chairing the Annual General Meeting, provided it was not being chaired by the head of the Supervisory Board, and for membership in one or more committees that were not of an interim nature, Supervisory Board members were paid an additional sum equivalent to their annual remuneration; committee chairs were paid at most 1 1/2 times the annual compensation, even if they were members of several committees or members of another committee. The aforementioned ruling did not apply to the committee according to article 27, para. 3 of the German Act on Company Co-determination (Mitbestimmungsgesetz).

Compensation Supervisory Board (in € thousands)	Payment in 2006 (Compensation 2005)	Provisions 2006 (Compensation 2006)
Dr. Rolf Bartke, Chairman of the Supervisory Board and Chairman of the Personnel Committee (since Nov. 9, 2005)	5	165
Mirko Geiger, Deputy Chairman of the Supervisory Board	18	90
Walter Prues	12	60
Dr. Reiner Beutel (since Nov. 9, 2005)	2	60
Dr. Herbert Meyer, Chairman of the Audit Committee (since Nov. 9, 2005)	2	75
Pepyn René Dinandt (since Nov. 9, 2005)	1	30
Dr.-Ing. Helmut Leube (since Nov. 9, 2005)	1	30
Jürgen Kerner	6	30
Herbert R. Meyer	6	30
Fritz Seifert	6	30
Wilhelm Steinhart	6	30
Dr. Herbert Demel (until June 1, 2006)	1	13
Prof. Dr.-Ing. Gerd Hirzinger (since June 1, 2006)	*	18
Reinhard Engel, former Chairman of the Supervisory Board and former Chairman of the Personnel Committee (until Nov. 9, 2005)	28	
Volker Doppelfeld (until Nov. 9, 2005)	10	
Prof. Jürgen Hubbert (until Nov. 9, 2005)	5	
Dr.-Ing. Mathias Kammüller (until Nov. 9, 2005)	5	
Hans-Jörg Platzek (until Nov. 9, 2005)	5	
Dipl.-Kfm. Christian L. Vontz (until Nov. 9, 2005)	5	

* In accordance with the articles of incorporation, payment is only made in 2007.

7 DEPRECIATION AND AMORTIZATION OF TANGIBLE AND INTANGIBLE ASSETS

in € millions	2006	2005
Amortization and impairment losses of intangible assets		
Scheduled	13.0	10.2
Unscheduled	1.0	7.7
	14.0	**17.9**

In the current financial year, the recognition of an impairment loss involves goodwill in relation to DV Automation Ltd, Surrey/Great Britain. In the prior year, impairment losses on goodwill equal to a combined total of € 7.0 million were primarily recognized in the Robotics division, as well as a company in the Systems division.

in € millions	2006	2005
Depreciation/impairment losses of property, plant and equipment		
Scheduled	24.3	24.6
Unscheduled	0.1	1.2
	24.4	**25.8**

The impairment losses relate to a machine in the Robotics division that was not fully utilized. The impairment losses for the prior year are primarily related to a machinery that is no longer being used in the Systems division, as well as the write-off of test equipment at a Packaging division company.

8 OTHER OPERATING EXPENSES

Other operating expenses break down as follows:

in € millions	2006	2005
Sales expenses	72.2	69.1
Operating expenses	32.0	23.4
Administrative expenses	45.2	42.5
Lease and rental expenses	22.8	18.2
Other personnel expenses	14.0	33.3
Expenses from foreign currency transactions	6.0	3.6
Bad-debt allowances for receivables	4.7	3.6
Other taxes	4.1	4.0
Additions to provisions	1.2	43.4
Other expenses	11.6	10.7
	213.8	**251.8**

In the prior year the additions to provisions and other personnel expenses included especially restructuring and closing costs of approximately € 34 million.

9 PRO-RATA SHARE OF INCOME FOR THE PERIOD FROM ASSOCIATED COMPANIES

Participation income from equity investments breaks down into € 0.6 million (prior year € 0.4 million) from PAM-PAC Machines Private Ltd., Mumbai/India. In the prior year, this item also included an amount of € 0.5 million for the pro-rata share of income for the period of IWKA Regler und Kompensatoren Vertiebsgesellschaft m.b.H., which has since been disposed of.

10 WRITE-OFFS OF FINANCIAL ASSETS

The write-off of financial assets relates to a non-consolidated equity investment in Great Britain for which the carrying amount was written down by € 0.1 million to € 0.2 million to reflect deteriorating earnings prospects. In the prior year, the carrying amounts of two non-consolidated equity investments of KUKA Schweissanlagen GmbH and one equity investment of KUKA Roboter GmbH were written down.

11 NET INTEREST INCOME/EXPENSE

in € millions	2006	2005
Other interest and similar income	8.6	10.9
(of that related to affiliated companies)	(0.9)	(3.7)
	8.6	**10.9**
Interest and similar expenses	27.1	26.6
(of that related to affiliated companies)	(0.1)	(0.1)
Net interest income/expense	**-18.5**	**-15.7**

Other interest and similar income includes an amount of € 5.1 million (prior year € 4.7 million) for expected returns on pension plan assets. Interest and similar expenses include the interest portion of additions to the provision for pensions in the amount of € 9.5 million (prior year € 10.7 million).

12 TAXES ON INCOME / DEFERRED TAXES

Tax expense

Income tax expense breaks down by origin as follows:

in € millions	2006	2005
Current taxes	-7.0	10.8
Deferred taxes		
from temporary differences	17.5	-11.2
from loss carry-forwards	-5.6	-0.2
	4.9	**-0.6**

Tax expense calculated on the basis of net earnings before taxes in the amount of € 15.7 million (prior year € -59.6 million) and the applicable tax rate of 39.0 percent (prior year 39.0 percent) for IWKA companies in Germany are reconciled to actual tax expenses as follows:

in € millions	2006	2005
Theoretical tax expense	**6.1**	**-23.3**
Tax rate-related differences	0.5	0.9
Tax reductions due to tax-exempt income	-0.7	-1.8
Tax increases due to non-deductible expenses	0.9	3.8
Back taxes paid (+) and tax credits received (-) for prior years	-3.4	7.5
Income tax refund claims under changes to art. 37 para. 4 through 6 KStG	-8.9	0.0
Non-deductible goodwill amortization	0.3	2.4
Changes to allowance on deferred taxes	10.2	9.9
Other differences	-0.1	0.0
Taxes on income (actual tax expense)	**4.9**	**-0.6**

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 39 percent, compared to 39 percent in the prior year.

As of the prior year reporting date, potential claims for corporation tax relief in connection with corporation tax credits carry-forwards was € 11.4 million. Due to the changes to article 37 para. 4 through 6 KStG, this amount was discounted and recognized as income in the amount of € 8.9 million. On the balance sheet, this amount is recognized as a long-term tax receivable.

Deferred tax assets and 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 Dec. 31, 2006	Deferred tax assets Dec. 31, 2005	Deferred tax liabilities Dec. 31, 2006	Deferred tax liabilities Dec. 31, 2005
Non-current assets	10.6	2.4	13.9	19.3
Current assets	27.0	5.3	64.9	5.4
Provisions	35.1	50.3	2.3	1.7
Liabilities	29.9	6.4	3.4	0.4
	102.6	**64.4**	**84.5**	**26.8**
Balancing item	-73.9	-18.8	-73.9	-18.8
Valuation allowance	-16.1	-15.7	–	–
	12.6	**29.9**	**10.6**	**8.0**
Deferred taxes on temporary differences	12.6	29.9	10.6	8.0
Deferred taxes on tax loss carry-forwards	29.6	24.5	–	–
	42.2	**54.4**	**10.6**	**8.0**

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 valuation allowance for temporary valuation differences and loss carry-forwards is € -10.2 million, which compares to € -9.9 million in 2005.

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, 2006, valuation allowances were recorded in the amounts of € 16.1 million (prior year € 15.7 million) for temporary valuation differences and € 47.2 million (prior year € 40.9 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 future years as a result of taxable earnings that are deemed probable on the basis of the companies' business plans. As at December 31, 2006, the amount for tax-loss carry-forwards not yet used was € 211.9 million, compared to € 189.1 million in 2005.

Of these – largely written-down – loss carry-forwards, € 143.9 million are related to German companies and thus not subject to expiration. € 20.9 million in 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 € 30.2 million in the United Kingdom, € 11.5 million in France and € 5.4 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 IWKA Aktiengesellschaft as well as the subsidiaries in question are corporations, these differences are predominantly tax exempt under article 8b KStG upon realization and thus permanent in nature. According to IAS 12.39, no deferred tax liability should be recognized even for temporary differences, if any (e.g., those resulting from the 5% flat-rate allocation under article 8b KStG) if it is not likely, given control by the parent company, that these differences will reverse in the foreseeable future. Since no such reversal is expected, no deferred tax items had to be recognized on the balance sheet for this purpose.

Deferred tax liabilities

The amount of € 10.6 million for deferred taxes as at December 31, 2006 is related to temporary valuation differences compared to the amounts recognized in the financial statements for tax purposes. The prior year's figure was € 8.0 million.

in € millions	Status as at Jan. 1	Changes to the scope of consolidation, exchange rate differences, reclassification in Disc. Operations	Consumption	Reduction	Additions	Status as at Dec. 31
2005	22.7	-7.1	8.3	–	0.7	8.0
2006	8.0	-1.3	0.6		4.5	10.6

13 RESULT FROM DISCONTINUED OPERATIONS

The following table shows a breakdown of the current portion of earnings from discontinued operations:

in € millions	2006	2005
Sales revenue	**215.0**	**656.5**
Changes in inventories of finished goods and work in process	12.5	-11.9
Own costs capitalized	1.2	0.7
Total output	**228.7**	**645.3**
Other operating income	3.3	12.8
	232.0	**658.1**
Cost of materials	-121.9	-360.4
Personnel expense	-79.3	-202.3
Depreciation/amortization on intangible assets and tangible assets	-3.4	-16.1
Other operating expenses	-38.5	-103.4
	-243.1	-682.2
Earnings from operating activities	**-11.1**	**-24.1**
Earnings from financing activities	-1.7	-8.2
Income from ordinary activities	**-12.8**	**-32.3**
Tax expense/income	1.4	8.6
Current earnings from discontinued operations	**-11.4**	**-23.7**
Result recognized on disposal	-73.1	-72.1
Tax impact of result on disposal	4.4	7.4
Result from disposal of discontinued operations	**-68.7**	**-64.7**
Result from discontinued operations	**-80.1**	**-88.4**

Results recognized on the disposal of discontinued operations in the current year include losses on the sale of the companies of the Boehringer Group (€ 36.3 million), the ARO Group (€ 19.9 million), GSN Maschinen-Anlagen-Service GmbH (€ 3.7 million), the J.W. Froehlich Group (€ 2.4 million), HASSIA-Redatron GmbH (€ 2.4 million), the EX-CELL-O Group (€ 2.1 million) as well as the B&R Sicherheits- und Regelarmaturen Group (€ 1.2 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.

Positive purchase prices were achieved 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 (€ 1.5 million). No proceeds could be achieved for the other sales.

Results from the disposal of discontinued operations in the prior year included € 17.6 million in earnings from the sale of the RMG Group and € 2.3 million in earnings from the sale of the VAG Armaturen Group. In addition, losses were recognized on the sale of the EX-CELL-O Group (€ 67.7 million), the Flexible Solution Group (€ 1.0 million), the Bopp und Reuther Sicherheits- und Regelarmaturen Group (€ 4.4 million) as well as the Boehringer Group (€ 11.4 million) and were, in part, anticipated in accordance with IFRS 5.

14 EARNINGS PER SHARE

Undiluted earnings per share break down as follows:

in € millions	2006	2005
Net income for the year after minority interests	-69.2	-145.1
(of that discontinued operations)	(-80.1)	(-88.4)
Weighted average number of shares outstanding	26,600,000	26,600,000
Earnings per share (in €)	**-2.60**	**-5.45**
(of that discontinued operations)	(-3.01)	(-3.32)

According to IAS 33, undiluted earnings per share were calculated on the basis of Group consolidated earnings after taxes and the 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 2,646,063 shares. There was no dilution effect in the 2006 financial year.

NOTES ON THE GROUP BALANCE SHEET

15 FIXED ASSETS

Schedule of changes in fixed assets 2006

in € thousands	Acquisition/manufacturing costs							
	Status as at Jan. 1, 2006	Reclassifications as disc. operations	Exchange rate differences	Changes to scope of consolidation	Additions	Disposals	Reclassifications	Status as at Dec. 31, 2006
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. Loans to companies in which participations are held	0	0	0	0	0	0	0	0
5. 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**

ACCUMULATED DEPRECIATION									NET CARRYING AMOUNT	
Status as at Jan. 1, 2006	Reclassifica-tions as disc. operations	Exchange rate differences	Changes to scope of consolidation	Additions	Disposals	Reclassi-fications	Write-ups	Status as at Dec. 31, 2006	Status as at Dec. 31, 2006	Status as at Dec. 31, 2005
36,469	-4,009	-460	1,355	5,551	1,247	0	0	37,659	10,424	11,693
22,584	0	0	0	7,470	25,617	0	0	4,437	14,143	15,431
6,996	0	0	-996	996	0	0	0	6,996	111,162	120,349
0	0	0	0	0	0	0	0	0	161	482
66,049	**-4,009**	**-460**	**359**	**14,017**	**26,864**	**0**	**0**	**49,092**	**135,890**	**147,955**
103,957	-12,175	-1,735	201	5,749	424	-34	0	95,539	102,294	133,401
92,103	-11,279	-830	1,251	8,658	4,594	56	0	85,365	26,905	30,076
96,421	-12,318	-1,182	1,462	10,011	10,926	-22	0	83,446	22,811	27,691
0	0	0	0	0	0	0	0	0	1,507	1,007
292,481	**-35,772**	**-3,747**	**2,914**	**24,418**	**15,944**	**0**	**0**	**264,350**	**153,517**	**192,175**
12,330	-2,956	0	-3,340	115	1,292	0	0	4,857	791	10,876
217	-17	0	0	0	0	0	0	200	2,279	3,045
34	0	0	0	0	0	0	0	34	286	286
0	0	0	0	0	0	0	0	0	0	0
578	0	-56	0	1	0	0	0	523	511	583
13,159	**-2,973**	**-56**	**-3,340**	**116**	**1,292**	**0**	**0**	**5,614**	**3,867**	**14,790**
371,689	**-42,754**	**-4,263**	**-67**	**38,551**	**44,100**	**0**	**0**	**319,056**	**293,274**	**354,920**

Schedule of changes in fixed assets 2005

in € thousands	Status as at Jan. 1, 2005	Reclassifications as disc. operations	Exchange rate differences	Changes to scope of consolidation	Additions	Disposals	Reclassifications	Status as at Dec. 31, 2005
	ACQUISITION/MANUFACTURING COSTS							
I. Intangible assets								
1. Rights and similar assets	57,482	-13,821	844	0	4,100	1,813	1,370	48,162
2. Self-developed software and other development costs	32,538	-2,104	0	0	7,581	0	0	38,015
3. Goodwill	127,445	-2,502	0	996	1,406	0	0	127,345
4. Advances paid	945	-137	8	0	422	130	-626	482
	218,410	**-18,564**	**852**	**996**	**13,509**	**1,943**	**744**	**214,004**
II. Tangible assets								
1. Land, similar rights and buildings including buildings on land owned by third parties	295,708	-66,345	7,555	776	3,788	5,450	1,326	237,358
2. Technical plant and equipment	225,635	-108,755	2,871	780	8,201	6,309	-244	122,179
3. Other equipment, factory and office equipment	166,157	-47,619	2,940	527	12,823	10,580	-136	124,112
4. Advances paid and construction in progress	3,775	-2,195	-8	0	1,125	0	-1,690	1,007
	691,275	**-224,914**	**13,358**	**2,083**	**25,937**	**22,339**	**-744**	**484,656**
III. Financial investments								
1. Participations in affiliated companies	25,024	-3,684	1	0	1,865	0	0	23,206
2. Participations in associated companies	5,159	-2,275	0	0	853	475	0	3,262
3. Other participations	1,455	-162	0	-892	0	81	0	320
4. Loans to companies in which participations are held	131	-131	0	0	0	0	0	0
5. Other loans	912	-53	82	0	270	50	0	1,161
	32,681	**-6,305**	**83**	**-892**	**2,988**	**606**	**0**	**27,949**
	942,366	**-249,783**	**14,293**	**2,187**	**42,434**	**24,888**	**0**	**726,609**

ACCUMULATED DEPRECIATION									NET CARRYING AMOUNT	
Status as at Jan. 1, 2005	Reclassifications as disc. operations	Exchange rate differences	Changes to scope of consolidation	Additions	Disposals	Reclassifications	Write-ups	Status as at Dec. 31, 2005	Status as at Dec. 31, 2005	Status as at Dec. 31, 2004
41,684	-10,508	618	0	5,715	1,659	619	0	36,469	11,693	15,798
16,693	-43	0	0	5,934	0	0	0	22,584	15,431	15,845
0	0	30	0	6,966	0	0	0	6,996	120,349	127,445
0	0	0	0	0	0	0	0	0	482	945
58,377	**-10,551**	**648**	**0**	**18,615**	**1,659**	**619**	**0**	**66,049**	**147,955**	**160,033**
134,393	-36,308	2,352	98	6,700	3,296	18	0	103,957	133,401	161,315
169,392	-84,768	2,194	455	10,008	4,774	-404	0	92,103	30,076	56,243
132,174	-40,367	2,303	323	12,224	10,003	-233	0	96,421	27,691	33,983
0	0	0	0	0	0	0	0	0	1,007	3,775
435,959	**-161,443**	**6,849**	**876**	**28,932**	**18,073**	**-619**	**0**	**292,481**	**192,175**	**255,316**
11,945	-1,689	0	0	2,074	0	0	0	12,330	10,876	13,079
2,160	-1,943	0	0	0	0	0	0	217	3,045	2,999
114	-2	0	0	3	81	0	0	34	286	1,341
0	0	0	0	0	0	0	0	0	0	131
541	-44	81	0	0	0	0	0	578	583	371
14,760	**-3,678**	**81**	**0**	**2,077**	**81**	**0**	**0**	**13,159**	**14,790**	**17,921**
509,096	**-175,672**	**7,578**	**876**	**49,624**	**19,813**	**0**	**0**	**371,689**	**354,920**	**433,270**

16 INTANGIBLE ASSETS

Changes to the individual items under intangible assets are disclosed in the schedule of movements in fixed assets.

Goodwill

Recognized goodwill in the amount of € 111.2 million compares to 120.3 million a year earlier and breaks down as follows:

Company/in € millions	Dec. 31, 2006	Dec. 31, 2005
KUKA Flexible Production Systems Corp., Sterling Heights/USA	33.4	33.4
Packaging Technologies Inc., Davenport/USA	24.1	24.1
ERCA Formseal S.A., Les Ulis/France	11.5	11.5
BWI plc. Altrincham/Great Britain	8.1	8.1
(of that Aerofill Division)	(5.3)	(5.3)
(of that Manesty Division)	(2.8)	(2.8)
Benz & Hilgers GmbH, Neuss	8.3	8.3
Others less than € 8 million	25.8	34.9
	111.2	**120.3**

As a rule, the cash generating units that constitute the basis for the goodwill impairment tests correspond to legal entities. As an exception to this, the cash generating unit for KUKA Flexible Production Systems is the KUKA Schweissanlagen Group. For BWI plc, the cash generating units have been formed on the basis of the business divisions.

In the reporting period, goodwill in the amount of € 0.6 million was recognized on the initial consolidation of Autoplan GmbH, Augsburg. The acquisition of the Omnimove business from IC Industrial Consulting GmbH, Salzgitter, as part of an asset deal gave rise to goodwill in the amount of € 0.4 million in the Robotics division.

The following table shows the discount rates for WACC before taxes used in the impairment tests performed in the 2006 financial year:

in %	2006	2005
Planning period	2007–2009	2006–2008
Systems technology	12.8	10.2
Robot technology	12.9	10.2
Packaging technology	11.0	10.2

In this context, the cost of equity capital was determined on the basis of segment-specific peer groups. A growth discount of 1 percent (prior year 0.5 percent) was applied as perpetuity. For the sake of simplification, the perpetuity calculation assumes that investments equal amortization and depreciation and that working capital remains unchanged.

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

Due to the shift and partial reduction of the activities of DVA (in the Systems division) a complete write-off of goodwill in the amount of € 1.0 million was required in the 2006 financial year.

In the prior year, a write-down of € 6 million was applied to goodwill in the Robotics division and a write-down of € 1 million was taken on goodwill at LN Manufacturing (Pty.) Ltd. (Systems division).

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, IWKA 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.

Development costs with a total carrying value of € 14.1 million from the years 2000 to 2006 compare to € 15.4 million the year prior and have been capitalized according to IAS 38. In the 2006 financial year, amortization exceeded additions by € 1.3 million. Net additions for 2005 totaled € 1.7 million. Amortization is applied using a unit-based or straight-line method over the respective expected useful life of five years or less.

The development costs of several companies were capitalized within the IWKA Group. KUKA Roboter GmbH is working on several projects involving performance and control software for robots as well as on applications in the medical and packaging technology segment. IWK Verpackungstechnik GmbH has continued to pursue the development of new blister packaging machines and tube fillers. GASTI Verpackungsmaschinen GmbH has completed the development of a new series of cup filling and sealing machines and is amortizing the development over its useful life.

Total expenditures for research and development for the reporting period were € 38.1 million compared to € 43.5 million in 2005.

17 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 in the schedule of changes in fixed assets.

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 € 0.3 million the year prior.

Impairment charges on tangible assets were recorded by € 0.1 million on the basis of IAS 36. In 2005 the amount was € 1.2 million.

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

in € millions	Dec. 31, 2006 Net carrying amount	Dec. 31, 2005 Net carrying amount
Intangible assets	0.0	0.1
Land and buildings	1.3	11.7
Technical plant and equipment	0.1	0.2
	1.4	**12.0**

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, the interest component 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	up to one year	Dec. 31, 2006 Total	Dec. 31, 2005 Total
Minimum lease payments	0.2	0.2	13.6
Amount discounted	0.0	0.0	-3.5
Present value	**0.2**	**0.2**	**10.1**

Commitments from leases and rental agreements

in € millions	Dec. 31, 2006	Dec. 31, 2005
up to one year	20.6	12.8
between one and five years	60.0	42.7
more than five years	67.4	19.5
	148.0	**75.0**

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

18 PARTICIPATIONS IN ASSOCIATED COMPANIES AND OTHER FINANCIAL INVESTMENTS

The breakdown of the items under financial non-current assets is shown in the schedule of movements in fixed assets.

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

in € millions	Dec. 31, 2006	Dec. 31, 2005
Total balance sheet assets	9.6	31.2
Total liabilities	3.4	13.9
Total sales revenue	16.9	52.6
Profit/loss for the period	1.1	3.3

The carrying amount as of December 31, 2005 of the sold shares in IWKA Regler u. Kompensatoren Vertriebsgesellschaft m.b.H., Vienna, was € 1.3 million.

19 INVENTORIES

in € millions	Dec. 31, 2006	Dec. 31, 2005
Raw materials and supplies	61.2	69.5
Work in process	115.6	143.4
Finished goods	27.6	36.2
Advances paid	26.7	28.9
	231.1	**278.0**

Total inventories disclosed on the balance sheet in the amount of € 231.1 million compare with € 278.0 million in 2005 and have been recognized at net realizable value. The write-down, relative to gross value, was € 74.7 million versus € 70.2 million the year prior.

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

20 RECEIVABLES AND OTHER ASSETS

	Dec. 31, 2006		Dec. 31, 2005	
in € millions	Total	of that more than one year	Total	of that more than one year
Trade receivables	252.5	1.6	292.6	1.6
Receivables from long-term contracts	116.8	0.0	116.5	0.0
Receivables from affiliated companies	3.6	0.0	17.5	0.0
Receivables from companies, in which participations are held	0.0	0.0	0.1	0.0
Other receivables and deferred charges	41.4	5.7	31.1	8.9
	414.3	**7.3**	**457.8**	**10.5**

Other receivables include tax refund claims in the amount of € 8.5 million versus 10.8 million in 2005, as well as the fair value of foreign currency and interest rate contracts totaling € 1.5 million, which compares to € 1.0 million for the year prior.

Derivative financial instruments are recognized at fair value according to IAS 39.

Changes in the value of the latter are offset by opposite changes in the value of the underlying transactions.

The write-downs included in the overall amount for receivables total € 14.0 million (prior year € 12.1 million).

21 LONG-TERM CONTRACTS

For receivables from long-term contracts, advances received have been offset against costs incurred in connection with the contract, including contributions to earnings on a per contract basis. As at the balance sheet date, costs incurred and earnings recognized in connection with long-term contracts in the amount of € 489.7 million were offset against advances received in the amount of € 448.0 million. In 2005 these figures were € 352.0 million and € 324.0 million respectively. This resulted in receivables of € 116.8 million compared to € 116.5 million the year prior and liabilities of € 75.1 million versus € 88.5 million a year earlier. Regarding the liabilities arising from long-term contracts advances received exceed the costs incurred and the earnings portion.

22 CASH AND CASH EQUIVALENTS

In addition to cash with banks, this item includes checks and cash balances.

The IWKA 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.

23 ASSETS HELD FOR SALE / DISCONTINUED OPERATIONS

The items related to discontinued operations on both the asset side and the liability side of the Group balance sheet break down as follows:

in € millions	Dec. 31, 2006	Dec. 31, 2005
Goodwill	0.0	1.8
Other non-current assets	0.0	28.4
Inventories	0.0	81.4
Other current assets and deferred taxes	0.0	170.7
Cash and cash equivalents	0.0	7.4
Assets of discontinued operations	**0.0**	**289.7**
Pension provisions and similar obligations	0.0	39.4
Other provisions and accruals and deferred taxes	0.0	35.1
Financial debt	0.0	21.2
Other liabilities	0.0	96.1
Liabilities from discontinued operations	**0.0**	**191.8**

As of the balance sheet date, the item only included assets held for sale. This involves a property and building of B&R Anlagenverwaltungs GmbH, Mannheim, with a net carrying amount of € 6.5 million.

24 EQUITY / TREASURY SHARES / MINORITY INTERESTS

Changes to equity, including changes without effect on profit or loss are disclosed in the development of Group equity on page 94.

Treasury shares

The Executive Board of IWKA Aktiengesellschaft was authorized by resolution of the Annual General Meeting of June 1, 2006 to buy back own shares up to a volume of ten percent of share capital through November 30, 2007.

Moreover, 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 fiscal year.

In 2006, the company purchased own shares for IWKA employees as part of an employee stock ownership program (article 71, para. 1 no. 2 of the AktG (German Corporation Act)) and resold these to the employees. A total of 26,972 shares of common stock were purchased and resold. A presentation of the employee stock ownership program is included in the Management Report.

25 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 IWKA 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 convertible bonds and/or warrants 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, IWKA Aktiengesellschaft partially exercised the respective authorization to issue options and or convertible bonds by a private placing of a convertible bond issue guaranteed by IWKA Aktiengesellschaft with a nominal value of € 69,000,000 through its 100-percent-owned Dutch subsidiary IWKA 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 IWKA Aktiengesellschaft issued to the bearer. Capital is thereby conditionally increased 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 IWKA 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 of convertible bonds and/or warrants with conversion or option rights issued by IWKA Aktiengesellschaft or its companies in accordance with the resolution of the annual general meeting on July 4, 2003, subscription rights to new shares, in the quantities to which they would be entitled by exercising their conversion or option rights (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 in total of the 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 interests in companies (article 4, paragraph 5 of the bylaws).

26 CAPITAL RESERVE

To offset the net loss for the year, € 80,932 thousand were withdrawn from the capital reserve in the fiscal year. In 2005 the amount was € 33,789 thousand. The equity component of the convertible bond increased the capital reserve by € 11,318 thousand.

27 REVENUE RESERVES

The revenue reserves comprise:

- The accumulated retained earnings of IWKA Aktiengesellschaft and its consolidated subsidiaries.
- Consolidation and currency translation effects
- Measurement of financial derivatives (interest rate swaps, etc.) without effect on profit or loss

28 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.

29 MATURITY OF LIABILITIES

2006

in € millions	remaining maturity up to 1 year	between 1 and 5 years	more than 5 years	Dec. 31, 2006 Total
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 long-term 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**

2005

in € millions	remaining maturity up to 1 year	between 1 and 5 years	more than 5 years	Dec. 31, 2005 Total
Liabilities due to banks	205.7	40.1	0.9	246.7
Liabilities similar to bonds	21.8	12.0	0.0	33.8
Financial liabilities	**227.5**	**52.1**	**0.9**	**280.5**
Liabilities from long-term contracts	88.5	0.0	0.0	88.5
Advances received	107.4	0.0	0.0	107.4
Trade payables	172.0	0.0	0.0	172.0
Accounts payable to affiliated companies	3.0	0.0	0.0	3.0
Other liabilities				
Liabilities to companies in which participations are held	0.3	0.0	0.0	0.3
Notes payable	7.7	0.0	0.0	7.7
Other liabilities and deferred income	118.5	6.5	5.6	130.6
(of that for taxes)	(19.7)	(0.0)	(0.0)	(19.7)
(of that for social security payments)	(12.6)	(0.0)	(0.0)	(12.6)
(of that liabilities relating to personnel)	(72.9)	(0.0)	(0.0)	(72.9)
(of that for leases)	(1.5)	(4.3)	(4.3)	(10.1)
(of that fair values of foreign exchange and interest rate contracts)	(2.5)	(0.5)	(0.0)	(3.0)
	724.9	**58.6**	**6.5**	**790.0**

Liabilities for 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.

30 FINANCIAL LIABILITIES / FINANCING

Collateral totaling € 0.4 million has been furnished in the form of real estate liens for liabilities of IWKA Group due to banks. This figure was € 1.4 million in 2005.

The following tables show major elements of the contractual basis for liabilities to financial institutions existing at the financial statement reporting date for the 2006 financial year:

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

Fixed interest rate agreements 2006

Financial instrument	Net carrying amount in € millions	Fair value 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.

Fixed interest rate agreements 2005

Financial instrument	Net carrying amount in € millions	Fair value in € millions	Original maturity	Notional interest rate
Loan against promissory notes	20.0	21.2	2000 – 2006	6.30% p.a.
Loan against promissory notes	12.0	13.0	2006 – 2007	6.10% p.a.
Accrued interest	1.7	–	–	–
	33.7	**34.2**		
Loan	35.8	36.2	1999 – 2006	4.61% p.a.
Loan	7.0	7.1	2001 – 2006	5.00% p.a.
Loan	5.0	5.2	2002 – 2007	5.81% p.a.
Loan	5.0	5.2	2003 – 2008	4.61% p.a.
Loan	15.0	16.2	2004 – 2009	4.95% p.a.
Loan	6.0	6.2	2005 – 2009	3.99% p.a.
Loan	6.0	6.1	2005 – 2010	3.50% p.a.
Accrued interest	0.5	–	–	–
	80.3	**82.2**		
	114.0	**116.4**		

The market value of fixed-interest loans was determined by the mark-to-market method.

Fixed interest rate agreements with an original maturity ≥ one year, repayment amount < 5 million for 2006

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

Fixed interest rate agreements with an original maturity ≥ one year, repayment amount < 5 million for 2005

Financial instrument	Net carrying amount (in € millions)		avg. Original maturity	avg. Notional interest rate
Loan	6.6		6.8 years	4.24% p. a.

Floating-rate liabilities due to banks 2006

Financial instrument/in millions	Net carrying amount (in millions)				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	–	other	0.8	EUR	13.21% p. a.		
			50.2	**EUR**			

Floating-rate liabilities due to banks 2005

Financial instrument/in millions	Net carrying amount (in millions)				avg. Notional interest rate	of that hedged by payer swap (in millions)	year of latest maturity
Liabilities due to banks	22.5	EUR	22.5	EUR	3.98% p. a.	15.0 EUR	2009
Liabilities due to banks	128.9	USD	109.3	EUR	5.45% p. a.	45.0 USD	2010
Liabilities due to banks	16.0	GBP	23.3	EUR	5.51% p. a.		
Liabilities due to banks	–	other	4.8	EUR	6.84% p. a.		
			159.9	**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 €.

The notional interest rate coincides with the effective interest rate in all cases with the exception of the convertible bond.

Convertible bond

To broaden its long-term financing base, IWKA, effective May 9, 2006, placed a convertible bond with a face value of € 69 million, collateralized by IWKA Aktiengesellschaft, via its wholly owned Netherlands subsidiary IWKA Finance B.V. 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 IWKA Aktiengesellschaft. The conversion price is € 26.07648 per share. The conversion right can be exercised until the maturity date of the bond. The bond carries an interest coupon of 3.75% p.a. Interest is paid on November 9 of each year, for the first time on November 9, 2006.

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 November 9, 2009, IWKA Aktiengesellschaft may call the convertible bond at the face amount, also plus accrued interest, but may do so only if the average price of the IWKA stock at that time is at least 30% higher than the conversion price.

The convertible bond is listed on the Luxembourg exchange (ISIN DE000A0GRMC0/WKN A0GRMC). The market values of the debt and equity components of the convertible bond were determined as of the issue date. 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%). Including the issuing costs allocated proportionately to the equity and debt components, the effective interest rate rises to 8.25%. 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 2006 financial year, interest expense of € 2.9 million was reported in the financial statements in connection with the convertible bond.

Syndicated loan

IWKA Aktiengesellschaft has closed a syndicated loan (Clubdeal) for € 475 million with a select group of banks. The lead banks of the syndicate are Landesbank Baden-Württemberg, Dresdner Bank AG and HypoVereinsbank AG. They are joined by Bayerische Landesbank, the Royal Bank of Scotland plc and Deutsche Bank AG. The syndicated loan agreement was executed effective January 31, 2007.

The loan has a term of 3 years with the possibility of an extension by one or two years. The syndicated loan takes the place of the bilateral bank arrangements that previously served as the basis for the Group's financing, thereby establishing it on a secure basis.

The syndicated loan comprises credit assurances from the banks in the sum of € 475 million; this includes € 150 million for a loan (semi-annual amortization starting at the end of 2007), € 115 million for a revolving stand-by line of credit (of that up to € 40 million for guarantees) as well as € 210 million for guarantees. The latter are particularly important for IWKA in connection with the financing of plant construction deals.

The availability as well as the terms and conditions for this financing are tied to performance indicators (Covenants) to be determined quarterly.

Credit lines from insurance companies

In addition to the syndicated loan, insurance companies have promised guarantee lines worth € 50 million.

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. As of the reference date, the program had been used for an amount of € 11.7 million. The adequate credit worthiness of the receivables sold is guaranteed by a default guarantee from a credit insurer.

31 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 in the personnel area for 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.

32 PENSION PROVISIONS AND SIMILAR OBLIGATIONS

in € millions	Status as at Jan. 1	Changes to the scope of consolidation, exchange rate differences, reclassification in disc. operations	Consumption	Reduction	Additions	Status as at Dec. 31
2005	179.0	-38.1	11.2	0.0	8.1	137.8
2006	137.8	-2.3	10.0	0.0	6.6	132.1

Pension provisions include liabilities from vested benefits and from current benefits paid to vested and former employees of the IWKA 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 € 6.8 million compared to € 7.5 million in 2005. Liabilities for health insurance coverage in the current financial year generated expenses of € 0.3 million compared to expenses of € 0.2 million for the year prior. In this context, a long-term increase in the cost of medical insurance of 6.2 percent p.a. is taken into account compared to 8.6 percent in 2005.

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 € 21.4 million compare to € 23.1 million in 2005 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.

Funded benefit plans are in place in Great Britain and 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 (for benefit commitments in Germany according to the 2005 G Heubeck actuarial tables), this involves assumptions detailed below, which are dependent on the economic environment for each country in question:

	Germany		USA		Others	
Dec. 31	2006	2005	2006	2005	2006	2005
Discount factor	4.25%	4.00%	5.70%	5.53%	5.20%	4.75%
Expected rate of return on assets	–	–	7.37%	8.08%	6.70%	6.70%
Wage dynamics	0–2.5%	0–2.5%	3.50%	4.50%	N/A	N/A
Pension dynamics	1.5–2.5%	1.5–2.5%	N/A	N/A	3.00%	2.80%

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-unit-credit method are reduced by an amount equal to the fund assets. If the fund assets exceed the defined benefit obligations, an asset is recognized according to IAS 19 and disclosed under other assets. To the extent that the fund assets do not cover the commitment, the net obligation is recognized as a liability under pension provisions.

Increases or decreases in either the present value of the defined benefit obligations or the fair value of the plan assets may give rise to actuarial gains or losses. This may be caused by factors such as changes in actuarial parameters, changes to estimates for the risk profile of the pension obligations and differences between the actual and expected returns on the fund assets. Evaluating the need to recognize actuarial gains or losses on the balance sheet is done on the basis of the individual plans according to the corridor method. Under this method, the portions of actuarial gains and losses not yet recognized that exceed ten percent of the higher value of plan assets or defined benefit obligations is recognized according to the expected average remaining working lives of the current employees and distributed accordingly.

Funding status of defined benefit pension obligations

in € millions	Germany 2006	Germany 2005	USA 2006	USA 2005	Others 2006	Others 2005	Total 2006	Total 2005
Present value of pension benefits covered by provisions	104.8	111.7	5.7	6.5	1.9	3.3	112.4	121.5
Present value of funded pension benefits	–	–	32.0	35.6	68.8	65.3	100.8	100.9
Defined benefit obligation	104.8	111.7	37.7	42.1	70.7	68.6	213.2	222.4
Fair value of plan assets	–	–	29.3	31.4	45.6	41.1	74.9	72.5
Net obligation	**104.8**	**111.7**	**8.4**	**10.7**	**25.1**	**27.5**	**138.3**	**149.9**
Overfunding, plan assets (-)	–	–	–	–	–	–	–	–
Adjustment amount due to actuarial gains (+) and losses (-)	-6.1	-10.5	-5.5	-7.4	1.4	1.1	-10.2	-16.8
Unrecognized past service costs	–	–	2.0	2.5	–	–	2.0	2.5
Balance sheet amount as of Dec. 31	**98.7**	**101.2**	**4.9**	**5.8**	**26.5**	**28.6**	**130.1**	**135.6**
of that pension provisions	98.7	101.2	6.9	8.0	26.5	28.6	132.1	137.8
of that asset (-)	–	–	-2.0	-2.2	–	–	-2.0	-2.2

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. This results in a lower recognized amount for the not yet settled actuarial losses in the amount of € 10.2 million (December 31, 2005: € 16.8 million) but has not direct effect on the amount recognized as provision for pensions as of the reference date. Details of the changes in defined benefit obligations for the financial year are shown in the following summary:

Changes in defined benefit obligations in the financial year:

in € millions	Germany 2006	Germany 2005	USA 2006	USA 2005	Others 2006	Others 2005	Total 2006	Total 2005
Net obligations as of Jan. 1	111.7	140.3	42.1	34.2	68.6	68.3	222.4	242.8
of which financed by fund	–	–	35.6	29.7	65.3	64.8	100.9	94.5
of which financed by provisions	111.7	140.3	6.5	4.5	3.3	3.5	121.5	148.3
Current service costs	1.1	0.9	0.7	0.7	0.4	0.5	2.2	2.1
Interest expense	4.3	5.1	2.1	2.1	3.1	3.5	9.5	10.7
Benefits paid	-7.1	-7.2	-2.5	-2.6	-2.0	-2.1	-11.6	-11.9
Actuarial gains/losses	-3.8	11.8	-0.3	2.2	0.8	-3.2	-3.3	10.8
Foreign exchange translation	–	–	-4.5	5.6	1.3	1.9	-3.2	7.5
Other changes	-0.7	–	0.1	-0.1	–	0.2	-0.6	0.1
Net obligations as of Dec. 31	**104.8**	**111.7**	**37.7**	**42.1**	**70.7**	**68.6**	**213.2**	**222.4**
of which financed by fund	–	–	32.0	35.6	68.8	65.3	100.8	100.9
of which financed by provisions	104.8	111.7	5.7	6.5	1.9	3.3	112.4	121.5

Current service costs and interest expenses totaling € 11.7 million are approximately balanced by payments during the financial year in the amount of € 11.6 million. Consequently the decrease in defined benefit obligations is largely attributable to the actuarial gains of € 3.3 million recorded in the financial year, the decrease equal to € 2.2 million due to changes in the scope of consolidation and a reduction in the amount of € 3.2 million related to exchange rate movements. The latter is attributable to the year-on-year decline in the strength of the US dollar.

Pension expense for defined benefit plans

in € millions	Germany 2006	Germany 2005	USA 2006	USA 2005	Others 2006	Others 2005	Total 2006	Total 2005
Current service costs	1.1	0.9	0.7	0.7	0.4	0.5	2.2	2.1
Interest expense	4.3	5.1	2.1	2.1	3.1	3.5	9.5	10.7
Expected return on plan assets	–	–	-2.3	-2.3	-2.8	-2.4	-5.1	-4.7
Actuarial gains/losses	0.2	0.1	0.3	0.1	–	–	0.5	0.2
Plan curtailments	–	–	–	–	–	–	–	–
Past service costs	–	–	-0.2	-0.2	–	–	-0.2	-0.2
Pension expense for defined benefit commitments	5.6	6.1	0.6	0.4	0.7	1.6	6.9	8.1

The lower amount recognized as pension expenses for defined benefit plans of € 6.9 million compared to € 8.1 million in the prior year is mainly the result of lower interest expenses and, to a lesser part, to higher expected returns on plan assets. The lower interest expense is a consequence of the lower discount rates applied as of December 31, 2005 compared to the corresponding discount rates as of December 31, 2004.

Changes to plan assets in the financial year

in € millions	USA 2006	USA 2005	Others 2006	Others 2005	Total 2006	Total 2005
Fair value as of Jan. 1	31.4	26.9	41.1	33.4	72.5	60.3
Expected returns	2.3	2.3	2.8	2.4	5.1	4.7
Actuarial gains/losses	0.6	-0.5	0.7	3.1	1.3	2.6
Currency translations	-3.4	4.3	0.9	1.0	-2.5	5.3
Employer contributions	0.6	0.7	2.0	3.0	2.6	3.7
Benefits paid	-2.2	-2.3	-1.9	-1.8	-4.1	-4.1
Fair value as of Dec. 31	29.3	31.4	45.6	41.1	74.9	72.5

The actual return on assets from the external pension funds was € 6.4 million (prior year € 7.3 million). Due to the noticeably weaker US dollar as compared to the prior year, the currency translation had a negative impact of € 2.5 million on the changes in plan assets. However, this translation effect must be viewed in combination with the offsetting positive effect of a € 3.2 million reduction in defined benefit obligations.

As of December 31, 2006, the plan assets broke down into shares in stock funds equal to 66.7 percent, holdings of bonds and separate assets with a corresponding investment focus equal to another 26.7 percent and shares in a separate real estate fund equal to 6.3 percent. The remaining 0.3 percent of plan assets is held in cash or cash-equivalents.

33 OTHER PROVISIONS

in € millions	Status as at Jan. 1, 2006	Changes to the scope of consolidation, exchange rate differences, reclassification in disc. operations	Consumption	Reduction	Additions	Status as at Dec. 31, 2006
Warranty commitments and risks from pending transactions	74.6	-4.4	37.1	8.0	27.1	52.2
Liabilities arising from restructurings	26.0	-1.1	15.8	4.3	6.2	11.0
Other provisions	109.2	-2.8	78.9	5.5	42.1	64.1
	209.8	**-8.3**	**131.8**	**17.8**	**75.4**	**127.3**

Other provisions and accruals for warranty commitments and risks from pending transactions include primarily provisions for impending losses from pending transactions and warranty risk.

The obligations arising from restructuring include severance payments and restructuring expenses at several legal entities.

Other provisions and accruals primarily cover running costs for invoiced orders.

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 IWKA Group and comply with the IFRS 5 criteria with regard to accounting for discontinued operations. In the reporting years 2005 and 2006, the IWKA Group was engaged in three major business fields: systems, robotics and packaging. IWKA Aktiengesellschaft and additional participations that are supplementary to the operating activities of the IWKA group have been aggregated in a separate column. In addition, this column also includes the cross-divisional major consolidation and reconciliation items. The attribution of the Group companies to the business fields is shown in the schedule of Shareholdings.

The breakdown of sales revenue by region is based on customer location. Capital employed and investments are calculated by company head office.

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.
  In principle, 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 good will impairment charges, if any – before result from financing activities.
- ROCE (return on capital employed) is the ratio of operating earnings (EBIT) to net assets employed in company operations (capital employed). The calculation of ROCE uses an average figure for capital employed.
- Capital employed comprises:
  Intangible assets and tangible assets
  Working capital:
  - inventories,
  - 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
- 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 provisions for restructuring which had been excluded for the capital employed calculation.
- 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 IWKA 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. This also includes cash and cash equivalents from discontinued operations. None of the cash and cash equivalents is subject to restraints on disposal.

Cash flow from operating activities is derived indirectly from the earnings after taxes on income.

Under the indirect method, the relevant changes to the balance sheet items associated with operating activities are adjusted for currency translation effects and changes to the scope of consolidation.

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

The proceeds from the sale of companies are net of cash and cash equivalents in the amount of € 16.2 million. Cash inflow from operating activities also includes the following items: Interest paid in the amount of € 17.2 million (prior year € 15.5 million), interest received in the amount of € 2.4 million (prior year € 5.1 million), dividends received in the amount of € 0 million (prior year € 1.5 million) and income taxes paid in the amount of € 0.3 million (prior year € 26.3 million).

FINANCIAL INSTRUMENTS

In the scope of its operating activities, the IWKA Group is exposed to interest rate and foreign exchange risks in particular. It is the aim of the risk management system to hedge against negative consequences for the financial strength of the Group. Standard market instruments such as interest rate and foreign exchange transactions are used for this purpose. The execution of these transactions is regulated by uniform Group policies and procedures, with strict separation of the trading, settlement and control functions.

Because of its international orientation, IWKA is exposed to foreign exchange rate risks with regard to various foreign currencies. The exchange rate hedging strategy therefore aims to generally hedge foreign exchange as at the origination date of a receivable/payable denominated in foreign currency by entering into derivative financial instrument contracts with banks or by netting opposite cash flows. Forecast transactions can also be hedged items, for which hedging instruments with a short maturity (< 1 year) are used to hedge against the associated exchange rate risk. Cash flow and fair value hedges are recognized subject to meeting the strict criteria for documentation and effectiveness under hedge accounting. In addition, firm commitments were recognized in profit or loss according to fair value hedge accounting. Their positive fair values totaled € 0.7 million (prior year € 0.5 million) or a negative € -0.5 million (prior year € -0.1 million).

	NOTIONAL AMOUNTS		FAIR VALUE				
in € millions	Dec. 31, 2006	Dec. 31, 2005	Maturity up to 1 year	Maturity > 1 year	Maturity > 5 year	Total Dec. 31, 2006	Total Dec. 31, 2005
Forward foreign exchange contracts	106.8	239.4	0.1	0.0	0.0	0.1	-4.7
Interest rate swap contracts	0.0	59.1	0.0	0.0	0.0	0.0	-0.2

The notional amount corresponds to the amount of the underlying hedged items. The fair values given represent the price at which an unrelated third party would assume the rights and obligations arising from the derivative financial instruments.

The maximum default risk to be recognized for derivative financial instruments is the sum of their positive fair values. In the 2006 financial year, the sum of the positive market values of derivative financial instruments was € 0.8 million (prior year € 1.4 million) and the sum of negative market values was € 0.7 million (prior year € 6.3 million). A default can occur when individual transaction counterparties are not able to meet their contractual obligations and the IWKA Group thereby suffers a financial loss. To reduce the default risk, derivative transactions are entered into with various counterparties and only with those of sound creditworthiness.

CONTINGENT LIABILITIES

The liabilities under guarantee agreements arise almost exclusively from the collateralization of bank loans and lease agreements.

in € millions	2006	2005
Discounted notes	1.0	0.8
Liabilities from guarantees	12.7	6.4
Liabilities from warranty agreements	20.5	2.6
Other commitments	15.2	14.2
(of that purchase commitments)	(11.8)	(6.1)
(of that other financial commitments)	(3.4)	(8.1)

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 DaimlerChrysler under a pay-on-production model. As part of this project the company has been supplying bodies in white to Chrysler since July 2006. To finance this project, a 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 up until now is equal to a total amount of USD 121.3 million. A major portion of the equipment was supplied by KUKA Flexible Production Systems Corp., Sterling Heights/ USA. The operating lease will start in early 2007.

LEGAL DISPUTES

IWKA 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 preceding two 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 IWKA Group include mainly members of the Executive and Supervisory Boards as well as non-consolidated and associated IWKA Group companies.

The following table summarizes the product- and services-related business activities transacted between companies included in the IWKA Group consolidation and related companies:

in € millions	Interest in %	Products and services provided by the IWKA Group to related companies 2006	2005	Products and services provided by related companies to the IWKA Group 2006	2005
IWK Machines D'Emballage S.A.S., Honfleur/France	70	0.4	0.0	0.3	0.0
IWKA PacSystems Ltd., Blacknest/Great Britain	70	0.4	0.0	0.1	0.0
KUKA InnoTec GmbH, Augsburg	51	0.0	0.0	0.7	0.0
KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City/Taiwan	100	1.2	1.0	0.3	0.2
Others less than €1 million		0.1	1.8	0.4	7.7
		2.1	**2.8**	**1.8**	**7.9**
Companies newly consolidated/merged in 2006					
Autoplan GmbH, Augsburg	100	0.0	0.2	0.0	0.9
GECOM-Societe Groupement Etudes Carroserie Outillage Mecanique S.A., Plaisir/France	100	0.0	0.0	0.0	1.0
IWK Packaging Machinery Ltd.. Bangkok/Thailand	100	0.0	0.4	0.0	1.7
KUKA Automation Equipment. Shanghai/China	100	0.0	3.2	0.0	0.2
KUKA Automotive N.V., Houthalen/Belgium	100	0.0	1.3	0.0	0.0
KUKA de Mexico S. de R.L. de C.V., Mexico. D.F./Mexico	100	0.0	1.1	0.0	0.2
KUKA Enco Werkzeugbau spol. s.r.o., Dubnica/Slovak Republic	65	0.0	0.8	0.0	3.3
KUKA Konstruktion Köln GmbH, Cologne	100	0.0	0.0	0.0	1.8
KUKA Robot Automation (Malaysia) SDN BHD, Kuala Lumpur/Malaysia	100	0.0	1.1	0.0	0.4
KUKA Robot Automation Korea Co. Ltd., Kyunggi Kunpo Sanbon (Seoul)/South Korea	100	0.0	2.7	0.0	0.2
KUKA Roboter do Brasil Ltda., Sao Paulo/Brazil	100	0.0	2.0	0.0	0.2
KUKA Roboter Schweiz AG, Dietikon/Switzerland	100	0.0	2.4	0.0	0.0
		0.0	**15.2**	**0.0**	**9.9**
Companies disposed of during the financial year					
ARO Espanola S.A., Barcelona/Spain		0.0	5.2	0.0	0.0
ARO Welding Ltd., Verwood/Great Britain		0.0	2.3	0.0	0.0
Changchun EX-CELL-O FAW Special Machine Tool Co. Ltd., Changchun/China		0.0	0.7	0.0	3.5
Gazinox S.A., Paris/France		0.0	4.4	0.0	0.0
IWKA Automotive South Africa (Pty) Ltd., Greenacres/South Africa		0.0	0.5	0.0	1.3
		0.0	**13.1**	**0.0**	**4.8**
		2.1	**31.1**	**1.8**	**22.6**
(of that discontinued operations)		(0.0)	(7.4)	(0.0)	(5.4)

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 IWKA Group's consolidated companies.

The following table lists the material amounts owing by related parties to fully consolidated IWKA Group companies:

in € millions	Interest in %	Group receivables from related companies Dec. 31, 2006	Dec. 31, 2005
KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City/Taiwan	100	2.3	2.0
Others less than € 1 million		0.0	5.3
		2.3	**7.3**
Companies newly consolidated in 2006			
KUKA Automacao do Brasil Ltda., Sao Bernardo do Campo SP/Brazil	100	0.0	1.0
KUKA Automotive N.V., Houthalen/Belgium	100	0.0	1.7
KUKA Automation Equipment, Shanghai/China	100	0.0	1.0
KUKA Robot Automation (Malaysia) Sdn BhD, Kuala Lumpur/Malaysia	100	0.0	3.1
KUKA Roboter do Brasil Ltda., Sao Paulo/Brazil	100	0.0	1.2
		0.0	**8.0**
Companies disposed of during the financial year			
ARO Espanola S.A., Barcelona/Spain		0.0	2.2
Gazinox S.A., Paris/France		0.0	1.5
IWKA Automotive South Africa (Pty) Ltd., Greenacres/South Africa		0.0	1.8
		0.0	**5.5**
		2.3	**20.8**
(of that discontinued operations)		(0.0)	(0.5)

Current liabilities are € 0.2 million compared to € 3.4 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 IWKA 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 IWKA Group companies and members of the IWKA Aktiengesellschaft's Executive or Supervisory Boards.

CORPORATE ORGANS

SUPERVISORY BOARD

Dr. Rolf Bartke
Esslingen, Chairman, Industrial engineer
- * DaimlerChrysler Ludwigsfelde GmbH, Ludwigsfelde (Chairman, until March 2006)
- * DaimlerChrysler Manufacturing International LLC., Huntersville/USA (until March 2006)
- * DaimlerChrysler Espana S.A., Madrid (until March 2006)
- ** Putsch GmbH & Co. KG (Keiper-Recaro-Group), Kaiserslautern (Advisory Board)

Mirko Geiger ***
Heidelberg, Deputy Chairman, 1st Secretary of IG Metall Trade Union, Heidelberg branch
- * Heidelberger Druckmaschinen AG

Dr. Reiner Beutel
Gemmrigheim,
- ** Fischer-Maschinenbau GmbH & Co. KG, Gemmrigheim

Dr. Herbert Demel (until June 1, 2006)
Vienna, President, CEO Magna Drivetrain AG
- * MAN AG, Munich

Pepyn René Dinandt
Düsseldorf, member of the Executive Board SMS GmbH
- * Cincinnati Extrusion GmbH, Vienna

Prof. Dr.-Ing. Gerd Hirzinger
(since June 1, 2006)
Director of DLR-Institut for Robotics and Mechatronics, Wessling

Jürgen Kerner ***
Augsburg, 1st Secretary of IG Metall Trade Union, Augsburg branch
- * MAN AG, Munich
- * MAN B&W Diesel AG, Augsburg
- * MAN Roland AG, Offenbach
- * SGL Carbon AG, Wiesbaden

Dr. Helmut Leube
Herrsching, Member of the Executive Board of Webasto AG
- ** Webasto Roof Systems Inc., Rochester Hills/USA (Chairman)

Dr. Herbert Meyer
Königstein/Taunus, Diplom-Kaufmann, Member of the Executive Board of Heidelberger Druckmaschinen AG (until September 2006)
- * DEMAG Cranes AG, Düsseldorf (since February 2007)
- * Deutsche Beteiligungs AG, Frankfurt (since March 2006)
- * Sektkellerei Schloss Wachenheim AG (since February 2006)
- ** Verlag Europa Lehrmittel GmbH (Advisory Board)

* Supervisory Board member of the following companies
** Membership in comparable German and foreign control bodies of business enterprises
*** Employee Representative

** Goss International Corporation/USA
* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (until September 2006)
** Heidelberg Graphic Equipment Ltd./UK (until September 2006)
** Heidelberg Americas Inc./USA (until September 2006)
** Heidelberger Druckmaschinen Austria Vertriebs-GmbH/Austria (Advisory Board) (until September 2006)
** Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH/Austria (Advisory Board) (until September 2006)

Dipl.-Ing. (FH) Herbert R. Meyer ***
Augsburg, Chairman of the Works Council of KUKA Schweissanlagen GmbH

Walter Prues ***
Augsburg, Chairman of the IWKA Group Works Council

Fritz Seifert ***
Schwarzenberg, Chairman of the Works Council of KUKA Werkzeugbau Schwarzenberg GmbH

Wilhelm Steinhart ***
Augsburg, Staff member holding commercial power of attorney of KUKA Schweissanlagen GmbH, Augsburg

Dr. jur. Wolf Hartmut Prellwitz
Karlsruhe, Honorary Chairman

EXECUTIVE BOARD

Dipl.-Ing. Gerhard Wiedemann
Augsburg, Member of the Executive Board as from April 1, 2006, CEO as from January 1, 2007
** IWKA HOLDING CORP., Sterling Heights/USA (Chairman as from January 1, 2007)
** KUKA Flexible Production Systems Inc., Sterling Heights/USA (Chairman)
** KUKA Sventsanläggningar + Robotar AB., Västra Frölunda/Sweden
** KUKA-VAZ Engineering GmbH, Togliatti/Russia

Dipl.-Ing. Wolfgang-Dietrich Hein
Feldafing, CEO (until December 31, 2006)
** IWKA HOLDING CORP., Sterling Heights/USA (Chairman until December 31, 2006)
* INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH, Berlin (until December 31, 2006)

Dr. Jürgen Koch (as from April 1, 2006)
Königstein/Taunus

Dipl.-Math. Bernd Liepert
Meitingen (as from April 1, 2006)
** KUKA Roboter GmbH, Augsburg (CEO)
** KUKA ProTec GmbH, Augsburg (Member of the Executive Board)

Dipl.-Kfm. Dieter Schäfer
Karlsruhe (until August 31, 2006)

SCHEDULE OF SHAREHOLDINGS OF IWKA AKTIENGESELLSCHAFT

Status as at Dec. 31, 2006

Name and registered office of the company	Currency	Share of equity %	Equity in tsd. in local currency	Net profit for the year in tds. in local currency	Method of Consolisation	Division
Germany						
A+F Automation + Fördertechnik GmbH, Kirchlengern*	EUR	100.00	3,686	0 1)	c	P
Autoplan GmbH, Augsburg	EUR	100.00	307	-609	c	S
Benz & Hilgers GmbH, Neuss	EUR	100.00	5,937	1,153	c	P
Bopp & Reuther Anlagen-Verwaltungsgesellschaft mbH, Mannheim	EUR	100.00	31,690	2,579	c	O
Freadix FryTec GmbH, Ichenhausen	EUR	100.00	50	0	nc	R
GASTI Verpackungsmaschinen GmbH, Schwäbisch Hall*	EUR	100.00	1,025	0 1)	c	P
HASSIA Verpackungsmaschinen GmbH, Ranstadt*	EUR	100.00	2,100	0 1)	c	P
HLS Ingenieurbüro GmbH, Augsburg	EUR	100.00	1,552	-1,470	c	S
Hüttlin GmbH, Steinen*	EUR	100.00	2,831	0 1)	c	P
INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH, Berlin	EUR	14.29	2,325	124	pa	O
Institut für angewandte Systemtechnik Bremen GmbH, Bremen	EUR	11.25	513	2	pa	S
IWK Unterstützungseinrichtung GmbH, Karlsruhe	EUR	100.00	26	0	nc	O
IWK Verpackungstechnik GmbH, Stutensee*	EUR	100.00	3,000	0 1)	c	P
IWKA Anlagen-Verwaltungsgesellschaft mbH, Karlsruhe*	EUR	100.00	2,173	0 1)	c	O
IWKA Packaging GmbH, Karlsruhe*	EUR	100.00	47,492	0 1)	c	P
IWKA Packaging Systems GmbH, Kirchlengern	EUR	100.00	-6	12	c	P
IWKA Packaging Verwaltungs GmbH, Stutensee	EUR	100.00	24	-1	c	P
IWKA Produktionstechnik GmbH, Eislingen	EUR	100.00	1,866	7,475	c	S
KUKA Dienstleistungs-GmbH, Augsburg	EUR	100.00	792	255	c	S
KUKA InnoTec GmbH, Augsburg	EUR	51.00	264	16	nc	R
KUKA ProTec GmbH, Augsburg*	EUR	100.00	2,366	0 1)	c	R
KUKA Roboter GmbH, Augsburg*	EUR	100.00	25,520	0 1)	c	R
KUKA Schweissanlagen GmbH, Augsburg*	EUR	100.00	20,759	0 1)	c	S
KUKA Service Solutions GmbH, Augsburg*	EUR	100.00	35	252 1)	c	S
KUKA SysTec GmbH, Günzburg	EUR	100.00	10	1	c	R
KUKA Unterstützungskasse GmbH, Augsburg	EUR	100.00	25	0	nc	S
KUKA Werkzeugbau Schwarzenberg GmbH, Schwarzenberg*	EUR	100.00	12,503	0 1)	c	S
LSW Maschinenfabrik GmbH, Bremen	EUR	100.00	-4,450	-7,866	c	S
Schmidt Maschinentechnik GmbH, Niederstotzingen	EUR	74.00	-6,453	13 3)	nc	S
Tölzer & Wagner Elektrotechnik GmbH, Rohrbach	EUR	10.00	51	22	pa	S
Belgium						
KUKA Automatisering + Robots N.V., Houthalen	EUR	100.00	4,163	863	c	S
KUKA Automotive N.V., Houthalen	EUR	100.00	151	17	c	S
France						
ERCA Formseal S.A., Les Ulis	EUR	100.00	26,288	2,051	c	P
Farman Industries S.A.S., Tours	EUR	100.00	1,431	37	c	S
Farman Produits Standards S.A.S, Tours	EUR	100.00	636	-14	c	S
GECOM-Societe Groupement Etudes Carroserie Outillage Mecanique S.A., Plaisir	EUR	100.00	809	-683	c	S

Name and registered office of the company	Currency	Share of equity %	Equity in tsd. in local currency	Net profit for the year in tds. in local currency	Method of Consolisation	Division
GECOM Assistance, Plaisir	EUR	100.00	30	10	nc	S
IWK Machines D'Emballage S.A.S., Honfleur	EUR	70.00	50	-15	nc	P
KUKA Automatisme + Robotique S.A.S., Villebon sur Yvette	EUR	100.00	3,684	332	C	R
Societe Anonyme des Usines Farman, St. Cloud	EUR	100.00	274	15	C	S
Societe Tourangelle Entreprise Electriques, St. Pierre des Corps	EUR	100.00	800	57	C	S
Great Britain						
BW International (Holdings) Ltd., Altrincham	GBP	100.00	13,651	-659	C	P
BWI plc, Altrincham	GBP	100.00	-1,483	-1,069	C	P
Dawson Packaging Systems Ltd., Altrincham	GBP	100.00	–	– [3]	nc	P
IWKA PacSystems Ltd., Blacknest	GBP	70.00	228	-42	nc	P
KP Aerofill Ltd., Altrincham	GBP	100.00	–	– [3]	nc	P
LSW UK Ltd., Harlow	GBP	100.00	267	-127	C	S
Thompson Friction Welding Ltd., Halesowen, including	GBP	100.00	1,517	-121 [2]	C	S
D.V. Automation Ltd., Surrey	GBP	100.00	–	–	C	S
KUKA Automation + Robotics Ltd., Halesowen	GBP	100.00	–	–	C	S
Italy						
I.B.D. S.r.l., Turin	EUR	45.00	849	41	a	R
KUKA Roboter Italia S.P.A., Turin	EUR	85.00	1,781	18	C	R
Netherlands						
Metaalwarenfabriek's-Hertogenbosch B.V., Tilburg	EUR	100.00	–	– [3]	nc	O
IWKA Finance B.V., Amsterdam	EUR	100.00	702	12	C	O
Austria						
KUKA Roboter Austria GmbH, Linz	EUR	100.00	250	0	nc	S
Spain						
ERCA Formseal Iberica S.A., Barcelona	EUR	100.00	3,671	1,033	C	P
KUKA Sistemas de Automatizacion S.A., Vilanova i La Geltru	EUR	100.00	1,969	-16	C	R
Other Europe						
KUKA Roboter Schweiz AG, Dietikon/Switzerland	CHF	100.00	1,476	438	C	R
HLS Czech s.r.o., Mlada Boleslav/Czech Republic	CZK	100.00	4,021	607	C	S
Repac s.r.o. , Dvur Kalove Nad Laben/Czech Republic	CZK	26.00	3,695	564	a	P
KUKA Robotics Hungaria Ipari Kft., Taksony/Hungary	HUF	100.00	2,859,721	661,266	C	R
Societe Anonyme des Usines Farman S.R.L., Cluj/Romania	ROL	100.00	-6	7	nc	S
AG Novosibirsk Fleischkonservenkombinat, Novosibirsk/Russia	RUB	10.00	–	–	pa	O
IWKA Packaging OOO, Moscow/Russia	RUB	100.00	7,333	1,405	C	P
KUKA-VAZ Engineering GmbH, Togliatti/Russia	RUB	70.00	8,278	-2,024	nc	S
OOO UPT-Service, Moscow/Russia	RUB	26.00	5,336	2,186	a	O
KUKA Svetsanläggningar + Robotar AB., Västra Frölunda/Sweden	SEK	100.00	11,598	2,517	C	S
HLS Slowakai s.r.o., Bratislava/Slovak Republic	SKK	100.00	–	– [4]	nc	S
KUKA Enco Werkzeugbau spol. s.r.o., Dubnica nad Vahom/Slovakia Republic	SKK	65.00	76,528	-8,791	C	S

SCHEDULE OF SHAREHOLDINGS OF IWKA AKTIENGESELLSCHAFT

Status as at Dec. 31, 2006

Name and registered office of the company	Currency	Share of equity %	Equity in tsd. in local currency	Net profit for the year in tds. in local currency	Method of Con-solisation	Division
North America						
BW International Inc., Davenport/USA	USD	100.00	60.432	-2.133	c	P
IWKA Holding Corp., Sterling Heights/USA, including	USD	100.00	56.873	512 2)	c	S
B&C Corp., Saginaw/USA	USD	100.00	–	–	c	S
KUKA Flexible Production Systems Corp., Sterling Heights/USA	USD	100.00	–	–	c	S
KUKA Robotics Corp., Sterling Heights/USA	USD	100.00	–	–	c	R
KUKA Toledo Production Operations, LLC., Michigan/USA	USD	100.00	–	–	c	S
IWKA Packaging USA Inc., Morganville/USA	USD	100.00	1.397	89	c	P
IWKA PacSystems Inc., Fairfield/USA	USD	100,00	892	153	c	P
Packaging Technologies Inc., Davenport/USA, including	USD	100.00	27.793	4.375 2)	c	P
PT Service Corporation, Davenport/USA	USD	100.00	–	–	c	P
R.A. Jones & Co., Inc., Covington/USA	USD	100.00	24.551	1.935	c	P
Latin America						
Tecmar SA, Mar del Plata/Argentina	ARS	51.00	-1.222	-449	c	P
Fabrima Maquinas Automaticas Ltda., Sao Paulo/Brazil	BRL	100.00	18.078	-466	c	P
KUKA Automacao do Brasil Ltda., Sao Bernardo do Campo SP/Brazil	BRL	100.00	-2.930	-3.073	c	S
KUKA Roboter do Brasil Ltda., Sao Paulo/Brazil	BRL	100.00	1.422	3	c	R
KUKA Flex de Mexico, S. de R.L. de C.V., Toluca/Mexico, including	MXN	100.00	10.610	-18.490	c	S
KUKA Recursos, S. de R.L. de C.V., Toluca/Mexico	MXN	100.00	–	–	c	S
KUKA de Mexico S. de R.L. de C.V., Mexico, D.F./Mexico	MXN	100.00	23.013	3.579	c	R
Asia/Africa/Others						
KUKA Automation Equipment (Shanghai) Co., Ltd., Shanghai/China	CNY	100.00	10.091	-238	c	S
KUKA Flexible Manufacturing Systems Co., Ltd., Shanghai/China	CNY	100.00	2.188	-2.225	c	S
IWKA ASIA PACIFIC Ltd., Hong Kong/China	HKD	99.99	1.366	1.356	nc	O
Hassia Redatron Packaging Machinery Pvt. Ltd., Pune/India	INR	100.00	39.967	4.837	c	P
HLS Autotechnik (India) Pvt. Ltd., Pune/India	INR	72.00	17.068	-558	c	S
KUKA Automation Equipment (India) pvt. Ltd.	INR	100.00	2.500	0	nc	S
PAM-PAC Machines Private Limited, Mumbai/India	INR	40.00	304.575	56.508	e	P
KUKA Robot Automation Korea Co. Ltd., Kyunggi Kunpo Sanbon (Seoul)/South Korea	KRW	100.00	1.977	339	c	R
KUKA Robot Automation (Malaysia) Sdn BhD, Kuala Lumpur/Malaysia	MYR	99.99	474	379	c	R
IWK Packaging Machinery Ltd., Bangkok/Thailand	THB	100.00	14.594	-8.983	c	P
KUKA Robot Automation Taiwan Co. Ltd., Chung-Li City/Taiwan	TWD	99.90	7.727	-2.273	nc	R

* Companies that have made use of the exemption option pursuant to article 264 para. 3 or article 264 b of the German Commercial Code

1) after profit/loss transfer
2) according to Group Balance Sheet and Group Income Statement
3) Shell company
4) in liquidation

Divisions
S Systems
R Robotics
P Packaging
O Others

Type of consolidation
c fully consolidated companies as at Dec. 31, 2006
nk non-consolidated companies as at Dec. 31, 2006
e consolidated by the equity method as at Dec. 31, 2006
a associated companies as at Dec. 31, 2006
pa companies, in which participations are held as at Dec. 31, 2006

AUDIT FEES

The fee for the Auditors Ernst & Young AG recognized as expense in 2006 totals € 2.3 million (prior year € 1.3 million). A total of € 0.8 million (prior year € 1.0 million) was recognized as financial statement audit fees. € 0.5 million (prior year € 0.1 million) represented expenses for tax advisory services. An amount of € 0.9 million (prior year € 0.1 million) was recognized as expenses for certifications, valuations. Other services provided by the Auditor totaled to € 0.1 million (prior year € 0.1 million).

IWKA AKTIENGESELLSCHAFT DIVIDEND

Due to the net loss for the 2006 fiscal year, the Executive Board and the Supervisory Board will propose no distribution of dividends.

DECLARATION REGARDING THE CORPORATE GOVERNANCE CODE

The Declaration of Compliance issued by the Executive Board as at February 22, 2006 and by the Supervisory Board as at March 8, 2006 in accordance with article 161 of the AktG (German Corporation Act) can be viewed by any interested party on the company's home page at www.iwka.de.

ANNOUNCEMENTS IN ACCORDANCE WITH ARTICLE 25 PARA. 1 OF THE GERMAN SECURITIES TRADING ACT (WPHG)

The notices received in the 2006 financial year are listed below:

Attorney Dr. Anselm, presenting a power of attorney from K Capital Partners dated July 6, 2004, sent us the following notice via fax on January 2, 2006:

"We represent K Capital Partners, LLC., 75 Park Plaza, Box 11, Boston, MA 02116, USA ("K Capital Partners"). Copy of a power of attorney made out to us is enclosed with this message. We herewith notify you in accordance with article 21 para. 1 WPHG, that on December 28, 2005, the share of K Capital Partners in the voting rights in IWKA Aktiengesellschaft, Karlsruhe, fell below the threshold of 5% and is now 4.019%. This corresponds to 1,069,103 votes. Of the above, 4.019% of voting rights are allocated to K Capital Partners in accordance with article 22 para. 1 sentence 1 item 6 WPHG.

Schroders plc, 31 Gresham Street, London EC2V 7QA, Great Britain, notified us of the following in a letter dated March 3, 2006:

Schroder Administration Ltd., London, Great Britain, notified us pursuant to article 21 para. 1 WPHG that on October 5, 2005, its share of voting rights in IWKA AG exceeded the threshold of 5% and is now 5.05%. The voting rights are allocated to Schroder Administration Ltd. pursuant to article 22 para. 1 sentence 1, item 6 and sentences 2 and 3 WPHG.

Schroder Holdings plc, London, Great Britain, notified us pursant to article 21 para. 1 WPHG that on October 26, 2005, its share of voting rights in IWKA AG dropped below the threshold of 5% and is now 0.0%.

In accordance with article 21, para. 1 WPHG, OppenheimerFunds Inc., Centennial, Colorado, USA, has advised us that its voting rights in our company exceeded the threshold of 5% as of January 5, 2006 and now stand at 5.18%.

Of these voting rights, 5.18% are allocated to OppenheimerFunds Inc., Centennial, Colorado, USA in accordance with article 22, para. 1, item 6 WPHG.

Attorneys Nörr, Stiefenhofer, Lutz, Munich, notified us of the following in a letter dated June 2, 2006: "In the name and on behalf of Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts, we notify you in accordance with article 21 para. 1 WPHG that on January 5, 2006, the share of Massachusetts Mutual Life Insurance Company in the voting rights of IWKA Aktiengesellschaft, Ettlingen (ISIN: DE0006204407, WKN: 620440) exceeded the threshold of 5%. This corresponds to 1,378,910 shares. Approximately 5.18% of voting rights are allocated to Massachusetts Mutual Life Insurance Company in accordance with article 22 para.1 sentence 1 WPHG."

Comment by IWKA Aktiengesellschaft:

We would like to point out that the above notification by Massachusetts Mutual Life Insurance Company has been passed on to us subsequently to the previous notification of the voting rights of OppenheimerFunds Inc.. Therefore, the voting rights of this group in our company total 1,378,910.

Fidelity International, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom, notified us on August 2, 2006 by fax message as follows:

"We herewith notify you pursuant to article 21 para. 1 WPHG that on August 1, 2006, the share of the voting rights in IWKA AG of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA, fell below the threshold of 5% and is now 4.93%. The voting rights are allocated to FMR Corp pursuant to article 22 para. 1 sentence 2 WPHG in conjunction with article 22 para. 1 sentence 1 item 6 WPHG."

Schroders plc, London, Great Britain, and Schroder Administration plc, London, Great Britain, notified us pursuant to article 21 para. 1 WPHG that on September 26, 2006, their share of voting rights in IWKA AG fell below the threshold of 5% and is now each 4.96%. The voting rights are allocated to Schroders plc and Schroder Administration plc respectively pursuant to article 22 para. 1 sentence 1, item 6 and sentences 2 and 3 WPHG.

Schroder Investment Management Ltd., London, Great Britain, notified us pursuant to article 21 para. 1 WPHG that on September 26, 2006, its share of voting rights in IWKA AG fell below the threshold of 5% and is now 4.96%. The voting rights are allocated to Schroder Investment Management Ltd. pursuant to article 22 para. 1 sentence 1, item 6 WPHG.

Fidelity International, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, United Kingdom, notified us on October 11, 2006 by fax message as follows:

"We herewith notify you pursuant to article 21 para. 1 WpHG that on October 11, 2006, the share of the voting rights in IWKA AG of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA, exceeded the threshold of 5% and is now 5.22%. The voting rights are allocated to FMR Corp pursuant to article 22 para. 1 sentence 1, item 6 WpHG.

In summary we notify you by virtue of instruction and power of attorney from FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, USA, pursuant to article 21 (1) WpHG, that on October 11, 2006, the share of voting rights in the IWKA Group of FMR Corp. exceeded the threshold of 5% and is now – including the shares referenced in Section 1 – equal to 5.64%. The voting rights are allocated to FMR Corp pursuant to article 22 para. 1 sentence 2 WpHG in conjunction with article 22 para. 1 sentence 1 item 6 WpHG."

EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred between the balance sheet date and the date of publication.

Karlsruhe, March 1, 2007
IWKA 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 IWKA Aktiengesellschaft, Karlsruhe, comprising the balance sheet, the income statement, statement of changes in equity, 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, 2006. 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, 2007
Ernst & Young AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT
STEUERBERATUNGSGESELLSCHAFT

Prof. Dr. Wollmert	Ketterle
GERMAN PUBLIC AUDITOR	GERMAN PUBLIC AUDITOR

BALANCE SHEET

of IWKA Aktiengesellschaft as of Dec. 31, 2006

ASSETS

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Non-current assets		
Intangible assets	1,403	1,769
Property, plant and equipment	29,088	32,978
Financial investments	205,312	243,202
	235,803	**277,949**
Current assets		
Receivables and other assets		
Receivables from affiliated companies	187,879	156,592
Other receivables and assets	12,005	3,301
	199,884	159,893
Cash and cash equivalents	42,109	46,976
	241,993	**206,869**
Prepaid expenses and deferred charges	36	238
	477,832	**485,056**

EQUITY AND LIABILITIES

in € thousands	Dec. 31, 2006	Dec. 31, 2005
Equity		
Subscribed capital	69,160	69,160
Capital reserve	18,666	99,598
Revenue reserves	0	0
Net retained earnings	0	0
	87,826	**168,758**
Provisions and Accruals		
Pension provisions	12,258	11,474
Provision for taxes	15,818	16,434
Other provisions	34,470	35,728
	62,546	**63,636**
Liabilities		
Liabilities due to financial institutions	52,597	77,302
Liabilities similar to bonds	12,544	33,745
Trade payables	1,702	3,347
Accounts payable to affiliated companies	254,937	128,272
Liabilities to provident funds	2,661	2,745
Other liabilities	3,019	7,251
	327,460	**252,662**
	477,832	**485,056**

INCOME STATEMENT

of IWKA Aktiengesellschaft for the period Jan. 1 – Dec. 31, 2006

in € thousands	2006	2005
Other operating income	19,300	19,853
Personnel expense	-8,997	-8,451
Depreciation and amortization of tangible and intangible assets	-2,359	-2,375
Other operating expenses	-35,510	-23,937
Net income from participations	4,704	-45,313
Write-downs and write-ups of financial assets	-17,000	1,074
Net interest expense/income	-9,037	237
Income from ordinary activities	**-48,899**	**-58,912**
Extraordinary result	-37,722	-129,120
Taxes on income	5,689	-3,400
Loss for the year	**-80,932**	**-191,432**
Withdrawal from capital reserve	80,932	33,789
Withdrawal from revenue reserves	0	157,643
Net retained earnings	**0**	**0**

The balance sheet and income statement of IWKA Aktiengesellschaft are extracts from the complete annual financial statements of IWKA 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, 2007.

A copy of the complete annual financial statements of IWKA Aktiengesellschaft can be requested from IWKA Aktiengesellschaft, Investor Relations, P.O. Box 43 12 69 in 86072 Augsburg .

FINANCIAL CALENDAR

Interim Report for Q 1	MAY 8, 2007
Annual General Meeting, Augsburg	MAY 16, 2007
Interim Report for the first six months of 2007	AUGUST 7, 2007
Interim Report for the first nine months of 2007	NOVEMBER 6, 2007
Preliminary figures for financial 2007	FEBRUARY 5, 2008
Press conference presenting the annual financial statements, Munich	MARCH 19, 2008
DVFA-analysts conference, Frankfurt	MARCH 19, 2008
Interim Report for Q 1	MAY 6, 2008
Annual General Meeting, Augsburg	MAY 15, 2008
Interim Report for the first six months	AUGUST 5, 2008
Interim Report for the first nine months	NOVEMBER 4, 2008

IWKA
AKTIENGESELLSCHAFT

SYSTEMS

ROBOTICS

PACKAGING

This annual report was published in English and German on March 29, 2007 and can be downloaded from the Internet at www.iwka.de. The annual report can also be requested from:

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