KUKA

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RISK AND OPPORTUNITY REPORT

GENERAL PRINCIPLES

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

RISK MANAGEMENT

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

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

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

OPPORTUNITY MANAGEMENT

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

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

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

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

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

MARKET AND BUSINESS RISKS

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

KUKA ROBOTICS

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

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

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

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

KUKA SYSTEMS

A key risk for the Systems division is in the capital spending plans of the automotive sector, which in turn will be strongly influenced by the global business and investment climate. On the one hand, carmakers' cost reduction programs have a positive impact on the business because of greater demands for better efficiency and more flexibility of the production lines. On the other hand, they impact negatively because of the reduced capital spending overall. The long duration of the project management phase and the infrequency of the orders received, as well as price and competitive pressures, can expose the company to sales and profit risks.

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

Pay-on-production models such as the one being used by KUKA Toledo Production Operations (KTPO) offer additional opportunities and risks. When Daimler AG sold Chrysler in

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

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

CORPORATE STRATEGY RISKS AND OPPORTUNITIES

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

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

Robotics and Systems for this purpose.

PERSONNEL

KUKA relies on qualified specialists and managers to achieve its goals. In today's very competitive marketplace, it is therefore an ongoing challenge to attract these human resources to the Group and ensure they identify with the company long-term. There is an increasing demand for well educated and motivated workers, especially in the world's growth markets. In Germany, there is also evidence of an increasing shortage of qualified personnel, particularly in the technical area. This requires that the company have appropriate in-house training programs and permanently stay in tune with the job market and job seekers. KUKA works closely with local and national universities and research institutes, such as the University of Augsburg, RWTH Aachen and the German Aerospace Center (Deutschen Zentrum für Luft- und Raumfahrt (DLR)).

Centralized and decentralized training and continuing education programs for employees at all levels ensure that the Group's people have the indispensable expert skills they require. The in-house trainee program offers young recruits the opportunity to get to know various business areas and foreign companies. The 195 apprentices to be trained by the KUKA Group by year-end will be quickly integrated into the company and subsequently offered a permanent position if possible.

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

KUKA

INFORMATION SYSTEMS

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

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

FINANCIAL SITUATION

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

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

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

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

KUKA

SWOT ANALYSIS

	STRENGTHS	WEAKNESSES
COMPANY RELATED	• High innovation strength • Market/technology leader • Worldwide sales and service network • Customer-specific service concepts	• Complex cost structure due to worldwide presence • Limited experience in new markets
	OPPORTUNITIES	**THREATS**
MARKET RELATED	• Strong growth in general industry for Robotics • Short lifecycles of model range in the automotive industry • Continuing trend to automate and improve the efficiency of production processes	• Price pressure from competitors and customers • Competitive weakness due to exchange-rate trend

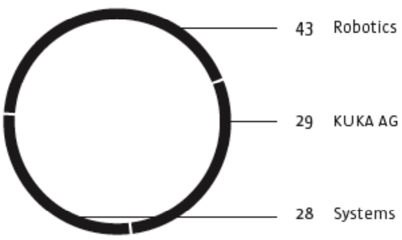
OTHER

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

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

RISK DISTRIBUTION IN 2007

(in %)



SUMMARY

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

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