EVENTS AFTER THE BALANCE SHEET DATE

There were no reportable events from the beginning of the new fiscal year to the date of this management report that had an impact on the financial position and performance of the company.

FORECAST, OPPORTUNITIES AND RISK REPORT

OPPORTUNITIES AND RISK REPORT

Principles

KUKA Group is a global enterprise with international operations. Any entrepreneurial activity provides new business opportunities, but also involves many risks, especially technical ones. KUKA Aktiengesellschaft's Executive Board aims to systematically and sustainably improve the value of the company for all stakeholders and shareholders by seizing potential opportunities and minimizing said risks.

To achieve this objective, the Executive Board has implemented a comprehensive corporate risk management system to systematically and consistently identify, evaluate, manage, monitor and report the internal and external risks to which its divisions and subsidiaries are exposed.

Group management regularly assesses the likelihood that identified risks will occur and their potential impact on expected profits. Risks are categorized according to worst, medium and best case scenarios including the expected impact of the occurrence of an event. Accruals and write-downs associated with these risks are recognized in the annual financial statements in accordance with applicable accounting principles. The unsecured residual risks, i.e. risks according to risk mitigation measures, are therefore depicted as risks.

The risk management system is subject to a monthly reporting process (risk inventory) which involves identifying new risks and carrying out a follow-up assessment of existing risks. The information that has been collected in this way is summarized in a risk report that is also prepared each month and addressed to the Executive Board of KUKA Group. This report contains a top 10 risk assessment and a risk exposure assessment (overall risk situation) for the divisions, KUKA Aktiengesellschaft as the holding company and KUKA Group. The top 10 risks are also a fixed part of internal monthly management reporting and are discussed at monthly results discussions between the Executive Board of KUKA Group and the management of the divisions. The identified risks are additionally presented and explained in more detail to the Executive Board each quarter by the Risk Management Committee. The committee also determines whether any measures already implemented to minimize risk are adequate or whether further steps need to be initiated. These plenums also assess the plausibility of the reported risks and determine how to avoid similar risks in future. The risk report is also reviewed during Executive and Supervisory Board meetings, especially by the Audit Committee.

The managers of the divisions and subsidiaries are directly responsible for the early identification, control and communication of risks. Risk managers in the central and decentralized business units ensure that the reporting process is uniform with clearly defined reporting channels and reporting thresholds that are in line with the size of the company. Internal ad hoc announcements are mandatory whenever risks exceed the Group's defined reporting thresholds. The standard risk management procedures applied throughout the Group are efficient and effective. The head of risk management coordinates the risk management system. He compiles, communicates and monitors the individual risks identified and determines the aforementioned top 10 risk overviews or risk exposure overviews. The head of risk management resides within KUKA Aktiengesellschaft's Group controlling department, which reports directly to KUKA Aktiengesellschaft's CFO. This ensures that risk management is an integral component of KUKA Group's overall planning, control and reporting process.

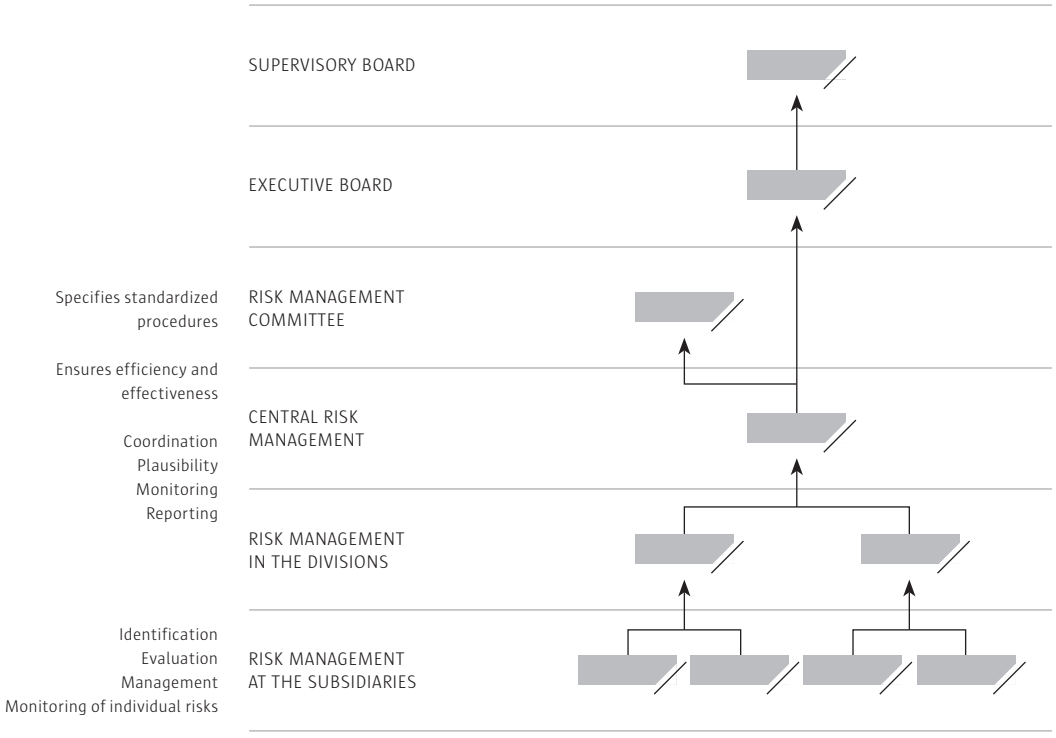
The Group's risk management system enabled the Executive Board to identify material risks at an early stage, initiate appropriate steps to counter these risks and monitor implementation of the steps. The internal audit department regularly monitors compliance with the risk management guideline of KUKA Group and therefore whether existing procedures and tools are effective. It also audits those responsible for the risks if this is relevant. The internal audit department also regularly audits the risk management process to ensure efficiency and continuous improvement. Furthermore, external auditors check that the early risk identification system is suitable for early identification of risks that could threaten the existence of the company as a going concern.

In addition to the risk management system, KUKA Group has an internal control system (see management report, internal control and risk management system section, page 53 et seq.) above and beyond the risk management system, which it uses to continuously monitor the appropriateness of the corporation's business and accounting processes and identify potential improvements.

Strategic risks and opportunities

KUKA's business divisions aim to be among the technology and market leaders in their target markets. The key to achieving this is to consistently enhance their core technologies on the basis of coordinated innovation programs. One important task is to identify opportunities and risks associated with technical innovations early and to evaluate the innovations' manufacturability. The company mitigates the impact of faulty market assessments by conducting regular market and competitor analyses, some of which are decentralized. The risk of developing non-marketable products and systems is reduced through application-oriented development, partnerships with system integrators and alliances and cooperative research projects with, for example, the German Aerospace Center (DLR) in Wessling near Munich, the RWTH technical college in Aachen and several institutes of the Fraunhofer Society. Strategic risks and opportunities are not quantified.

RISK MANAGEMENT ORGANIZATION



Internal and external auditors check the risk management system and the risk early detection system

Operational risks and opportunities

KUKA Group

The Group's risk exposure, based upon evaluating operating risks according to the procedure described in the Principles section, is described below. The report includes the total aggregated maximum risk (worst case) and expected risk value, which are calculated on the basis of the various weighted scenarios and their respective likelihood of occurrence. Opportunities are evaluated by the individual divisions and are not further aggregated.

GROUP RISK EXPOSURE

in € millions	Worst case	Expected risk value
Legal risks	15.2	2.9
Economic risks	16.8	1.7
Total for the Group	**32.0**	**4.6**

Legal and economic risks occur primarily as a result of the activities of the Robotics and Systems divisions. Further details regarding this risk exposure are outlined in the following sections under the individual risk categories. We also evaluate the potential worst-case damage that could be caused by the individual risks and the likelihood that they will occur, categorized as follows:

	Maximum loss	Likelihood of occurrence
Low	to € 5 million	to 10 %
Medium	€ 5 to 10 million	10 to 25 %
High	€ 10 to 20 million	25 to 40 %
Very high	over € 20 million	over 40 %

Please refer to the notes for details regarding the precautionary balance sheet measures for the identified risks.

KUKA Group's opportunities and risk-related controlling process ensures that the company's managers take both opportunities and risks into consideration. Further details regarding associated opportunities are provided in the description in the following sections. The opportunities and risks managed at the divisional level are primarily operational and performance-related. Cross-division opportunities and risks such as financing, personnel and IT are analyzed and managed at Group level, not by the individual divisions, which is why said risks are only addressed from the Group perspective in the opportunity and risk report.

Legal risks

Since KUKA conducts business around the world, it is obliged to comply with many international and country-specific laws and regulations issued by, for example, tax authorities. The company employs specialists familiar with the respective countries' laws on a case-by-case basis. Opportunities and risks arise as a result of changes to legal frameworks. For example, tax audits discovering non-compliance issues could negatively impact the Group in the form of payment of interest charges, penalties and back taxes. At the present time, there are no foreseeable tax or legal issues that could have a significant negative impact on KUKA Group. Appropriate provisions have been recognized for tax risks based on experience. For further details please see Group notes, page 99 et seq.

Standard general contracts are used whenever possible to cap legal risks. The Group's legal department supports the operating companies to help limit risks associated with in-house contracts, warranty obligations and guarantees as well as country-specific risks such as the lack of patent and brand protection in Asia. KUKA has developed an independent strategy to safeguard its intellectual property, which is primarily secured by patents and trademark rights.

In addition, Group-wide Directors' and Officers' (D & O) liability insurance policies are in place that cover the managing bodies (Executive Board and managing directors) and supervisory bodies (Supervisory Board, administrative and advisory boards) of the German and foreign subsidiaries. Existing insurance policies are reviewed annually in order to weigh the relationship between the insurance protection and deductible amount versus the risk premium.

Economic risks

The economic risks are described in the following sections.

Operational risks and opportunities in the divisions

KUKA is exposed to the cyclic investment behavior of its customers in the various market subsectors. A major portion of the Systems and Robotics divisions' business volume is in the automotive sector where oligopolitical structures and constant price pressure are ongoing concerns. Fluctuations in the industry's capital spending plans are also considered in the respective strategic and operative plans by analyzing public announcements and disclosures. The company continuously strives to be as flexible as possible with its own capacities and cost structure to address the cyclic nature of the business.

KUKA benefited from significant investment activities in both the automotive industry and the aircraft industry and general machinery and systems engineering sector throughout 2014. Additional opportunities arose because KUKA Group's key automotive customers enjoy an excellent competitive position in their markets. In comparison to its own competitors, KUKA Group sees business growth opportunities due to its customer portfolio, particularly with respect to the growth of its customers' market shares. Further opportunities arise due to the general trend toward greater automation in non-industrial sectors, such as the long-term prospects associated with assisting an aging society.

KUKA works with suppliers that focus on quality, innovative strength, continuous improvement and reliability so that it can supply its own customers with products of the highest possible quality. Generally, KUKA sources product components from several suppliers in order to minimize the risk of sharp price rises for key raw materials, but in a few cases, due to a lack of alternative sources, is dependent on single suppliers that dominate their markets.

KUKA Robotics

Demands for continuous product innovation from international customers and unrelenting cost awareness are the key challenges for this division's product portfolio; especially when it comes to the automotive industry and its subsuppliers. The result is permanent price pressure and potentially longer life cycles for the robotic applications combined with demands for ever-improving quality and longer warranties.

KUKA Robotics responds to such trends by continually developing new products and applications that offer customers in existing markets quantifiable financial benefits driven by quick paybacks. Launching new products goes hand-in-hand with product performance risks and quality guarantees, which could generate additional costs if rework is required. KUKA employs a comprehensive quality management system that includes extensive validation and test processes to manage such risks or avoid them altogether.

KUKA sees an opportunity to continuously expand its customer base in general industry. One of the corporation's key strategic thrusts is to penetrate new, non-automotive markets. The aim is to penetrate the health care sector and other consumer-related markets in which human-machine collaboration will in future be essential. Systems used for human-machine collaboration can operate without protective barriers or similar safety measures. One of the division's sections, Advanced Robotics, focuses on developing and implementing the technology for such innovative products and applications. The company's profitability will become less and less dependent on exchange-rate fluctuations as it increasingly spreads its value added across different local currencies.

ROBOTICS RISK EXPOSURE

in € millions	Worst case	Expected risk value
Legal risks	7.0	2.7
Economic risks	6.2	1.7
Total for Robotics	**13.2**	**4.4**

The assessed potential damage associated with all individual risks is low (to € 5.0 million) and the likelihood of occurrence is medium to high (to 40.0 percent). Please refer to the notes for details regarding the precautionary balance sheet measures for the identified risks.

KUKA Systems

This division's sales and profits are subject to general business risks due to the length in time it takes to process project orders, the revisions to the specifications that are often necessary while already processing the orders, the infrequency of the orders received and the price and competitive pressures. Other risks associated with these projects include inaccurate prediction of the actual costs as well as penalties for late deliveries. The division therefore uses appropriate risk checklists for individual orders in order to assess the associated legal, economic and technological risks prior to preparing a quotation or accepting a contract. One of the components of project execution is to monitor and track solvency risks and mitigate them using a strict project and receivables management process. Other risks are continuously monitored and if necessary accounted for by way of accruals or write-downs. Opportunities associated with the project business arise mainly when parts can be purchased at a lower cost than originally estimated and by invoicing the customer for any change orders received over the course of the project.

Major automakers throughout the world are currently feverishly expanding their global manufacturing capacities. KUKA increasingly works together with internal partners, whereby several of the division's regional subsidiaries collaborate on a project, especially in South America and Asia. In these situations, risks involve information exchange, the value-added process and the IT-based master project management system. There are also organizational risks associated with extraordinarily rapid and strong growth in business volume, particularly in emerging markets. KUKA mitigates these risks by harmonizing its global IT systems and deploying experienced internal and contract employees when establishing and expanding the local organizations.

The increasing variety of models offered by the automotive industry has a positive impact on the potential market volume, since this generates increasing demand for flexible manufacturing systems, which in turn spurs demand for new or revamped assembly lines. This creates new business opportunities for system providers and subsuppliers. Scarce resources are driving demand for smaller and more fuel-efficient vehicles that will use alternative energy sources. This means automakers, especially American manufacturers, will soon have to invest in new production lines or upgrade their existing assembly lines.

Pay-on production contracts such as KTPO's (KUKA Toledo Production Operations) offer additional opportunities, but also risks. The Jeep Wrangler brand continues to promise above-average growth prospects compared to other American car models. KUKA participated in this growth again in 2014. Here risks involve greater dependence on the volumes produced for the American car market.

Thorough market analyses have shown that KUKA Systems also has long-term business opportunities outside the automotive industry; namely, in general industry. Current examples are the aerospace industry and additional markets resulting from the acquisition of REIS Group, from which new orders were again received in 2014. Although this represents an opportunity to penetrate new markets, it also entails risk, above all in relation to technical requirements, since customers in these sectors often have no experience with automated systems. The aforementioned checklists to review the technical risks associated with applying new automation techniques are therefore an especially important tool for mitigating risks.

SYSTEMS RISK EXPOSURE

in Mio. €	Worst case	Expected risk value
Legal risks	8.2	0.2
Economic risks	10.6	0.0
Total for Systems	**18.8**	**0.2**

The assessed potential damage associated with all individual risks is low to medium (to € 10.0 million) and the likelihood of occurrence is medium to extremely high (over 40.0 percent). Please refer to the notes for details regarding the precautionary balance sheet measures for the identified risks.

Financial risks

One of KUKA Aktiengesellschaft's primary tasks is to coordinate and control the Group's financing requirements and to ensure that KUKA remains financially independent. With this goal in mind, the holding company optimizes the Group's financing and limits its financial risk via the Group's standard treasury reporting system. In addition, liquidity risk is reduced for the Group as a whole by closely monitoring the Group's companies and their management of payment flows.

Over the course of the past few years, several measures have been implemented to strengthen KUKA Group's solvency. One of these was to restructure the company's debt with respect to time to maturity and the type of financing instruments used. In 2014, this included the early repayment of the bond issued in November 2010 with an interest coupon of 8.75 percent in May and the increase in equity in December; please refer to the explanations to the annual financial statements, Financing, page 96, for further details.

The syndicated senior facilities agreement, which runs until 2018, contains the usual covenants. A fundamental risk associated with this type of covenant-based financing exists when business performance is significantly below plan and the resulting earnings and financial situation precludes adherence to the defined limits. KUKA monitors adherence to these covenants monthly. The company complied with all covenants during the course of fiscal 2014. As of December 31, 2014, all ratios regulated by covenants were well within the contractually defined limits. Please refer to the explanations to the annual financial statements, Financing, page 96, for comprehensive details about the syndicated senior facilities agreement and the extent to which the agreed credit lines have been utilized.

One risk that will also impact business performance after 2014 is the increasing fluctuation in currency exchange rates, especially in the case of the Japanese yen, the US dollar, the Chinese yuan, the Hungarian forint and the Swiss franc; for example, the apparent devaluation of the yen in relation to the euro gives Japanese competitors an advantage. Transaction-related currency exchange risks are hedged using forward foreign exchange contracts. Details on the central currency management process are provided under "Financial instruments" on page 74 in the Group notes. Currency translation

risks, i. e. measurement risks associated with balance sheet items whose value has been converted from a foreign currency, are not hedged, but are continuously monitored. The risk associated with the volatility of leading currencies and the resulting economic exchange risk (competitive risk) is mitigated by having production facilities in several countries (natural hedging). Internal guidelines govern the use of derivatives, which are subject to continuous internal risk monitoring.

Personnel risks and opportunities

The success of KUKA Group, a high-tech enterprise, depends to a great degree on having qualified technical and management staff. Personnel risks arise mainly from employee turnover in key positions within the Group. Improvements in both business and economic prospects enable the company to strengthen the loyalty of its core personnel, train new, highly skilled employees and entice new recruits to join the Group. This applies to the traditional markets in Europe and the United States, but especially to recruiting employees in growth markets, where the need for skilled employees is growing steadily. Last but not least, in-house continuing education programs such as those offered by KUKA Academy or employee suggestion programs generate opportunities resulting from the improved motivation and qualification of the workforce.

IT risks and opportunities

IT risks have risen over the past number of years, not least because of the importance of IT to business processes. These risks relate to both the frequency of viruses or hacking and the damage they could potentially cause. The existing IT security and business continuity management systems as well as guidelines and organizational structures are continuously optimized and reviewed in an effort to predict and minimize possible IT-related risks such as failure of computer centers or other IT systems. One way this is addressed is by continuously upgrading hardware and software. Ongoing optimization of IT-supported processes generates long-term cost reduction potential and leads to continuous quality improvements. By systematically monitoring the processes concerned, the company reduces the risks associated with an increasing number of external threats as well as dependence on the ever-expanding digitization of business processes.

Compliance risks

Compliance violations may lead to fines, sanctions, judicial orders regarding future conduct, forfeiture of profits, exclusion from certain transactions, loss of trade licenses or other restrictions. Furthermore, involvement in potential corruption proceedings could harm the overall reputation of KUKA Group and could have a negative impact on efforts to compete for business in both the public and private sectors. Such proceedings could also have a negative impact on the relationship KUKA Group has with business partners upon which it depends as well as its ability to find new business partners. They could furthermore negatively impact the company's ability to pursue strategic projects and transactions of potential importance for the business, such as joint ventures or other forms of cooperation. Ongoing or future proceedings could lead to the suspension of some existing contracts, and third parties, including competitors, could initiate legal proceedings against KUKA Group for substantial sums of money.

KUKA therefore rolled out a Corporate Compliance Program in early 2008 to make such risks transparent and controllable. The Compliance Committee established through this program meets at regular intervals and ad hoc and reports to KUKA Aktiengesellschaft's CEO, who in turn reports directly to the Supervisory Board's Audit Committee. The CEO is ultimately responsible for the Corporate Compliance Program, which is regularly updated and subject to strict internal controls. The program did not uncover any substantial risks in 2014 due to the active countermeasures taken to mitigate risk at an early stage and to eliminate risk sources, e. g. by realigning business processes.

Other risks

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

Please refer to page 57 for information about material agreements subject to conditions related to a change of control. The shareholder structure is periodically analyzed to assess the possibility of a takeover of the company.

Summary

Overall, KUKA Group's named risks relate to the business performance of the divisions and financial risks associated with currency exchange rate fluctuations and corporate financing. The Executive Board is not aware of any individual or aggregated risks that could threaten the company's existence. Strategically and financially, the company is positioned to be able to take advantage of business opportunities.

FORECAST

General economic environment

In recent years, development among the major global economies has been moderate, and in some cases has even declined. According to the International Monetary Fund (IMF) the world economy grew 3.3 percent in 2014. Compared with growth in 2013 this represents a stable trend (2013: 3.3 percent). As in previous years, it was in the main the emerging and developing economies which were the drivers of growth. Although many had clearly recovered from the financial and debt crisis, growth in the industrialized nations was well below average compared with the emerging countries. The IMF expects the world economy to expand more rapidly in 2015 and has forecast economic growth of 3.5 percent. Compared with earlier forecasts, this figure has been cut slightly by 0.3 percentage points.

The overall economy of Europe should stabilize further at a low level as a result of the measures taken by various member states, the low price of oil and support provided by the European Central Bank's expansionary monetary policy. For Germany, the most important single market for the KUKA Group, the IMF is predicting a growth rate of 1.3 percent in 2015. VDMA, the German Engineering Association, published a figure of 2.0 percent growth in new orders year-on-year in the engineering sector for 2014. The IMF raised its growth forecasts slightly for the United States for 2015. Demand from private households in particular, the low oil price and the expansionary monetary policy of the Federal Reserve are likely to more than compensate for the possibility of increased interest rates. In actual figures, the IMF is forecasting US growth of 3.6 percent for 2015. The North American market is the second largest sales market for the KUKA Group. Among the larger economic markets, the IMF still regards China as likely to exhibit the highest rate of growth during 2015. However, in comparison to the year before, the pace of growth is anticipated to diminish. The reasons behind this are the lower exports, weaker internal demand and the cooling of the real estate market. In real terms, the IMF is calculating 6.8 percent growth in China during 2015. China is KUKA's third largest single market worldwide. IMF expectations for the most significant global markets:

ECONOMIC GROWTH

in %	2013	2014	2015
World	3.3	3.3	3.5
Eurozone	-0.5	0.8	1.2
USA	2.2	2.4	3.6
China	7.8	7.4	6.8
Germany	0.2	1.5	1.3
Developing/emerging countries	4.7	4.4	4.3

Source: IMF, January 2015

Global drivers of growth in robot-based automation

Investment in automation continues at a high level. In its most recent study, the International Federation of Robotics (IFR) forecast corresponding expansion of the global robot market. Manufacturing companies, in particular, are profiting from the introduction of automation in their production operations, with raised efficiency, improved product quality, increased unit quantities and product diversity as well as increased flexibility being prominent benefits.

General conditions and KUKA's main markets

1) General industry

Compared with the automotive industry, the robot density (number of robots per 10,000 employees) in general industry is still relatively low (see graphic on page 51). On average, the automotive industry's robot density is roughly eight times that found in general industry. It is in particular high cost pressure, rapidly changing markets and customers' requirements as well as growing demands for quality which necessitate production that is flexible and efficient for companies to remain competitive. This is why the potential for the automation sector is generally very substantial. For the electrical (3C), consumer goods, metal, machine tool, logistics and aircraft construction industries in particular we are expecting a significant increase in investment in automation solutions in the coming years.

KUKA is pursuing the strategy of expanding its market share in general industry overall and pushing expansion specifically in the sectors referred to above. With this in mind, the following customer segments are being specifically targeted for investment: 1) in new products that satisfy specific customer needs, 2) in building up manpower with specific expertise in the general industrial markets targeted, 3) in developing a sales structure supporting expansion in general industry, and 4) in partnerships and cooperation agreements to strengthen our market position in general industry. KUKA has, for instance, bought Alema, a French company, with whose assistance drilling and riveting can be automated in aircraft construction. In addition, the KR AGILUS family of robots is steadily being expanded in terms of reach, weight classes and capabilities so that these products can now be offered to new customers from general industry and to existing customers in order to expand their range of applications. At the end of 2014 KUKA acquired a majority holding in Swisslog. In future KUKA is planning to develop new automation solutions through the combination of robots and mobile vehicles and to intensify its growth in the logistics customer segment.

2) Automotive industry

The international automotive industry has a decisive impact on robot sales development, as it buys around 40.0 percent of the robots sold annually. In the mature manufacturing regions such as Europe, the United States and Japan, growth potential is driven mainly by the need to modernize or upgrade existing production systems. Increasingly, however, production operations are being examined for the potential to use robots where at present there are relatively low numbers of robots being employed.

Car manufacturing and sales volumes will continue to rise worldwide. According to estimates released in January 2014 by IHS Automotive (IHS), the number of cars manufactured across the globe will rise from some 84.0 million vehicles in 2013 to about 103.0 million vehicles in 2019. KUKA is not directly dependent on the number of vehicles built, yet the range of models of the manufacturers is increasing at the same rate as the sales of cars. The manufacturers must accordingly invest in new production systems and in the flexibility of existing facilities in order to allow this growth to be generated in the most efficient way possible. KUKA is therefore expecting, as predicted by the IFR, that the investments of the carmakers in automation will rise further, but accompanied by lower growth rates than in general industry. In addition to the continuing increase in model diversity, the drivers of this trend are the decrease in product life cycles of existing vehicle types and an increase in model platforms without the risk of forfeiting efficiency. Moreover, local carmakers from emerging and developing countries are increasingly investing in automation in order to raise the quality of their vehicles and so further their exports to the industrialized nations.

3) Technology and service robotics

In recent years software components and application technologies for robot-based automation solutions have risen in importance. In parallel, the speed of development and the requirements in these areas have significantly increased. New technologies in the fields of human-machine collaboration, safety, flexibility and user-friendliness form the basis for new markets. But new applications will also be created at existing customer sites, where solutions will now be available for production processes that could not be automated in the past. This includes service robotics, a relatively new technology segment. More and more manufacturers are interested in this segment and the pace of progress in development has been dramatic. Already today, the first service robots are being used for agricultural, medical and logistics applications, as well as defense and security. The Fraunhofer Institute for Production Technology and Automation (IPA) defines a service robot as a freely programmable motion device that provides services semi or fully automatically. Services are defined as tasks that are not directly used to produce capital goods, but rather assist people and equipment. According to an IFR study, the number of service robots sold in 2013 rose by 4.0 percent to 21,000. The IFR expects a significant increase in sales in the professional segment, and is predicting that an average of more than 33,000 service robots will be sold annually between 2014 and 2017.

KUKA geared its activities early on to new technologies and new markets and correspondingly invests highly in research and development. One particular focus of this is the investment in KUKA Sunrise, its new software platform, which provides the basis for new applications.

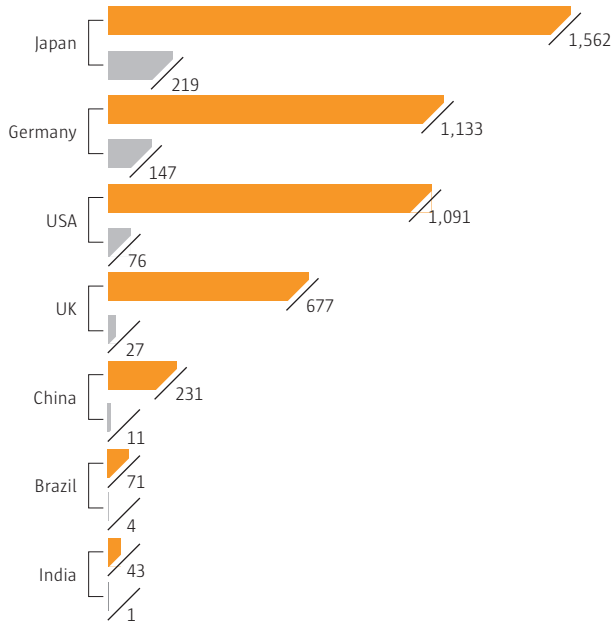
4) Developing and emerging countries

Robot density, and thus the degree of automation, is much higher in industrial countries than in the developing and emerging economies. The growth potentials in the developing and emerging countries affect the automotive sector as well as general industry. The international automotive industry is investing predominantly in these countries in order to profit from the lower wage costs, but also in order to be able to react flexibly to local customer requirements. Robot-based automation is an important element in this context because for decades it has been the standard for some production stages, e. g. in body-in-white manufacture. Local car manufacturers in the developing and emerging countries are also investing in automation in order to match up to the rising quality requirements and to enable them to export more of their vehicles in the medium-term future. At the same time, wages and salaries are rising at two-digit rates each year in some instances, which poses great challenges to companies that manufacture locally. Automation solutions can assist in cushioning against this rise in costs. The growth of automation in general industry benefits from the same issues as in the automotive industry: increasing cost pressure with simultaneously rising quality requirements.

In recent years the Chinese robot market grew disproportionately and is now already the world's largest sales market. According to the current study by the IFR, the number of robots sold has risen from just under 8,000 in 2008 to approximately 50,000 in 2014. The robots installed in China are made almost exclusively by non-Chinese manufacturers. But according to the IFR, Chinese robot suppliers will become increasingly important and will increase their production in the coming years. The new market players are also supported by government programs.

KUKA sees the Chinese robot and automation market as a core element of its future growth strategy and has therefore expanded its market presence. At the end of 2013, the new robot assembly plant was opened in the Greater Shanghai area where a large proportion of local requirements were already being produced in 2014. In addition, the workforce in China rose substantially from 395 employees (December 31, 2013) to a total of 696 (December 31, 2014). This has afforded KUKA greater local flexibility and customer proximity for sales and service. The customers profit from much shorter delivery times and faster response times. KUKA will also focus on investments in China in the coming years through the expansion and equipment of its local sites with the appropriate resources.

IFR ROBOT DENSITY AUTO/GI + COUNTRIES
ROBOTS PER 10,000 EMPLOYEES



Source: IFR World Robotics 2013

Company-specific factors

Summary

Given the current economic forecasts and the general conditions, KUKA expects good demand in the 2015 financial year, especially from North America and Asia, particularly China. Demand in Europe should develop relatively stable to slightly rising overall. From a sector perspective, general industry growth is expected to be positive. This is due in part to the high potential for automation solutions as well as the positive economic prospects for general industry customers. Automotive customers have already significantly increased investments over the past few years. Demand in 2015 should therefore develop relatively stable altogether, with positive influences from China and the United States. Please refer to the notes starting on page 66 for comments on currency effects. In the case of Systems, a higher USD/euro exchange rate has a positive impact on the business figures because the North American sales market is the largest for this business segment. For Robotics, the development of the yen/euro exchange rate is particularly important. A weaker yen/euro exchange rate has a negative effect for Robotics because the main competitors come, above all, from Japan. For Swisslog, the appreciation of the Swiss franc will have a slightly adverse effect overall, because the cost share of the division in Switzerland is slightly higher than the revenue share. However, here too, KUKA Group profits from a stronger USD/euro exchange rate because the Swisslog division generates a substantial portion of its sales revenues and earnings in the United States.

EXPECTED GROWTH FOR KUKA GROUP

Summary	Earnings 2014 (excl. Swisslog)	Outlook 2015 (incl. Swisslog)
Sales revenues	€ 2,095.7 million	~€ 2.8 billion
EBITDA margin	8.8%	~7.0%
EBIT margin *	6.8%	~5.5%
Net income for the fiscal year *	€ 68.1 million	rising
Investments **	€ 94.3 million	constant to rising
Free cash flow	€-198.5 million	mid-double-digit million range
Dividend per share	€ 0.40	constant to rising

* before PPA (purchase price allocation) for Swisslog
** excl. financial investments

Definitions:
rising slightly/declining slightly: absolute change compared to prior year < 10%
declining/rising: absolute change compared to prior year > 10%

Sales and EBIT margin

On the basis of the current general conditions and exchange rates, KUKA is expecting sales revenues of approximately € 2.8 billion. The sales development will profit from the first-time consolidation of Swisslog. In addition, both customer segments – general industry and automotive – and from a regional viewpoint, China and North America, will make a positive contribution to sales development. Based on the current economic general conditions and the development of sales, KUKA Group expects to achieve an EBIT margin of approximately 5.5 percent before PPA (purchase price allocation) for Swisslog. Investments in growth in general industry and China as well as the integration and restructuring costs for Swisslog are having an impact on the EBIT margin. In addition, the introduction of project lifecycle management software at Systems and ERP software to be used throughout the Group will result in higher costs during 2015, but in subsequent years these will help make a considerable improvement in efficiency. Taking account of the expenditure for PPA, KUKA Group expects a lower EBIT margin. In the coming years after restructuring and an increase in efficiency at Swisslog, a positive contribution to value added is anticipated for KUKA Group.

Net income

In the 2014 financial year KUKA Group generated net income for the year of € 68.1 million. In 2015, the organic rise in sales and lower net interest expenditure following the redemption of the high-yield bond will have a positive effect on net income. In contrast, the expenditure for PPA and restructuring of Swisslog will negatively impact the net income for the year. KUKA is therefore expecting a significant decline in the development of net income in 2015. Adjusted for the PPA effect, however, KUKA anticipates a rise in net income. In the following years, Swisslog is expected to have a distinctly positive impact on net income, with significant potential sales growth and cost synergies resulting from the acquisition.

Research and development/investments

The total expense for research and development can chiefly be attributed to the Robotics division, since Systems conducts its R & D activities primarily in conjunction with customer projects. The high demand for KUKA robots and solutions is primarily based on their advantage in terms of innovation and quality. To safeguard and expand these competitive advantages sustainably, the spending on research and development will rise in 2015. Spending by the Robotics division will mainly focus on expanding the product portfolio, developing applications, new software solutions and measures to boost the efficiency of existing products. Overall, KUKA Group is budgeting for around € 80 million to be spent on research and development in 2015. Around 20 – 25 percent is to be capitalized and written down to schedule over three to five years. The capitalization ratio depends on the content of the R&D projects and may vary accordingly. While research projects are not permitted to be capitalized, projects with the main focus on development – if certain conditions arise – are to be capitalized in accordance with the applicable accounting rules.

KUKA Group is planning to increase overall investment in 2015. This largely consists of investments for the preservation of existing assets, the building of new facilities for expanding in general industry and the construction of the new Development and Technology Center in Augsburg. The new building is expected to be completed in the second half of 2015 and is intended to improve cooperation especially between research and development and other product-related departments currently located at different sites.

Free cash flow
KUKA Group's free cash flow is primarily generated from operating earnings and the growth of working capital in the Robotics, Systems and Swisslog divisions. Based on the current general conditions and the budgeted sales growth, KUKA Group expects a free cash flow excluding financial investments in the mid-double-digit million range in 2015.

Dividend
The Executive and Supervisory Boards will recommend to shareholders at the Annual General Meeting in Augsburg on June 10, 2015 that a dividend of € 0.40 per share be paid for 2014. KUKA's dividend policy is to pay out between 25 and 30 percent of net income to shareholders provided business performance is good and general conditions are stable. For fiscal 2015, KUKA plans to maintain its dividend and possibly increase it slightly, allowing for the general conditions at the time.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

PRINCIPLES

Pursuant to section 289 para. 5 and section 315 para. 2 no. 5 of the German Commercial Code (HGB), KUKA Aktiengesellschaft, as a publicly traded parent company, must describe the key characteristics of its internal control and risk management system in its management report with regard to the accounting process. The description must include the accounting processes of the companies included in the consolidated financial statements.

The risk management system comprises all organizational rules and measures related to identifying risk and dealing with entrepreneurial risk. The internal control system is an integral part of the risk management system.

The internal control system (ICS) comprises all principles, processes and measures introduced to the company by management that result in systematic and transparent risk management. The internal control system focuses on organizational implementation of management decisions made to ensure the effectiveness and efficiency of business operations (including the preservation of assets, which includes preventing and exposing asset misappropriation), adherence to generally accepted accounting principles and the reliability of internal and external accounting and compliance with the legal provisions relevant to the company.

The objective of the ICS is to obtain sufficient certainty using the implemented controls and to be able to monitor and manage risks to ensure that the company's goals can be achieved. Various monitoring measures – both integrated into the process and independent of the process – contribute to the preparation of annual and consolidated financial statements that are in conformity with the legal provisions.

Regardless of its specific form, an ICS is unable to provide absolute certainty as to whether it will achieve its objectives. Taking this into account, the accounting-related ICS can only provide relative certainty rather than absolute certainty that material misstatements in accounting will be avoided or detected.

STRUCTURES AND PROCESSES

With regard to the accounting process, the structures and processes described below have been implemented in KUKA Group. The Executive Board of KUKA Aktiengesellschaft bears full responsibility for the scope and design of the ICS.

The system extends via clearly defined management and reporting structures to all subsidiaries that are included in the consolidated financial statements.

For the Group's German companies, the Shared Service Center of KUKA Aktiengesellschaft is responsible at a central level for accounting and human resource operations.

Intragroup tasks such as treasury, legal services and taxes are also performed centrally by KUKA Aktiengesellschaft on the basis of uniform Group processes.

The principles, organizational structures and processes of the (Group) accounting-related internal control and risk management system are defined in guidelines and organizational procedures. Adjustments based on external and internal developments are integrated on a continuous basis and made available to all employees concerned.

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

With respect to the accounting process, we regard those characteristics of the internal control and risk management system as material that can significantly impact the accounting and the overall presentation of the consolidated and annual financial statements, including the combined management report. At KUKA Group, these include, in particular:

- Identifying the main areas of risk (see page 45 et seq. of the Risk Report) and control that affect the (Group) accounting process;
- Quality controls to monitor the (Group) accounting process and the accounting results at the level of the Group Executive Board, the management companies and individual reporting entities included in the consolidated financial statements;
- Preventive control measures in the finance and accounting systems of the Group and the companies included in the consolidated financial statements as well as in operating business performance processes that generate key information for the preparation of the consolidated and annual financial statements and the combined management report, including a separation of functions of predefined approval processes in relevant areas;
- Process-integrated monitoring measures such as the principle of dual control. Each business transaction must be signed or otherwise authorized by at least two authorized persons.