

Report of the Supervisory Board of KION GROUP AG

Dear shareholders,

The developments of 2018 fully vindicated the basic assumptions and projected trends that underpin the KION 2027 strategy. In all key regions of our global business, demand for industrial trucks is expanding at around twice the rate of gross national product. The growth in demand is even stronger for the kind of integrated, connected and increasingly automated intralogistics systems that are being employed in the factories and warehouses of industry, retail and wholesale.

The KION Group, as a leading global supplier of supply chain solutions and the world's second-largest manufacturer of industrial trucks, is playing an active role in shaping this trend. 2018 was another highly successful year for the Company.

As part of their general dialogue on strategy during the reporting period, the Executive Board and Supervisory Board endorsed the agreed KION 2027 strategy and discussed its ongoing implementation. Following the acquisition of Dematic, the Company is systematically building on the capabilities and solutions that will allow it to bring digitalisation, connectivity and automation to bear in intralogistics.

Strengthening of the Executive Board: focus on digitalisation, automation and innovation

The creation of the role of Chief Digital Officer (CDO) has combined responsibility for digitalisation and mobile automation at the Executive Board level. Susanna Schneeberger, KION Group's first CDO, brings years of international leadership experience in intralogistics with particular expertise in digitalisation, connectivity and automation.

We extended Dr Eike Böhm's contract as Chief Technology Officer by three years. We are thus ensuring continuity in the ongoing advancement of the Company's core technologies, in product development and in the production system. Reaping synergies, continually improving efficiency and effectiveness in production and presenting truck solutions that meet fast-changing customer requirements in the various markets will remain the focus in the coming years. Our objective is clear: for KION to continue to be a leading supplier, offering an extensive portfolio of industrial trucks that meet the very wide-ranging needs of customers around the world.

**DR JOHN FELDMANN**

Chairman

In Anke Groth, we have recruited an excellent and experienced Chief Financial Officer. She is sharpening the tools that KION uses for analysis and for managing the Company with a view to increasing shareholder value. As Labour Relations Director, she influences the corporate culture and the development of our employees in an increasingly digital working world.

Ching Pong Quek is responsible for developing our strategy in the Asian markets, which are exceptionally important to our industry and so also to KION. We will be using a series of initiatives to build on our position in China in particular but also in the region's other fast-growing economies.

Under the experienced and proven leadership of our Chief Executive Officer, Gordon Riske, the Executive Board team of KION GROUP AG is now in an excellent position to meet its current and future challenges. Strategy and changes to the composition of the Executive Board to bring it in line with future needs were key themes in our work on the Supervisory Board last year. In a spirit of collaboration for the benefit of the Company as well as its customers, employees and owners, the Executive Board team will be focused on working with courage and integrity to ensure the long-term success of the KION Group. It has at its disposal a broad range of expertise and experience in engineering, truck manufacturing and intralogistics, in digitalisation, connectivity and automation, and also in corporate management and the establishment of strong corporate cultures.

As would be expected, implementation of the KION 2027 strategy in the reporting year and the tasks and challenges facing the operational business were the subject of discussion at every meeting of the Supervisory Board and its committees. Servicing and aftersales will continue to play a key role in delivering consistent profitable growth for the Company alongside the development and delivery of intralogistics solutions and the manufacture of trucks and equipment.

Targets achieved despite difficult conditions

The KION Group proved to be a reliable performer yet again in 2018. Every aspect of the outlook for the reporting year was borne out by the actual results. Achieving this was not always easy in 2018. Like many other companies, the KION Group is reliant on suppliers of key components. And it became clear that these suppliers were not always able to cope with the increasing volumes that were required. Delivery delays, rising inventories, costs and an impact on revenue were the result. Thanks to the hard work of all employees, however, the Company was able to largely contain the effects.

The growing number of global trade disputes and their often severe after-effects left their mark on the Company's operating profit, as did exchange rate fluctuations that were partly caused by the trade disputes. But because of the hard work of all employees, the clear strategy and the systematic implementation of its measures, the targets formulated in the outlook were achieved and the faith that our partners put in us was repaid.

The Supervisory Board had, as in previous years, agreed very ambitious targets with the members of the Executive Board which are aligned to the upper end of the ranges in the outlook. These targets were exceeded with regard to order intake. However, they were not fully achieved when it comes to revenue, earnings and cash flow. This will affect the Executive Board's variable remuneration.

In addition, neither we nor the shareholders of KION GROUP AG were satisfied with the share's performance. Against the backdrop of trade disputes and concerns in the markets about a slowdown in global economic growth, our share price fell significantly – in line with the general trend. This and the question of what would constitute an appropriate response were the subject of intense discussion by the Supervisory Board. In the second and third quarter, the effects of the delivery delays raised concerns and doubts in the capital markets; there was speculation about profit warnings. However, the Company's results were in line with its outlook and thus proved the robustness of its forecasting, its strategy and its efficiency.

Collaboration between the Supervisory Board and Executive Board

Last year, the Supervisory Board continued to fulfil the tasks and responsibilities imposed on it by the law, the Company's articles of association and the German Corporate Governance Code with dedication and diligence.

As in previous years, the Supervisory Board discussed numerous other issues and transactions requiring consent, made necessary decisions, regularly advised the Executive Board on all significant matters relating to managing the Company and monitored the Executive Board's running of the Company's business. The Supervisory Board was always fully involved in major decisions affecting the Company from an early stage. The Executive Board always notified the Supervisory Board of every significant aspect of the decisions to be made promptly and in detail, providing both written and oral reports. Between meetings of the Supervisory Board and between those of its committees, the chairman of the Supervisory Board, who is also chairman of its Executive Committee, remained in close contact at all times with the Executive Board, particularly the Chief Executive Officer and the Chief Financial Officer. There was also regular contact between the chairman of the Audit Committee and both the Chief Financial Officer and those responsible for internal audit and compliance in the Company. The Supervisory Board satisfied itself at all times that the Company was being managed lawfully and diligently by the Executive Board. Giving the specified period of notice, the Executive Board presented to the Supervisory Board transactions that, according to the law, the Company's articles of association or the rules of procedure for the Executive Board of KION GROUP AG, require the Supervisory Board's consent so that it could adopt resolutions. The Supervisory Board examined closely the resolutions proposed by the Executive Board and deliberated on them before adopting them.

Sustainability report

The Supervisory Board discussed in detail the report on non-financial key performance indicators for the financial year 2017 (sustainability report), which was produced for the first time after having been piloted for the financial year 2016. In the opinion of the Supervisory Board, business management focused on sustainability provides the Company with a 'licence to operate', i.e. a basis for society's acceptance of the Company and its business model. The report documents the Company's existing sustainability management processes and those that are being implemented. Taking its cue from the initial voluntary sustainability report presented in 2017, the Supervisory Board discussed the topic with the Executive Board and the relevant managers in the Company. The Supervisory Board engaged the auditors to review the content of the non-financial Group report for 2018 pursuant to section 315b of the German Commercial Code (HGB). It will take account of the auditors' assessment in its own review of the non-financial Group report and in the resolution to be adopted. The sustainability report, including the non-financial Group report, will be published on the Company's website by 30 April 2019.

Corporate governance

Data protection and data security are integral elements of our business processes. Greater digitalisation requires personal integrity, particularly when working with IT systems. At the end of May 2018, the largely harmonised new regulations pertaining to data protection at European Union level came into force. The Supervisory Board discussed at great length the consequences of this and the Company's preparations to implement the new requirements and received reports on the matter from the Executive Board.

In the second half of the year, another review was carried out of the efficiency of the Supervisory Board's work. External consultants were engaged, as they were for the previous efficiency review, in 2015. The findings of the review were presented and discussed at the December meeting of the Supervisory Board. As was the case in 2015, the reviewers gave a very good assessment of the work of the Company's Supervisory Board. The members of the Supervisory Board saw it as a particular positive that suggestions for improvements to the Supervisory Board's processes resulting from the previous efficiency review had been taken up and implemented.

No amendments were made to the German Corporate Governance Code in 2018. At its meeting on 12 December 2018, the Supervisory Board held its final discussion on the KION Group's compliance with the unchanged recommendations and suggestions of the German Corporate Governance Code and issued an unchanged comply-or-explain statement pursuant to section 161 of the German Stock Corporation Act (AktG). This has been made permanently available to the public on the KION GROUP AG website. KION GROUP AG complies with all but one of the recommendations in the German Corporate Governance Code (version dated 7 February 2017) and intends to continue to do so in future. As in previous years, the only recommendation of the Code with which KION GROUP AG does not comply is the recommendation in section 3.8 (3) of the Code for an excess in the D&O insurance policies for members of the Supervisory Board. KION GROUP AG's articles of association do not provide for this type of excess. The Company believes that such an excess is not typical at international level and would therefore make it considerably more difficult to find independent candidates, in particular candidates from outside Germany. The Supervisory Board acknowledged the new version of the Code announced in October 2018. The chairman of the Supervisory Board actively participated in the consultation process for the new version of the Code. The Supervisory Board generally welcomes the attempts made to focus and streamline the Code's content. However, certain recommendations that were still under discussion at the time this report was completed, are viewed critically. Once the new version of the Code comes into force, the Company will complete its review of the recommendations contained with the Code and how they compare with the processes in place at the Company. The annual comply-or-explain statement for 2019 is scheduled to be discussed at the December meeting, after which the findings of this review will be published.

The Supervisory Board has decided to review the remuneration system and level of remuneration for the members of the Executive Board of KION GROUP AG in 2019, once ARUG (the German law implementing the European Shareholders' Rights Directive) has come into force and the updated German Corporate Governance Code, which we believe should make reference to ARUG, has taken effect. The Supervisory Board has already entered into consultancy agreements concerning this matter with an independent and specialized board compensation advisory firm.

In accordance with section 3.10 of the German Corporate Governance Code, the Executive Board and the Supervisory Board provide a detailed report on corporate governance at KION GROUP AG in the corporate governance report. This is combined with the declaration on corporate governance pursuant to section 289f and 315d HGB and can be found on pages 36 to 45 of this annual report and on the KION GROUP AG website at kiongroup.com/GovernanceReport.

Work of the committees

KION GROUP AG's Supervisory Board had four standing committees last year: the Mediation Committee pursuant to section 27 (3) of the German Codetermination Act (MitbestG), the Executive Committee, the Audit Committee and the Nomination Committee. These committees, but primarily the Executive Committee, prepare the matters to be discussed at the meetings of the full Supervisory Board. The chairman of the Supervisory Board is also chairman of all committees except the Audit Committee. The chairmen of the committees each report regularly to the full Supervisory Board on their committee's deliberations. In addition, the minutes of the committee meetings are distributed to the other members of the Supervisory Board for information purposes once the committee members have approved them.

In 2018, the Supervisory Board and its committees dealt with the matters at hand and made the necessary decisions at a total of 16 meetings. These consisted of six meetings of the full Supervisory Board, four of the Executive Committee, five of the Audit Committee and one of the Nomination Committee. The Mediation Committee did not meet in the reporting period. There were also several conference calls for the purpose of providing the members of the Supervisory Board or the relevant committees with advance information. In 2018, all members of the Supervisory Board attended all Supervisory Board meetings and the meetings of the respective committees of which they were members apart from in the following cases:

There were four (of the six) Supervisory Board meetings at each of which one member sent apologies and two committee meetings at each of which one member sent apologies. Two Supervisory Board meetings took place in the period from 1 January to 9 May 2018 when Denis Heljic was a member of the Supervisory Board. Denis Heljic attended only one of these two meetings.

Engagement of the auditors; audit of the separate and consolidated financial statements

The Company's independent auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), Munich, Frankfurt am Main branch office, audited the separate financial statements, the consolidated financial statements and the combined management report for KION GROUP AG and the Group for the year ended 31 December 2018 following their engagement by the Annual General Meeting on 9 May 2018. The corresponding proposal to the Annual General Meeting had been prepared in meetings held between the chairman of the Audit Committee and the auditors. The proposal was discussed at the Audit Committee's meeting on 21 February 2018 and committee members were given the opportunity to speak to the auditors in person.

The key audit matters were discussed and set out accordingly at the Audit Committee's meeting on 25 July 2018. The auditors were appointed by the chairman of the Supervisory Board on 24 October 2018.

The auditors submitted their report and the documents relating to the 2018 financial statements to the members of the Audit Committee on 12 February 2019 and to the members of the Supervisory Board on 20 February 2019. The report was discussed in depth at the Audit Committee meeting on 20 February 2019 and at the full Supervisory Board meeting on 27 February 2019, both of which were attended by the auditors. At both of those meetings, the auditors reported in detail on the main findings of the audit and discussed these with the members of the Audit Committee and the full Supervisory Board respectively.

The auditors issued an unqualified opinion for the separate financial statements for the year ended 31 December 2018, the consolidated financial statements and the group management report, which was combined with the Company's management report, for the year ended 31 December 2018 on 20 February 2019. Having itself scrutinised the Company's separate financial statements, consolidated financial statements and combined management report for the year ended 31 December 2018, the Audit Committee then made a recommendation to the full Supervisory Board, which the chairman of the Audit Committee explained in more detail in his report to the meeting of the full Supervisory Board. On this basis and taking the auditors' opinion into consideration, the Supervisory Board held a further discussion of its own and then approved the results of the Audit Committee's review at its meeting on 27 February 2019.

Based on the final outcome of its own review, the Supervisory Board did not raise any objections. The Supervisory Board approved the Company's separate financial statements and consolidated financial statements for the year ended 31 December 2018 prepared by the Executive Board, thereby adopting the annual financial statements.

At its meeting on 27 February 2019, the Supervisory Board also discussed and approved the proposal made by the Executive Board that the distributable profit of KION GROUP AG be appropriated for the payment of a dividend of €1.20 per no-par-value share. In doing so, the Supervisory Board took account of the Company's financial situation and performance, its medium-term financial and capital-expenditure planning and the interests of the shareholders. The Supervisory Board believes the proposed dividend is appropriate.

Relationships with affiliated entities (dependency)

The Supervisory Board also examined the report concerning relationships with affiliated entities (dependency report), which the Executive Board signed off on 20 February 2019. The auditors reviewed this report and issued an auditors' report. Based on their audit, which they completed without identifying any deficiencies on 20 February 2019, the auditors issued the following opinion:

Based on our audit and assessment in accordance with professional standards, we confirm that

- 1. the facts in the report are stated accurately,
- 2. the consideration given by the entity for the transactions specified in the report was not unreasonably high,
- 3. there are no circumstances in respect of the measures specified in the report that would justify an opinion materially different from the opinion of the Executive Board.

The dependency report and the auditors' report about it were submitted to all the members of the Supervisory Board in good time. Both reports were discussed in detail in the presence of the auditors at the Supervisory Board meeting on 27 February 2019 after the auditors had presented their report in person. The Supervisory Board agreed with the findings of the audit. Based on the final outcome of its own review, the Supervisory Board did not raise any objections to the Executive Board's declaration at the end of the report concerning relationships with affiliated entities.

Personnel changes on the Supervisory Board

There were several changes on the Supervisory Board in 2018:

By an order issued by the competent local court on 9 October 2018, Dr Michael Macht was appointed to the Company's Supervisory Board as a shareholder representative. He succeeded Tan Xuguang, who had stepped down on 30 September. In Dr Michael Macht, the Supervisory Board has found a proven production specialist who has a long track record in management in the automotive industry. The experience and skills that he possesses round off those that are already represented on the Supervisory Board. His appointment is fully aligned with the objectives for the composition of the Supervisory Board and the Supervisory Board's profile of skills and expertise adopted in 2017, with its 17 fields of competence. The Supervisory Board would like to thank Mr Tan, who provided invaluable input for the strategic positioning of the Company and the development of its operations, particularly in the key markets in Asia.

Denis Heljic, who stepped down from the Supervisory Board after taking a new role in the Company, was succeeded as an employee representative on the Supervisory Board by Martin Fahrenndorf with effect from 10 May 2018. The Supervisory Board would like to thank Mr Heljic for the great dedication with which he always carried out his work as an employee representative in the interests of the Company.

The following changes will be taking place in 2019:

On 5 February 2019, I informed the Company that, following consultation with representatives of the main shareholder, Weichai Power, I will be stepping down as chairman of the Supervisory Board and as a member of the Supervisory Board at the end of the upcoming Annual General Meeting. The Nomination Committee proposed that Dr Michael Macht and Mr Tan Xuguang be elected as new shareholder representatives. Dr Michael Macht was appointed by the court to the Supervisory Board as a shareholder representative for the period until the next Annual General Meeting. The Supervisory Board plans to elect Dr Michael Macht as chairman of the Supervisory Board in the constitutive meeting of the Supervisory Board that follows the Annual General Meeting.

I would like to thank you, our shareholders, for placing your trust in me since 2013 and electing me as a member of the Supervisory Board of KION GROUP AG. I would also like to thank the members of the Supervisory Board for our constructive working relationship, which has focused on building a successful and sustainable company. And my special thanks go to the Executive Board members and the Company's employees. Under the strategically shrewd and far-sighted leadership of the Chief Executive Officer Gordon Riske, who has been steering KION since 2007 with his clear view of what is necessary and possible, KION has evolved into a global leader within intralogistics. Today, KION GROUP AG is extremely well positioned within the global market with expertise, efficiency and a successful business model, and has a solid basis on which to not only meet the future challenges of the markets but also proactively shape them. This will of course require the Company to review its position in the market on an ongoing basis and to continually refine its business models, expertise and processes. Going forward, the task of the Supervisory Board will be to support this process, ensuring that it has the necessary capabilities to do so. I am confident that the Company can continue to justify the faith placed in it by its shareholders, and I wish the Supervisory Board, Executive Board and employees every success in shaping a lasting and successful future based on the Company's core values: integrity, collaboration, courage and excellence.

The details of this report were discussed thoroughly at the Supervisory Board meeting on 27 February 2019 when it was adopted.

My colleagues on the Supervisory Board and I would like to thank the members of the Executive Board and the employees of KION GROUP AG and its Group companies in Germany and abroad for their commitment and outstanding achievements in 2018.



Dr John Feldmann
Chairman