Quarterly Report | Q1 2011

KION GROUP

WE KEEP THE WORLD MOVING

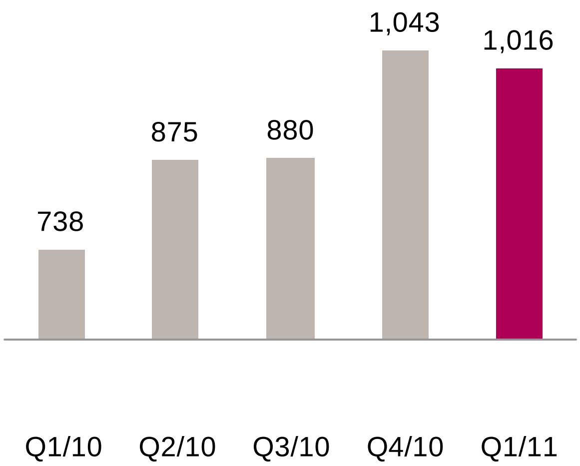
MATERIAL HANDLING SOLUTIONS

Linde STILL FENWICK OM Baoli VOLTAS

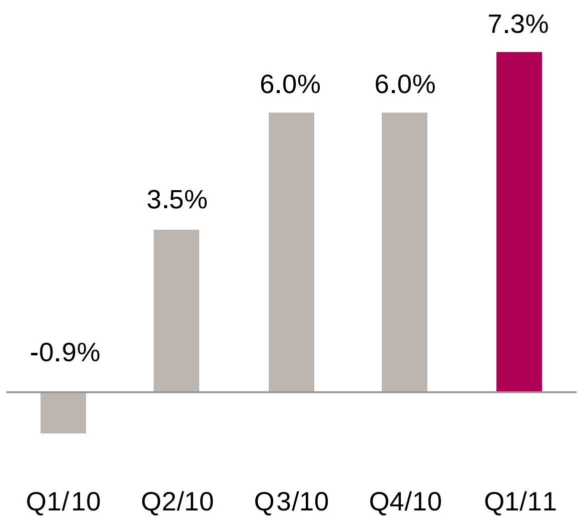
SUMMARY Q1/2011

REVENUE	+38%
EBIT MARGIN ADJUSTED	7.3%
FREE CASH FLOW	€46 million

Revenue (€ million)



EBIT margin adjusted



We are a leading global supplier of industrial trucks and we are well-positioned to capture growth opportunities in our European home market as well as across global growth regions by leveraging our leading market positions, our global sales and service network, our comprehensive product and service offering, our technological leadership and our multi-brand offerings. We are the largest manufacturer of industrial trucks in Europe and the second largest manufacturer globally.

KION Group key figures *)

€ million	Q1 2011	Q1 2010	Change
Order intake (in €)	1,157	846	36.9%
Order intake (new trucks in units)	36,600	26,900	36.1%
Revenue	1,016	738	37.8%
EBITDA	141	54	>100%
Adjusted EBITDA[1]	149	73	>100%
Adjusted EBITDA margin[1]	14.6%	9.9%	-
EBIT	60	-30	>100%
Adjusted EBIT[1]	75	-6	>100%
Adjusted EBIT margin[1]	7.3%	-0.9%	-
Net loss for the period	-4	-99	96.4%
Capital expenditures	22	22	-1.3%
Free cash flow[2]	46	-22	>100%
Total spending on R&D[3]	27	24	13.7%
R&D spending/revenue (%)	2.7%	3.2%	-

€ million	03/31/2011	12/31/2010	Change
Trade working capital	691	661	4.6%
Cash and cash equivalents	257	253	1.5%
Equity	-398	-400	0.6%
Net financial debt	2,600	2,641	-1.5%
Number of employees incl. apprentices and trainees	20,154	19,968	0.9%

[1] Adjusted for KION acquisition items and one-off items
[2] Free cash flow is defined as Cash flow from operating activities less Cash flow used in investing activities
[3] Including amortization expense, depreciation and capitalization

*) KION Group figures reflect financial data of KION Holding 1 GmbH as well as for certain respects figures of KION GROUP GmbH which acts as the management holding company for the Group.

CONTENTS

DISCLAIMER

We have included in this Quarterly Report the Consolidated Financial Statements of KION Holding 1 GmbH. This financial data differs in certain respects from the financial data of KION GROUP GmbH: The financial statements of KION Holding 1 GmbH include the shareholder loan in the principle amount of €500 million (before capitalized interest) and certain fees including audit fees and annual fees to the supervisory board.

KION Holding 1 GmbH owns all the shares in KION Holding 2 GmbH, which in turn is the sole shareholder of KION GROUP GmbH. KION GROUP GmbH acts as our management holding company.

This report should be read in conjunction with the 2010 Annual Financial Statements of KION Holding 1 GmbH available on our website. This report provides updated or additional information to the financial statements.

In this report, the accompanying unaudited condensed interim financial statements of KION Holding 1 GmbH as of and for the relevant period ended March 31, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in Germany. The financial information and financial statements included in this report are presented in Euro. Certain numerical figures included in this report have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding. All changes in percentage and ratios were calculated using the underlying data in € thousands.

This report contains information, data and predictions about our markets and our competitive position. We have not verified the accuracy of such information, data or predictions contained in this report that were taken or derived from industry publications, public documents of our competitors or other external sources. We believe that the information, data and predictions presented in this report provide fair and adequate estimates of the size of our markets and fairly reflect our competitive position within these markets. However, our internal estimates have not been verified by an external expert, and we cannot guarantee that a third party using different methods to assemble, analyze or compute market information and data would obtain or generate the same results. In addition, our competitors may define our and their markets differently than we do.

The discussion includes forward looking statements, which, although based on assumptions that we consider reasonable, are subject to risk and uncertainties, which could cause actual results, events or conditions to differ materially from those expressed or implied herein. Investors are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events. We provide a cautionary discussion of risks and uncertainties under ''Risk Factors'' contained elsewhere in this report. These are factors that we think would cause our actual results to differ materially from expected results. Other factors besides those, however, could also adversely affect us.

BUSINESS

Overview

We are a leading global supplier of industrial trucks and we are well-positioned to capture growth opportunities in our European home market as well as across global growth regions by leveraging our leading market positions, our global sales and service network, our comprehensive product and service offering, our technological leadership and our multi-brand offerings. We are the largest manufacturer of industrial trucks in Europe and the second largest manufacturer globally in terms of unit sales. Besides our home market of Europe we are in a leading position in the current growth regions of China, South America and India. We are the only major global manufacturer focused solely on industrial trucks, and we complement our new truck business with a broad service offering.
We operate through our two global brands, Linde and STILL and through our three regional brands, Fenwick (France), OM (Italy) and Baoli (China and emerging markets), as well as 18 separate production sites, including our hydraulics and components business, and more than 1,200 distributors, dealers and other sales outlets in over 100 countries. In the first quarter of 2011 we also announced a joint venture with Voltas in India and to establish our sixth brand in order to early capture the potential of the Indian material handling market. We offer a full range of products including warehouse and counter-balance trucks with both electric and internal combustion engines, across the premium, value and economy segments.

We complement our products with a comprehensive service offering geared to our customers' specific needs, including after sales service, financial services, fleet management and software solutions. Our service activities are an essential sales support function for our new truck sales business and also generate higher margins as well as more stable revenue on a standalone basis. Our production and service activities are complemented by our Linde Hydraulics business, which manufactures high-end hydraulic components for use within our products, as well as customized hydraulic components for external customers, across a variety of industries. With more than one million of our trucks in circulation, our service offering is an important part of our business, generating 46% of our revenue in 2010.

We operate our business through a multi-brand strategy, allowing us to strategically position ourselves across a wide range of products, geographies, regions and customer preferences. Our Linde, STILL Baoli and Voltas brands operate independently, enabling us to capitalize on their strengths and leverage our sales channels in the regions across which we operate. Fenwick is operated by our Linde Material Handling management for France, and OM's operations are being integrated into STILL's and the OM brand will be used to cover Italy. At the same time, all of our brands benefit from shared administrative, procurement and logistics functions, thereby reducing costs and yielding cost synergies. Historically, we reported our business under three main operational segments: Linde Material Handling (includes the Linde, Fenwick and Baoli brands as well as Linde Hydraulics), STILL and OM. Due to the combination of STILL and OM, we will present our financial accounts and figures on a combined STILL/OM basis from Q1/2011 onwards and will also provide the respective data for the previous year period.

Our Strategy

Maintain new truck market leadership and expand service offering in our European markets

We aim to maintain the strong market leadership positions that we have achieved in the European markets by leveraging our strong brands and remaining at the forefront of technological innovation, while increasing the benefits we provide to our customers by expanding our service offering. We believe that we can differentiate our products through technological leadership that translates into superior customer benefits. To maintain our technological leadership position, we continue to invest significantly in research and development. In total, our research and development costs in 2010 were €103 million, or 5.5% of our new truck and hydraulics sales and 2.9% of our total revenue, which we believe to be higher than what most of our competitors spent during that period. Our research and development pipeline includes innovations to address major technological trends, including fuel cell drive systems, hybrid trucks, lithium-ion technology and enhanced ergonomics.

We strive to continuously broaden the range and increase the quality of the services we offer and develop for our customers, including solutions for fleet management, intra-logistics processes, efficient goods flow management and IT systems. We intend to increase our market share and coverage in our after sales business in particular by targeting our significant installed base. We believe that our full product and service offering increases our value proposition and helps to drive customer loyalty.

Tap full market potential in growth regions

We intend to exploit our excellent position in important growth markets in order to benefit from the increasing demand in those markets. We plan to continue introducing more tailored products into specific markets including China and Brazil, and to build out our local product distribution and manufacturing network. We strive to leverage our diverse product portfolio to cover the premium, value and economy segments as the emerging markets continue to grow. We seek to further increase our local product offerings and expand our sales and services network in key growth regions. We aim to achieve this through targeted investments in local manufacturing capacity, product research and development, by a sales presence including the targeted acquisition of dealers in markets important to us, and, opportunistically, with small local or regional manufacturers.

Further improve market penetration through our multi-brand strategy and sales and service networks

We leverage our multi-brand strategy with our Linde, Fenwick, STILL, OM, Baoli and Voltas brands to reach a wide range of regions and customers, as well as the economy, value and premium market segments. We believe that this results in increased sales by better addressing customer needs in their specific locations. For example, in order to better address the potential of the important growth markets of Asia and South and Central America, which generally have lower technological requirements and are more price sensitive, we added Baoli, a local Chinese manufacturer, to our group as a fifth brand in 2009, to focus on the economy segment in China, but also to leverage this product offering in other markets. We will continue to explore selected external growth opportunities and seek to maximize our growth potential by utilizing the different strengths of our six brands, allowing us to present multiple options to our competitors thereby increasing our overall market share. This effort will be assisted by continued exploitations of our existing service network in order to drive new truck sales and after sales revenue.

Reduce costs by exploiting group-wide synergies and achieving operational excellence

We strive to approach the market through our separate brands, maximizing our potential market share, while simultaneously working across our brands to achieve synergies and reduce costs in operations by implementing best practices throughout our group. While historically the various entities were managed largely separately, we are now focused on exploiting group-wide synergies while maintaining the distinctive identities of our brands. For example, our quality and production controls and logistics units are now managed by a central operations team in order to create uniform standards and make expertise available across our group. In addition, we plan to continue improving our production footprint across the group. We are able to efficiently manage resources through a shared procurement organization and a joint research and development unit enabling the bundling of resources and more efficient capacity utilization while still maintaining independent brand support where appropriate. We will continue to optimize our systems and processes and are also in the process of implementing and running standardized IT systems and platforms in order to continue to improve margins.

Our Strengths

Market leader in attractive European market

We are the leading European industrial truck manufacturer and our position is particularly strong in Western Europe. We believe that our strong product offering, our customer relationships, our dense sales and service network, and our significant installed base of trucks provide us with an excellent platform to capture future demand in the European markets. The market in which we operate is large and has exhibited historic growth at rates exceeding GDP.

Strong platform from which to capture emerging markets potential

We have a strong presence in many emerging markets, which over the medium term we expect to exhibit higher growth rates than the developed Western economies. We are in a leading position in Eastern Europe, and we are the leading non-domestic manufacturer in China and the second largest manufacturer in Brazil. We recently significantly strengthened our position in India by establishing a joint venture with Voltas Limited. This joint venture will allow us to capture significant market share in an early stage of the development of the Indian market. We believe that our position in these emerging economies will allow us to capture additional sales volumes as these markets continue to grow. In addition, given our access to premium product offerings across all truck types and our service know-how derived from our strong market position in Europe, we believe that we are well positioned to benefit as these markets mature and demand shifts towards premium products and services which not all local players may be able to provide.

Global and regional brands with a loyal customer following

We operate our business through a multi-brand strategy, allowing us to strategically position ourselves across a wide range of products, geographies, regions and customer preferences. Our global Linde and STILL brands, as well as our regional Fenwick, OM, Baoli and Voltas brands benefit from significant customer recognition and loyalty. We leverage our multi-brand platform to reach a wide range of regions and customers, as well as the economy, value and premium market segments. We believe that this enhances our position by better addressing customer needs in their specific locations.

Full product offering, diversified across products, customers and geographic markets

We offer a complete product range of new industrial trucks, from small low-lift pallet trucks up to 46 ton container handlers, as well as maintenance and repair services, comprehensive fleet management solutions and financial solutions. This comprehensive product offering is important to our premium customers, who seek a full product line including services when selecting an industrial truck manufacturer. Our customers are highly diversified by end markets and by geography. China is our third biggest market behind Germany and France, in terms of new trucks sold in units, and Brazil is our sixth biggest market. Our top ten customers for the KION Group only represented 6% of our total revenue in 2010.

Strong after sales business reducing revenues and earnings volatility

In 2010, we generated 46% of our revenue from our service offering, including 27% of our revenue stemming from our after sales business, which includes maintenance and spare parts. This revenue stream, which produces higher margins than our new truck sales, has historically been less volatile than new truck sales. Accordingly, our significant activities in this area somewhat reduce the overall volatility of our revenues. Our comprehensive after sales service offering benefits from our installed base of over a million trucks worldwide and is complemented by our network of over 1,200 sales and service locations in over 100 countries with more than 7,000 service employees globally, allowing us to remain close to our customers. Customer proximity is particularly important from a service perspective as many customers use our products in mission critical applications, in many instances for up to twenty-four hours a day, and require very short response times by service technicians. We believe that our dense network represents a significant competitive advantage over competitors that do not have such networks and would need to invest heavily to develop them. This is particularly true for competitors who are focused on new truck sales.

Competitive advantage through technological leadership

We are at the technological forefront of the IC truck and E truck segments, and have a leading technological position in warehouse trucks. Linde Material Handling is a technological leader with its highly efficient and reliable hydrostatic drive, while STILL is well-positioned in hybrid technology with its diesel-electric drive. We are committed to investing in products in line with major trends in the industry and are leading in hybrid technology, lithium-ion technology, fuel cells, ergonomics and safety. All of our brands benefit from our large research and development platform that allows us to make research results available across the group, while simultaneously addressing the specific needs of our brands in terms of technology and brand differentiation. We believe that as a result of our technological superiority, the total cost of ownership of specific Linde IC trucks is significantly lower than that of many other trucks.

Operational excellence

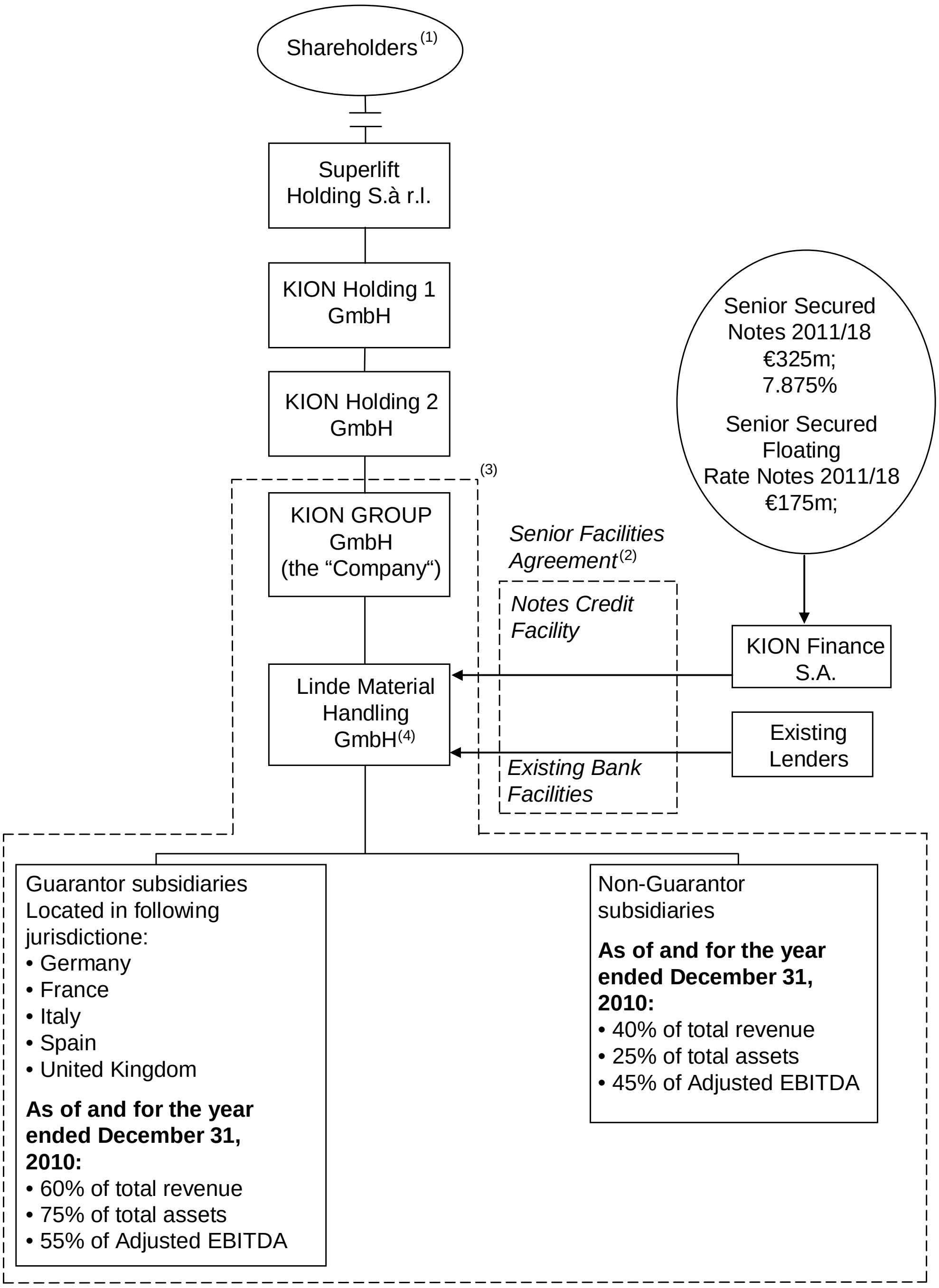
We constantly search for and implement programs to increase our efficiency and drive our margins. Since 2006, we have implemented a number of restructuring and cost savings measures, including temporary measures, such as the closure of our former manufacturing site in Basingstoke and the downsizing of two further sites in Germany. In addition, we have strengthened our OM brand and sales network in Italy by leveraging the existing STILL product portfolio. These measures have significantly improved our structural cost base. We continue to implement a number of further operational improvement measures, such as common production standards, consolidation of our product portfolio, design-to-cost initiatives, and supplier management. These measures, together with the inherent operating leverage, offer the potential for significant profit improvement as our revenues increase.

Experienced management team

Our senior management team has extensive experience across our industry and has an excellent track record in the execution of our growth strategy, in restructuring and redesigning our business and in delivering efficiencies and significant synergies across our group. Through our optimized and streamlined structures and processes implemented by our senior management team, we believe we are in a strong position to compete in the market.

Summary of Corporate Structure & Shareholders

The following diagram summarizes certain aspects of our corporate structure.



(1) For information regarding our ultimate shareholders please see "— Our Shareholders" below.
(2) The Existing Bank Facilities and the Notes Credit Facility under the Senior Facilities Agreement rank equally in right of payment. Facility D under the Senior Facilities Agreement is a second lien tranche which in certain circumstances will receive proceeds only after the other facilities under the Senior Facilities Agreement.
(3) These entities are all members of the KION Group. Total revenue, total assets and Adjusted EBITDA presented have been prepared on a consolidated basis.
(4) The other borrowers under the Existing Bank Facilities are Superlift UK Limited, KION France Services S.A.S., Islavista Spain S.A.U. and Linde Holdings Limited.

Our Shareholders

Our principal shareholders include Goldman Sachs Capital Partners, investment partnerships controlled by Goldman, Sachs & Co. and certain of its affiliates, and investment partnerships controlled by KKR & Co. L.P. and certain of its affiliates. Since 1986, Goldman Sachs, through its Merchant Banking Division, has raised over $82 billion of capital for corporate investments through 16 investment vehicles (including equity, mezzanine, senior secured loan and distressed funds) (together "GS Funds"). The GS Funds conduct privately negotiated investment activities globally and have invested over $15 billion in industrial and manufacturing companies. Investments include for example Messer Griesheim, Cognis, Xella International, Prysmian Cables & Systems, Ahlsell, Ontex, Hawker Beechcraft, Sanyo Electric and Geely Automobile Holdings. GS Capital Partners V, L.P. ("GSCP V"), is one series of the diversified GS Funds with over $8 billion of capital commitments. Like the other GS Funds, GSCP V is managed and sponsored by affiliates of Goldman Sachs and focuses on large, sophisticated business opportunities in which value can be created by leveraging the resources and expertise of Goldman Sachs to source, execute and manage investments.

Founded in 1976 and led by Henry Kravis and George Roberts, KKR is a leading global investment firm with $61.0 billion in assets under management as of December 31, 2010. With 14 offices around the world, KKR manages assets through a variety of investment funds and accounts covering multiple asset classes. KKR seeks to create value by bringing operational expertise to its portfolio companies and through active oversight and monitoring of its investments. KKR complements its investment expertise and strengthens interactions with investors through its client relationships and capital markets platforms. KKR is publicly traded on the New York Stock Exchange (NYSE: KKR). For additional information, please visit KKR's website at www.kkr.com.

MANAGEMENT DISCUSSION & ANALYSIS

Recent developments

Change in segmentation due to the combination STILL/OM

As a result of the combination of our two brands STILL and OM, we changed our segment reporting beginning in 2011 and will report both brands under one common segment STILL/OM. As a result of gaining access to STILL's comprehensive product portfolio and becoming the major representative of the STILL brand in Italy, OM will significantly expand its range of products while continuing to focus on its home market, Italy. STILL will similarly be able to enhance its product range with OM's reliable product base.

€500 million bond issue successfully executed

We successfully placed senior secured notes with a total principal value of €500 million. The bond issuance partially extends the company's debt maturity profile into 2018 and diversifies our investor base. Net proceeds have been used to refinance our existing first lien loan indebtedness. The senior secured notes have been issued by Luxembourg-based KION Finance S.A. The senior secured notes due in 2018 comprise a fixed rate tranche of €325 million and a floating rate tranche of €175 million. The fixed rate notes were issued at par with a coupon of 7.875%, the floating rate notes were issued at par and will pay a coupon of 3 month EURIBOR plus 4.25%. As the bonds were issued in April, this first Quarterly Report does not yet reflect any impact of the bond.

KION takes a major step in India through Voltas

In March we announced an agreement to establish a joint venture in India with Voltas Limited (‘‘Voltas’’) for the development, manufacturing, marketing and servicing of forklift trucks and warehousing equipment. Under the terms of the joint venture agreement, Voltas’ material handling operations will be integrated into a new joint venture company. On the closing of the transaction, we entered into a product supply agreement with Voltas. The joint venture company is called Voltas Material Handling (VMH) Private Limited. We financed the acquisition of our majority share in VMH through cash on hand, and have not incurred additional debt in connection with the joint venture. VMH is concentrating on the Indian market, with an initial product range including IC trucks and E trucks, and a view towards including warehouse trucks in the future. The closing of the transaction was completed in Q2/2011. We will include VMH in our reporting within the segment “Other” from Q2/2011 onwards.

Market development in Q1/2011

Global industrial truck markets continued their recovery and increased by 40% compared to Q1/2010 to almost 247,000 units – and reached the highest Q1 level ever. Global growth was driven by all regions. While the industrialized markets like Western Europe and Northern America continued to recover, the growth regions improved further backed by overall economic development and with a continued demand for material handling solutions. China in particular continued its strong market development and reached a new quarterly record with a further improvement of 41% on top of the high level from last year. It now represents 64,000 units or 26% of the global market, while Western Europe, at 87% of the 2008 level, remains the biggest regional market with 76,000 units and an increase of 44%.

Global Industrial Truck Market (order intake)

in thousand units	Q1 2011	Q1 2010	Q1 2009	Q1 2008	Changes 2011/2010
WEU	76	51	47	87	44%
EEU	13	7	5	20	86%
China	64	45	21	30	41%
Rest of Asia	34	29	18	42	37%
North America	37	28	23	42	32%
South & Central America	14	9	3	9	48%
Rest of World	9	7	5	10	34%
Total	**247**	**176**	**121**	**241**	**40%**

Source: WITS/ FEM

Financial highlights of Q1/2011

Overview

Driven by the strong market environment, our order intake in the new truck business grew from 26,900 units in Q1/2010 by 36% to 36,600 units. Growth was promoted by strong development in European markets as well as the continued surge in China, which is our third biggest market. New truck order intake especially benefited from the trend towards E and IC trucks which grew even more than the the smaller warehouse trucks. Besides new truck business, all other service lines including after sales, rental and used truck business improved substantially. Total order intake which includes all lines of business grew by 37% to €1,157 million compared to last years' period and exceeded our revenue which increased by 38% to €1,016 million. Our order book grew accordingly to €901 million.

KION Group key figures			
€ million	Q1 2011	Q1 2010	Change
Order intake	1,157	846	36.9%
Revenue	1,016	738	37.8%
EBIT	60	-30	>100%
Adjusted EBIT	75	-6	>100%
EBITDA	141	54	>100%
Adjusted EBITDA	149	73	>100%
Free cash flow	46	-22	>100%
EBIT Margin (Adj.)	7.3%	-0.9%	-
EBITDA Margin (Adj.)	14.6%	9.9%	-

EBIT is defined as net profit (loss) before financial income, financial expense, and income taxes. EBITDA is defined as EBIT before depreciation, amortization and impairment charges. EBIT and EBITDA reflect the impact of earnings or charges resulting from matters that we do not consider to be indicative of our ongoing operations. Therefore, we also present Adjusted EBIT and Adjusted EBITDA. In calculating Adjusted EBIT and Adjusted EBITDA, we add back costs that we believe are not indicative of the ongoing operations or those that may impact the comparability of financial information year on year or do not impact our ability to service our debt (referred to as ''Non-recurring Items''). Adjusted EBIT is defined as EBIT after applying adjustments to eliminate certain Non-recurring Items and KION acquisition items. Adjusted EBITDA is defined as EBITDA after applying adjustments to eliminate certain Nonrecurring Items and KION acquisition items. EBIT, EBITDA, Adjusted EBIT and Adjusted EBITDA are not financial measures calculated in accordance with IFRS. Accordingly, they should not be considered as alternatives to net income or operating income as indicators of our performance, or as alternatives to operating cash flows as a measure of our liquidity. EBIT, EBITDA, Adjusted EBIT and Adjusted EBITDA are used by our management to make decisions about our operations unaffected by the above factors. In addition, we believe that EBIT, EBITDA, Adjusted EBIT and Adjusted EBITDA are measures commonly used by investors. EBIT, EBITDA, Adjusted EBIT and Adjusted EBITDA, as presented in this Quarterly Report, may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

Condensed statement of income

Condensed statement of income			
€ million	Q1 2011	Q1 2010	Change
Revenue	1,016	738	37.8%
Cost of sales	-742	-579	-28.1%
Gross profit	**274**	**158**	**73.0%**
Selling expenses	-129	-105	-23.4%
Research and development costs	-27	-26	-7.2%
Administrative expenses	-62	-62	0.5%
Other income/expense	5	4	31.3%
Profit from equity investments/other financial result	0	1	-51.1%
Earnings before interest and taxes (EBIT)	**60**	**-30**	**>100%**
Net finance cost	-49	-77	36.9%
Earnings (loss) before taxes	**11**	**-107**	**>100%**
Income taxes	-15	9	<-100%
Net loss for the period	**-4**	**-99**	**96.4%**

Revenue

As a result of the ongoing strong recovery of the economies in the markets that are most important to our business such as Germany, France and China, there was strong demand for new trucks and increased truck utilization levels, the latter of which accelerated the replacement cycle and increased services demand. The overall value of our order intake for new trucks, service offering and hydraulics increased year-over-year by 37% to €1,157 million for Q1/2011, compared to €846 million for Q1/2010. The increase of the order intake in the course of 2010 and Q1/2011 had a positive impact on our revenue, which grew by 38%, or €278 million, to €1,016 million, compared to €738 million in Q1/2010. This increase was visible in both business segments, LMH and STILL/OM.

Our revenue growth can be broken down by product category as follows:

Revenue by product category			
€ million	Q1 2011	Q1 2010	Change
New truck business	540	333	62.0%
Hydraulics	39	26	51.8%
Service Offering	437	379	15.5%
After Sales	259	226	14.4%
Rental business	105	94	11.9%
Used trucks	50	44	14.3%
Other	23	15	59.3%
Total revenue	**1,016**	**738**	**37.8%**

As a result of the continuing market recovery in 2010 and Q1/2011 a significant revenue increase was visible across all product categories. The New truck business reported the highest revenue growth at 62%, from €333 million in Q1/2010 to €540 million in Q1/2011, making it our biggest driver of revenue in Q1/2011. The strong growth of New truck business is followed by Hydraulics with an increase of 52%. Our service offering accounted for revenue of €437 million in Q1/2011, compared to revenue of €379 million in Q1/2010, an increase of 16%. This increase was due to the improved economic environment that led to higher capacity utilization levels and therefore gave rise to a greater demand for services and spare parts. We have also experienced greater demand for rental and used trucks.

Cost of Sales

The cost of sales increased to €742 million in Q1/2011, an increase of 28% compared to Q1/2010, when the cost of sales was €579 million. Compared to our 38% revenue growth, our cost of sales rose at a lower rate. This is mainly due to higher volume and therefore better capacity utilization. Our cost management strategy that we implemented as part of the KIARA Restructuring Program in 2009, including relocation of certain products and a plant closure in Basingstoke, United Kingdom as well as the downsizing of our plants in Reutlingen, Germany and Kahl, Germany, has led to a lower fixed cost base compared to the pre-crisis level.

Gross Profit and Gross Margin

Our gross profit rose by 73% to €274 million in Q1/2011, from €158 million in Q1/2010. This was caused by a lower rate of increase of our cost of sales in Q1/2011, at 28%, compared to the rate of increase of our revenue in Q1/2011, at 38%. Consequently gross margin rose from 21.4% in Q1/2010 to 26.9% in Q1/2011 due to the significant rise in our capacity utilization, our production efficiency gains and better operating performance across all product categories.

Selling Expenses

Our selling expenses increased by €24 million, or 23%, to €129 million in Q1/2011, from €105 million in Q1/2010 relating to the far higher volume in Q1/2011 compared to Q1/2010. This increase of 23% in selling expenses was lower than the percentage increase in revenue and, as such, can be mainly attributed to the reduction of headcount as part of the KIARA Restructuring Program and consequently the smaller increase in the last quarters. Therefore the selling expenses as a percentage of revenue decreased from 14.2% in Q1/2010 to 12.7% in Q1/2011.

Research and Development Costs

In Q1/2011, our research and development expenses amounted to €27 million. In Q1/2010, research and development expenses amounted to €26 million. This small increase was mainly related to research and development of new products, such as the Linde E truck and other new technologies, such as hybrid IC technology.

General and Administrative Expenses

Our general and administrative expenses remained stable at €62 million in Q1/2011 compared to Q1/2010. As a percentage of our revenue, our administrative expenses decreased to 6.1% in Q1/2011, from 8.4% in Q1/2010.

Other Income and Expense

Other income and expense primarily consists of gains and losses related to foreign exchange rate differences resulting from the measurement of financial assets and receivables denominated in a foreign currency. Additionally, gains and losses related to the sale, disposal or impairment of long-lived assets are included. Our other income and expense remained approximately stable at €5 million in Q1/2011, compared to €4 million in Q1/2010.

Profit from Equity Investments/Other Financial Result

Profit from equity investments consists of all gains and losses that we realize on associates and joint ventures that we account for under the equity method and for which we have no controlling interest. The profit from equity investments amounted to approximately nil in Q1/2011 and in the comparable prior year period. Other financial results amounted to approximately nil in Q1/2011 compared to positive €1 million in Q1/2010.

Earnings Before Interest and Taxes (EBIT), Adjusted EBIT, Adjusted EBITDA

The following tables show the adjustments to calculate Adjusted EBIT and Adjusted EBITDA:

Adjusted EBIT			
€ million	Q1 2011	Q1 2010	Change
Net loss for the period	-4	-99	96.4%
Income taxes	-15	9	<-100%
Financial result	-49	-77	36.9%
EBIT	**60**	**-30**	**>100%**
+ Non-recurring items	6	16	-63.5%
+ KION acquisition items	8	7	16.1%
= Adjusted EBIT	**75**	**-6**	**>100%**

Adjusted EBITDA			
€ million	Q1 2011	Q1 2010	Change
EBIT	60	-30	>100%
Amortization and depreciation	81	85	-4.1%
EBITDA	**141**	**54**	**>100%**
+ Non-recurring items	6	17	-64.9%
+ KION acquisition items	1	2	-22.9%
= Adjusted EBITDA	**149**	**73**	**>100%**

Our EBIT amounted to positive €60 million in Q1/2011, compared to negative €30 million in Q1/2010. This improvement of €90 million is primarily a result of the strong market recovery in the major regional markets and the positive revenue increases in our target growth markets of China and Brazil, and also by improved capacity utilization levels both in our New truck business and our Hydraulic components business. Our Adjusted EBIT, which excludes Non-recurring Items and KION acquisition items, improved by €81 million to positive €75 million in Q1/2011. The increased Adjusted EBIT corresponds to an Adjusted EBIT margin of 7.3% in Q1/2011, which was impacted by a strong operating performance and better capacity utilization due to the successful execution of the KIARA Restructuring Program including the closure of the plant in Basingstoke, United Kingdom as well as the downsizing of our plants in Reutlingen, Germany and Kahl, Germany. In Q1/2011, Non-recurring Items amounted to negative €6 million whereas in Q1/2010 EBIT included Non-recurring Items amounting to negative €17 million, which were mainly driven by relocation costs, plant closure, severance payments and general headcount reductions.

The KION acquisition items had a negative impact of €8 million in Q1/2011, compared to €7 million in Q1/2010. These effects of the purchase price allocation in connection with the KION acquisition primarily include depreciation, amortization and impairment and administration charges for KION Holding 1 GmbH.

We achieved an Adjusted EBITDA of €149 million and an Adjusted EBITDA margin of 14.6%, compared to an Adjusted EBITDA of €73 million and an Adjusted EBITDA margin of 9.9% in Q1/2010. Depreciation and amortization declined from €85 million in Q1/2010 to €81 million in Q1/2011 due to reduced capital expenditures in Fiscal Year 2009 and 2010.

Financial Income and Expense

Net finance cost decreased by €28 million from €77 million in Q1/2010 to €49 million in Q1/2011. The main reason for this was that losses from the translation of a US dollar denominated loan amounted to approximately nil in Q1/2011, compared to a loss of €33 million in Q1/2010. Additional foreign currency exchange rate gains included gains on derivative financial instruments amounting to €38 million in Q1/2011, compared to €31 million in Q1/2010 and were offset by losses from hedges amounting to €32 million in Q1/2011, compared to 14 million in Q1/2010. The interest expenses from loans remained relatively stable at €32 million in Q1/2011, compared to €31 million in Q1/2010.

Income Taxes

In Q1/2011, we reported a net tax expense of €15 million, compared to a net tax income of €9 million in Q1/2010. Driven by the strong market environment the current tax expense increased by €9 million to €13 million in Q1/2011, compared to €4 million in Q1/2010. Despite the positive results of operations, management's previous estimate of the possibility to utilize unused tax losses in future profitable years has not changed and, thus, previously unrecognized deferred tax assets were not recognized. Net deferred tax expense amounted to €2 million, compared to a net deferred tax income of €13 million in the corresponding prior year period, the change being partly due to the utilization of deferred tax assets on tax loss carry forwards.

Net loss for the period

In the first quarter of 2011 we reported a net loss of €4 million, compared to a net loss of €99 million in Q1/2010. This development of €95 million was mainly driven by the higher EBIT of €90 million and lower net finance cost of €28 million. Income tax expenses increased by €24 million as described above.

Condensed consolidated balance sheet

Condensed consolidated balance sheet - assets -					
€ million	03/31/2011	% of total	12/31/2010	% of total	Change
Non-current assets	**4,044**	**70.0%**	**4,105**	**71.3%**	**-1.5%**
thereof:					
Goodwill	1,506	26.1%	1,507	26.2%	0.0%
Brand names	591	10.2%	591	10.3%	-0.1%
Deferred tax assets	229	4.0%	242	4.2%	-5.2%
Leased assets	484	8.4%	501	8.7%	-3.5%
Lease receivables	240	4.1%	247	4.3%	-2.9%
Current assets	**1,731**	**30.0%**	**1,654**	**28.7%**	**4.7%**
thereof:					
Inventories	585	10.1%	536	9.3%	9.3%
Trade receivables	650	11.3%	633	11.0%	2.6%
Lease receivables	121	2.1%	121	2.1%	-0.2%
Cash	257	4.4%	253	4.4%	1.5%
Total assets	**5,775**		**5,759**		**0.3%**

Condensed consolidated balance sheet - equity and liabilities -					
€ million	03/31/2011	% of total	12/31/2010	% of total	Change
Equity	**-398**	**-6.9%**	**-400**	**-6.9%**	**0.6%**
Non-current liabilities	**4,720**	**81.7%**	**4,800**	**83.3%**	**-1.7%**
thereof:					
Shareholder loan	622	10.8%	615	10.7%	1.1%
Financial liabilities	2,750	47.6%	2,772	48.1%	-0.8%
Deferred tax liabilities	332	5.8%	335	5.8%	-0.7%
Lease liabilities	405	7.0%	411	7.1%	-1.4%
Current liabilities	**1,453**	**25.2%**	**1,359**	**23.6%**	**6.9%**
thereof:					
Financial liabilities	95	1.6%	106	1.8%	-10.7%
Trade payables	544	9.4%	508	8.8%	7.0%
Lease liabilities	252	4.4%	251	4.4%	0.5%
Total equity and liabilities	**5,775**		**5,759**		**0.3%**

Total assets

Total assets increased by €16 million from €5,759 million as of December 31, 2010 to €5,775 million as of March 31, 2011. As a result of lower capital expenditures by stable linear depreciation and effects from the foreign currency translation, the non-current assets went down by €61 million. Current assets increased by €77 million from €1,654 million to €1,731 million. Driven by the strong market environment with higher revenues, trade receivables increased by €17 million and inventories by €49 million. The positive fair values of derivative financial instruments increased by €6 million. Other current assets increased by €5 million, thereof €4 million in cash and cash equivalents.

Trade working capital

Trade working capital, defined as inventories and trade receivables less trade payables, increased from €661 million as of December 31, 2010 to €691 million at the end of Q1/2011. This increase of 5% was driven by higher order volume which grew by 9% in Q1/2011 compared to Q4/2010.

Equity

Our equity remained relatively stable at negative €398 million as of March 31, 2011; an increase of €2 million compared to negative €400 million as of December 31, 2010. The net loss for the period amounted to €4 million. Gains on cash flow hedges for interest rates recognized in equity increased by €21 million. On the other hand the foreign currency translation effects on equity decreased by €15 million.

Liquidity

As of March 31, 2011 cash and cash equivalents amounted to €257 million. Compared to December 31, 2010 the amount changed by €4 million, which was related to the operational business.

Financial Debt

As of March 31, 2011 Financial debt amounted to €2,857 million, a reduction of €37 million compared to December 31, 2010. This change related to:

From December 31, 2010 to March 31, 2011 the exchange rate between US Dollar and Euro changed by around 6% (from 1.33795 to 1.41665). For the US Dollar part under the senior facilities agreement the positive effect was €33 million.
The PIK related part of the loans under the senior facilities agreement increased Financial debt. The amount for capitalized interests in the first quarter was €10 million. Other Financial debt decreased by €14 million between December 31, 2010 and March 31, 2011. This reduction included repayments of short term loans as well as other changes on local debt.

Net Financial Debt

As of March 31, 2011 Net financial debt amounted to €2,600 million. For the period from December 31, 2010 to March 31, 2011 Net financial debt was reduced by €41 million. In the first quarter cash flow from operating activities and from investment activities generated €46 million. The foreign exchange rate impact on the US Dollar loan tranches was positive. The major outflows from financing activities were interest payments and payments in regard to interest hedges.

Net financial debt

€ million	03/31/2011	12/31/2010	Change
Financial debt	2,857	2,894	-1.3%
- Cash and Cash equivalents	257	253	1.5%
Net financial debt	**2,600**	**2,641**	**-1.5%**
- Capitalized borrowing costs	21	22	-5.9%
Net Financial debt after borrowing costs	**2,580**	**2,619**	**-1.5%**
Financial debt after borrowing costs	**2,836**	**2,872**	**-1.2%**
Shareholder loan	**622**	**615**	**1.2%**

Other financial position

The Shareholder loan increased by €7 million reflecting accrued interest for the first quarter of 2011. Our leased assets as well as our lease receivables and payables (current/non-current) accounted mainly in connection with our Financial Services business went slightly down by €19 million at the end of March 2011.

Condensed statement of cash flow

Condensed statement of cash flow			
€ million	Q1 2011	Q1 2010	Change
EBIT	60	-30	>100%
Cash flow from operating activities	66	1	>100%
Cash flow from investing activities	-20	-23	12.0%
Free cash flow	**46**	**-22**	**>100%**
Cash flow from financing activities	-41	-54	23.8%
Currency effects on cash	-1	2	<-100%
Change in cash and cash equivalents	**4**	**-73**	**>100%**
Net financial debt	**2,600**	**2,641**	**-1.5%**

Cash flow from operating activities

Cash flow from operating activities includes all cash generated from operations and also reflects cash paid for taxes. In Q1/2011, cash flow from operating activities rose sharply to €66 million, compared to €1 million in Q1 2010. This improvement reflected the increase in EBIT to an income of €60 million, compared to a loss of €30 million in Q1 2010. Additionally, there was an increase in working capital with cash outflows of €40 million in Q1/2011, mainly due to the strong recovery in Q1/2011 and the higher order intake level at quarter end. The change in working capital in Q1/2010 amounted to positive €1 million. The larger volume of business and the related outflows from working capital, which was lower than the growth in revenue, were also reflected in the improved cash flow from operating activities.

Cash flow from investing activities

Our cash flow from investing activities amounted to a net outflow of €20 million in Q1/2011, compared to a net outflow of €23 million in Q1/2010, a decrease of 12%. The decrease relates mainly to lower outflows from other loan claims and cash receipts from other sundry financial assets. Capital expenditures on non-current assets and property, plant and equipment remained stable compared to the prior year period, with outflows of €22 million in Q1/2011.

Free cash flow

In Q1/2011, free cash flow, defined as cash flow from operating activities less cash flow from investing activities, rose sharply by €68 million to a cash inflow of €46 million, compared to a cash outflow of €22 million in Q1/2010.

Cash flow from financing activities

Cash flow from financing activities amounted to a total net cash outflow of €41 million in Q1/2011, compared to a net cash outflow of €54 million in Q1/2010. We purchased additional shares in KION Baoli representing 2.67% of its outstanding share capital. As the KION Group assumed control of Baoli in 2009, the additional outflow of funds, amounting to €1 million, was recognized as financing activities in accordance with IAS 7.42A. Interest payments fell by €13 million to €29 million in Q1/2011 compared to €43 million in Q1/2010 as a result of more favourable results from interest rate hedges.

Segment results

All segment data provided is before consolidation effects which reflect cross-segment revenue, internal deliveries of inventories, income from investments and other cost transfer.

Overview

All segments benefited from the strong market environment and increased their order intake in the New truck business substantially. The LMH segment which includes the brands Linde, Fenwick and Baoli grew its order intake by 38% to 23,400 units (Q1/2010: 16,900 units). STILL/OM grew its global order intake by 32% to 13,200 units (Q1/2010: 10,000 units). Total order intake, which includes all lines of business, grew for LMH by 42% to €768 million (Q1/2010: €542 million) and for STILL/OM by 32% to €447 million (Q1/2010: €338 million).

The following table shows all major key figures by segments as a percentage of the KION Group in total:

Overview segments on a quarterly basis

€ million	Q1 2011	% of total	Q1 2010	% of total
Order intake				
LMH	768	66.4%	542	64.1%
STILL/OM	447	38.6%	338	40.0%
Other/Consolidation	-58	-5.0%	-35	-4.1%
Total order intake	**1,157**	100.0%	**846**	100.0%
Revenue				
LMH	661	65.1%	465	63.0%
STILL/OM	400	39.3%	301	40.8%
Other/Consolidation	-45	-4.4%	-28	-3.8%
Total revenue	**1,016**	100.0%	**738**	100.0%
EBIT				
LMH	53	87.3%	-8	25.7%
STILL/OM	15	24.8%	-13	44.1%
Other/Consolidation	-7	-12.1%	-9	30.2%
Total EBIT	**60**	100.0%	**-30**	100.0%
EBITDA				
LMH	102	71.9%	44	80.7%
STILL/OM	43	30.5%	15	28.1%
Other/Consolidation	-3	-2.5%	-5	-8.9%
Total EBITDA	**141**	100.0%	**54**	100.0%
Adjusted EBIT				
LMH	61	81.2%	7	-107.5%
STILL/OM	19	25.4%	-8	124.0%
Other/Consolidation	-5	-6.6%	-5	83.4%
Total adjusted EBIT	**75**	100.0%	**-6**	100.0%
Adjusted EBITDA				
LMH	104	69.7%	54	73.4%
STILL/OM	46	31.0%	21	28.1%
Other/Consolidation	-1	-0.7%	-1	-1.5%
Total adjusted EBITDA	**149**	100.0%	**73**	100.0%

LMH Segment: Revenue

The LMH segment increased its revenue by 42%, from €465 million in Q1/2010 to €661 million in Q1/2011, mainly due to its higher order intake resulting from improved general market conditions, which in turn led to a greater demand for new trucks, service offerings including spare parts from the LMH segment. LMH segment's order intake benefited considerably from the strong recovery in the German market and additionally from the growth in the Asian and Eastern European countries.

LMH Segment: EBIT, Adjusted EBIT and Adjusted EBITDA

In Q1/2011, EBIT increased by €61 million to positive €53 million due to a strong demand for new trucks, services and spare parts from the LMH segment and to a stronger performance by LMH hydraulics. This improved result was mainly driven by demand in Germany, France and China. In Q1/2011, EBIT was impacted by Non-recurring Items of €2 million, compared to €8 million in Q1/2010, mainly related to relocation costs and severance payments as part of the KIARA Restructuring Program. In addition KION Acquisition items amounted to €7 million in both quarters, Q1/2011 and Q1/2010. Accordingly in Q1/2011, because of the strong operating performance of the LMH segment Adjusted EBIT increased by €54 million to €61 million in Q1/2011, compared to €7 million in Q1/2010. Adjusted EBIT margin grew from 1.5% in Q1/2010 to 9.2% in Q1/2011. Adding back depreciation and amortization costs, the LMH segment achieved an Adjusted EBITDA of €104 million and an Adjusted EBITDA margin of 15.7%, compared to an Adjusted EBITDA of €54 million and an Adjusted EBITDA margin of 11.5% in Q1/2010.

Quarterly information - LMH -

€ million	Q1 2011	Q1 2010	Change
Order intake	768	542	41.7%
Revenue	661	465	42.3%
EBIT	53	-8	>100%
Adjusted EBIT	61	7	>100%
EBITDA	102	44	>100%
Adjusted EBITDA	104	54	93.3%
EBIT Margin (Adj.)	9.2%	1.5%	-
EBITDA Margin (Adj.)	15.7%	11.5%	-

STILL/OM Segment: Revenue

Due to improved general market conditions that led to an increased order intake, both for new trucks and service offering, STILL/OM increased its revenue by a considerable 33% in Q1/2011 to €400 million, from €301 million in Q1/2010. The largest drivers of growth were the substantially improved economic market conditions in Germany, the Eastern European countries and Brazil. The total value of STILL/OM's order intake, including new trucks and service offering, rose by 32% in Q1/2011 to €447 million, from €338 million in Q1/2010.

STILL/OM Segment: EBIT, Adjusted EBIT and Adjusted EBITDA

The STILL/OM segment's EBIT increased by €28 million to positive €15 million in Q1/2011 due to improved general market conditions that led to increased order intake and revenue. In Q1/2011, EBIT was impacted by Non-recurring Items of €3 million, mainly relating to relocation costs, severance payments and expenses relating to the combination of STILL and OM. Non-recurring Items for Q1/2010 totaling €5 million were mainly related to the relocation of certain product lines within Germany and severance payments. In addition KION Acquisition items amounted to €1 million in both quarters, Q1/2011 and Q1/2010. Adjusted EBIT increased to positive €19 million, compared to negative €8 million in Q1/2010. Adding back amortization and depreciation, the STILL/OM segment achieved an Adjusted EBITDA of €46 million and an Adjusted EBITDA margin of 11.5%, compared to an Adjusted EBITDA of €21 million in Q1/2010 and an Adjusted EBITDA margin of 6.8%.

Quarterly information - STILL/OM -			
€ million	Q1 2011	Q1 2010	Change
Order intake	447	338	32.2%
Revenue	400	301	32.8%
EBIT	15	-13	>100%
Adjusted EBIT	19	-8	>100%
EBITDA	43	15	>100%
Adjusted EBITDA	46	21	>100%
EBIT Margin (Adj.)	4.7%	-2.6%	-
EBITDA Margin (Adj.)	11.5%	6.8%	-

Segment Other

The segment Other includes our KION Group IT services, logistics services, our head office and financing companies or financing functions in Germany, France, Spain and the United Kingdom. The consolidation effects reflect cross-segment revenue, internal deliveries of inventories, income from investments and other internal cost transfers.

Segment Other: Revenue

The segment Other increased its order intake and revenues by 29% in Q1/2011 to €47 million from €37 million in Q1/2010. The vast majority of both figures, order intake and revenue for both periods is driven by internal services as described above. See also the table “Segment Report” under Financial Statements on page 28 and 29.

Segment Other: EBIT, Adjusted EBIT and Adjusted EBITDA

EBIT amounted to negative €7 million in Q1/2011, compared to negative €9 million in Q1/2010. The Non-recurring Items in Q1/2011 amounted to €2 million in Q1/2011 compared to €4 million in Q1/2010, in both cases driven by consulting expenses. Adjusted EBIT amounted to negative €4 million in Q1/2011 compared to negative €5 million in Q1/2010. Segment Other achieved an Adjusted EBITDA of negative €1 million in Q1/2011 and Q1/2010.

Quarterly information - Other -			
€ million	Q1 2011	Q1 2010	Change
Order intake	47	37	28.8%
Revenue	47	37	28.8%
EBIT	-7	-9	22.4%
Adjusted EBIT	-4	-5	12.0%
EBITDA	-3	-5	33.0%
Adjusted EBITDA	-1	-1	17.0%

Consolidation Effects

Consolidation Effects: Revenue, EBIT and Adjusted EBIT

The consolidation of cross-segment revenues amounted to €92 million in Q1/2011, compared to €65 million in Q1/2010. The elimination of the cross-segment order intake amounted to €105 million in Q1/2011, compared to €71 million in Q1/2010.

The consolidation of cross-segment EBIT and Adjusted EBIT amounted to nil in the first quarter of 2011 and 2010.

Factors affecting our business

Acquisitions

In December, 2010, we signed a purchase agreement for additional shares in KION Baoli representing 2.67% of its outstanding share capital. The purchase price of €1 million was paid in the first quarter of 2011. We now hold 94.67% of the shares in KION Baoli. We have an option to buy the remainder of the shares of KION Baoli. KION Baoli was initially established in January 2009 to reinforce our position in the Chinese market. With the Linde and Baoli brands, we market two brands in China, each covering different customers and product segments. We entered the Chinese market with our Linde brand in 1993 and have built up our position in China as the Chinese market has grown. China is now our third largest market, behind Germany and France.

Procurement Price Volatility

In Q1/2010 the KION Group still benefited from stable, relatively low prices in the commodity markets. Compared to the Q1/2010 price levels, all raw materials relevant for the product cost of KION Group have risen significantly in Q1/2011. Rubber prices have increased in that period by 79%, scrap prices by 48% and copper and steel prices by 35%. In general, approximately 26% of the cost of materials required to manufacture our industrial trucks is directly impacted by commodity price movements, including steel, scrap and copper. Raw material price changes become effective with a time delay and will gradually impact our cost of materials going forward.

Procurement, Suppliers and Purchasing

Despite our strategy to avoid dependence on suppliers, the overall positive market development in Q1/2011 resulted in supply limitations due to limited availability, in particular with regards to tyres for counter-balance trucks. We took special measures to tightly manage the tyre demand on a day-to-day basis in order to minimize the negative impact on delivery performance for trucks. Special actions were also required for electronic components on allocation, even before the earthquake in Japan. That event had no direct supply impact in Q1/2011, however, some limitations in future quarters cannot be excluded.

Employees

Driven by the improvement in business volume, the number of employees increased slightly by 2% to 20,154 employees (Q1/2010: 19,733).

Outlook

Q1/2011 saw a sharp increase in revenue by 38% to €1,016 million driven by strong order intake in the new truck segment but also by further improving volume in the service area. New order intake grew even to a higher level of €1,157 million and exceeded our revenue base significantly. This resulted in a further increase of our current order backlog to roughly €900 million. Higher volume and continued tight cost control resulted in an Adjusted EBIT margin swing and showed a good 7.3% operational margin in Q1/2011.

Given the excellent start to the year and the continued high market demand in both the developed regions but also in the growth regions, and a continued demand for our service offerings, we expect that our operating performance will continue to develop positively. We are nevertheless closely following the developments on our cost side, be it commodity prices or energy costs as well as the supplier situation. Currently we do not anticipate significant impacts on the supplier base from the disaster in Japan. We increased our new truck prices to mitigate raw material cost effects for LMH at the end of last year and for STILL/OM at the beginning of this year. Further commodity price increases could still negatively affect our expectations.

After the Q1 results we expect revenue to develop further on the level reached, but will overall still be below earlier peak levels, while adjusted EBIT margin is expected to come close to our historical peak margins.

FINANCIAL STATEMENTS

Consolidated income statement

Consolidated income statement		
(€ thousand)	Q1 2011	Q1 2010
Revenue	1,016,190	737,657
Cost of sales	-742,406	-579,430
Gross profit	**273,784**	**158,227**
Selling expenses	-129,365	-104,814
Research and development costs	-27,422	-25,584
Administrative expenses	-61,945	-62,279
Other income	14,741	15,587
Other expenses	-9,991	-11,969
Profit from equity investments	0	139
Other financial result	343	563
Earnings before interest and taxes	**60,145**	**-30,130**
Financial income	51,587	44,580
Financial expense	-100,341	-121,877
Earnings before taxes	**11,391**	**-107,427**
Income taxes	**-14,941**	**8,881**
current taxes	-12,821	-3,956
deferred taxes	-2,120	12,837
Net loss for the period	**-3,550**	**-98,546**
attributable to shareholders of KION Holding 1 GmbH	-3,987	-98,871
attributable to non-controlling interests	437	325

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income		
(€ thousand)	Q1 2011	Q1 2010
Net loss for the period	**-3,550**	**-98,546**
Impact of exchange differences	-14,831	12,833
thereof changes in unrealised gains and losses	-14,831	12,833
Gains/losses on employee benefits	-377	331
thereof changes in unrealised gains and losses	-1,204	296
thereof tax effect	827	35
Result of cash flow hedges	21,038	-2,803
thereof changes in unrealised gains and losses	34,714	5,947
thereof realised gains and losses	-5,047	-9,795
thereof tax effect	-8,629	1,045
Other comprehensive income	**5,830**	**10,361**
Total comprehensive income	**2,280**	**-88,185**
Attributable shares		
attributable to shareholders of KION Holding 1 GmbH	1,843	-88,218
attributable to non-controlling interests	437	33

Statement of consolidated financial position

ASSETS		
(€ thousand)	03/31/2011	12/31/2010
Goodwill	1,506,370	1,507,010
Other intangible assets	980,547	986,410
Leased assets	483,806	501,164
Other property, plant and equipment	548,667	566,492
Equity investments	37,687	37,841
Lease receivables	239,628	246,808
Other non-current financial assets	18,212	17,474
Deferred taxes	229,146	241,772
Non-current assets	**4,044,063**	**4,104,971**
Inventories	585,137	535,529
Trade receivables	650,035	633,265
Lease receivables	120,719	120,950
Current income tax receivables	4,801	4,550
Other current financial assets	113,718	106,790
Cash and cash equivalents	256,741	252,884
Current assets	**1,731,151**	**1,653,968**
Total assets	**5,775,214**	**5,758,939**

EQUITY AND LIABILITIES		
(€ thousand)	03/31/2011	12/31/2010
Subscribed capital	500	500
Capital reserves	348,483	348,483
Retained earnings	-715,491	-711,504
Accumulated other comprehensive income	-38,641	-44,471
Non-controlling interests	7,507	7,070
Equity	**-397,642**	**-399,922**
Shareholder loan	622,125	615,250
Retirement benefit obligation	382,118	374,063
Non-current financial liabilities	2,749,829	2,772,417
Lease liabilities	405,193	411,097
Other non-current provisions	127,695	164,299
Other non-current financial liabilities	100,106	127,870
Deferred taxes	332,438	334,930
Non-current liabilities	**4,719,504**	**4,799,926**
Current financial liabilities	95,095	106,470
Trade payables	543,802	508,108
Lease liabilities	251,884	250,552
Current income tax liabilities	13,721	6,661
Other current provisions	115,461	95,902
Other current financial liabilities	433,389	391,242
Current liabilities	**1,453,352**	**1,358,935**
Total equity and liabilities	**5,775,214**	**5,758,939**

Consolidated statement of changes in equity

Consolidated statement of changes in equity

(€ thousand)

	Equity attributable to shareholders of KION Holding 1 GmbH								
				Cumulative other comprehensive income					
	Subscribed capital	Capital reserves	Retained Earnings	Cumulative translation adjustment	Gains/losses on defined benefit obligation	Cash Flow Hedges	Gains/losses from equity investments	Non-controlling interests	Total
Balance as at 1/1/2010	**500**	**348,483**	**-516,199**	**-79,286**	**41,156**	**-24,841**	**0**	**17,144**	**-213,043**
Net loss for the period			-98,871					325	-98,546
Other comprehensive income				13,125	331	-2,803		-292	10,361
Balance as at 03/31/2010	**500**	**348,483**	**-615,070**	**-66,161**	**41,487**	**-27,644**	**0**	**17,177**	**-301,228**
Balance as at 1/1/2011	**500**	**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**7,070**	**-399,922**
Net loss for the period			-3,987					437	-3,550
Other comprehensive income				-14,831	-377	21,038			5,830
Balance as at 03/31/2011	**500**	**348,483**	**-715,491**	**-56,856**	**12,121**	**6,219**	**-125**	**7,507**	**-397,642**

Consolidated statement of cash flows

Consolidated statement of cash flows		
(€ thousand)	Q1 2011	Q1 2010
Net loss for the period	-3,550	-98,546
+ income taxes	14,941	-8,881
+ financial result	48,754	77,297
= Earnings before interest and taxes	**60,145**	**-30,130**
Depreciation/Impairment of non-current assets (excl. leased assets)	38,818	39,773
Depreciation/Impairment of leased assets	42,253	44,733
Other non-cash income and expenses	3,911	13,580
Gains (-) / losses (+) on disposal of non-current assets	705	1,197
Cash payments for purchase of leased assets	-30,218	-25,502
Change in lease receivables and lease liabilities	-12,211	-11,550
Change in inventories	-58,023	-14,039
Change in trade receivables	-23,193	-4,106
Change in trade payables	41,591	19,497
Cash payments for defined benefit obligations	-4,905	-4,645
Change in other provisions	-16,061	-18,930
Change in other operating assets	-5,350	-27,970
Change in other operating liabilities	34,266	22,434
Taxes paid	-5,804	-3,464
= Cash flow from operating activities	**65,924**	**878**
Cash receipts from disposal of non-current assets	927	713
Cash payments for purchase of non-current assets	-22,040	-22,319
Deposits from other loan claims (net)	1,389	-476
Dividends	343	702
Interest income	909	855
Cash receipts and cash payments from sundry assets	-1,720	-2,424
= Cash flow from investing activities	**-20,192**	**-22,949**
Cash paid for increased ownership interests (after control)	-712	0
Loan financing costs paid	-228	0
Borrowings repayment (net) of other capital received	-10,528	-10,709
Interest paid	-29,323	-42,798
= Cash flow from financing activities	**-40,791**	**-53,507**
Exchange-rate-related and other changes in cash	-1,084	2,301
= Change in cash and cash equivalents	**3,857**	**-73,277**
Cash and cash equivalents at the beginning of the year	252,884	463,408
Cash and cash equivalents at the end of the year	256,741	390,131

Segment report

Segment report

(€ thousand) Q1 2011	LMH	STILL/OM	Other	Consolidation/ Reconciliation	Total
Revenue	642,408	370,103	3,679	–	1,016,190
Intersegment revenue	18,968	29,462	43,416	-91,846	–
Total revenue	661,376	399,565	47,095	-91,846	1,016,190
Earnings before taxes	49,459	8,242	-39,042	-7,268	11,391
Financial income	11,434	3,325	40,624	-3,796	51,587
Financial expense	-14,476	-9,988	-72,798	-3,079	-100,341
= Financial result	-3,042	-6,663	-32,174	-6,875	-48,754
EBIT	52,501	14,905	-6,868	-393	60,145
+ Non-recurring items	1,536	2,517	1,937	–	5,990
+ KION acquisition items	6,553	1,499	433	–	8,485
= Adjusted EBIT	60,590	18,921	-4,498	-393	74,620
./. Other financial result	182	–	161	–	343
./. Equity result	–	–	–	–	–
EBIT Management Reporting	60,408	18,921	-4,659	-393	74,277
Carrying amount of equity investments	33,279	4,408	–	–	37,687
Capital expenditures*	13,293	6,440	2,307	–	22,040
Depreciation*	24,368	11,158	3,292	–	38,818
Order intake	768,161	447,058	47,095	-104,931	1,157,383
Number of employees**	12,383	7,277	494	–	20,154

* Excl. leased assets
**Number of employees in full-time equivalents as at March 31

Segment report

(€ thousand) Q1 2010	LMH	STILL/OM	Other	Consolidation/ Reconciliation	Total
Revenue	451,740	283,341	2,576	–	737,657
Intersegment revenue	13,008	17,526	33,989	-64,523	–
Total revenue	464,748	300,867	36,565	-64,523	737,657
Earnings before taxes	-11,703	-19,454	-69,157	-7,113	-107,427
Financial income	10,074	3,476	34,400	-3,370	44,580
Financial expense	-14,030	-9,638	-94,704	-3,505	-121,877
= Financial result	-3,956	-6,162	-60,304	-6,875	-77,297
EBIT	-7,747	-13,292	-8,853	-238	-30,130
+ Non-recurring items	7,983	4,744	3,687	–	16,414
+ KION acquisition items	6,652	598	56	–	7,306
= Adjusted EBIT	6,888	-7,950	-5,110	-238	-6,410
./. Other financial result	245	–	318	–	563
./. Equity result	139	–	–	–	139
EBIT Management Reporting	6,504	-7,950	-5,428	-238	-7,112
Carrying amount of equity investments	28,990	4,347	–	–	33,337
Capital expenditures*	15,038	5,016	2,265	–	22,319
Depreciation*	26,038	10,593	3,571	–	40,202
Order intake	542,291	338,133	36,565	-71,417	845,572
Number of employees**	12,013	7,244	476	–	19,733

* Excl. leased assets
**Number of employees in full-time equivalents as at March 31

BASIS OF PRESENTATION

The condensed consolidated interim financial statements of the KION Group as of the end of March 31, 2011 and for the period Q1/2011 were prepared in line with IAS 34 and the other International Financial Reporting Standards (IFRSs) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards for interim financial information. In accordance with IAS 34 a condensed scope of interim reporting has been prepared.

All of the IFRSs and IFRICs that were issued as at the reporting date and that were required to be applied in the 2011 financial year were applied in preparing the condensed consolidated interim financial statements. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010. Except the following new standards, amendments to standards and interpretations, the accounting principles applied in the condensed consolidated interim financial statements were consistent with those in the annual consolidated financial statements for the year ended December 31, 2010.

Financial reporting standards to be adopted for the first time in 2011:

The following financial reporting standards and interpretations were adopted for the first time in 2011: Amendments to IFRS 1, 'First-time Adoption of International Financial Reporting Standards', amendments related to the limited exemption from comparative IFRS 7 disclosures for first-time adopters, Revised version of IAS 24, 'Related Party Disclosures' Amendments to IAS 32, 'Financial Instruments: Presentation', classification of rights issues (rights, options or warrants); Amendments to IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', prepayments of a minimum funding requirement; IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' Improvements to IFRSs in 2010.

The first-time adoption of these standards and interpretations had no significant effect on the presentation of the financial position and financial performance of the KION Group.

Financial reporting standards released but not yet adopted

In its condensed consolidated interim financial statements as March 31, 2011 and for Q1/2011, the KION Group has not applied the following standards and interpretations, which have been issued by the IASB, but are not yet required to be adopted in 2011:

Amendments to IFRS 1, 'First-time Adoption of International Financial Reporting Standards', amendments relating to fixed transition dates and severe hyperinflation; Amendments to IFRS 7, 'Financial Instruments: Disclosures', disclosures relating to transfer of financial assets; IFRS 9, 'Financial Instruments' Amendments to IAS 12 'Income Taxes': Limited amendment to IAS 12 relating to the recovery of underlying assets.

These standards and interpretations will only be applied by the companies included in the KION Group from the date at which they must be adopted for the first time. Their effects on the financial position and financial performance of the KION Group are expected to be insignificant.

In order to improve the clarity of presentation, certain items are aggregated on the face of the statement of financial position and income statement. The items concerned are disclosed and explained separately in the notes. In accordance with IAS 1.60, assets and liabilities are broken down into current and non-current items. Liabilities from outstanding supplier invoices are reported in trade payables, while other accruals are reported in other financial liabilities. The condensed consolidated income statement is prepared in accordance with the cost of sales (function-of-expense) method.

The reporting currency is the euro. All amounts are disclosed in thousands of euros (€ thousand) or millions of euros (€ million) unless stated otherwise. The addition of the totals presented may result in rounding differences of +/- €1 thousand.

RISK FACTORS

You should carefully consider the risks described below as well as the other information contained in this Quarterly Report before making an investment decision. Any of the following risks could materially adversely affect our business, financial condition or results of operations, and as a result you may lose all or part of your original investment. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations. This Quarterly Report contains ''forward-looking'' statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward looking statements. Factors that might cause such differences are discussed below and elsewhere in this Quarterly Report.

Risks Related to our Business

The industrial truck market is cyclical. Any downturn or stagnation in the general economy or the industries in which our customers operate could adversely affect our earnings and results of operations.

The industrial truck market has historically been cyclical. Fluctuations in the order intake for new industrial trucks or the demand for our service offering reflect the capital investment decisions of our customers and the level of utilization of our equipment, which depend to a great extent on the general level of economic activity in the various industries in which our customers operate. During economic downturns, such as the financial and economic crisis that began in late 2008, customers tend to delay new industrial truck purchases or decrease their spending on our service offering as much as possible. As a result of this cyclicality, we have experienced, and in the future might again experience, significant fluctuations in our revenue and net income. If there is another downturn or a so-called ''double-dip recession'' following the recent fiscal and economic crisis, or in the industries in which our customers operate, or if the economy or the industries in which our customers operate stagnates, our business, financial condition and results of operations could be adversely affected. Demand for our service offering is less cyclical than demand for new truck sales, but it is correlated to truck utilization rates, which are typically lower in periods of lower general economic activity. The cyclicality of the markets in which we operate exacerbates the effect of such supply fluctuations, which could have a material adverse effect on our earnings and results of operations.

Our business, financial condition and results of operations have been affected by the financial and economic crisis and may be affected further.

We were severely affected by the financial and economic crisis that began in late 2008. The crisis adversely affected our business and results of operations, as revenues from our customers declined from €4,554 million in 2008 to €3,084 million in 2009, a decline of 32%. Since the crisis began we have taken steps to restructure our business, including implementing the comprehensive KIARA Restructuring Program, drawing down on an existing line of credit, our Multi-Currency Capex Facility, for an amount of €132 million in 2009, and renegotiating some of the terms of the Existing Bank Facilities under the Senior Facilities Agreement, allowing us to borrow an additional €100 million made available to us in 2009 indirectly by investment funds advised by GSCP and KKR. The steps taken as part of the KIARA Restructuring Program or our decision to borrow additional debt may not result in the benefits we were expecting and may materially adversely affect our business, financial condition and operating results.

The industrial truck market in which we operate is highly competitive. If we fail to introduce attractive new technologies and products in a timely manner, this could adversely affect our business, financial condition and results of operations.

The industrial truck market in which we compete is highly competitive. Certain of our products are subject to changing technologies. The costs related to the research and development necessary to develop new technologies are significant and any reduction of our research and development budget could adversely impact our competitiveness. Meeting evolving industry requirements and introducing attractive new products to the market in a timely manner and at prices that are acceptable to our customers are significant factors in determining our competitiveness and success. Commitments to developing new products must be made well in advance of any resulting sales, and technologies and standards may change during development, potentially rendering our products outdated or uncompetitive before their introduction. There can be no assurance that we will be able to achieve thetechnological advances that may be necessary to remain competitive. If any of these risks materialize, they could have a material adverse effect on our business, financial condition and results of operations.

Behavior of our competitors, either by consolidating or oversupplying the market, may adversely affect our business.

Any consolidation among our competitors could enhance their product offerings and financial resources, further strengthening their competitive position and potentially reducing our market share. As a result, we may face declining sales volumes and prices for our products and/or may be compelled to extend warranty periods or provide other gestures of goodwill to our customers. Supply in the markets in which we operate is driven by the manufacturing capacity of our competitors and ourselves. Typically, capacity is added in periods when current or expected future demand is strong and margins are, or are expected to be, high. Investments by our competitors in new capacity, when there is insufficient demand to support such added capacity, can result in overcapacity, thereby leading to a reduction in prices for industrial trucks, which could have a material adverse effect on our margins, results of operations and business.

We compete with low cost manufacturers, especially in the low-price segment, and may be exposed to stronger competition in the future.

We compete not only on the basis of quality, customer service, on-time delivery, breadth of product lines, ease of use, safety and comfort of our products, but also on the basis of price. Introducing new products to the market at prices that are acceptable to our customers is a significant factor in determining our competitiveness and success. Manufacturers from Asia, and other emerging countries, have an advantage in the production of low-priced equipment as a result of comparatively lower labor costs in Asia and weaker currencies relative to the euro. Therefore, Asian competitors may create competitive pressures for us, especially in the Asian markets and in the economy segment. We may also become increasingly exposed to stronger competition and downward pressure on prices as a result of increasing globalization. As a result of these pressures, we may face lower prevailing prices for our products, and we may not be able to reduce our product costs in line with the related declining revenue, which may have a material adverse effect on our business, financial condition and results of operations.

Our after sales business may suffer from the supply of unauthorized reproductions of spare parts and components and the provision of after sales services by unofficial third party dealers.

In the industrial truck market, the after sales business is an important element of the business and consists, among others, of the supply of spare parts and the provision of after sales services, such as maintenance and repair services. After sales and spare parts may be provided by third party dealers rather than us. The supply of unauthorized reproductions of spare parts and components or the provision of services by unofficial third party dealers could result not only in lost revenue opportunities but could also have a negative impact on our market reputation, particularly if the unauthorized reproductions of spare parts and components or the services by unofficial third party dealers are defective or of lesser quality than our products. The success of our after sales business will depend not only on how successful we are in adequately protecting our intellectual property and technical expertise, but also in our ability to serve our customers more effectively than unofficial third party dealers. If unsuccessful, this could have a material adverse effect on our business, financial condition and results of operation or could negatively impact our market reputation.

Production faults could considerably reduce our profitability and expose us to product liability claims.

Our success as a technology leader depends, in large part, on our ability to manufacture products that satisfy our customers' quality and safety criteria. The failure to maintain this quality, for example, due to a design fault or a faulty component, could have a material adverse effect on our business, financial condition and results of operations. Quality damages and failures are recorded as warranty costs in our financial statements. In addition to the annual warranty costs, legal claims could be asserted against us, if injuries or accidents occur as a result of defects in the manufacturing, design or quality of our products. Our business, financial condition and results of operations could be adversely affected if any of these or other production risks materialize.

We could be unsuccessful in adequately protecting our intellectual property, technological know-how and trademarks and there is a risk that we may infringe the intellectual property rights of others.

Our products are highly dependent upon our technological know-how and the scope and limitations of our proprietary rights in this know-how is therefore important to us. We have obtained or applied for a large number of intellectual property rights, such as patents. The process of seeking patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide us with meaningful protection or commercial advantage. In addition, while there is a presumption that patents are valid, the granting of a patent does not necessarily imply that it is effective and that possible patent claims can be enforced to the degree necessary or desired. If a patent does not provide meaningful protection, either because it is invalid or ineffective, there is the risk that competitors may copy our know-how without incurring any expenses of their own. Moreover, a major part of our know-how and industrial secrets is not patented or cannot be protected through intellectual property rights.

Our intellectual property rights may also be vulnerable to misappropriation by employees, contractors and other persons. In particular, intellectual property rights are difficult to enforce in China and certain other countries, since the application and enforcement of laws governing such rights may not have reached the same level as other jurisdictions in which we operate, such as Germany.

Since our competitors, suppliers and customers also submit a large number of inventions for intellectual property protection, and since it is not always possible to determine with certainty whether there are effective and enforceable third-party intellectual property rights to certain processes, methods or applications, there is a potential risk that we could infringe the intellectual property rights of third parties. Accordingly, third parties could assert infringements of intellectual property rights, including illegitimate ones, against us. As a result, we could be required to cease manufacturing, using or marketing certain technologies or products in certain countries or be forced to make changes to manufacturing processes and/or products, or litigate the scope or validity of patents in order to be permitted to sell our products. In addition, we could be liable to pay compensation for infringements or could be forced to purchase licenses to make use of technology from third parties.

Furthermore, we rely on trademarks in order to protect our brands. There can be no guarantee that we will be able to protect our trademarks in the future. If our trademarks cannot be adequately protected, this could hinder or completely eradicate our technological advancement and market reputation and thus significantly impair our competitiveness. In particular, Linde Material Handling GmbH has an agreement with Linde AG regarding the use of the name and trademark ‘‘Linde’’ with an unlimited term. If, notwithstanding the unlimited term, the agreement was nevertheless to be terminated, we would not be able to use the ‘‘Linde’’ brand which could have a material adverse effect on our business.

The realization of any of the risks related to our intellectual property could have a material adverse effect on our business, financial condition and results of operations.

Dependencies on a limited number of key suppliers for critical components may negatively affect our business activities. For some of the critical components we use as part of our production and manufacturing processes such as tires, electrical components and engines, we rely on a limited number of key suppliers. Accordingly, we are exposed to risks in our procurement activities. Following the financial and economic crisis that began in late 2008, availability of components was severely limited in 2010 as suppliers experienced an unexpected surge in demand throughout the year. Hence, we were directly affected by supply problems and also indirectly via certain suppliers who were themselves dependent on receiving electronic components from third parties. During periods of supply issues, our delivery time to customers increased by several weeks as a result of our inability to receive the necessary materials and components to produce our products on time. Our future success will depend, in part, on our ability to maintain continuity of supply of those components and to develop alternative supply arrangements as needed.

Some of our suppliers are small companies with relatively limited financial means. Therefore it may be difficult or impossible for such suppliers to adapt their capacity quickly enough to new demand levels, or for us to recover damages from them in the event of a liability claim for which we believe they are responsible. Smaller suppliers may also be more easily exposed to liquidity problems, with the risk of insolvency. If any of the key suppliers for critical components on which we rely fails to deliver or delivers components of inferior quality, this could have a material adverse effect on our business, financial condition and results of operations. In addition, we have certain limited direct supplier relationships with suppliers based in Japan, mainly providing us with electronic and electric components. While these suppliers have confirmed that their facilities were not directly damaged as a result of the March 2011 earthquake off the coast of Japan and the resulting tsunami and disaster at certain nuclear power plants in Japan, and other suppliers of electronic components outside Japan have not identified resulting supply problems, there is still a sizeable risk that our supply chains could be disrupted in response to the environmental crisis, which could have a material adverse effect on our business.

Operational disruptions, lengthy periods of production downtime or the failure of third party suppliers to perform could adversely affect our ability to deliver goods on time.

Our success depends on our ability to deliver goods on time. Because of our closely integrated manufacturing network, operational disruptions or lengthy periods of production downtime at individual sites could make it impossible for us to deliver goods on time. For example, the majority of the cylinders used in all our trucks are manufactured in our Hamburg plant, so any disruptions at that plant could affect production at many of our other facilities. Any disruptions or any late deliveries could negatively impact our ability to satisfy our customers and our results of operations. In addition, failure or significant delay by third party suppliers in providing necessary parts and equipment could, in the absence of alternative sources of supply, have a material adverse effect on our business. There is also a risk that we might have to pay penalties for late delivery or for wrongful termination of contracts.

Our production and manufacturing costs are subject to factors that are outside of our control and we may not be able to pass those costs on to our customers.

Factors that are beyond our control, such as movements in commodity prices for raw materials, may affect the production and manufacturing cost of our products, and we may not be able to pass those costs on to our customers. For example, a number of suppliers of critical components require a substantial amount of steel, either in the form of sheet metal or in processed form. For the year ended December 31, 2010, steel comprised approximately 15% of our material cost of sales. Because the primary resource used in steel is iron ore, the cost and availability of steel varies to a great extent with the price of iron ore. In the course of 2010, after falling significantly in 2009, the price of steel increased by approximately 31%. There was an even greater increase in the price of cast-iron scrap, which climbed by an average of approximately 53% in the course of 2010. Prices for copper on the London Metal Exchange also rose by approximately 55% on average during the year. However, the sharpest price rise among the raw materials relevant to our business was for natural rubber, which rose 98% during the course of 2010. The oil price, an indicator of the price of plastics and of energy costs, increased by approximately 36% in 2010. Prices also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and product specification. As a result, our costs of materials can vary materially from quarter to quarter and, in cases of supply shortages, can increase significantly. We are typically impacted by commodity price increases within three to six months of the increase, as our suppliers attempt to pass along these increases to us. Although we attempt to pass on cost increases to our customers with higher selling prices via regular price reviews, we have not always been able to do so successfully in the past and may not be able to do so in the future. Any such price increases may materially reduce our profitability. During periods of declining prices, customer demand may also require that we sell our products at lower prices, in spite of the fact that we may use existing inventories that were purchased at higher prices, thereby negatively impacting our margins. The volatility in our production and manufacturing costs and our limited ability to pass them on to customers may adversely affect our results of operations.

We are subject to residual value and customer credit risks with respect to our sales financing activities and depend on our leasing partners to finance the business.

We offer financial services to our customers either directly through our subsidiaries or indirectly through external vendor leasing partners and dealers or through Linde Leasing GmbH (''Linde Leasing''), which operates mainly in Germany and in which we own a 45% minority interest. With regard to our direct leasing business, we work with over 40 leasing companies worldwide and provide products directly to customers in exchange for their lease payments directly back to us. With regard to our indirect leasing business, which accounts for more than 60% of our leasing portfolio, we mainly work with five external vendor leasing companies including Linde Leasing. For approximately 5% of our indirect leasing business, we provide a default guarantee. For our direct leasing business and, to the extent we provided a customer default guarantee in our indirect leasing business or to the extent of our minority interest in Linde Leasing, we are also exposed to the credit risk of our customers. We generally maintain a perfected security interest in the assets financed such that in the event of a customer default we may take title of the asset. However, we cannot be certain that the security interest will equal the amount of the recourse or repurchase obligations. In addition, we cannot be certain that losses under the terms of the recourse or repurchase obligations will not exceed the reserves that were set aside. We could incur a charge to earnings if such reserves prove to be inadequate, which could have a material adverse effect on our business, financial condition and results of operations. The leasing business can give rise to residual value risks to us from equipment which is returned by the lessee once the relevant leases have expired and is then either remarketed or leased to other customers. For nearly two-thirds of our leases we entered into remarketing agreements, under which our vendor leasing partners bear all or a portion of the residual value risk. For these cases where we are not covered either completely or partially by remarketing agreements and where we cannot transfer the residual value risk to our customers due to provisions of the underlying lease agreement, we are exposed to potential residual value risks. If any such residual value risk materializes, this could have a material adverse effect on our business, financial condition and results of operations.

Our sales financing activities are reliant on our ability to find sufficient leasing partners to finance the business.

We rely on five major financing partners (De Lage Landen International, IKB Leasing, Sociéte Générale, BNP Paribas and Linde Leasing), complemented by local partners, to support additional consumer leasing of our industrial trucks. Our leasing business could be impacted if our financing partners are unable to provide enough capital to meet the needs of our customers or if they stop providing financial support entirely. Because we rely on our financing partners to serve as an additional source of financing for our leasing customers, any impairment of our financing partners' ability to provide such financing, or any decision by a financing partner to stop providing lease financing, could have a material adverse effect on our sales to consumers who rely on lease financing options to acquire new industrial trucks.

If any of our competitors who also work with financing partners are able to continue to offer financial support to their leasing customers when we are not able to, or if our competitors are able to offer financing on better terms than we can, customers may be more inclined to purchase our competitors' industrial trucks, which could impact our sales. As our leasing business is an important part of our overall business, an inability to provide financial support to our leasing customers could have a material adverse effect on our business, financial condition and results of operation.

Our plans to expand into other international growth markets may fail or not produce the desired results.

We plan on strengthening our global presence in the important growth markets of Eastern Europe, China, Brazil and India as well as in the United States, by enlarging our sales force and production facilities and by further developing strategic partnerships with other system integrators and system providers. Our intended international expansion is associated with substantial costs and it is possible that we will not have the requisite financial resources and expertise to implement this expansion as planned.

In addition, we are restricted by the terms and conditions of our Senior Facilities Agreement including the Notes Credit Facility, which, among other things, limits our ability to assume additional financial liabilities, make acquisitions, or sell equity interests or participate in joint ventures, without the agreement of the financing banks. Due to these restrictions, we may be hindered in our efforts to tap into new markets and pursue other business measures that could be required for our planned expansion.

Furthermore, the overall economic environment in the growth markets which are relevant for us may be subject to periods of volatility. It is thus possible that the growth in demand we expect will not transpire as planned or that the markets will develop more slowly than we anticipate. Historically, we have concentrated our activities in Europe and some of our major competitors are more familiar with the markets in Eastern Europe, China, Brazil, India and/or the United States. In the People's Republic of China, there is a risk that Chinese manufacturers are more familiar with the cultural traditions, are more experienced at operating in China and benefit from stronger relationships with the Chinese government. We are less familiar with the cultural traditions and customs of some of the markets in which we are investing, and political or economic influences or the legal framework could mean that our planned expansion cannot be pursued or can only be pursued on commercially unattractive terms. Should the international expansion that we target not proceed as expected, the associated substantial investments made by us may not deliver the desired growth in revenue and income. All of these factors could mean that our expansion into other international growth markets is not successful or is not as successful as planned, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to economic, political and social risks in certain places where we operate.

We have expanded and intend to further expand our sales and production network into important growth markets, notably Eastern Europe, China, Brazil and India, and offer most of our products and services worldwide. Consequently, we are also active in countries with lower levels of political, legal and economic stability compared to countries in Western Europe and North America. We are exposed to a series of risks that are outside of our control and could adversely affect our business activities, such as political, social, economic, financial or market-related instability or volatility, insufficiently developed and differentiated legal and administrative systems, trade restrictions or expropriations. Furthermore, in countries in which the spread of organized crime and other illegal activities, such as corruption and bribery, are prevalent, actions taken by local employees, despite clear company policies and ongoing controls, could violate these policies and applicable law without the knowledge of our management. We are also subject to risks arising out of political destabilization in countries or regions, such as the recent political developments in the Middle East and North Africa. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Our international operations also depend upon favorable trade relations between Germany, the countries in which we produce our material handling products and those foreign countries in which our customers and suppliers have operations. A protectionist trade environment in either Germany or those foreign countries in which we do business, have production facilities or sell products, such as a change in the current tariff structures, export compliance, government subsidies or other trade policies, may materially and adversely affect our ability to operate in foreign markets, including our ability to adequately ship and transport our products. In addition, because some of our international sales are to foreign governments and entities controlled by foreign governments (such as national corporations), we are subject to the political risks associated with foreign government projects.

The cost saving efforts from the KIARA Restructuring Program and the combination of our STILL and OM segments that we have implemented may not be effective and if the cost savings efforts we choose to implement do not prove effective, our results of operations will be adversely affected.

The KIARA Restructuring Program was implemented to respond to the impact of the financial and economic crisis that began in late 2008. The program includes structural measures, such as the closure of production plants, but also provided for temporary measures, such as the introduction of short-time work (see "Business — Employees," for more information on the legal framework governing short-time work in Germany).

The cash expenditures of implementing KIARA through December 31, 2010 were €133 million. For 2010, the program contributed €247 million in annual costs savings compared to our 2008 cost structure, a significant portion of which we expect will have a continued effect on our EBIT and EBITDA margins. The most important driver of the savings in 2010 were temporary measures which collectively contributed noticeably more than half of the savings. Those temporary measures included a reduction of indirect SG&A costs in all areas, a reduction of indirect employees in all areas and the implementation of short-time work across all indirect functions. Due to the market recovery the effects of the majority of the temporary measures are expected to be reduced or to disappear entirely as activity levels increase. Some of these cost reduction program savings estimates are volume-sensitive, and program benefits are based on future unit volume levels that are consistent with historical industry demand cycle patterns. As such, if future industry demand levels are lower than expected, based on historical industry demand cycles, the actual annual cost savings could be lower. If the ongoing implementation of our KIARA Restructuring Program is not successful, our results of operations could be adversely affected. Furthermore if the markets in which we operate stagnate or worsen again, our revenues could decline, and we may be forced to take additional cost savings steps that could result in additional charges and materially affect our ability to compete or implement our business operations.

We are currently in the process of integrating the STILL and OM segments, which began in 2010 and will continue throughout 2011. The ongoing process of integrating these segments is time consuming and requires continuous allocation of resources. Continuing the successful integration of these segments will require us to integrate and retain key management and other personnel, and combine or centralize back office accounting, order processing, purchasing, and support functions. STILL and OM's focus on integrating operations may also distract attention from their management and employees' day-to-day business and may disrupt key research and development, marketing, or sales efforts. If we cannot overcome these challenges, we may not realize actual benefits from this integration, which could have a material adverse effect on our business, financial condition and results of operation.

Strikes and other industrial actions could disrupt our operations and future workforce reductions may require significant redundancy costs.

We are exposed to the risk of strikes and other industrial actions. A considerable part of our workforce is unionized. However, any industrial action we experience, especially labor unrest or work stoppages could affect operations regardless of whether the workforce is unionized or subject to a collective bargaining agreement. If a strike or other labor action were to cause a work stoppage or other slowdown at one or more of our production facilities, we could experience a significant disruption of our operations and could have to pay penalties for late delivery of our products. Labor unrest or strikes associated with our operations could also damage our Group's reputation with customers or in the market generally. Any of these developments, alone or in combination, could have a material adverse effect on our business, financial condition and results of operations.

In response to the financial and economic crisis that began in late 2008, we have reduced our workforce significantly and it is possible that we may reduce our workforce further in the future. Any future workforce reductions may trigger extensive severance payments and other redundancy related costs. Future workforce reductions, outsourcings, reorganizations, or announcements or plans to undertake them, could also result in strikes, work stoppages or other industrial action and no assurance can be given that the current arrangements with the unions will be effective in preventing or reducing industrial action, that the arrangements will be renewed or extended on the same or different terms or that any new arrangements will be effective in preventing or reducing industrial action.

In addition to a reduction of our workforce in response to the financial and economic crisis, any future reorganizations may become necessary in order to maintain our competitiveness in the market. Such reorganizations may have a significant impact on our future workforce and may trigger extensive severance payments, other redundancy related costs and could also result in strikes, work stoppages or other industrial action.

Employment and site guarantees (Beschäftigungssicherungsverträge) with unions or works councils could reduce our ability to manage costs.

We have entered into agreements in Germany and other countries with unions or works councils pursuant to which there are certain limitations on our ability to close, alter production or reduce headcount at our facilities. The majority of these agreements are due to expire in July 2011. These agreements may limit our ability to adjust workforce headcounts or to restructure our business in response to fluctuations in demand for our products, and accordingly, impact our ability to manage costs and could have a material adverse effect on our business, financial condition and results of operations.

Goodwill and other identifiable intangible assets represent a significant portion of our total assets, and we may never realize the full value of our intangible assets.

Goodwill and other identifiable intangible assets are recorded at fair value on the date of acquisition. Our goodwill and other intangible assets are tested for impairment upon any indication of a potential impairment and, in the case of goodwill and brand names, as they are not amortized, at least once a year. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products and services we sell, challenges to the validity of certain registered intellectual property, reduced sales of certain products incorporating registered intellectual property and a variety of other factors. All of these factors may cause an impairment of our intangible assets if they have a lasting negative impact on our cash flows. The amount of any quantified impairment must be expensed immediately as a charge to our results of operations. Depending on future circumstances, it is possible that we may never realize the full value of our intangible assets. Accordingly, any determination of impairment of goodwill or other identifiable intangible assets could have a material adverse effect on our financial position, results of operations and net worth.

Integration of acquisitions may not be achieved within the assumed timetable or achieve the estimated benefit at the estimated cost level.

We expect to continue to evaluate and, where appropriate, pursue acquisition opportunities that provide products or services that complement those offered by us. There can be no assurance, however, that suitable acquisition candidates will be identified in the future, or that we will be able to finance such acquisitions on favorable terms. Further, there can be no assurances that any acquisitions we have already made or future acquisitions will be integrated successfully into our operations or will achieve the desired financial objectives. In evaluating potential acquisition opportunities, we make certain assumptions regarding the future combined results of the existing and acquired operations. In certain transactions, the acquisition analysis includes assumptions regarding the consolidation of operations and improved operating cost structures for the combined operations. There can be no assurance, however, that such synergies or benefits will be achieved on the assumed time schedule or in the assumed amount, if at all. The synergies resulting from the acquisition may be different than we had estimated. Any failure to integrate the operations of an acquired business or significant delay in such integration could have a material adverse effect on our business, results of operations and financial condition.

The impact of a negative performance of financial markets, demographic trends and legal risks on our defined benefit pension liabilities and costs cannot be predicted and may be severe.

We hold defined benefit pension plans in a number of countries and a significant number of our employees are covered by our defined benefit pension plans. As of December 31, 2010, we had recognized a net liability of €364 million, representing the unfunded benefit obligations of our defined benefit pension plan. The funding status and the liabilities and costs of maintaining such defined benefit pension plans may be impacted by financial market developments. For example, the accounting for such plans requires determining discount rates, expected rates of compensation and expected returns on plan assets, and any changes in these variables can have a significant impact on the projected benefit obligations and net periodic pension costs. Negative performance of the financial markets could also have a material impact on funding requirements and net periodic pension costs. Our defined benefit pension plans may also be subject to demographic trends and the comprehensive anti-discrimination legislation within the European Union. Accordingly, our costs to meet pension liabilities going forward may be significantly higher than they are today, which could have a material adverse impact on our financial condition.

In Germany, we are further obliged to make contributions to the mandatory pension security association (“PSV”). Due to the financial and economic crisis that began in late 2008 and the insolvency of many PSV-members, contributions to the PSV have increased significantly. Depending on the future overall economic development, we face the risk that the PSV levy could remain at a high level. Also, we run contractual trust arrangements which, beside their funding aspects, all serve to protect the claims of the beneficiaries under pension, old-age part-time and long-term working time account schemes against insolvency. The contractual trust arrangements established for the old-age part-time as well as long-term working time account liabilities provide for the creation of land charges (Grundschulden) on certain premises of our Group companies. There is a risk that the corresponding land charges do not reflect the current value of our real estate and/or deferred compensation volume, and we may be obliged to make additional payments affecting our financials.

We could be held liable for soil, water or groundwater contamination or for risks related to hazardous materials.

Many of the sites at which we operate have been used for industrial purposes for many years, leading to risks of contamination and potentially involving remediation obligations, regardless of whether we are the legal owner or are using the respective property, and irrespective of whether we caused the contamination or acted with fault. Moreover, we could be held responsible for the remediation of areas adjacent to our sites if these areas were contaminated due to our activities, that is, if we were to be found the polluter of these areas.

The responsible authorities could assert claims against us, as the polluting party, the owner or tenant of the affected plots, for the examination or remediation of such soil and/or groundwater contamination, or order us to dispose of or treat contaminated soil excavated in the course of construction. We could also be required to indemnify the owner of plots currently or formerly leased by us or of other properties, if the authorities were to pursue claims against the relevant owner of the property and if we had caused the contamination. Costs typically incurred in connection with such claims are generally difficult to predict but may be substantial. Moreover, if any contamination were to become a subject of public discussion, there is a risk that our general reputation or our relations with our customers could be harmed. We face similar risks with respect to former sites, which we have since sold. Even if we have contractually excluded or limited our liability vis-à-vis a purchaser, we could be held responsible for currently unknown contamination on properties, which we previously owned or used. Likewise, there can be no assurance that environmentally hazardous substances will not pollute the environment or that we will not be called upon to remove such contamination. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Compliance with existing laws and regulations worldwide or changes in any such laws and regulations could affect our business, financial condition and results of operations.

As a worldwide operating group, we are subject to international, European Union, national and local laws, regulations and ordinances and must observe a large number of different regulatory systems across the world that change frequently, are continuously evolving and becoming more stringent. Amongst such rules, for instance, are those relating to production processes, including occupational health and safety laws and regulations, laws and regulations protecting the environment and regulating the use and handling of chemicals we use in our manufacturing process, air emissions and the management and disposal of certain materials, substances and wastes. Moreover, our sites and operations necessitate obtaining and holding various permits and we are obliged to comply with the requirements specified therein in order to ensure that we will be able to continue operations. We are also subject to rules that relate to the products we produce and put on the market; stricter regulation of the standards these products need to comply with in the future may have a material adverse effect on our business. If our products do not comply with these rules, we may be required to take all necessary measures to ensure that our products are safe to use, even after we have sold them, if necessary by way of a recall of the product concerned. Moreover, we are generally subject to foreign trade laws. We are also required to pay export duties or customs duties on materials and products that we export and import. The nature of our operations exposes us to the risk of liabilities or claims with respect to such laws, regulations, ordinances and duties, and there can be no assurance that we will not need to incur material costs in connection with such liabilities or claims.

We could become subject to additional laws, regulations, ordinances and/or permit requirements. There can be no assurance that in the future existing levels of export and customs duties will not be increased or that new or further export or customs duties will not be imposed on our domestic or foreign operations. We are also subject to anti-bribery laws and regulations in the countries in which we operate, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, which may prohibit companies and their intermediaries from making or receiving improper payments. Failure to adopt appropriate internal compliance policies or to ensure compliance with our policies and the law may result in fines or enforcement actions against us. Compliance with existing and additional or more stringent laws, regulations, ordinances or permit requirements, as well as more vigorous enforcement policies of regulatory agencies or stricter or different interpretations, may require us to make additional expenditure or investments, which may be material, and could also otherwise affect our business in a way that could have a material adverse effect on our business, financial condition and results of operations.

We may be affected by increasingly rigorous scrutiny of transactions by tax authorities and could be subject to tax risks attributable to previous tax assessment periods.

Tax authorities around the world are being increasingly rigorous in their scrutiny of transactions and in the pursuit of tax recoveries which may lead to an increased overall tax rate of the KION Group as a whole.

The German companies of the KION Group are subject to tax audits on a regular basis. The last comprehensive tax field audits of the German KION Group companies existing prior to our acquisition in 2006 from Linde AG (the ‘‘legacy entities’’) related to periods up to and including 2004 and 2005, respectively. In addition, for these legacy entities further tax field audits which partly covered only selected tax aspects have been performed for periods up to and including 2008. For German companies of the KION Group established in 2006 as part of our acquisition (including legacy entities merged into these new companies) comprehensive tax field audits have not yet started. However, smaller tax field audits covering only particular tax aspects were performed for periods up to and including 2007. Currently, certain of the German companies of the KION Group are or will be subject to routine tax audits by the German tax authorities for assessment periods ranging from 2005 to 2010. The non-German subsidiaries are subject to tax audits of the relevant national competent tax authorities. Additional tax expenses could accrue in relation to previous tax assessment periods, which are still subject to a pending tax audit or have not been subject to a tax audit yet. Tax laws and/or relevant facts could be interpreted by the tax authorities in a manner deviating from our view of such laws or facts. As a result, the tax authorities could revise original tax assessments and substantially increase the tax burden (including interest and penalty payments) of the affected entities of the KION Group. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

KION GROUP GmbH and other companies belonging to the KION Group render and receive cross-border supplies and services in respect of affiliated KION Group entities. Due to these cross-border transactions the KION Group is exposed to tax risks, in particular with regard to transfer pricing rules that apply in several jurisdictions. In respect of the German companies of the KION Group transfer prices have not yet been raised as a critical subject in tax field audits. Due to the losses incurred in recent periods, we cannot exclude the possibility that discussions with tax auditors will become more adversarial in the future. To the extent the arm’s length principle applicable within the scope of such rules was allegedly or demonstrably not complied with or, as the case may be, is not complied with in the future, additional tax payments may arise in the respective jurisdiction in which the KION Group is active. Furthermore, sanctions may apply in the event of non-compliance with the applicable documentation obligations (such as a tax assessment by way of estimation, assessment of penalties).

The KION Group has recently started a VAT risk review project covering several European manufacturing companies of the KION Group in order to analyze whether the VAT treatment of supplies and services has been reflected and processed correctly in the data processing system. In the event that it will be disclosed in the course of the project that transactions have been treated incorrectly for VAT purposes, this might require extensive error correction activities that could lead to significant additional VAT payments plus interest and potentially penalties.

We might be exposed to tax risks regarding the potential forfeiture of net operating losses and interest carried forward in connection with a possible change of our shareholder structure.

As of March 31, 2011, KION Holding 1 GmbH, KION GROUP GmbH and Linde Material Handling GmbH have significant unaudited current tax losses and tax losses carried forward (together ‘‘net operating losses’’) as well as interest carried forward. Subject to certain limitations, Section 8c of the German Corporate Income Tax Act (KStG) generally provides for a pro-rata elimination of net operating losses in cases where more than 25% and up to 50% of the shares in a corporation have been acquired directly or indirectly while net operating losses are stated to be eliminated completely where more than 50% of the shares in a corporation have been acquired directly or indirectly within a five-year period by one individual shareholder, a group of shareholders acting in concert or if a comparable event occurs. Section 8c KStG applies mutatis mutandis to interest carried forward. Such elimination could have a material adverse effect on our deferred taxes (see ‘‘Consolidated Financial Statements”). Similar rules may apply to KION Group entities in other jurisdictions.

We are unable to fully deduct interest charges on our indebtedness.

As of March 31, 2011, KION Holding 1 GmbH, KION GROUP GmbH and Linde Material Handling GmbH have significant interest carried forward. Since January 1, 2008, the amount of net interest expenditure a business may offset against its income in Germany is limited to 30% of the business’ taxable EBITDA. For such purposes all businesses of the same German fiscal unit for corporate income and trade tax purposes (Organschaft) are treated as one single business. Amounts that exceed the 30% threshold cannot be deducted but carried forward and are only deductible in the future subject to certain restrictions. Whenever interest payments are not deductible or if interest carried forward is lost, the tax burden in future assessment periods could rise, which might have a material adverse effect on our net assets, financial position and results of operations.According to negotiations between our UK holding company Superlift UK Limited and the UK tax authorities (HM Revenue and Customs) that were finalized in 2010, Superlift UK Limited was only allowed to treat 81% of its interest expense as deductible for the purposes of computing profits chargeable to corporation tax, with the remainder of the interest treated as non-deductible. This agreement applies to chargeable periods of Superlift UK Limited and its subsidiaries ending December 31, 2007 to December 31, 2009 inclusive. We expect that the ability of Superlift UK Limited to deduct its interest expense will also be restricted in the future.

We are subject to risks from legal and arbitration proceedings.

Companies in the KION Group are, or may be in the future, involved in a number of legal and/or arbitration proceedings. Such proceedings could involve substantial claims for damages relating to, for example, product liability, breach of warranty obligations, contractual penalties for late delivery or disputes over termination of contracts, or could involve the payment of fines or other payments. Due to the size and market share of our business, we are also subject to antitrust and competition laws in some of the markets in which we operate and may be subject to regulatory scrutiny and legal proceedings in these jurisdictions. Currently, we have a number of material litigation matters pending, including a lawsuit in Lebanon by a former business partner of a local subsidiary of our former parent company Linde AG filed before the sale of the Company in 2006, against amongst other legal entities, a Lebanese subsidiary of Linde AG and its shareholders, including one of our subsidiaries, a lawsuit in Spain based on alleged faulty maintenance of a truck filed against us by a fire insurer for approximately €44 million, a pending arbitration in China regarding contract termination filed by us alleging damages of RMB 38.7 million (or approximately €4.2 million), three separate claims from different dealers arising out of the combination of our STILL and OM segments (a collective total of approximately €10 million), and a claim by a customer in the Netherlands for approximately €4 to €5 million. We cannot assure you that we will succeed in defending these or future claims, that judgments will not be rendered against us with respect to any or all of these proceedings or that reserves we have set aside and cover taken out under the respective insurances will be adequate to cover any such judgments, as our insurance cover would not protect us from any adverse financial consequences of such events. We could incur a charge to our earnings if our reserves prove to be inadequate for any such judgment. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Our operations depend on qualified executives and key employees.

Our success depends on our executive board members and other qualified executives and employees in key functions. The loss of executives or key employees could have a material adverse effect on the market position and prospects of the KION Group. Considerable expertise could be lost or access thereto gained by competitors. Due to the intense competition in the industrial truck industry, there is a risk of losing qualified employees to competitors or being unable to find a sufficient number of appropriate new employees for key positions. There is no guarantee that we will be successful in retaining executives and the employees in key positions or in attracting new employees with corresponding qualifications. Furthermore, the ongoing restructuring measures implemented by us could give rise to an above-average fluctuation rate. A further risk is that if the economy continues to recover and we need to increase our workforce we may not be able to recruit employees with the necessary skills, in sufficient numbers and with the necessary speed. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Our operations rely on IT systems and networks.

We rely heavily on centralized, standardized information technology systems and networks to support business processes, as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources or to security threats. Although we have taken precautions to manage the risks related to system and network disruptions and threats, an extended outage in a data centre and/or telecommunications network utilized by our systems, any security breaches or any similar event could lead to an extended unanticipated interruption of our systems or networks and to theft of confidential data. The realization of any risks related to our IT system and network disruptions could have a material adverse effect on our business, financial condition and results of operations.

We could be adversely affected by property loss and business interruption.

Damage and loss caused by fire, natural hazards, terrorism, forced sales, exercise of a right of retransfer or transfer of property or other disturbance at our production facilities or within our supply chain — with customers and with suppliers — can be severe. The risks arising from business interruption and loss of production are insured up to levels that we consider economically reasonable, but our insurance coverage could prove insufficient in individual cases. Furthermore, such events could injure or damage individuals, third party property or the environment, which could, among other things, lead to considerable financial costs for us. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Natural and other disasters, such as coastal flooding, large earthquakes or volcanic eruptions, may negatively impact our business. There is increasing concern that climate change is occurring and may cause a rising number of natural disasters.

If coastal flooding, a large earthquake, volcanic eruption, other natural or other disasters were to directly damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. The impact of such occurrences depends on the specific geographic circumstances but could be significant, as some of our factories are located in countries with known earthquake fault zones, including China. Even if our manufacturing facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains and significant increases in prices for raw materials used for our manufacturing process. For instance, the March 2011 earthquake off the coast of Japan and the resulting tsunami and disaster at certain nuclear power plants in Japan could have a significant impact on the availability and prices of certain raw materials we use and our supply chain and distribution channels generally. There is increasing concern that climate change is occurring and may have dramatic effects on human activity if aggressive remediation steps are not taken. A modest change in temperature may cause a rising number of natural disasters. We cannot predict the economic impact, if any, of natural disasters or climate change.

Risks Related to our Indebtedness

Our existing debt matures between 2013 and 2016. We cannot give you any assurance that we will be able to extend or refinance our debt on favorable terms or at all.

The Senior Facilities Agreement represents most of our existing debt and all of the Existing Bank Facilities under the Senior Facilities Agreement will mature between 2013 and 2016. We started making amortization payments on our Multi-Currency Capex Facility in December 2010. We may not be able to refinance or extend all or any of this debt. Our ability to pay and refinance debt and our ability to fund working capital and capital expenditures will depend on our future operating performance and ability to generate sufficient cash. No assurance can be given that any refinancing will be accomplished on a timely basis or on satisfactory terms. In addition, the terms of our debt may limit our ability to pursue any refinancing alternative.

Our substantial indebtedness and debt service obligations could materially adversely affect our business, financial condition or results of operations.

We are a highly leveraged company and have significant debt service obligations. As of March 31, 2011, we had €2,857 million of financial debt and for the quarter ended March 31, 2011, we paid €29 million in interest. We anticipate that our high leverage will continue for the foreseeable future. Our high leverage could have significant consequences, including, but not limited to:

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, business opportunities and other corporate requirements;
- increasing our vulnerability to a downturn in our business or economic and market conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which means that this cash flow will not be available to fund our operations, capital expenditures or for other corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industrial truck market; and
- placing us at a competitive disadvantage compared to our competitors who are not as highly leveraged.

Any of these, or other, consequences or events could have a material adverse effect on our ability to satisfy our debt obligations or a material adverse effect on the Issuer’s ability to satisfy its obligations under the Notes.

We require a significant amount of cash to service our debt and fund our operations. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, and to fund working capital, rental and lease payments and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, legislative, regulatory and other factors, many of which are beyond our control, as well as the other factors discussed in these ‘‘Risk Factors’’ and elsewhere in this Quarterly Report. We cannot assure you that our business will generate sufficient cash flow from operations, that the cost savings, revenue growth and operating improvements currently anticipated will be realized or that future debt and equity financing will be available to us on satisfactory terms or at all in an amount sufficient to enable us to pay our debts when due, or to fund our other liquidity needs. See ‘‘Management’s Discussion and Analysis of Our Financial Condition and Results of Operations’’ for a discussion of our cash flows and liquidity.

If our future cash flow from operations and other capital resources (including borrowings under the capital expenditure facility and the revolving credit facility) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all.

In addition, the terms of our debt limit, and any future debt may limit, our ability to pursue any of these alternatives.

Despite our current levels of indebtedness, we may still be able to incur substantially more debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may incur substantial additional indebtedness in the future. Some of this debt could rank pari passu with the Notes, be structurally senior to the Notes Credit Facility or be secured on assets which do not form part of the collateral for the Notes Credit Facility. Additional debt could also mature prior to the Notes. The agreements governing our debt limit our ability to incur additional indebtedness, but do not prohibit us from doing so. The incurrence of additional indebtedness would increase the leverage related risks described in this Quarterly Report. Furthermore, we may incur additional indebtedness that bears interest at a variable rate plus an agreed margin and certain additional costs. Fluctuations in such variable rate may increase our overall debt obligation and could have a material adverse effect on our ability to service our debt obligations, including our obligations to the Issuer under the Notes Credit Facility, which in turn would have a material adverse effect on the ability of the Issuer to service its obligations under the Notes.

We are subject to significant restrictive debt covenants, which limit our operating flexibility.

The indenture governing the Notes contains covenants significantly restricting the Issuer’s ability, and the Senior Facilities Agreement and the Covenant Agreement contain covenants significantly restricting our ability to, among other things:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem our share capital;
- make investments, loans or other restricted payments;
- make acquisitions;
- sell assets, including shareholdings;
- enter into certain transactions with affiliates; and
- merge, amalgamate or sell all or substantially all of our assets.

These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be of interest to us.

We are exposed to risks associated with changes in currency exchange rates and hedging.

As a worldwide operating group, we are exposed to financial risks that arise from changes in exchange rates. Currency exchange fluctuations could cause losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. For example, if the euro decreases in value relative to the U.S. dollar, our U.S. dollar denominated debt becomes more expensive to service on a relative basis from our euro denominated assets. As a result of these factors, fluctuations in exchange rates could affect our results of operations. External and internal transactions involving the delivery of products and services with third parties may result in cash inflows and outflows which are denominated in currencies other than our functional currency. We are particularly exposed to fluctuations in U.S. dollar and pound sterling. In accordance with our hedging strategy, we enter into foreign exchange contracts to cover at least 50% of the forecasted net foreign exchange exposure of our operational business for the next 15 months. Furthermore, even though we have a foreign exchange forward contract and two foreign exchange option contracts in place to hedge the U.S. dollar denominated portion of our Senior Facilities Agreement, this structure will mature in September 2011, which may trigger substantial liquidity needs. Moreover, generally through our business, with regard to some local trade facilities and otherwise, not all the net foreign exchange exposure of our debt has been hedged. Our hedging strategy could ultimately be unsuccessful. Moreover, any hedging transactions executed in the form of derivative financial instruments may result in losses, due to, in some cases, the considerable costs of such hedging instruments. In addition, a number of our consolidated companies report their results in currencies other than the euro, which requires us to convert the relevant items into euro when preparing our consolidated financial statements. Translation risks are generally not hedged. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operation.

ANNEX: QUARTERLY FINANCIAL INFORMATION

Unaudited quarterly information

(€ thousand)	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Order intake	730,841	843,705	845,572	997,706	952,017	1,064,386	1,157,383
Revenue	717,390	814,980	737,657	874,503	879,804	1,042,510	1,016,190
EBIT	-35,043	-97,815	-30,130	4,148	31,797	28,821	60,145
Adj. EBIT	-11,943	-5,796	-6,410	30,452	52,637	62,683	74,620
Adj. EBIT margin	-1.7%	-0.7%	-0.9%	3.5%	6.0%	6.0%	7.3%
Adj. EBITDA	71,688	78,929	73,006	109,229	131,202	148,764	148,536
Adj. EBITDA margin	10.0%	9.7%	9.9%	12.5%	14.9%	14.3%	14.6%
Free cash flow	-53,520	8,850	-22,071	3,601	17,533	76,978	45,732
Net financial debt	2,413,321	2,484,299	2,580,462	2,706,733	2,659,077	2,640,829	2,600,205