KION Group | Annual Bond Report | 2012

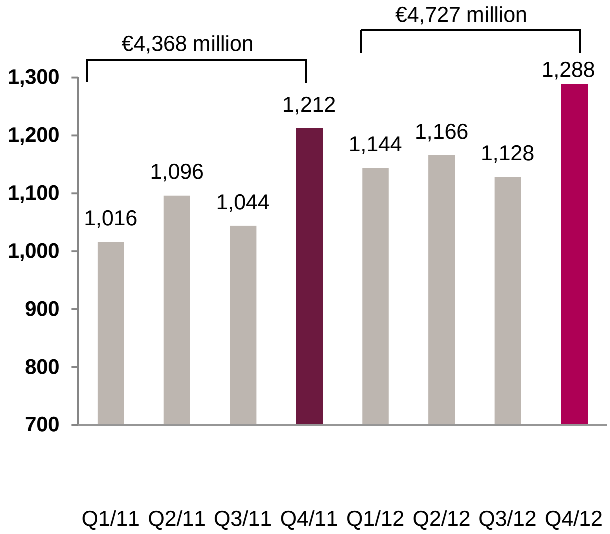
WE KEEP THE WORLD MOVING

MATERIAL HANDLING SOLUTIONS

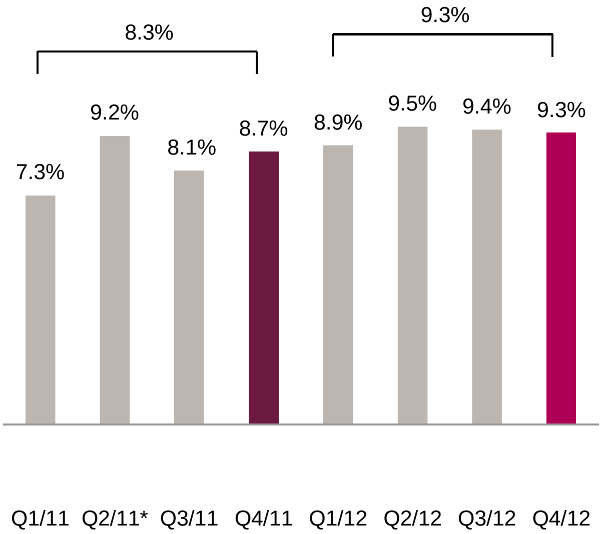
SUMMARY 2012

REVENUE (change compared to previous year)	+ 8.2%
ADJUSTED EBIT	€438 million
ADJUSTED EBIT MARGIN	9.3%
FREE CASH FLOW	€518 million

Revenue (€ million)



Adjusted EBIT Margin



* The Adjusted EBIT in Q2/2011 includes €8 million in profits from investments mainly related to participations in Linde Creighton, one of our UK dealers. These profits represent 0.7%-points of EBIT Margin which generally occur in Q2/2011 for the fiscal year. Thus, the Adjusted EBIT Margin in Q2/2011 amounts to 8.5% adjusted by profits from investments.

We are a leading global supplier of industrial trucks and related services. 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 complement our products with a comprehensive service offering, including after-sales services and spare parts, financial services, fleet management and software solutions. We are the largest manufacturer of industrial trucks in Europe and the second largest manufacturer globally by revenue and units.

KION Group key figures *

in € million	2012	2011	2010	Changes 2012/2011
Revenue	4,726.7	4,368.4	3,534.5	8.2%
In Germany	1,225.2	1,174.8	899.8	4.3%
Outside Germany	3,501.4	3,193.6	2,634.5	9.6%
Order intake	4,700.1	4,681.9	3,859.7	0.4%
EBITDA	915.4	569.2	380.2	60.8%
Adjusted EBITDA[1]	747.3	665.3	462.2	12.3%
EBIT	550.1	213.2	34.6	>100.0%
Adjusted EBIT[1]	438.2	364.6	139.4	20.2%
Net income (loss)	161.1	-92.9	-196.7	>100.0%
Cash and cash equivalents[2]	562.4	373.5	252.9	50.6%
Financial debt[3]	2,352.4	3,004.7	2,878.9	-21.7%
Net financial debt	1,790.1	2,631.3	2,626.0	-32.0%
Equity	660.3	-487.6	-399.9	>100.0%
Adjusted EBITDA Margin[1]	15.8%	15.2%	13.1%	-
Adjusted EBIT Margin[1]	9.3%	8.3%	3.9%	-
Free cash flow[4]	518.1	234.2	76.0	>100.0%
Capital expenditures[5]	155.1	133.0	123.5	16.6%
Total spending on R&D	120.2	120.3	103.5	-0.1%
R&D spending/revenue (%)	2.5%	2.8%	2.9%	-
Employees incl. apprentices and trainees as at 31 December[6]	21,215	21,862	19,968	-3.0%
R&D employees	847	900	827	-5.9%

[1] Adjusted for KION acquisition items and one-off items
[2] Cash and cash equivalents
[3] Financial liabilities are defined as non-current and current financial liabilities
[4] Free cash flow is defined as Cash flow from operating activities plus Cash flow used in investing activities
[5] Excluding leased assets and rental assets
[6] Number of employees in full-time equivalents as at 31 December

*) 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

This Annual Bond Report has been prepared in respect of the period ended December 31, 2012. In relation to the financial statements for the year ended December 31, 2011, and the discussion and analysis thereof, please refer to the Annual Report for 2011, annexed hereto, which includes the relevant financial statements and discussion and analysis. Please note that the Annual Report for 2011 speaks only of its date, and that statements made in the Annual Report for 2011 may be superseded by later statements, including those made in this Annual Report for 2012.

We have enclosed to this Annual Bond Report 2012 the Group Management Reports, Consolidated Financial Statements and Notes of KION Holding 1 GmbH for the financial years 2012 and 2011 ("Audited Consolidated Financial Statements"). This financial data differs in certain respects from the financial data of KION GROUP GmbH: Certain fees including audit fees and annual fees to the supervisory board are included in the financial statements of KION Holding 1 GmbH. In addition, the financial statements of KION Holding 1 GmbH for 2011 included a shareholder loan ("Shareholder Loan") in the principal amount of €500.0 million (plus accrued interest being in aggregate €670.8 million as of 27 December 2012). In connection with the Weichai transaction (see chapter 'Corporate Developments'), this shareholder loan was converted into equity on 27 December 2012. From the proceeds of the Weichai transaction, an amount of €193.3 million of cash has been retained on KION Holding 1 GmbH level as of December 31, 2012 (originally €200.0 million).
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 Annual Bond Report 2012 should be read in conjunction with the 2012 and 2011 Group Management Reports, Consolidated Financial Statements and Notes of KION Holding 1 GmbH enclosed to this document or available on our website www.kiongroup.com.

The accompanying Consolidated Financial Statements of the KION Holding 1 GmbH for the financial years ended December 31, 2012 and December 31, 2011 have been prepared in accordance with section 315a of the German Commercial Code (HGB) which requires the application of International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC). 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 and between figures in tables and their respective analysis in the text of the report may occur due to such rounding. All changes in percentage and ratios were calculated using the underlying data in Euro thousands.

This report and its enclosed documents contain 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 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 related services. Our trucks and related services provide crucial links in our customers' worldwide supply and production chains. We benefit from leading market positions in many developed and growth markets, a global sales and service network, a multi-brand offering backed by a comprehensive product and service range and technological leadership. As the largest global pure play manufacturer of industrial trucks worldwide we offer our customers a full range of products including warehouse and counter-balance trucks with both internal combustion engines ("IC-trucks") and electric engines ("E-trucks"), across the premium, value and economy segments. We are the largest manufacturer of industrial trucks in Western and Eastern Europe and the second largest manufacturer globally by revenue and unit sales. Our European market share (including Russia) was approximately 34% in 2012, with a global market share of approximately 15% in that period. In China, we are the overall number three competitor and the largest non-domestic player, and we are a leading industrial truck manufacturer in other important growth markets such as Eastern Europe, South Asia and South and Central America. We operate 15 separate production sites and eleven sites with research and development activities. Our products are sold by more than 1,200 sales and service locations (owned or third party) in over 100 countries. As of December 31, 2012, we employed 21,215 employees (full time equivalent).

We complement our products with a comprehensive service offering geared to our customers' specific needs, including after-sales services and spare parts, financial services, fleet management and software solutions. Our service activities are an essential part of the value proposition for our customers that not only drive our new truck sales business but also generate higher margins and more stable revenue on a stand alone basis. We benefit from an installed truck base of over one million trucks, driving replacement needs and service revenue.

We operate our business through our two global brands, Linde and STILL, and through our four regional brands, Fenwick (France), OM-STILL (Italy), Baoli (mainly China and certain growth markets) and Voltas (India). We report and manage our business under two main operational segments: LMH (including the Linde, Fenwick and Baoli brands) and STILL (including the STILL and the OM-STILL brands). Our financial services activities are combined in our new Financial Services segment. Central functions for our Group, the Voltas brand and other activities not allocatable are managed in our Other segment.

The principal geographical markets in which we offer our products are Western and Eastern Europe as well as China, India and South America. We recently entered into a strategic industrial cooperation with Weichai Power Co. Ltd., ("Weichai Power", and together with its affiliates, the "Weichai Group"), a leading Chinese automotive and equipment manufacturer and a publicly listed company in Hong Kong, China, that is part of the state-owned Shandong Heavy Industry Group. Through this strategic partnership, we expect to gain additional access to key Asian growth markets by leveraging Weichai Group's strong local roots, relationships and distribution networks and we will have access to a larger supplier base throughout China and Europe.

Our Strategy

Our strategy is centered on two main objectives: achieving sustainable long-term growth above market and to achieve best in class profitability and efficiency by production and cost optimization. To reach these targets we will focus in particular on the following measures:

Strengthen our Leadership Position in Core Markets in Europe

We aim to maintain the strong market leadership position that we have achieved in the Western and Eastern European markets by leveraging our strong brands and remaining at the forefront of technological innovation, while increasing the benefits from the growing and attractive service business, which is highly valued by our customers. Our Linde and STILL brands are full-line premium brands with a distinct profile and a complete product range and independent distribution channels. Both brands provide us with a unique market leadership position and high penetration of the premium segment, while at the same time realizing synergies in operations.

Leverage Technological Innovation and Customization to Expand Premium Pricing

We offer a high level of innovation and customization for our trucks, addressing the premium segment of the market to accommodate the wide range of applications for which our customers use their trucks. Customization allows premium pricing, since we differentiate our products needs based on tailored solutions for our customer needs. We believe that the technological leadership of our products, the high degree of customization and our service offering translate into superior customer benefits, including a reduction in total ownership and operating costs. We intend to increase customer benefits and to reduce cost of ownership and operations by introducing innovative drive systems (high productivity), advanced cabin ergonomics and suspension (reduce operator fatigue), intelligent intralogistics solutions and improved safety concepts.

Expand Service Offerings

In 2011, the total market for after sales had a volume of €11 billion (source: McKinsey, Industrial Trucks Market, 2012). Approximately half of the after sales market is held by non-OEM service providers such as independent dealers. We want to increase our share of the services market by expanding our service stations network in attractive growth areas and to expand the offer of short-term rental fleets in specific markets with high demand for short-term availability of additional trucks. To grow our service business, we can leverage our large installed truck base of over one million trucks which will further grow if our new annual truck sales increase. We intend to broaden the scope of our service offering to address the entire product lifecycle and different usage patterns. Such additional services include fleet management, IT solution for efficient goods flow management and all types of financial services relating to truck usage. We believe that our full product and service offering increases our value proposition and helps to strengthen customer loyalty. By growing the more resilient and higher margin services business, we intend to reduce earnings volatility, increase predictability of our revenue and drive profitability by increasing our market share and carrying out our pricing based on customer value.

Tap Full Market Potential in Growth Regions

We intend to make use of our excellent position in important growth markets (China, India, Brazil and Eastern Europe) in order to benefit from the expected increase in demand in those markets as those economies develop with increasing industrial output and more sophisticated logistic networks. Based on our existing products and platforms, we plan to introduce more products designed specifically for these markets under local brands which are geared towards the demand in those markets. We aim to achieve this through targeted local investments in manufacturing capacity, product research and by developing our sales and services presence. This strategy also includes the targeted acquisition of dealers in markets important to us, as well as the development of local ventures such as VMH in India as well as potential acquisitions of small, local or regional manufacturers that we can successfully integrate in KION Group as we have done with Baoli in China in 2009. Our strategic industrial cooperation with Weichai Group will also provide additional opportunities to build upon our strong presence in Asia, participating in further growth in the region. In particular, we want to build up a presence in the fast growing industrial truck markets of Thailand and Malaysia by expanding our distribution network. With respect to our growth strategy in these markets we intend to use our multi-brand portfolio, with our Linde, Fenwick, STILL, OM-STILL, Baoli and Voltas brands, to reach a wide range of regions and customers, as well as the economy, value and premium market segments. At the same time we can leverage our existing global technology and shared product platform. For example our warehouse truck OM CLX, which was developed for the European market, was adapted to local market requirements using local sourcing, production and R&D and then offered in China under the Baoli brand and in India under the Voltas brand. An IC-truck designed by Baoli for the economy segment was manufactured and marketed in India under the Voltas brand and in Brazil under the STILL brand with key components supplied by Baoli. For our expansion in South Asia we intend to use the product portfolio specifically developed for the Chinese market under the Baoli brand. This platform sharing strategy together with local manufacturing reduces time-to-market and gives us cost advantages which facilitate penetration in growth markets.

Reduce Costs by Optimizing Production and Exploiting Group-Wide Synergies

We have a presence in over 100 countries and operate 15 separate production sites worldwide. In the last few years, we have streamlined our production footprint in developed markets and closed six plants to lower fixed costs and better utilize existing facilities. At the same time, we have built up our local production facilities in key growth markets, such as Brazil, India and China. We intend to continue this shift of production to markets with high growth rates. We plan to increase sourcing of components from low-cost countries (countries other than countries from the EU-15 area, EFTA, USA and Japan). In 2012, the share of components sourced from low-cost countries was 26.2% of total procurement, which we intend to significantly increase. In particular, in markets where we have local production facilities we will increase the share of locally sourced components. We plan to further reduce costs by increasing the number of common modules that are used across various brands and products without jeopardizing brand identity. We currently use 55 modules which are shared across brands and platforms, for example the IC engine which is used by all brands for trucks addressing the premium segment, the steering power module for warehouse trucks and the lithium-ion batteries for E-trucks. Standard heating and air conditioning units are used for all models across brands which are equipped with such systems. The sharing of modules reduces time-to-market, enhances quality and leverages R&D resources. We have set up interdisciplinary workshops which shall coordinate R&D projects across brands and explore further possibilities in component sharing across brands and standardizing design. In addition, we plan to implement design-to-cost and design-to-manufacturing initiatives. This will include, in particular, better use of industry standards for components and simplification of construction of products, use of shapes that are easier to manufacture and a reduction of pre-assembly time through simpler processes, for example bolting instead of welding initiatives will also reduce time-to-market and increase quality. To improve the reliability of our products and to reduce customer complaints and costs for repair work under product guarantees we have implemented processes to identify the roots of problems reported by customers and to implement the solutions found, either design adjustments or production process change, throughout the production network. Through these measures we have reduced the complaints of customers made within the first 50 hours of use of a new truck by half over the last three years. We intend to further improve our operational performance.

Our Strengths

Established Leader in Attractive Market

We are the leading industrial truck manufacturer in Western and Eastern Europe and the second largest industrial truck manufacturer globally by revenue and units (source: McKinsey, Industrial Trucks Market, 2012). In China, we are the third largest supplier after Anhui Heli Ltd, China and Hangcha Group Company Ltd, China, and the largest non-domestic supplier (source: Global and China Forklift Industry Report 2012). We are also, according to our estimates, a leading industrial truck brand in other important growth markets such as Eastern Europe, Asia and South and Central America. In Brazil, we are among the market leaders for E-trucks and warehouse trucks. We operate in a market with attractive dynamics. We believe that the growth in our market is driven by fundamental economic forces, including globalization, growing population and goods production, growing international trade and shipping volumes and increasing fragmentation of supply chains. This fragmentation of supply chains is a result of the global trend of increasing specialization in production and logistics and the outsourcing and relocating of production closer to consumers or to low cost regions so as to realize cost savings. Growth is also being driven by increasing demand in growth markets, where expanding industrial production and mechanization drive the need for logistics and material handling solutions such as industrial trucks. In more mature markets, such as Western Europe, growth is more moderate, but stable supported by a combination of replacement demand generated by a large and stable installed truck base of over one million trucks and incremental sales built on technological innovation and new tailor-made offerings which combine a customized product and service package.

Global Pure Play Market Leader with Strong Position in Core Markets based on Successful Multi-brand Strategy

We are the largest company by revenue focused purely on industrial trucks globally. With our broad product range, our multiple brands and global reach we can benefit from economies of scale and achieve cost savings. 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. Through our multiple brands, we offer a complete product range of new industrial trucks, from small low-lift pallet trucks to large trucks for heavy loads. Our customers are highly diversified in terms of end markets and geography which reduces the risk profile of our business. Our top ten customers for the KION Group only represented 6% of our total revenue in 2012. Through our broad product range across many price segments and brands we share components and key modules. This allows us to benefit from economies of scale in R&D, procurement and production and to achieve high margins while offering market relevant priced products. We have demonstrated our ability to expand our business by successfully entering growth markets in order to benefit from their development. In 2012 approximately 29% in terms of units of our new trucks were sold to customers in key growth markets of Eastern Europe, Brazil, China and South Asia. We believe that our strong local presence in these growth markets combined with our established local supply chains, manufacturing capacity, research and development facilities and service operations will allow us to capture additional sales volumes as these markets continue to grow. We have been operating in China since 1993. Our "Linde" brand was one of the first non-domestic brands present in China. Meanwhile, it has become the leading non-domestic brand in material handling in China (Industrial Trucks Market, 2012). We currently have two production facilities in China (Jingjiang and Xiamen). Since the acquisition of Baoli in 2009, we have built up a strong sales and service network with 100 dealers and 86 service stations which offers the full range of our products and address all segments of the market. Through our newly established strategic industrial cooperation with Weichai Group, a leading Chinese automotive and equipment manufacturer, which is part of the state-owned Shandong Heavy Industry Group, we believe we will be able to strengthen our position in China and other important Asian growth markets. Weichai Group has a service network in China with more than 500 service centers, which we can build on to expand our sales and service network in China. Through joint procurement and cooperation in the supply of components, Weichai Group will grant us access to its supplier base in China and Europe, which we anticipate will lead to cost savings. In addition, Weichai Group's large customer base in Asia offers significant cross selling opportunities.

Premium Positioning and Customer Value Driven by Technology Leadership

We are at the technological forefront of the IC-truck and E-truck segments, and we believe we have a leading technological position in warehouse trucks. We believe our technological leadership, which is driven by high R&D spending, enhances the overall value proposition we offer to our customers and allows us to achieve premium pricing and high levels of repeat business. Our LMH and STILL brands are technological leaders whose innovations create tangible value for their customers by increasing efficiency and productivity of material handling by reducing total cost of ownership and operations. In 2012, our total R&D spending amounted to €120.2 million, which is equal to 2.5% of our total revenue for that year and capitalized R&D costs accounted for 33.0% of our total capital expenditure. During the last three years, our R&D spending has always been well in excess of €100 million and we maintained our R&D spending level during the financial crisis in 2008 and 2009. As of December 31, 2012 we had 847 employees (FTE basis) working in our R&D departments worldwide. We have eleven local research and development facilities worldwide that focus on specific customer requirements in local markets. Two of these local facilities are in China, one is in Brazil and one in India. We believe that as a result of our technological strength, the total cost of ownership and operation of our premium trucks is lower than that of many other trucks. This is due to overall cost efficiency, higher productivity of the trucks, lower service costs, customer specific product options and higher residual values. This allows us to charge a premium for both our Linde and STILL products.

Integrated Business Model with High Service Revenue

Our product portfolio covers all types of trucks (including IC-trucks and E-trucks, warehouse trucks, heavy trucks and very narrow aisle trucks) in all price segments of the markets (premium, value and economy). We offer a high level of innovation and customization for our trucks addressing the premium segment of the market and accommodating the wide range of applications for which our customers use their trucks. This comprehensive product portfolio is complemented by a broad service offering, comprising the supply of spare parts, repair and maintenance (increasingly based on multi-year service contracts), marketing of used trucks, provision of service packages, short-term rental, financing services and logistic systems solutions. In 2012, we generated 40.4% of our revenue from our service offerings. This revenue stream benefits from our installed truck base of over one million trucks worldwide and is less cyclical than new truck sales. Our global network of over 1,200 sales and service locations (owned or third party) in over 100 countries comprises approximately 12,850 direct and additional external multi-skilled service staff. In addition to supply of spare parts, repair and maintenance services, our service business offers customized service packages and offers short-term rental agreements. The after sales market offers attractive growth opportunities. About half of this market is still held by third parties, including independent dealers. We are well positioned to increase our market share through our global sales network and the acquisition of selected dealers in regions with attractive growth opportunities. We also offer financing to our customers when purchasing new trucks. The arrangements can take different forms. Either the new trucks are sold to leasing companies which lease it to the customers with residual value or default guarantees or the trucks are sold under a sale-and-lease-back arrangement to a leasing company and subsequently sub-leased to a customer.

Attractive profitability margins

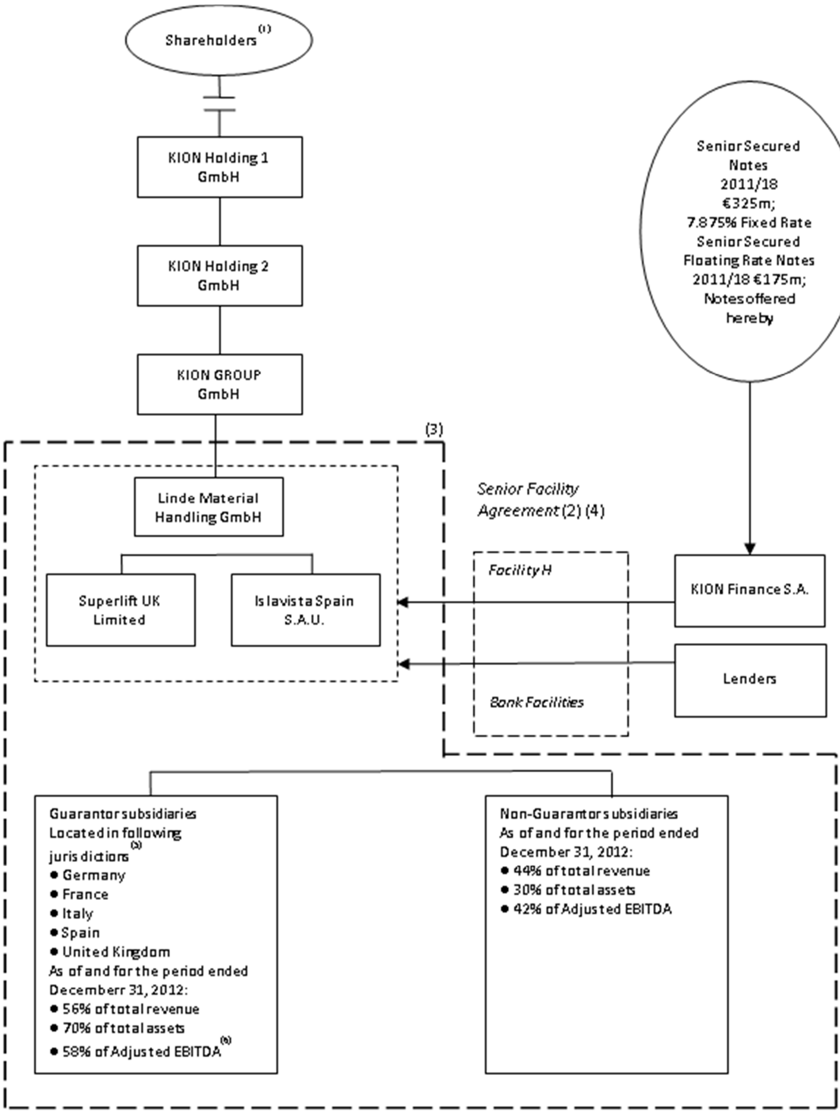
In 2012, we achieved an Adjusted EBIT margin of 9.3%. Our Adjusted EBIT margin is driven by our technology and the cost efficiency of our products (which allow premium pricing), our broad product range, economies of scale and synergies within KION Group, our efficient production operation after the successful implementation of cost reduction programs and the high share of revenue from service offering, which generate higher margins than the new truck business. We have a strong track record of identifying and implementing programs to increase our efficiency, reducing fixed costs and driving up our margins. Measures we have implemented include the streamlining of our global production footprint through the closure of our former manufacturing site in Basingstoke, United Kingdom, the downsizing of two further sites in Germany, as well as the relocation and closure of two production sites in Bari, Italy, and Montataire, France. We further announced the closure of our plant in Merthyr Tydfil, United Kingdom. At the same time we have been expanding our production in growth markets at lower costs and increased localization of production lines combined with localized R&D to enable us to provide tailored products to these market needs. These measures have improved capacity utilization of our other production sites and lowered our fixed cost bases. We have rationalized our cost base in Europe through combining our OM and STILL segments, while maintaining our leading position in Italy utilizing the OM-STILL brand. As a result, we have improved our ability to adjust our cost base to cyclical demand fluctuations. We continuously implement additional operational improvements, such as common production standards, modular concepts for industrial truck development, optimization of our product portfolio, design-to-cost initiatives and supplier management. We try to optimize our material costs by increasingly sourcing components from low cost countries (countries other than countries from the EU-15 area, EFTA, USA and Japan) and building up a global sourcing network.

Experienced Management Team

In 2013, we extended our Executive Board – please see “Recent Developments” for further explanation. Our senior management team has extensive experience across our industry and has an excellent track record in the execution of our growth strategy and in improving operational efficiencies and significant synergies across KION Group. From the outset of KION Group operating as a standalone entity, our senior management team has worked strategically to implement structural efficiency measures designed to optimize our footprint and rationalize our cost base. Following such successful initiatives, our senior management has targeted specific growth measures to drive our expansion into key markets with strong growth potential. In particular, our management has successfully established our strategic industrial cooperation with Weichai Group.

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 Bank Facilities (including Facility H) under the Senior Facility Agreement rank equally in right of payment. Facility D under the Senior Facility Agreement is a second lien tranche which in certain circumstances will receive proceeds only after the other facilities under the Senior Facility Agreement. On December 28, 2012, we repaid in full Facility D under the Senior Credit Agreement, which was a second lien tranche, in connection with the strategic industrial cooperation with Weichai Power.

(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. While the Issuer is consolidated with the KION Group for accounting purposes, it is not affiliated with us and does not belong to the KION Group.

(4) The other borrower under the Existing Bank Facilities is KION France Services S.A.S.

(5) In 2011, we incorporated financial services subsidiaries in each of Germany, France, Italy, Spain and the United Kingdom, which all are Guarantor subsidiaries, other than KION Financial Services Ltd.

(6) Adjusted EBITDA for Guarantor subsidiaries includes KION GROUP GmbH.

Our Shareholders

Our principal shareholders include Goldman Sachs Capital Partners, investment partnerships advised by Goldman, Sachs & Co. and certain of its affiliates, investment partnerships advised by KKR & Co. L.P. and certain of its affiliates and affiliates of Weichai Power Co. Ltd., a member of the Shandong Heavy Industry Group.

Since 1986, Goldman Sachs, through its Merchant Banking Division, has raised over US$82 billion of capital for corporate investments through 17 investment vehicles (including equity, mezzanine, senior secured loan and distressed funds) (together “GS Funds”). The GS Funds conduct privately negotiated investment activities globally.

Founded in 1976 and led by Henry Kravis and George Roberts, KKR is a leading global investment firm. With 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.

Weichai Power is a leading automotive and equipment manufacturing group in China. It operates in three main business segments: power assembly (including engines, gear boxes and axles), commercial vehicles, and automobile electronics and parts, encompassing one of the most comprehensive product ranges in the industry. Weichai Power has the highest sales volume globally in high-speed heavy-duty engines and heavy-duty gearboxes. Its spark plug products enjoy the largest market share in China, and its heavy-duty axle products are considered a top brand in China. The company also ranks No. 4 in heavy duty trucks in China. The company was listed on the Hong Kong Stock Exchange in 2004 and on the Shenzhen Stock Exchange in 2007.

The state owned Shandong Heavy Industry Group is one of the most comprehensive leading industrial equipment manufacturers in China, with two complete industrial chains of the highest quality commercial vehicles and construction machinery. The Group has four listed subsidiaries, including Weichai Power, Weichai Heavy Machinery, Yaxing Motor Coach, and Shantui Construction Machinery, which is the largest bulldozer producer in the world.

MANAGEMENT DISCUSSION & ANALYSIS

Corporate Developments

Strategic Industrial Cooperation with Weichai Power

We have recently formed a strategic industrial cooperation with Weichai Power, a leading Chinese automotive and equipment manufacturer and a publicly listed company in Hong Kong, China, that is part of the state-owned Shandong Heavy Industry Group. Effective December 27, 2012, Weichai Power Holding acquired a 25.0% stake in KION Holding 1 GmbH as well as a 70.0% stake in Linde Hydraulics KG, to which we transferred certain assets, contracts and legal positions (LHY Business) of our Former Linde Hydraulics Business. Through this strategic industrial cooperation, we expect to gain additional access to key Asian growth markets by leveraging Weichai Group's strong local roots, relationships and distribution network and we will have access to a larger supplier base throughout China and Europe and will provide for joint procurement opportunities. Furthermore, our strategic industrial cooperation will provide for shared distribution resulting from cross-selling opportunities in Asia and Europe and an expanded sales and service network, as well as shared supply chain, enhancing our spare parts business with joint component supply. Weichai Group invested a total of €738 million, consisting of €467.0 million paid to acquire a 25.0% stake in KION Holding 1 GmbH through a capital increase and €271.0 million for a 70.0% majority stake in Linde Hydraulics KG acquired from LMH GmbH. We and Weichai Power Holding have agreed on certain option rights with respect to Weichai Power Holding's stake in KION Holding 1 GmbH and our 30.0% stake in Linde Hydraulics KG.

The proceeds from Weichai Group's investment were used to strengthen our capital structure. The main portion of the proceeds has been used to repay outstanding indebtedness under our Senior Facilities Agreement. On December 28, 2012, we repaid €147.9 million principal amount of Facility B1, US$160.0 million principal amount of Facility B1 and fully repaid Facility D in a principal amount of €202.3 million. In addition, in connection with the strategic industrial cooperation with Weichai Group, the Shareholder Loan was converted into equity as of December 27, 2012, in the course of the closing with Weichai Power. As a result of the strategic industrial cooperation with Weichai Group and the related transactions, we generated a gain, recognized in KION Group EBIT, in the amount of €211.8 million of which €108.7 million related to the remeasurement of our 30.0% retained stake in Linde Hydraulics KG. This gain will have no impact on our Adjusted EBIT, as all effects of the associated transactions are classified as non-recurring items. The carved-out LHY Business was included in our overall results until December 27, 2012. Going forward, we will report it in the results from equity investments.

Financial Services Segmentation

Beginning with our Audited Consolidated Financial Statements for the financial year ended December 31, 2012 we report our financial services activities as a separate Financial Services segment and present the comparison to the prior financial year. In our Audited Consolidated Financial Statements for the financial year ended December 31, 2011, we voluntarily presented additional information regarding the performance of our financial services business in the financial years ended December 31, 2011 and 2010, in order to emphasize the increased importance of financial services activities in the Group at the time. Furthermore, our revised reporting presents the financing of our long-term leasing as well as our short-term rental fleets as part of our Financial Services segment. The new reporting model is based on the current management and reporting methodology for our leasing and rental business. Under this reporting framework, our Financial Services segment acts as direct leasing partner to our external customers with regard to our long-term leasing business and as an internal finance partner for our LMH and STILL segments with regard to their short-term rental activities. The Financial Services segment is predominantly funded through sale-and-lease-back arrangements with external leasing providers resulting in external leasing liabilities that are reflected in the reporting of both the Financial Services segment and the Group as a whole. The Financial Services segment is also partially funded through debt from our bank facilities. Assets attributable to the Financial Services segment include long-term leases either reported as lease assets or lease receivables, depending on their type of lease. Liabilities attributable to the Financial Services segment include mainly liabilities owed to leasing companies arising from lease obligations from sale-and-lease-back transactions for the funding of leasing contracts with customers, as well as net financial debt attributable to the general financing of the Financial Services segment. The Financial Services segment targets a slightly positive

EBT and a reasonable return on equity which represents an interest margin resulting from the financing contracts. This arrangement reflects the allocation of responsibilities between our segments: the LMH and STILL segments control the sales to our customers and have to generate operating profits at the EBIT level while the Financial Services segment arranges the suitable financing. Transactions between each of the segments are presented on an arm's-length basis. The separation of our financial services activities into a separate segment improved the transparency of our reporting, allows us to manage our financial services business more effectively and improves our market approach through a more tailored product and services offering. Our new Financial Services segment operates across all our brands, and encompasses financing of our direct long-term leasing for our customers as part of sales financing through the provision of innovative and tailored finance solutions to our customers and short-term rental fleets. In addition, the Financial Services segment provides risk management for our long-term leasing activities. The assets associated with our short-term rental business are reported in the applicable segment results of LMH and STILL. This is due to the fact that the focus in the short-term rental business is on the service functions that these segments provide to their customers and not on the sales financing. Lessees are offered flexible arrangements involving rental trucks from our rental pool, including associated services, for short-term use. Unlike in the long-term leasing business, financial performance in the short-term rental business is largely dependent on the rental fleet's capacity utilization, which is managed by our LMH and STILL segments, as applicable. The rental fleets of our LMH and STILL segments are largely financed via leasing arrangements with our Financial Services segment. As a result, the Financial Services segment has significant intragroup receivables from LMH and STILL that have corresponding leasing liabilities to the Financial Services segment. In addition to providing lease financing directly to our customers, we also support the arrangement of leasing between third-party providers and our customers. The Financial Services segment assists in establishing and maintaining these indirect leasing arrangements which are not recorded in the financial results of the Financial Services segment. For approximately 8.0% of such indirect leasing arrangements, we provide residual value and/or default guarantees to our third-party financial partners which are recorded in the results of our LMH and STILL segments.

Amendment and Extension of Credit Facilities

On 31 July 2012, the amended and restated Senior Facilities Agreement became effective. Lenders strongly supported the commercial, technical and documentary changes which the company had proposed on 8 June 2012. KION has also successfully extended a substantial portion of its Senior Facilities, including extending Revolving Credit Facility (RCF) commitments from December 2013 to December 2016 in an amount which (together with approximately €113 million of new RCF commitments received) totals €300 million, and extending approximately €800 million and approximately $200 million of Term Loan B (TLB) and Terms Loan C (TLC) from December 2014 (TLB) and December 2015 (TLC) to December 2017, respectively. The extended TLB, TLC and RCF each carry an all cash margin, the level of which will vary depending on the leverage ratio from time to time. The full year 2012 leverage ratio the extended TLB and TLC margin will be 4.75% and the extended RCF margin will be 3.75%. The documentary changes include a moderate increase in the acquisitions basket and increased flexibility to repay the existing second lien loan when leverage is below 4:1. In addition, the changes provide that following an IPO, KION will have additional flexibility to pay dividends and that certain financial covenants will cease to apply while a 3:1 leverage ratio is maintained.

Additional Investments

On November 2, 2012, we purchased the remaining outstanding 34.0% of the share capital of VMH and now own 100.0% of the share capital. VMH started operations as a joint venture between the Voltas Group and us on May 1, 2011 concentrating on the Indian market and has a network of 59 branches and authorized dealers throughout India. We have included VMH in our reporting within the Other segment since the second quarter of 2011. The acquisition of the remaining 34.0% of VMH was financed through cash on hand. We have not incurred additional debt in connection with the acquisition; however, we assumed certain liabilities of the existing material handling business of VMH, including trade payables and employee related obligations. On August 31, 2012, we purchased the remaining outstanding 2.7% share in KION Baoli (Jiangsu) Forklift Co., Ltd., our company focusing on the economy segment, and are now its sole shareholder. In addition, we also acquired from Liftec, a dealer with whom we had worked successfully for about 20 years, its former business in Russia in November 2011, its former business in Kazakhstan in February 2012, and the operations in Ukraine in July 2012. On February 28, 2012, we purchased the remaining 51.0% shares in Linde Creighton Ltd., one of our UK dealers, and now own 100.0% of the company. Linde Creighton employs approximately 300 employees at its headquarters in West Bromwich, United Kingdom

Recent Developments

Sale of Certain Assets of the Container Handling Business

On February 15, 2013, LMH GmbH, Linde Heavy Truck Division Ltd., Linde (China) Forklift Truck-Corp. Ltd., LMH UK (together "Linde") on the one hand and Konecranes plc, Konecranes UK Ltd., Konecranes Lifttrucks AB and Konecranes Port Machinery (Shanghai) Co. Ltd. (together "Konecranes") on the other hand entered into an asset purchase agreement ("APA") concerning Linde's container handling business (reach stackers, laden container handlers and empty container handlers). In addition, a long-term truck supply agreement as well as several other ancillary agreements were entered into, all aiming at a collaboration of the parties in order to further increase the global competitiveness of their respective container handling truck activities.

The closing of the transaction is expected to take place during the second quarter of 2013.

At the end of January 2013, KION entered into consultations with employee representatives and trade unions concerning the process of restructuring of its container handler and heavy forklift truck business. This also includes the contemplated closure of LMH's plant in Merthyr Tydfil (Wales, UK – for further information please see Key Factors Affecting Results of Operations and Financial Condition) – Reduction of our Fixed Costs through Business Restructuring and Expension of Low Cost Country Sourcing.

Issuance of Senior Secured Notes

On February 6,2013, KION Finance S.A. issued the 2020 Senior Notes. The proceeds of the 2020 Senior Notes were on-lent under the H2 Notes Credit Facility under the existing Senior Facilities Agreement through the Facility H thereto. The H2 Notes Credit Facility is unconditionally guaranteed on a senior secured basis by KION Group GmbH and certain of its subsidiaries. The 2020 Senior Notes are admitted to trading on the Euro MTF Market and listed on Official List of the Luxembourg Stock Exchange.

Changes to our Executive Board

The Executive Board was expanded in January 2013 in response to the growing significance of business in Asia and to make the management of the Linde and STILL brands more involved in running the Group as a whole. The KION Group's Executive Board now has five members and is presided over by CEO Gordon Riske. Ching Pong Quek, who has headed up KION's entire Asia business since 2008, was appointed to the Executive Board as Chief Asia Pacific Officer. This new post has been created in recognition of the growing importance of the region for the Group's financial performance. The Supervisory Board has also made the management of the Linde and STILL brands more involved in running the Group as a whole. The CEO of Linde Material Handling GmbH, Theodor Maurer, and the CEO of STILL GmbH, Bert-Jan Knoef, have also been appointed to the Executive Board of the KION Group. They remain in charge of their respective brand companies. Meanwhile, CFO Dr Thomas Toepfer has assumed responsibility for HR and been appointed as the KION Group's Labour Relations Director. Klaus Hofer, who had been in charge of human resources, has left the Company. Mr. Otmar Hauck's responsibilities as Chief Operating Officer (COO) (quality, central operations, purchasing, logistics and product development in the Group) passed to CEO Gordon Riske and Dr. Thomas Toepfer. No new COO was appointed for KION Group.

Market Development in 2012

In 2012, the market for new industrial trucks stagnated and declined by 3.1% in global order intake . This was mainly due to the impact of the Eurozone crisis, especially in the Southern European countries as well as corrections in the Chinese trucks market. Whereas unit sales of new trucks during the early months of 2012 were still influenced by the high level of order intake in the previous year, the subsequent months saw a fall in demand.

Germany, which remains KION's largest individual market, proved somewhat more stability than Western Europe as a whole, which contracted by 7.1%. The United Kingdom bucked the trend with a rise of 4.4% in orders for new trucks, whereas France and Italy both registered sharp falls of 8.0% and 21.5%, respectively. Order intake in Eastern Europe was stable thanks to growth in the Russian market. Decreasing unit sales in Asia were primarily the result of a decline in the Chinese market. A sharp contraction of business in Brazil had a significant adverse impact on unit sales in Central and South America.

Order intake broken down by product group shows that the market for warehouse trucks was much more stable than the overall market, with orders decreasing by just 1.9%. Within this group, there was a rise in order intake for rider trucks. The decrease of 3.8% in the number of orders for counterbalance trucks was predominantly attributable to declining figures for combustion engine industrial trucks.

Global Industrial Truck Market (order intake)

in thousand units	2012	2011	Changes
Western Europe	259	278	-7.1%
thereof			
Germany	72	76	-5.5%
France	51	56	-8.0%
United Kingdom	28	27	4.4%
Eastern Europe	54	54	-1.3%
thereof			
Russia	24	23	4.7%
Europe	**312**	**333**	**-6.1%**
North America	181	170	6.8%
thereof			
U.S.A.	165	155	6.7%
Central & South America	49	55	-12.0%
thereof			
Brazil	19	23	-16.7%
China	217	238	-9.0%
Rest of World	187	181	3.6%
World	**947**	**977**	**-3.1%**

Source: WITS/FEM

Financial Highlights in 2012

Overview

Despite the slight market downturn, KION was able to increase its market share in all major sales regions, maintaining the high level of order intake seen in the previous year. While the number of trucks ordered declined slightly, order intake in terms of value remained stable, due to a different product mix and a higher proportion of trucks sold with customer specific solutions. Revenue growth of 8.2% was mainly driven by our strong order book from 2011 and a continued expansion of the service business. Having largely completed the extensive restructuring and consolidation program, KION was again able to improve its operating performance, raising the adjusted EBIT margin from 8.3% in 2011 to 9.3% in 2012. Free cash flow was positively impacted by the operating improvement, but was also increased due to the sale of the Hydraulics Business to Weichai Power in December 2012. The transactions with Weichai Power, including the sale of the LHY Business as well as the acquisition of shares by way of capital contributions made by Weichai Power, significantly strengthened KION's financial position in 2012.

KION Group key figures

€ million	2012	2011	Change
Order intake	4,700.1	4,681.9	0.4%
Revenue	4,726.7	4,368.4	8.2%
EBIT	550.1	213.2	>100.0%
Adjusted EBIT	438.2	364.6	20.2%
EBITDA	915.4	569.2	60.8%
Adjusted EBITDA	747.3	665.3	12.3%
Free cash flow	518.1	234.2	>100.0%
EBIT Margin (Adj.)	9.3%	8.3%	–
EBITDA Margin (Adj.)	15.8%	15.2%	–

EBIT und EBITDA reflect the impact on earnings or charges resulting from matters that we do not consider to be indicative of our on-going operations and which may impact our year on year comparability, while not impacting our ability to service our debt. Therefore, we also present Adjusted EBIT and Adjusted EBITDA, which are defined as EBIT and EBITDA, respectively, excluding the impact of non-recurring items and KION Acquisition item. 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, operating income or EBIT as indicators of our performance, or as alternatives to operating cash flows as a measure of our liquidity. 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 EBITDA, Adjusted EBIT and Adjusted EBITDA are measures commonly used by investors. EBITDA, Adjusted EBIT and Adjusted EBITDA, as presented in this Prospectus, 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 income statement of the KION Group

in € million	2012	2011	Change
Revenue	4,726.7	4,368.4	8.2%
Cost of sales	-3,429.9	-3,256.4	-5.3%
Gross profit	**1,296.8**	**1,112.0**	**16.6%**
Selling expenses	-562.4	-520.5	-8.0%
Research and development costs	-124.5	-119.5	-4.1%
Administrative expenses	-313.2	-283.3	-10.5%
Other	253.4	24.5	>100.0%
Earnings before interest and taxes (EBIT)	**550.1**	**213.2**	**>100.0%**
Financial result	-239.5	-272.0	12.0%
Earnings before taxes	**310.6**	**-58.9**	**>100.0%**
Income taxes	-149.5	-34.0	<-100.0%
Net income (loss)	**161.1**	**-92.9**	**>100.0%**

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

Revenue by product category

in € million	2012	2011	Change
New business	2,651.5	2,364.2	12.1%
Hydraulics	167.8	172.7	-2.8%
Service offering	1,907.4	1,831.5	4.1%
- After sales	1,149.8	1,065.7	7.9%
- Rental business	427.6	441.2	-3.1%
- Used trucks	213.0	219.0	-2.7%
- Other	117.0	105.6	10.8%
Total revenue	**4,726.7**	**4,368.4**	**8.2%**

Revenue

Notwithstanding a moderate market development in our established sales markets such as Germany, France, China, Brazil and Eastern Europe, we experienced sustained demand for new trucks supported by increased customer truck utilization levels, which in turn accelerated our customers replacements and had a positive impact on demand for service offerings. While unit sales of new trucks declined slightly by 2.1%, our total order intake in terms of sales of new trucks increased by 0.4% to €4,700.1 million for the financial year ended December 31, 2012, from €4,681.9 million for the financial year ended December 31, 2011. This increase was primarily due to a change in product mix and increased after sales activities. Our high order intake levels positively influenced our revenue for the financial year ended December 31, 2012, which grew by 8.2% to €4,726.7 million, compared to €4,368.4 million for the financial year ended December 31, 2011. The new business generated a strong growth of 12.1%, from €2,364.2 million for the financial year ended December 31, 2011 to €2,651.5 million for the financial year ended December 31, 2012, resulting in our primary driver of revenue for the financial year ended December 31, 2012, due to the volume of replacement demand. The new business was also supported by the substantial demand for (E-trucks) and warehouse equipment, which we fulfilled by increasing our utilization of production capacity. The growing number of our trucks in the market and higher capacity utilization levels by our customers led to a higher demand for our services and spare parts. This increase in our service business was primarily due to our after sales business, which grew by 7.9% from €1,065.7 million for the financial year ended December 31, 2011 to €1,149.8 million in revenue for the financial year ended December 31, 2012.

Cost of Sales

Our cost of sales increased by 5.3% to €3,429.9 million for the year ended December 31, 2012 from €3,256.4 million for the year ended December 31, 2011. Our variable cost of sales increased as a consequence of higher sales. Raw material prices developed into different directions. While prices for steel went down, prices for oil and energy increased. In general, around 25% of our material costs are subject to raw material price changes. In the past, we have been able to pass on most of these cost increases to our own customers by way of moderate price increases for our products. Furthermore our labor costs increased due to the higher production output, but the increase was lower than average due to a higher share of employees in China and other low labor cost countries. Compared to our 8.2% revenue growth, our cost of sales rose at a lower rate over the same period. This was mainly due to more efficient production operations and greater overall capacity utilization.

Gross Profit and Gross Margin

Our gross profit increased by 16.6% to €1,296.8 million for the financial year ended December 31, 2012, from €1,112.0 million for the financial year ended December 31, 2011. This was caused by an increase in revenue and a lower rate of increase in our cost of sales for the financial year ended December 31, 2012 due to the continued improvement in our production efficiency and improved operating performance across all product categories. As a result, gross margin rose from 25.5% for the financial year ended December 31, 2011 to 27.4% for the financial year ended December 31, 2012.

Selling Expenses

Our selling expenses increased by 8.0% to €562.4 million for the financial year ended December 31, 2012, from €520.5 million for the financial year ended December 31, 2011, primarily due to investments in growth regions and expenses for employee bonuses, which had not been expensed in the financial year ended December 31, 2011. Despite the increase, selling expenses as a percentage of revenue remained stable at 11.9% for the financial year ended December 31, 2012, compared to the financial year ended December 31, 2011.

Research and Development Costs

For the financial year ended December 31, 2012, our research and development costs were €124.5 million, a 4.1% increase from the financial year ended December 31, 2011, when research and development costs were €119.5 million. This increase was mainly related to research and development of new products, facelifts of existing trucks as well as to new technological developments, such as the hybrid IC technology, which therefore required a higher amount of research and development personnel. Our total research and development costs calculated as research and development expenses, less amortization expense, plus capitalized development expenses amounted to €120.2 million for the financial year ended December 31, 2012. As a percentage of revenue our research and development spending amounted to 2.5% for the financial year ended December 31, 2012, compared to 2.8% for the financial year ended December 31, 2011.

Administrative Expenses

Our administrative expenses increased by 10.5% to €313.2 million for the financial year ended December 31, 2012 from €283.3 million for the financial year ended December 31, 2011, mainly due to higher personnel expenses caused by an increase in the number of employees and higher consulting fees in connection with our strategic industrial cooperation with Weichai Group and the expenses related to employee bonuses. As a percentage of our revenue, our administrative expenses were 6.6% and 6.5%, respectively, in the financial year ended December 31, 2012 and 2011.

Other Income and Expense

Our net other income and expense significantly increased from an income of €11.5 million for the financial year ended December 31, 2011 to an income of €234.8 million for the financial year ended December 31, 2012. The increase was mainly due to the net gains in relation to the Weichai transactions including the sale of the LHY Business which resulted in a net gain of € 103.1 million. In addition the remeasurement of the remaining 30% at-equity investment in our Linde Hydraulics KG resulted in a gain of €108.7 million, which is also reported in the net gains of the Weichai transaction. For the financial year ended December 31, 2011 we recognized a gain of €11.4 million due to the remeasurement of the purchase price obligation for our UK dealer Linde Sterling and for the financial year ended December 31, 2012 we recognized a gain of €4.6 million for Linde Creighton. Additionally, higher exchange rate losses of €4.4 million for the financial year ended December 31, 2012, compared to a gain of €3.1 million for the financial year ended December 31, 2011, reduced the other net income due to the impact of the € to US$ exchange rate. Furthermore, other income and expense, which also consist of gains and losses related to foreign exchange rate differences resulting from the remeasurement of financial assets and receivables denominated in a foreign currency.

Profit from At-Equity Investments/Other Financial Result

The profit from at-equity investments/other financial result increased from €13.1 million for the financial year ended December 31, 2011 to €18.6 million for the financial year ended December 31, 2012. The main reason for the increase was due to a gain of €8.0 million in connection with the remeasurement of our existing equity investment of 49% in our UK dealer, Linde Creighton, which were held prior to the acquisition of the remaining 51% on February 28, 2012 and for the financial year ended December 31, 2011 for the remeasurement of our shares held in the UK dealer, Linde Sterling with €4.1 million. The other financial result was €2.7 million for the financial year ended December 31, 2012 and €1.9 million for the prior year period.

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	2012	2011	Change
Net income (loss) for the period	161.1	-92.9	>100.0%
Income taxes	-149.5	-34.0	<-100.0%
Financial result	-239.5	-272.0	12.0%
EBIT	**550.1**	**213.2**	**>100.0%**
+ Non-recurring items	-153.4	115.5	<-100.0%
+ KION acquisition items	41.5	36.0	15.3%
= Adjusted EBIT	**438.2**	**364.6**	**20.2%**

Our EBIT was €550.1 million for the financial year ended December 31, 2012, compared to €213.2 million for the financial year ended December 31, 2011. This increase was primarily the result of the sale of 70.0% of Linde Hydraulics KG on December 27, 2012 and the remeasurement of the remaining 30.0% of Linde Hydraulics KG which are accounted as an at-equity investment and resulted in a net gain of €211.8 million. In addition, this increase was the result of sustained growth of unit sales in our established regional markets and stable demand from China and Eastern Europe. Finally, EBIT was positively impacted by improved capacity utilizations in the new trucks business. These effects were partly offset by expenses for employee bonus amounting to €38.4 million. As part of the carve-out from Linde AG we recognized a provision for future fixed bonus payments. All the bonus for German employees were recorded as a utilization of this provision until the end of the financial year ended December 31, 2011 and therefore did not result in an expense.

Our Adjusted EBIT, which excludes Non-recurring Items and KION Acquisition Items, increased by €73.6 million to €438.2 million for the financial year ended December 31, 2012 from €364.6 million for the financial year ended December 31, 2011. The increased Adjusted EBIT corresponds to an Adjusted EBIT Margin of 9.3% for the financial year ended December 31, 2012, compared to an Adjusted EBIT Margin of 8.3% for the financial year ended December 31, 2012.

For the financial year ended December 31, 2012, Non-recurring Items amounted to positive €153.4 million, primarily as a result of the net gains in relation to the Weichai transactions amounting to €211.8 million. In addition the remeasurement of the purchase price obligation and the equity investment in Linde Creighton amounted to €12.6 million. These positive effects were partially offset by follow-up costs due to the restructuring measures in Italy, France and the United Kingdom consulting fees and other restructuring measures which amounted to a total of €70.9 million. For the financial year ended December 31, 2011, net Non-recurring items were negative of €115.5 million resulting from expenses for relocation costs, severance payments and general headcount reductions and were partially offset by income related to our UK dealers of €12.6 million.

The KION Acquisition Items had a negative impact of €41.5 million for the financial year ended December 31, 2012, compared to €36.0 million for the financial year ended December 31, 2011. The effects of the purchase price allocation in connection with the KION acquisition primarily include depreciation, amortization, impairment and reversal of impairment charges, as well as administration charges for KION Holding 1 GmbH.

Adjusted EBITDA			
€ million	2012	2011	Change
EBIT	550.1	213.2	>100.0%
Amortization, depreciation and impairment charges	-365.3	-356.0	2.6%
EBITDA	**915.4**	**569.2**	**60.8%**
+ Non-recurring items	-169.3	93.0	<-100.0%
+ KION acquisition items	1.2	3.1	<-100.0%
= Adjusted EBITDA	**747.3**	**665.3**	**12.3%**

Adjusted EBITDA was €747.3 million and we achieved an Adjusted EBITDA margin of 15.8% for the financial year ended December 31, 2012, compared to Adjusted EBITDA of €665.3 million and an Adjusted EBITDA margin of 15.2% for the financial year ended December 31, 2011. Depreciation and amortization increased from €356.0 million for the financial year ended December 31, 2011 to €365.3 million for the financial year ended December 31, 2012.

Financial Income and Expense

Financial result, comprised of the net of financial income and expense, decreased by 12.0% from €272.0 million for the year ended December 31, 2011 to €239.5 million for the year ended December 31, 2012. This increase was mainly the result of the foreign exchange rate gains and losses related to financing. The result from foreign currency exchange rate gains and losses related to financing increased by €33.6 million to a gain of €4.5 million for the year ended December 31, 2012, compared to a loss of €29.1 million for the year ended December 31, 2011, primarily due to the change in the €/US$ exchange rate losses from derivative financial instruments amounting to €7.6 million in 2012 and €31.8 million in 2011. By contrast, the interest expense in relation to the corporate bond was higher in the year ended December 31, 2012, compared to the year ended December 31, 2011, due to the issuance of the corporate bond in April 2011.

Income Taxes

For the year ended December 31, 2012, net income tax expense was €149.5 million, compared to a net income tax expense of €34.0 million for the year ended December 31, 2011. The current income tax expense increased significantly to €122.1 million for the year ended December 31, 2012, mainly due to tax charges from the sale of the LHY Business, in an amount of €72.7 million, compared to a current income tax expense of €49.3 million for the year ended December 31, 2011. Despite the positive results from operations, our previous estimate of the ability to utilize unused tax losses in future profitable years has not changed and, thus, previously unrecognized deferred tax assets were not recognized. Deferred income tax expense was €27.4 million for the year ended December 31, 2012 and a deferred tax income of €15.3 million in the corresponding prior period mainly due to the utilization of deferred tax assets recognised on interest carryforwards.

Net Income (loss) for the period

For the financial year ended December 31, 2012, we reported net income of €161.1 million, compared to a net loss of €92.9 million for the financial year ended December 31, 2011, a significant increase. This increase was mainly driven by the higher operational business EBIT and the net gain derived from the Weichai transactions, which amounted to €211.8 million before taxes. Financial result increased by 12.0% to negative €239.5 million for the financial year ended December 31, 2012, as compared to negative €272.0 million for the financial year ended December 31, 2011. This was offset by an increase in income tax expenses from €34.0 million for the financial year ended December 31, 2011 to €149.5 million for financial year ended December 31, 2012.

Condensed Consolidated Balance Sheet

Condensed balance sheet, assets					
in € million	2012	in %	2011	in %	Change
Non-current assets	**4,231.1**	**68.1%**	**4,160.5**	**68.6%**	**1.7%**
thereof:					
Goodwill	1,473.2	23.7%	1,538.0	25.4%	-4.2%
Brand names	593.9	9.6%	594.4	9.8%	-0.1%
Deferred tax assets	265.0	4.3%	262.0	4.3%	1.1%
Leased assets	191.3	3.1%	167.4	2.8%	14.3%
Rental assets	395.1	6.4%	356.7	5.9%	10.8%
Lease receivables	267.1	4.3%	242.8	4.0%	10.0%
Current assets	**1,982.2**	**31.9%**	**1,905.8**	**31.4%**	**4.0%**
thereof:					
Inventories	549.9	8.9%	625.4	10.3%	-12.1%
Trade receivables	625.5	10.1%	676.6	11.2%	-7.6%
Lease receivables	132.1	2.1%	118.4	2.0%	11.6%
Cash	562.4	9.1%	373.5	6.2%	50.6%
Total assets	**6,213.2**		**6,066.3**		**2.4%**

Total Assets

As of 31 December 2012, total assets had grown slightly year on year by 2.4% or €147.0 million to €6,213.2 million. Non-current assets rose by €70.6 million to €4,231.1 million, while current assets grew by €76.4 million to €1,982.2 million. Due to the sale of significant portions of the former Linde Hydraulics Business, intangible assets had fallen by €108.3 million to €2,407.2 million. The sale, together with impairment losses in connection with the consolidation of our production facilities, also caused a decline in tangible assets, outweighing the expansion of production facilities in China and Brazil. Other property, plant and equipment stood at €500.3 million as at 31 December 2012, compared with €553.8 million as at 31 December 2011. The consolidation of the 30.0% minority shareholding in Linde Hydraulics KG led to an increase in investments accounted for using the equity method, which increased from €36.5 million at year-end 2011 to €154.8 million at year-end 2012.

Following the deconsolidation of Linde Hydraulics KG, inventories, which are reported as current assets, decreased by 12.1% from €625.4 million to €549.9 million. At the end of 2012, we were also able to rebalance the year-on-year increase resulting from our operating activities.

In 2012 the long-term leasing business was separated from the short-term rentals and 'sale with risk' business as part of the changes in the management structure and the separation of the financial services business. To achieve consistency of presentation with segment reporting, this separation required reclassifications in the KION Group's consolidated statement of financial position. Industrial trucks used in short-term rentals and 'sale with risk' business were reclassified from 'leased assets' to 'rental assets', while industrial trucks used in long-term leasing business continue to be reported as 'leased assets'. In addition, procurement leasing was also separated from 'leased assets' and are reclassified to other property, plant and equipment as it is no longer considered to be part of leased assets under the new structure. In connection with this reclassification, the corresponding liabilities are reported as other financial liabilities and no longer as lease liabilities.

Liquidity

Cash and cash equivalents rose substantially by €188.9 million year on year to €562.4 million as of December 31, 2012 (December 31, 2011: €373.5 million).This increase was caused by the improvement of our operational cash flow and the Weichai transaction.

Trade Working Capital

Trade working capital, defined as inventories and trade receivables less trade payables, was €529.3 million as at the reporting date, €138.5 million less than it had been a year earlier (31 December 2011: €667.8 million). Inventories decreased by €75.4 million to €549.9 million, predominantly due to the deconsolidation of Linde Hydraulics. Trade receivables fell by €51.1 million to €625.5 million as at 13 December 2012.

Condensed balance sheet, equity and liabilities

in € million	2012	in %	2011	in %	Change
Equity	**660.3**	**10.6%**	**-487.6**	**-8.0%**	**>100%**
Non-current liabilities	**3,929.4**	**63.2%**	**4,842.5**	**79.8%**	**-18.9%**
thereof:					
Shareholder loan	–	0.0%	643.1	10.6%	-100.0%
Corporate bond	489.5	7.9%	487.5	8.0%	0.4%
Financial liabilities	1,811.2	29.2%	2,289.8	37.7%	-20.9%
Deferred tax liabilities	308.8	5.0%	339.1	5.6%	-8.9%
Lease liabilities	329.2	5.3%	300.1	4.9%	9.7%
Current liabilities	**1,623.5**	**26.1%**	**1,711.4**	**28.2%**	**-5.1%**
thereof:					
Financial liabilities	51.8	0.8%	227.4	3.7%	-77.2%
Trade payables	646.0	10.4%	634.1	10.5%	1.9%
Lease liabilities	145.8	2.3%	146.7	2.4%	-0.6%
Total equity and liabilities	**6,213.2**		**6,066.3**		**2.4%**

Equity

Our equity increased by €1,147.9 million to €660.3 million as of December 31, 2012 compared to negative €487.6 million as of December 31, 2011. Three factors contributed to this development: Firstly, an amount of €467.0 million was contributed by Weichai Power for the acquisition of 25% of the shares in KION Holding 1 GmbH by way of a capital increase. Secondly, in connection with this transaction, the Shareholder Loan was converted into equity. Thirdly, the encouraging net income development led to an increase in retained earnings from €-806.4 million to €-647.7 million.

Financial Debt

As of December 31, 2012 total financial debt amounted to €2,352.4 million, a decrease of €652.3 million compared to December 31, 2011, reflecting the considerable improvement of our capital structure. Following the debt repayments of €470.8 million in relation with our strategic industrial cooperation with Weichai Power, we were able to reduce financial liabilities to a significant extent. Moreover, the drawdown of €137.6 million on the revolving credit facility taken in November 2011 as well the multicurrency capex facility of €56.1 million were repaid in the year under review. In addition, the improved operating performance also contributed to the reduction and the local Group companies decreased their financial liabilities as well. This was counteracted by the increase in accrued and unpaid interest (payment in king, PIK)

Net financial debt

€ million	2012	2011	Change
Corporate bond - fixed rate (2011/2018) - gross	325.0	325.0	–
Corporate bond - floating rate (2011/2018) - gross	175.0	175.0	–
Liabilities to banks (gross)	1,882.1	2,530.1	-25.6%
Liabilities to non-banks (gross)	4.5	7.3	-38.8%
./. Capitalized borrowing costs	-34.1	-32.7	4.5%
Financial debt	**2,352.4**	**3,004.7**	**-21.7%**
./. Cash and cash equivalents	562.4	373.5	50.6%
Net financial debt	**1,790.1**	**2,631.0**	**-32.0%**

Net Financial Debt

As a result of both the reduction of financial liabilities and the increase of cash and cash equivalents, net financial debt amounted to €1,790.1 million at year-end 2012, a decrease of €841.2 million (December 31, 2011: €2,631.3 million). The cash flow from operating and investing activities amounted to €518.1 million.

Contingent Liabilities and other Financial Obligations

The following table summarizes the contractual obligations, commercial commitments and principal payments we were obligated to make as of December 31, 2012, under our long-term debt obligations, certain lease agreements we entered into, our purchase obligations and other material agreements.

Contractual obligations and commercial commitments

		Payments due by period					
€ million	**Total**	2013	2014	2015	2016	2017	Thereafter
Other short-term debt obligations (1)	**34.2**	33.8	-	0.2	0.2	-	-
Senior Facility debt obligations (2)							
Principal	**2,408.4**	18.2	252.4	533.1	-	954.9	649.8
Assumed interest payments (3)	**515.9**	106.1	102.7	103.0	90.8	95.4	17.9
Procurement leases (4)							
On-balance contracts (present valu	**15.2**	3.8	3.3	2.0	0.7	0.3	5.3
Off-balance contracts (nominal)	**142.1**	21.3	24.3	16.2	10.0	5.3	65.0
Purchase obligations (5)	**9.8**	9.8	-	-	-	-	-
Other long-term liabilities (6)	**6.4**	0.9	3.8	0.3	0.4	0.4	0.6
Total	**3,132.0**	**193.9**	**386.6**	**654.8**	**102.0**	**1,056.2**	**738.5**

(1) Includes local bank loans, overdraft facilities and Ancillaries (including projected interest based on current rates).
(2) Relates to the Senior Facilities under the Senior Facilities Agreement ("SFA") (including the Multi-Currency Capex Facility, the Multi-Currency Revolving Credit Facility and the Facility H1 Tranche). Principal payments also include current and projected capitalized PIK (pay in kind) interest based on assumed interest rates.
(3) Projected interest rates are based on the zero coupon yield curve as of December 31, 2012.
(4) Procurement leases consist of short-term and long-term lease agreements for buildings, machinery and office and operating equipment, but do not include sale-lease back sublease contracts we enter into as part of the financial services we offer to our customers.
(5) The purchase obligations covered in this table are the purchase obligations regarding tangible and intangible fixed assets. This table does not include purchase orders entered into in the ordinary course of business.
(6) Other long-term liabilities include outstanding purchase price installments regarding two acquisitions made in 2011 and obligations for employee profit participation in France. This table does not include contracted payments from interest rate derivatives.

As of December 31, 2012, we also had lease liabilities on our balance sheet in the amount of €470.2 million arising from long-term sale-and-lease-back transactions for funding leases with customers. Additionally, we had lease liabilities from residual value guarantees amounting to €21.4 million. These relate to residual value guarantees granted in connection with the sale of assets to leasing companies where the amount guaranteed is greater than 10% of the fair value of the assets involved. Our lease liabilities are covered by lease receivables, future cash inflows from sublease contracts with our customers and proceeds from used truck sales.

Pension Provisions and Similar Obligations

We sponsor pension plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. These are defined benefit pension plans, defined contribution pension plans and multi-employer plans. We have €546.5 million in pension liabilities under defined benefit plans and €22.8 million of pension assets, with a net defined benefit obligation of €523.8 million as of December 31, 2012 and €363.0 million as of December 31, 2011. Contributions to funded pension plans are made as necessary, to provide sufficient assets to meet future benefits payable to plan participants. These contributions are determined by various factors, including funded status, legal and tax considerations and local customs. We made contributions and pension payments to pension plans qualifying as defined benefit plans of €23.3 million in 2012, consisting of €9.5 million in employer contributions to defined benefit pension plans, €13.6 million pension benefits paid and €0.2 million of transferals to external pension funds. Additionally, we paid €59.7 million in 2012 and €53.3 million in 2011 to different state plans in accordance with legal requirements.

In addition, we have entered into contractual trust arrangements (“CTAs”) in certain circumstances. CTAs are used to safeguard the future pension claims of our current and former employees and their beneficiaries. Under a CTA, a company transfers certain assets to a trustee who holds and administers these assets subject to the instructions of the company. At the same time, the assets become earmarked for the benefit of the beneficiaries in an insolvency situation or similar event. Therefore, a transfer of those assets back to the company is only possible in limited circumstances such as reimbursement of payments made to beneficiaries or in the event of an overfunding.

Linde Material Handling (UK) Ltd. (“LMH UK”) has four existing pension funds for employees of LMH UK at the Basingstoke, United Kingdom and Merthyr Tydfil, United Kingdom facilities and sales network. Pursuant to IAS 19 and the assumptions we have employed in relation to these funds, such pension funds are considered fully funded. However, under legislation in place in the United Kingdom, we are required to agree the valuations of the pension funds with their respective trustees, and thus the pension funds are subject to regular valuations every three years. Funding plans in relation to the pension valuations that took place on January 1, 2009 with respect to these four pension funds were agreed subsequently. As part the funding plans, we agreed that the schemes would be funded on the basis of a shortfall of pension assets to pension liabilities on the “technical provisions” basis for UK pensions law purposes of GBP 30 million. Appropriate schedules for cash contributions over a span of ten years were agreed. Aggregate payments towards the deficit were made to the plans of approximately GBP three million in 2009, approximately GBP four million in 2010 and approximately GBP three million in 2011. The funding plans provide for aggregate annual payments of GBP four million for the years 2012 to 2017 and GBP one million in 2018, payable in equal monthly installments. The annual contribution in 2012, 2013 and 2014 increase by 50% in the event that we meet a set performance target for that specific year. In addition, we agreed to provide additional collateral of GBP 18 million as part of the funding plans. In 2012, a new regular pension valuation process has started and, due to a decrease in the discount factor used because of interest rates based on the historically low UK gilt rate, might result in an increase of pension liabilities as per the valuation date of January 1, 2012. Negotiations between the pensions trustee and us in relation to this valuation are still on-going. In the event that the agreed final deficit is larger than the GBP 30 million previously agreed, management’s expectation is that this would lead to an extension of the funding plan period rather than an increase in the annual expected contributions.

Off-Balance Sheet Arrangements

As of December 31, 2012, we had the following off-balance sheet arrangements:

Leasing: As part of our business, we have entered into procurement and sales financing leases, which we neither recognized as an asset nor a liability on our balance sheet in accordance with the respective IFRS requirements. As of December 31, 2012, the nominal value of our contractual obligations from these off-balance leases was €212.7 million. From these obligations, €70.6 million relates to our sales financing leases, which are covered by future cash inflows from sublease contracts with customers, or proceeds from used truck sales (after the truck is returned to us). The remaining €142.1 million related to procurement leases. For a general understanding of our lease accounting, please refer to the "Notes to the Consolidated Financial Statements for the financial year ended December 31, 2012 — Note 8: Accounting Policies."

Guarantees (excl. leasing): From time to time, we issue guarantees for contractual arrangements. As of December 31, 2012, we had a guarantee in the total amount of €3.2 million for obligations of an unconsolidated entity, resulting in a contingent liability of €0.8 million for the actual usage of the secured credit line.

Factoring: In relation to various factoring transactions in France, we have an outstanding exposure of €20.0 million as of December 31, 2012.

Condensed Statement of Cash Flow

Condensed cash flow statement			
in € million	2012	2011	Change
EBIT	550.1	213.2	>100.0%
Cash flow from operating activities	414.0	386.8	7.0%
Cash flow from investing activities	104.1	-152.6	>100.0%
Free cash flow	**518.1**	**234.2**	**>100.0%**
Cash flow from financing activities	-330.1	-114.7	<-100.0%
Currency effects on cash	1.0	1.1	-7.2%
Change in cash and cash equivalents	**188.9**	**120.6**	**56.7%**
Net financial debt	1,790.1	2,631.3	-32.0%

Cash flow from operating activities

Cash flow from operating activities includes all cash generated from operations and also reflects cash paid for taxes. For the financial year ended December 31, 2012, cash inflow from operating activities amounted to €414.0 million, compared to €386.8 million for the financial year ended December 31, 2011. This was primarily due to the €337.0 million increase in EBIT, which had been impacted by positive Non-recurring Items amounting to €153.4 million.

Cash flow from investing activities

For the financial year ended December 31, 2012 our cash inflow from investing activities amounted to €104.1 million compared to a net outflow of €152.6 million for the financial year ended December 31, 2011. Capital expenditures on non-current assets increased to €155.1 million for the financial year ended December 31, 2012, compared to €133.0 million for the financial year ended December 31, 2011 due to the investment in technical facilities and factory equipment, particularly in Brazil and China. For the financial year ended December 31, 2012, our cash outflow for acquisitions was related to the purchase of the remaining shares of Linde Creighton in February 2012, but was off-set by major net inflows of €259.7 million from the sale of the LHY Business. For the financial year ended December 31, 2011, €32.9 million of cash had been used for the acquisition of VMH and the acquisition of the remaining shares of Linde Sterling.

Free Cash Flow

In 2012, free cash flow, defined as cash flow from operating activities plus cash flow used in investing activities, increased significantly by €283.8 million to €518.1 million, compared to a free cash flow of €234.2 million in 2011, as not only operating but also investing activities produced a considerable net cash inflow in 2012.

Cash Flow from Financing Activities

Cash flow from financing activities amounted to a total net cash outflow of €330.1 million for the financial year ended December 31, 2012, compared to a net cash outflow of €114.7 million for the financial year ended December 31, 2011, primarily due to the impact of the repayments of borrowings. For the financial year ended December 31, 2012, the repayment of borrowings amounted to €664.6 million consisting of a €137.6 million repayment of our Revolving Credit Facility and the half-yearly repayment of €56.1 million of our Capex Facility. Additionally it includes a repayment of the Term Loan B1 under the SFA amounting to €268.6 million and a repayment of Term Loan D under the SFA of €202.3 million. These repayments are the main cause for the higher cash outflow from financing activities for the financial year ended December 31, 2012. The capital contributions for carrying out the approved capital increase of €467.0 million for the financial year ended December 31,2012 partially offset the effect of the repayment of borrowings. Interest payments amounted to €129.7 million for the financial year ended December 31, 2012, compared to €147.5 million for the financial year ended December 31, 2011. A moderate cash outflow for the financial year ended December 31, 2012 amounting to €10.4 million for the increase of ownership interests, was primarily due to the purchase of the remaining shares of VMH, which amounted to €8.3 million.

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 transfers.

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

Overview segments				
€ million	2012	% of total	2011	% of total
Order intake				
LMH	2,977.7	63.4%	2,929.8	62.6%
STILL	1,576.8	33.5%	1,694.9	36.2%
Financial Services	509.3	10.8%	479.8	10.2%
Other/Consolidation	-363.7	-7.7%	-422.7	-9.0%
Total order intake	**4,700.1**	**100.0%**	**4,681.9**	**100.0%**
Revenue				
LMH	3,132.2	66.3%	2,853.5	65.3%
STILL	1,676.6	35.5%	1,666.8	38.2%
Financial Services	509.3	10.8%	479.8	11.0%
Other/Consolidation	-591.5	-12.5%	-631.7	-14.5%
Total revenue	**4,726.7**	**100.0%**	**4,368.4**	**100.0%**
EBIT				
LMH	523.4	95.1%	257.7	>100.0%
STILL	98.1	17.8%	-5.1	-2.4%
Financial Services	1.4	0.3%	2.7	1.3%
Other/Consolidation	-72.8	-13.2%	-42.2	-19.8%
Total EBIT	**550.1**	**100.0%**	**213.2**	**100.0%**
EBITDA				
LMH	720.9	78.8%	426.7	75.0%
STILL	200.6	21.9%	115.7	20.3%
Financial Services	59.2	6.5%	73.7	13.0%
Other/Consolidation	-65.3	-7.1%	-46.9	-8.2%
Total EBITDA	**915.4**	**100.0%**	**569.2**	**100.0%**
Adjusted EBIT				
LMH	330.4	75.4%	279.4	76.6%
STILL	122.6	28.0%	100.2	27.5%
Financial Services	1.4	0.3%	2.7	0.7%
Other/Consolidation	-16.2	-3.7%	-17.6	-4.8%
Total adjusted EBIT	**438.2**	**100.0%**	**364.6**	**100.0%**
Adjusted EBITDA				
LMH	478.5	64.0%	422.8	63.6%
STILL	218.3	29.2%	191.1	28.7%
Financial Services	59.2	7.9%	73.7	11.1%
Other/Consolidation	-8.7	-1.2%	-22.4	-3.4%
Total adjusted EBITDA	**747.3**	**100.0%**	**665.3**	**100.0%**

LMH Segment: Revenue

The LMH segment increased its revenue by 9.8%, from €2,853.5 million for the financial year ended December 31, 2011 to €3,132.2 million for the financial year ended December 31, 2012. The new business within the LMH segment grew by 13.9%. The LMH segment benefited considerably from the high demand for LMH's product and service offerings, especially from Germany and the United Kingdom.

LMH Segment: EBIT, Adjusted EBIT and Adjusted EBITDA

EBIT of our LMH segment increased from €257.7 million for the financial year ended December 31, 2011 by 103.1% to €523.4 million for the financial year ended December 31, 2012. The major factor for this increase was the sale of the LHY Business, which resulted in a one-time gain in the amount €211.8 million, which includes the gain from the remeasurement of the remaining stake in Linde Hydraulics KG. EBIT was also impacted by a total amount of €12.6 million one-time gain from the remeasurement of the remaining 51.0% of outstanding shares of Linde Creighton, as well as the result of the remeasurement of the purchase price obligation. For the financial year ended December 31, 2012, total Non-recurring Items amounted to a gain of €226.1 million. For the financial year ended December 31, 2011, Non-recurring Items were positive €4.8 million and related to positive effects from remeasurements of shares in dealers in the United Kingdom, mainly in Linde Sterling. KION Acquisition Items for the financial year ended December 31, 2012 amounted to negative €33.0 million compared to negative €26.5 million for the financial year ended December 31, 2011. Adjusted EBIT increased by 18.3% to €330.4 million for the financial year ended December 31, 2012, compared to €279.4 million for the financial year ended December 31, 2011. In addition to an increase in earnings, Adjusted EBIT also increased due to the impact of efficiency measures. As a result, the Adjusted EBIT margin rose correspondingly from 9.8% for the financial year ended December 31, 2011 to 10.5% for the financial year ended December 31, 2012. The Adjusted EBITDA in the LMH segment amounted to €478.5 million and the Adjusted EBITDA margin was 15.3% for the financial year ended December 31, 2012, compared to an Adjusted EBITDA of €422.8 million and an Adjusted EBITDA margin of 14.8% for the financial year ended December 31, 2011.

LMH

€ million	2012	2011	Change
Order intake	2,977.7	2,929.8	1.6%
Revenue	3,132.2	2,853.5	9.8%
EBIT	523.4	257.7	>100.0%
Adjusted EBIT	330.4	279.4	18.3%
EBITDA	720.9	426.7	69.0%
Adjusted EBITDA	478.5	422.8	13.2%
EBIT Margin (Adj.)	10.5%	9.8%	
EBITDA Margin (Adj.)	15.3%	14.8%	

STILL Segment: Revenue

Our STILL segment's revenue for the year ended December 31, 2012 increased slightly by 0.6% to €1,676.6 million, compared to €1,666.8 million for the year ended December 31, 2011. While the STILL segment's revenue decreased slightly in Western Europe, it generated strong results in Eastern Europe by securing significant new orders. STILL's revenue was also impacted by strong revenue growth in South America.

STILL Segment: EBIT, Adjusted EBIT and Adjusted EBITDA

Based on revenue growth, efficiency gains, cost savings and a significant decrease in restructuring expenses, the EBIT of the STILL segment increased by €103.2 million to €98.1 million for the financial year ended December 31, 2012 from negative €5.1 million for the financial year ended December 31, 2011. For the financial year ended December 31, 2012, EBIT was affected by Non-recurring Items of negative €17.1 million, mainly relating to the concentration of production facilities in Europe and the closure of our production facilities in Montataire, France and Bari, Italy. Non-recurring Items for the financial year ended December 31, 2011 totalling negative €97.3 million had mainly been related to the closure of production facilities in Montataire, France and Bari, Italy, relocation costs, severance payments and expenses for the combination of the STILL and OM brands. In addition, KION Acquisition Items amounted to negative €7.4 million for the financial year ended December 31, 2012, compared to negative €8.0 million for the prior period. Adjusted EBIT increased by 22.4% to €122.6 million for the financial year ended December 31, 2012, compared to €100.2 million for the financial year ended December 31, 2011. Adjusted EBIT margin grew correspondingly from 6.0% for the financial year ended December 31, 2011 to 7.3% for the financial year ended December 31, 2012.

Including amortization, depreciation, impairment and reversals of impairment charges, the STILL segment generated an Adjusted EBITDA of €218.3 million and an Adjusted EBITDA margin of 13.0% for the financial year ended December 31, 2012, compared to an Adjusted EBITDA of €191.1 million and an Adjusted EBITDA margin of 11.5% for the financial year ended December 31, 2011.

STILL			
€ million	2012	2011	Change
Order intake	1,576.8	1,694.9	-7.0%
Revenue	1,676.6	1,666.8	0.6%
EBIT	98.1	-5.1	>100.0%
Adjusted EBIT	122.6	100.2	22.4%
EBITDA	200.6	115.7	73.3%
Adjusted EBITDA	218.3	191.1	14.2%
EBIT Margin (Adj.)	7.3%	6.0%	
EBITDA Margin (Adj.)	13.0%	11.5%	

Financial Services (FS) Segment

The Financial Services segment includes the results of our financial services activities across our brands and encompasses financing for long-term leasing and short-term fleets as part of sales financing.

FS Segment: Revenue

Revenue from our Financial Services segment increased by 6.2% to €509.3 million for the financial year ended December 31, 2012, compared to €479.8 million for the financial year ended December 31, 2011 (including intragroup revenue), primarily due to a different sales mix of leasing types. The Financial Services segment increased its external revenue by 12.0% to €296.8 million for the financial year ended December 31, 2012, compared to €264.9 million for the financial year ended December 31, 2011.

FS Segment: Earnings before taxes (EBT)

EBT for the Financial Services segment decreased by 22.6% to €4.8 million for the financial year ended December 31, 2012 from €6.2 million for the financial year ended December 31, 2011. While the increase in business volume had a positive impact on earnings for the Financial Services segment, this was offset by a negative effect from the set-up of our Financial Service legal entities in Europe. As a result, the EBT margin decreased from 1.28% for the financial year ended December 31, 2011 to 0.94% for the financial year ended December 31, 2012.

FS Segment: Lease Receivables

The assets attributable to the Financial Services segment include long-term leases which were reported as either leased assets or lease receivables, depending on the type of lease. As of December 31, 2012, lease receivables due from unrelated third parties amounted to €380.0 million, as compared to €361.2 million as of December 31, 2011. Intra-group lease receivables amounted to €373.4 million as of December 31, 2012, as compared to €300.0 million as of December 31, 2011, primarily due to the funding of the short-term rental business of LMH and STILL.

FS Segment: Lease Liabilites and Net Debt

The segment liabilities comprise mainly liabilities to leasing companies amounting €730.3 million as of December 31, 2012, as compared to €669.0 million as of December 31, 2011. Such segment liabilities arise from finance lease obligations of sale-and-lease-back transactions for the funding of leasing contracts with customers, of which €470.2 million resulted from the refinancing of external customer leasing contracts and €260.2 million from the refinancing of internal leasing contracts with the brands as customer as of December 31, 2012, compared to €446.8 million and €254.7 million as of December 31, 2011, respectively. Moreover, the segment liabilities include net financial debt of €174.9 million as of December 31, 2012, arising from general financing of the Financial Services segment, as compared to €127.3 million as of December 31, 2011.

Financial Services			
€ million	2012	2011	Change
Order intake	509.3	479.8	6.2%
Revenue	509.3	479.8	6.2%
EBT	4.8	6.2	-22.6%
Lease receivables[1]	753.3	661.3	13.9%
Lease liabilities	730.3	669.0	9.2%
Net debt	174.9	127.3	37.3%

[1] Includes intra-group lease receivables

Segment Other

The Other segment includes our information technology services, logistics services, and head office and service functions in Germany, France, Spain and the United Kingdom. Since May 1, 2011 the Other segment also includes our Voltas brand.

Segment Other: Revenue

The Other segment increased its revenue by €27.6 million or 12.4% to €250.9 million for the financial year ended December 31, 2012 from €223.3 million for the financial year ended December 31, 2011. This increase was mainly driven by revenue from internal IT and logistics services. Revenue from external customers increased by 7.4% to €42.9 million for the financial year ended December 31, 2012, compared to €39.9 million for the financial year ended December 31, 2011, primarily from the operations of our Voltas brand in India.

Segment Other: EBIT, Adjusted EBIT and Adjusted EBITDA

EBIT decreased to negative €12.2 million for the financial year ended December 31, 2012, compared to a positive €43.4 million for the financial year ended December 31, 2011, partly due to decreased investment income. The Non-recurring Items for the financial year ended December 31, 2012 were negative €55.5 million for the financial year ended December 31, 2012 compared to negative €23.0 million for the financial year ended December 31, 2011, in both cases driven by consulting expenses. Adjusted EBIT amounted to €44.4 million for the financial year ended December 31, 2012 compared to €68.0 million for the financial year ended December 31, 2011. The Other segment realized an Adjusted EBITDA of €62.2 million for the financial year ended December 31, 2012, compared to a €84.3 million for the financial year ended December 31, 2011.

Other			
€ million	2012	2011	Change
Order intake	250.9	223.2	12.5%
Revenue	250.9	223.3	12.4%
EBIT	-12.2	43.4	>-100.0%
Adjusted EBIT	44.4	68.0	-34.6%
EBITDA	5.6	59.7	-90.6%
Adjusted EBITDA	62.2	84.3	-26.2%

Consolidation Effects

Consolidation Effects: Order Intake and Revenue

The elimination of the intersegment order intake amounted to negative €614.7 million in 2012 and negative €645.8 million in 2011. The intersegment revenues amounted to €842.4 million in 2012, compared to €855.0 million in 2011; including internal revenue of our Service Companies with the brands. The net revenue eliminations across our segments LMH, STILL and Financial Services amounted to negative €634.4 million in 2012 and negative €671.6 million in 2011.

Key Factors Affecting Results of Operations and Financial Condition

General and Regional Economic Conditions

Our business around the world depends on the demand of our customers for industrial trucks, which in turn depends to a large extent on general economic conditions in the countries, regions and localities in which our customers operate, as well as the economic conditions that affect their customers. When general economic conditions improve or deteriorate, production generally and the demand for new trucks specifically tend to show corresponding movements, particularly in those industry sectors or geographic areas which are most affected by such changes. Such changes, particularly when they are widespread and pronounced, can therefore materially affect our results. For example, our results were negatively affected by the global economic and financial crisis in 2008 and 2009, primarily because our customers postponed the replacement of their existing trucks in that period of time which led to a significant decrease in orders of new trucks.

We believe that our business has become more resilient to economic downturns due to the increasing share of our service revenue which remained relatively stable during the global financial crisis and achieves higher EBIT margins than the revenue from the sale of new trucks. Due to an installed base in the global market of more than one million trucks, we also significantly increased the revenue contributions of our high-margin service offering (which includes after sales services with spare parts, repairs and maintenance, used truck sales, short-term rentals, sales financing, and fleet management). Between 2010 and 2012, the revenue generated from our service offering increased from €1,638.9 million in 2010 to €1,907.4 million in 2012, representing a total share of 40.4% of our revenue in that financial year. The relatively stable revenue of our service offering was able to partially off-set the cyclicality of the new trucks business in recent years. However, in 2009 we experienced, that deteriorations of global economic conditions can lead to a lower utilization of installed trucks resulting in a decline of demand for our service offering. Thus, if economic changes are pronounced and/or long-lasting, such as the global financial crisis and subsequent recession that began in 2008, such changes can also have a significant impact on our service business.

Presences in Attractive Markets with strong growth above GDP

The rising revenue share of sales in markets with strong growth rates allowed us to achieve growth rates in revenue far above the growth of the average global GDP. Between 2010 and 2012, our number of new trucks sold grew by average 8.0% each year, compared to an increase of global GDP at a CAGR of 2.7% (source: IMF, 2012). Meanwhile, the share of revenue we generated in emerging markets with strong growth rates like Asia, Eastern Europe, South and Central America increased from 22.0% in 2010 to 24.4% in 2012. We aim to further increase the share of our revenue generated in such markets, especially our target growth markets like China, Brazil and Eastern Europe.

Reduction of our Fixed Costs through Business Restructuring and Redesign and Expansion of Low Cost Country Sourcing

We have successfully developed, implemented and executed various restructuring and redesigning plans since our spin-off from Linde AG in December 2006. This allows us to be more efficient and to make full use of possible synergies across KION Group and addressing changing market conditions. During 2010 and 2011, we implemented long-term structural and efficiency measures on an on-going basis with a view to reduce fixed costs and increase operational efficiency.

The focus of these measures has been on improving capacity utilization, optimizing our global production footprint and on shifting workforce to places with advantageous working conditions. Between 2010 and 2012, our restructuring measures related to the STILL/OM combination, relocation and consolidation of production facilities and reduction of headcount and other cost reduction initiatives, including the closure of our plants in Bari, Italy, and Montataire, France. The production capacity of these plants was integrated into our other existing production of counter balance trucks in Hamburg, Germany, and warehouse trucks in Luzzara, Italy. Furthermore, we have discontinued our warehouse truck activities in Basingstoke, United Kingdom, and Reutlingen, Germany, and our components activity in Kahl, Germany, and transferred them to other of our existing facilities. We also closed our plant in Rio de Janeiro, Brazil. Furthermore, at the end of 2012 the decision was made to carry out the process of restructuring the container handler and heavy forklift truck business at the Merthyr Tydfil site (Wales, UK), which should improve the competitiveness of both segments in the long term, as well as increase the efficiency of KION's European production network. During the time period from 2010 to 2012 we have thus closed six plants in total. This consolidation of our plants in Europe has enabled us to reduce our fixed costs and has increased our capacity utilization levels in our European production facilities, which will result in higher economies of scale and increased production flexibility with beneficial effects on our profitability. Furthermore, we announced in February 2013 the sale of our container handling business in Merthyr Tydfil, United Kingdom to Konecranes along with our considerations to close our production in Merthyr Tydfil.

Furthermore, our expansion into growth markets like China, Brazil and India improved our global presence, due to increased localization, including research and development, trained employees for our key operations, lower labour costs and a reduction in shipment costs. We opened a new production plant in Indaiatuba, Brazil, in order to expand our locally produced portfolio of E-trucks and warehouse trucks to IC-trucks. In addition, we have upgraded our plant in Xiamen, China to full line production. We also further expanded our local product portfolio in India by opening a new plant in Pune, India, to increase our production capacity to meet future demand.

Our expansion into growth markets has also increased our low-cost country (countries other than countries from the EU-15 area, EFTA, USA and Japan) sourcing share from approximately 22% in 2008 to 26.2% of our total purchasing volume in 2012, primarily in the components activity, with a target to achieve up to 40.0% in the following years. We plan to continue with our current purchasing strategy to integrate our strategic suppliers in the supply chain management, increasing volume flexibility and localization of components of production in growth countries. This local sourcing strategy has lowered our supplier concentration.

EBIT Margin Improvement Driven by Cost Structure Optimization and Premium Pricing

From 2006 until the crisis in 2009 we were able to steadily increase the Adjusted EBIT margin. Following a negative EBIT margin in 2009 during the last three years we increased our Adjusted EBIT margin from 3.9% in 2010 to 9.3% in 2012. The reasons for this include primarily cost reduction measures (as described above), growing revenue and higher market shares in key growth markets, benefits from economies of scale due to high production capacities and synergies within the Group, growing service business with higher margins and our ability to charge premium prices for our products. This is due to the fact that we are a technological leader and can offer a high degree of customization. Furthermore, certain of our products have lower costs of ownership compared to products from our competitors.

Through the selection of customized options in our truck orders, we can specifically address the diverse needs of our customer base. This has led to a high degree of customer satisfaction and an extensive range of possible options of product configuration that we are able to offer our customers.

The reduction of total cost of ownership for our customer is a result of lower operating costs due to the efficiency of our trucks and their ergonomic design, lower service costs due to reliable and robust technology and our highly qualified service technicians operating from a global network of service stations and lower energy costs due to the high energy efficiency of our trucks and finally higher residual value of our trucks.

Factors affecting our Trade Working Capital

The increases and decreases in our inventories, trade receivables and trade payables largely correlate with the increases and decreases of the volume of the products we sell. As a result, both our trade receivables and payables are subject to seasonality, especially at the end of the year. In addition, we have undertaken initiatives to reduce our trade working capital in our business, especially by improving our inventory management process and collecting our trade receivables more efficiently. As a result, our trade working capital (inventories plus trade receivables minus trade payables) remained stable in absolute terms between 2010 to 2012 and decreased as share of revenue from 18.7% in 2010 to 11.2% in 2012, which was attributable to the transfer of inventories to Linde Hydraulics KG and to improved receivables collection. This reduction of trade working capital resulted in an improved cash flow from operating activities.

Stability of raw material costs

The prices of the raw materials that we use in our business, primarily steel and other metal parts, fluctuate. Our costs of raw materials impacted by raw material price changes. In general, around 25% of our raw material costs are directly impacted by raw material price movements. Nevertheless, we achieved to keep our raw material cost relatively constant in recent years. This relative stability reflects our ability to offset higher raw material costs to a significant degree by way of moderate price increases for our products.

Interest Expenses

We have substantially reduced and expect to further reduce our leverage and interest expenses by way of the strategic industrial cooperation with Weichai Group and the effects of the Offering on our capital structure, which we have primarily used to pay part of our outstanding debt. As part of this strategic industrial cooperation, the Shareholder Loan was converted into equity on December 27, 2012.

Employees

As of December 31, 2012, we employed 21,215 staff compared to 21,862 as of December 31, 2011 (measured in full-time equivalents, FTE, including trainees and apprentices). In 2012 our headcount decreased by approximately 3% across the Group as a result of the carve-out of the LHY Business. In total, 1,487 employees have been transferred to the newly established company Linde Hydraulics KG as per December 27, 2012 and are no longer employees of the Group. The decrease in our headcount was, however, to a large extent compensated by the growth in other areas, especially by the acquisition of the sales company Linde Creighton (increase by 300 FTE) and further developments in China, Brazil and Eastern Europe (increase by 426 FTE). We had an average of 22,232 and 20,797 FTEs in the years 2012 and 2011, respectively.

CRITICAL ACCOUNTING POLICIES

Our financial information included in this Annual Bond Report has been prepared and presented in accordance with IFRS.

For a detailed description of our critical accounting policies, see note 7 to our Annual Consolidated Financial Statements of KION Holding 1 GmbH for the year ended December 31, 2011, included elsewhere in this Annual Bond Report.

The preparation of our Annual Consolidated Financial Statements requires the use of assumptions and estimates for certain line items. These estimates and assumptions affect the reported amounts of assets and liabilities, of revenues and expenses and the disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimated under different assumptions or conditions. If actual results differ significantly from management's estimates, there could be a material adverse effect on our result of operations, financial condition and liquidity.

Goodwill

Goodwill has an indefinite useful life and is not amortized. Instead, it is tested for impairment in accordance with IAS 36 ("Impairment of Assets") at least once a year, and more frequently if there are indications that the asset might be impaired. The goodwill relates to the segments LMH and STILL. The recoverable amount of a cash generating unit ("CGU") is determined by calculating its value in use on the basis of the discounted cash flow method.

Cash flow forecasts for the next five years were used to calculate value in use. The forecasts are based on past experience, current profits/losses from operations, the key management team's current assessment of future developments, and market assumptions. Cash flows beyond the five-year planning horizon were extrapolated using a growth rate of 1%.

CGU cash flows are discounted using a weighted average cost of capital ("WACC") that reflects current market assessments of the specific risks to individual segments. The underlying capital structure is determined by comparing peer group companies in the same sector.

No indications of impairment were identified in the impairment tests carried out at December 31, 2010. Sensitivity analysis has enabled us to determine that no impairment losses need to be recognized for goodwill or intangible assets with an indefinite useful life, even if key assumptions vary within realistic limits. Any material changes to these factors might result in the recognition of impairment losses.

Other intangible assets

Other intangible assets with an indefinite useful life are carried at cost. These assets are mainly the brand names that were capitalized as part of the purchase price allocation when the KION Group was acquired. They are not amortized but instead tested for impairment in accordance with IAS 36 at least once a year if there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill. Assessments of indefinite useful life are carried out in every period.

Capitalized development costs include all costs and overheads directly attributable to the development process. Following initial capitalization, these costs and internally generated intangible assets, particularly internally generated software, are carried at cost less cumulative amortization and cumulative impairment losses. Internally generated intangible assets are not qualifying assets and as a result finance costs are not capitalized. All research and development costs that do not fulfill the capitalization requirements, if such costs arise, are expensed as incurred and reported on the income statement under research and development costs together with the amortization on capitalized development costs.

Leases

As part of the financial service business, companies in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, leases are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased asset are transferred to the lessee. All other leases are classified as operating leases, again in accordance with IAS 17. See “Financial Services.”

Income taxes

In the Annual Consolidated Financial Statements, current and deferred taxes are recognized on the basis of the tax laws of the jurisdictions involved. Deferred taxes are recognized in other comprehensive income if they relate to transactions also recognized in other comprehensive income.

Significant estimates are involved in calculating provisions for tax. These estimates may change on the basis of new information and experience. Where necessary, the KION Group’s accounting departments receive assistance from external legal advisers and tax consultants when making the estimates required.

Deferred tax assets on tax loss carryforwards and interest carryforwards are recognized on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carryforwards can be utilized. The actual amount of taxable income in future periods, and hence the actual utilization of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognized.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases, and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the plan assets used to cover the Group’s benefit obligations. Plan assets are measured at fair value.

Actuarial gains and losses, including deferred taxes, are recognized in other comprehensive income. The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the expected return on plan assets are reported in net financial income/expenses. As differences due to actuarial gains and losses are included in other comprehensive income, any change in these parameters would not affect the net profit for the current period.

Financial liabilities and other financial liabilities

Financial liabilities and other financial liabilities are initially recognized at fair value at the time they are entered into. Directly attributable transaction costs are deducted for all financial liabilities that are not subsequently designated as at fair value through profit or loss. Non-current financial liabilities and other financial liabilities are then carried at amortized cost. Any differences between historical cost and the settlement amount are recognized in accordance with the effective interest method.

RISK FACTORS

You should carefully consider the risks described below as well as the other information contained in this Annual Bond Report before making an investment decision. Any of the following risks could materially adversely affect our business, financial condition or results of operations. 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 Annual Bond 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 Annual Bond Report.

Market Risks

Cyclical fluctuations in macroeconomic activity affect the market for industrial trucks. Customers' decisions on whether to invest, particularly in new trucks, depend to a large degree on the macroeconomic situation and conditions in their particular sector. During an economic downturn, such as the financial and economic crisis of 2008–2009, customers tend to postpone their purchases of new trucks. Although demand for services is less cyclical, it correlates with the degree of utilisation in the truck fleet – which usually declines during difficult economic periods. As KION can only adjust its fixed costs to fluctuations in demand to a limited extent, reductions in revenue impact on earnings.

Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities – help to contain the earnings risk arising from reductions in revenue caused by economic conditions. Diversification of the customer base in terms of industry and region as well as expansion of service activities also play a role in mitigating risk. Moreover, KION closely monitors the market and its competitors so that it can identify market risks at an early stage and adjust its production capacities in good time.

Despite KION's strong growth in emerging markets, the proportion of revenue it earns in the euro zone continues to be high. As a result, the market conditions that prevail in the euro zone impact significantly on KION's financial performance. Budget consolidation in affected euro-zone countries has resulted in faltering economic growth and higher unemployment. Doubts surrounding the stability of the financial system and the continued existence of the single currency have not been allayed, despite a tangible calming of the markets as a result of steps taken by the European Central Bank and politicians. These doubts are now compounded by fears about the high level of government debt in the United States and the declining pace of growth in China. Overall, these factors could reduce customers' willingness to invest and the resulting demand for KION products.

Current developments, above all in Europe, are making it increasingly difficult to gauge demand patterns reliably. The precise timing and even the extent of any change in the markets remain uncertain. KION therefore continually monitors macroeconomic and market conditions so that it can react at an early stage. Besides global economic growth, KION also analyses exchange rates, price stability, the consumer and investment climate, foreign trade activity and political stability in its key sales markets.

Due to the strained financial and economic situation in the euro zone, risk management analyses its possible impact on the Group's financial position and financial performance on an ongoing basis. In addition to continuous screening and monitoring, separate observations are regularly made in its risk reports concerning the risks surrounding the member state financial crisis.

Competition Risks

The markets in which KION operates are characterised by strong competition, including with regard to prices. Although KION's strengths (see chapter "Our Strengths") have enabled it to charge appropriate prices until now, competition risks could have a negative impact on the Group's business situation and financial performance.

Manufacturers from Asia have cost advantages in production due to the currency situation and also because local labour costs are lower. Competition is therefore very fierce, particularly in the lower price segment and in emerging markets. Building on their local competitive advantages, Asian manufacturers – especially those from China – are also looking for opportunities to expand. Although customers' high quality expectations and service needs form a barrier to growth for many of these manufacturers, this situation is likely to intensify competition in future.

It is also conceivable that competitors will join forces and their resulting greater competitiveness will be detrimental to KION's sales opportunities. Moreover, predictions of higher volumes and margins may lead to overcapacity, which would put increased pressure on prices.

Alliances, partnerships, acquisitions and other measures are playing an increasing role in improving KION's competitiveness in terms of resources, market access and product range. The steps that KION is taking to mitigate its competition risk include making its plants more efficient and securing low-cost sources of supply, for example through its strategic partnership with Weichai Power. KION also continually evaluates its options for strengthening and consolidating its position in emerging markets.

Research and Development Risks

KION's market position and business performance depend to a large extent on its ability to remain a leading provider of technology. This requires the Group to continually develop products that meet customer expectations and comply with changing regulatory and technological requirements. To this end, KION must anticipate customers' needs and quickly bring new products to market. If the Company does not succeed in doing this, its technological and competitive position could be compromised in the long term.

KION counteracts research and development risks by carefully managing customer relations, focusing on customer benefits (TCO) in its product development and ensuring close cooperation between sales and development teams in order to continuously incorporate customer requirements into the development process.

The innovations developed by KION and its subsidiaries are comprehensively protected by intellectual property rights, in particular patents. Nevertheless, there is always the possibility that products or product components will be imitated. There is also a risk that patent applications will not be successful.

Strategic Risks

A mainstay of KION's strategy is the exploitation of potential offered by fast-growing regions in respect of strategic partnerships, joint ventures and the acquisition of local providers. One of the risks of such alliances and acquisitions is that the expected benefits will materialise only partly or not at all. For example, the organisational integration of new units can harm financial performance for a variety of reasons. Other strategic risks arise from having inadequate experience of specific political, economic or cultural parameters in target markets and if there is a lack of attractive strategic partners or companies suitable for acquisition. It is also possible that a partner will collaborate with competitors if exclusivity agreements are not in place.

KION mitigates such strategic risks by, for example, carrying out in-depth market research, conducting thorough evaluation procedures and drafting appropriate contracts – including as part of its strategic partnership with Weichai Power.

In the course of that partnership, Weichai Power acquired the majority of the former Linde Hydraulics Business. To build its industrial trucks, LMH requires hydraulic components that are manufactured by the affiliated company Linde Hydraulics KG. Because LMH is highly dependent on these components, their supply is secured by detailed contractual agreements. LMH also has access to patents and other intellectual property rights that are important to its business activities. This mitigates the risks resulting from no longer having unrestricted access to the LHY Business.

Procurement and Sales Risks

Procurement activities constitute a potential risk for the KION Group in terms of the lack of availability of parts and components for logistical or qualitative reasons, and the rising cost of raw materials, energy, base products and intermediate products. As a result, there is always the possibility that KION will face backlogs in the supply of individual raw materials and components. KION obtains some of its key components, such as combustion engines, tyres, high-performance forged and electronic parts, from a limited number of core suppliers.

Although there were no substantial supply bottlenecks in 2012, the risk of supply bottlenecks – such as in the event of a shortage of raw materials – cannot be eliminated. It is also possible that suppliers will get into economic difficulty and be unable to fulfil orders. KION mitigates this risk through appropriate diversification of its supplier structure in the context of a global procurement organisation. In addition, the supplier development department, which focuses on making improvements to supplier production processes, helps suppliers to ensure the cost efficiency and qualitative excellence of their processes.

Price changes present another procurement-related risk. In 2012 approximately 25% of the cost of materials for new trucks were directly influenced by changes in commodity prices. Moreover, conditions on the commodity markets typically affect component prices after a delay of three to six months. KION endeavours to pass on price increases to customers but cannot always do so entirely due to market pressures.

The main sales risks – besides a drop in revenue caused by market conditions – result from dependence on individual customers and sectors. For example, it is possible that customers would postpone or cancel orders during a period of economic difficulty. Significant cancellations have not occurred in the past years, however. It is also conceivable that customers would face a liquidity shortfall and therefore be unable to fulfil their payment obligations immediately or even at all. In terms of its customer portfolio, KION is currently not particularly dependent on any individual sector. Its business is also highly diversified from a regional perspective. In addition, KION supplies companies of all sizes. The risk of possible payment defaults, which experience has shown is low for KION, can be reduced further by realising collateral.

Production Risks

High-quality products and a high level of delivery reliability are key aspects of KION's premium positioning. Delays in delivery or a rise in the number of complaints could harm this position and, as a result, KION's financial situation.

KION's closely integrated manufacturing network presents a heightened risk to its ability to deliver goods on time in the event of operational disruptions or lengthy periods of production downtime at individual sites. To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers.

The Company has taken out a commercially appropriate level of insurance cover against loss. Quality assurance is a high priority throughout the value chain and reduces possible quality-related risks arising from the products and services provided. KION mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the process chain and maintaining close contact with customers and suppliers.

Key measures related to consolidation of the European production facilities were completed in 2012 with the closure of plants in Italy and France. However, there is a risk that further structural measures and reorganisation projects, such as the process of restructuring the container handler and heavy-duty forklift business in Merthyr Tydfil, will not be implemented in future owing to disruption of production or strikes. Furthermore, costs may also be incurred by the environmental restoration of sites that have housed production facilities for many years, for example work required due to contamination. Any damage to the environment may also lead to legal disputes and give rise to reputational risk. To mitigate these risks, KION undertakes restructuring measures only after a comprehensive planning process and works closely with employee representatives to ensure HR measures are implemented with the minimum possible social impact.

IT Risks

Tight integration between the different sites and with customers and other companies means that KION also relies on its IT systems working flawlessly. KION mitigates any IT risks – which can in part arise from the consolidation of IT systems and infrastructure – by continuously working on developing a robust, expandable and flexible IT systems landscape. Internal IT resources are pooled in KION Information Management Services GmbH, which has well-established processes for portfolio management and project planning and control. Quality assurance also takes place via external independent audits. Various technical and organisational measures protect the data of KION and its Group companies against unauthorised access, misuse and loss. To that end, authorisation to access the group infrastructure is verified and logged, and a virus scanner and firewall systems are also used.

Financial Risks

Despite considerable improvements in the funding situation during the year under review, the Group remains dependent on debt financing to a significant degree. This results in obligations relating to interest and capital repayments. KION Group Treasury is responsible for ensuring that this does not hinder international growth and that sufficient financial resources are always available for this purpose.

The main types of financial risks managed by Group Treasury, including risk from funding instruments, are liquidity, exchange-rate, interest-rate and counterparty risk. Credit risk consists solely of counterparty risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks. In contrast, the individual Group companies directly manage counterparty risks involving customers.

Acquisition financing as part of the Senior Facility Agreement essentially provides the Group with the flexibility needed to meet the requirements of the lending covenants. Accordingly, the KION Group has secured acquisition finance in the form of committed credit lines. The individual tranches have varying maturities from the end of 2013 to 2018. During the year under review, KION significantly reduced its financial liabilities by converting the Shareholder Loan and receiving the contribution by Weichai Power as part of a resolution to carry out a capital increase, which we used in part to repay a portion of our debt under the SFA. In the course of negotiating with its lenders, KION GROUP GmbH also managed to extend the due date of its existing credit facilities with a total volume of more than €1 billion. In addition, €483 million of KION's original acquisition finance was funded by issuing a corporate bond for a total of €500 million in April 2011, which will mature in 2018.

The term of the revolving loan facility was extended considerably in the year under review. Other steps to ensure the Company's long-term funding are also regularly pursued. As contractually agreed, the capex facility was reduced by approximately €56 million over the course of 2012.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. Deposits are also restricted to the limits covered by the deposit protection fund run by the Federal Association of German Banks.

KION only uses derivatives to hedge underlying operational transactions; they are not used for speculative purposes. Records are kept of the type of financial instruments used, the limits governing their use and the group of banks acting as counterparties.

KION Group Treasury complies with and monitors the strict separation of functions between the front, middle and back offices. Each Group company's liquidity planning is broken down by currency and incorporated into KION's financial planning and reporting process. Group Treasury checks the liquidity planning and uses it to determine the funding requirements of each company.

KION is exposed to currency risk because of the high proportion of its business conducted in currencies other than the euro. Normally, at least 50% of the currency risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline. The KION Group uses interest-rate and currency-related derivatives – primarily interest-rate swaps and currency swaps – to hedge the interest-rate and currency risks arising in connection with the acquisition finance. Approximately 99% of the currency risk arising from the US dollar tranche is hedged by currency forwards with an average €-US$ exchange rate of around 1.30 as of March 31, 2013. As of March 31, 2013, around 48% of the interest-rate risk was hedged by interest-rate swaps. The need to add new hedging instruments or replace ones that expire is reviewed on an ongoing basis.

The funds raised for acquisitions also give rise to risks for KION in terms of compliance with certain financial covenants specified in the loan agreement. These covenants could limit the Company's flexibility with regard to its ongoing strategic development. This risk continues to apply in view of the current uncertain economic and financial market environment. However, the Company is mitigating it by continuing steadfastly with steps to boost efficiency and by ensuring sufficient flexibility when defining new lending agreements. KION complied with all the lending covenants in the reporting year.

Accounting Risks arising from Goodwill and the Brands

Goodwill and the brands represented 33.3% of total assets as at 31 December 2012 (31 December 2011: 35.2%). Pursuant to IFRS, these assets are not amortised and their remeasurement depends, above all, on future expectations. If these future expectations are not fulfilled, there is a risk that impairment losses will have to be recognised on these assets.

Risks from Financial Services

The funding terms and conditions faced by the lenders themselves (manifested, for example, in the payment of liquidity premiums on interbank lending) may result in a future shortage of lines of credit and/or increased financing costs for companies. However, the Group currently does not expect any further changes in its lines of credit or any excessive increases in margins. KION's leasing activities mean that it may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast. KION regularly assesses its overall risk position arising from financial services.

The risks identified are immediately taken into account by the Company in the costing of new leases by recognising writedowns or valuation allowances and adjusting the residual values. Risk-mitigating factors include the demand for used trucks, which stabilises the residual values of KION's industrial trucks. The majority of the residual values have underlying remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the 2012 financial results. Group-wide standards to ensure that residual values are calculated conservatively, combined with an IT system for residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

KION mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have matching maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has sufficient liquidity. Moreover, KION offers the majority of financial services indirectly via selected financing partners that bear the risks of the finance transaction. In order to exclude exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Group has not identified any material changes between 2011 and 2012. KION also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. It also primarily offers financial services indirectly via selected financing partners, and KION bears the counterparty risk in under 5% of cases. The credit risk management system was updated during 2012 in preparation for the pooling of financial services activities in a separate segment. In particular, this involved revising the regulations concerning the process organisation as well as processes for risk management and control.

Human Resources Risks

KION relies on having highly qualified managers and experts in key roles. If they left, it could have a long-term adverse impact on the Group's prospects.

That is why KION actively engages in HR work aimed at identifying and developing young professionals with high potential who already work for the Company and retaining them over the long term, thereby enabling succession planning for key roles across the Group. KION also positions itself in the external market as an employer of choice. This will enable it to make strategic additions to its portfolio of existing staff and, in this way, avert the risk of possibly losing expertise and thereby becoming less competitive.

The relocation of production and other restructuring measures may result in a risk of strikes and reactions of other kinds by the workforce. As demonstrated several times in the past, this risk is contained by collaborating closely with employee representatives, and, if job losses are necessary, taking comprehensive steps to ensure they are achieved with the minimum possible social impact.

Legal Risks

The legal risks arising from KION's business are typical of those faced by any company operating in this sector. The Group companies are a party in a number of pending lawsuits in various countries. The individual companies cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION Group is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were allegedly faulty or the Company allegedly failed to comply with contractual obligations.

The KION Group has taken measures to prevent it from incurring financial losses as a result of these risks. Although legal disputes with third parties have been insignificant both currently and in the past, the Company has a centralised reporting system to record and assist pending lawsuits. In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. These issues are also tackled by teams whose members come from a variety of functions. The aim of the teams is to identify and minimise risks, for example the risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure compliance with mandatory laws, regulations and contractual arrangements at all times.

External Risks

External risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, KION is exposed to the consequent risk of government regulation, capital controls and expropriations. Although fairly unlikely, natural disasters and terrorist attacks constitute a further risk to KION's financial position and financial performance.

Aggregate Risk

In 2012 KION continuously analysed the risks arising, in particular, from the financial crisis and the performance of the real economy in addition to its normal quarterly risk reporting. Particular attention was paid to the potential impact of financial instability in some economies and financial institutions in the context of the sovereign debt crisis in the euro zone. As far as possible, risk prevention measures were initiated at an early stage where risks were identified.

As conditions in the financial markets eased in the second half of 2012 and global growth is expected to pick up slightly in 2013, KION is acting under the assumption that the economic environment will be somewhat more favourable in 2013 than in the year under review. The situation in the global markets remains challenging, however. Uncertainties in the euro zone, the high level of government debt in the United States and comparatively muted growth prospects in the developed markets all continue to pose a substantial threat to growth.

As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.

MATERIAL AFFILIATE TRANSACTIONS

Superlift Funding S.à.r.l. €100 million Tranche under the Senior Credit Agreement

In October 2009, pursuant to our restructuring program, investment funds advised by Kohlberg Kravis Roberts & Co. LP and Goldman Sachs Capital Partners agreed to provide a €100 million term loan to the KION Group, which was made available as Facility G, a new term loan tranche under the Senior Facility Agreement by Superlift Funding S.à r.l., Luxembourg as lender. The interest rate is in the form of payment-in-kind interest, which is capitalized and forms part of the principal amount on each date cash interest is payable on the relevant facility and therefore is payable as a part of the bullet repayment of the relevant facility on maturity. On January 31, 2013, Superlift Funding S.à r.l., the sole lender of Facility G, executed a deed poll pursuant to which it agreed that the Security Agent under the Senior Facility Agreement may refrain from applying security enforcement proceeds in repayment of Facility G until such time as all other facilities have been repaid in full (meaning Facility G would effectively rank in right of priority and payment under the intercreditor agreement security proceeds waterfall as if it were second lien debt).

Shareholder Loan Agreement

KION Holding 1 GmbH (then Neggio Holding 1 GmbH) and Superlift Holding S.à r.l., Luxembourg, entered into a shareholder loan agreement on December 27, 2006, with a principal loan amount of €500 million as of September 30, 2012 and an original maturity date of December 31, 2010, which was extended in March 2010 and April 2011 and now matures on December 31, 2021. Both the unsecured loan principal and the associated interest are payable as a bullet payment on maturity. As of September 1, 2007, the loan has been subject to an interest rate of 5.5% per annum on the principal amount of the loan. The interest cost of the shareholder loan was €27.88 million in 2009, 2010 and 2011. The shareholder loan was converted into equity on December 27, 2012 in connection with the strategic industrial cooperation with Weichai Power (the "Shareholder Loan").

Financial and M&A Advisory Services Agreement

KION Group GmbH entered into a financial and M&A advisory services agreement with Kohlberg Kravis Roberts & Co. L.P. and Goldman, Sachs & Co. (together, the ''Advisors'') on May 8, 2007 (the ''Advisory Services Agreement''). Pursuant to this Advisory Services Agreement, the Advisors have agreed to provide the KION Group with professional advice in connection with the negotiation of significant agreements and professional strategic, financial, managerial and operations advice relating to, among other things, the KION Group's operating, marketing and financial performance; its budgets, business plans and financial information; financing and working capital requirements; expansion plans and any other matters as may be agreed to between the Advisors and the KION Group. An aggregate annual fee of e4.2 million (the ''Annual Fee'') is payable by KION, with that amount being divided equally between the Advisors. In 2012, the Advisors entered into an agreement with Weichai Power whereby they agree to pay 25% of the Annual Fee payable to the Advisors to Weichai Power in connection with advice relating to, among other things, the KION Group's strategy and operations in the Asia Pacific region. The annual amount payable remains unchanged by this agreement; however, we pay the applicable portion of the Annual Fee directly to Weichai Power as paying agent under the agreement between the Advisors and Weichai Power. The amount of the Annual Fee increases each year by an amount equal to 3% of the amount applicable in the immediately preceding calendar year to reflect rising costs. KION Group also reimburse each Adviser for actual and documented reasonable expenses and out-of-pocket travel and other related costs and expenses incurred by each Adviser in its performance of the Advisory Services Agreement. The Advisory Services Agreement requires us to indemnify and exonerate each Adviser for any liability arising out of the Advisory Services Agreement. The Advisory Services Agreement renews automatically on an annual basis and may be terminated by either party. During the downturn in 2008/2009, it was agreed between the parties to the Advisory Agreement and the lenders under the Senior Facility Agreement (i) to suspend any current fee payments under the Advisory Agreement until the leverage of the KION Group would be no more than 4.5 : 1, and (ii) to pay any suspended fee amounts only once the leverage would fall below 3 : 1 (in each case pro forma for such payment). It was also agreed that annual payment of advisory fees were capped at € 3.7 million. Therefore no payments of fees were made in 2009, 2010 and 2011, except reimbursement of out-of-pocket expenses which the Advisors were entitled to under the terms of the Advisory Agreement. A first payment of suspended fees in the amount € 3.6 million was made in 2012 with regard to the contract period from October 1, 2010, to September 30, 2011. A second payment in the amount of € 6 million was made on March 26, 2013 counting against the suspended fees for 2009, 2010 and 2011.

Framework Agreement with Weichai Power

On August 31, 2012, KION Holding 1 GmbH, KION GROUP GmbH, LMH GmbH, Weichai Power, Superlift Holding S.à r.l. and KION Management Beteiligungs GmbH & Co. KG entered into a framework agreement regarding a strategic alliance between the KION Group and Weichai Power (the ‘‘Framework Agreement’’). The aim of the strategic alliance is to establish a strategic industrial cooperation between KION Group and Weichai Power regarding hydraulic pumps, motors, valves and gears as well as supply of engines and supply of other parts and components. Under the Framework Agreement, the parties agreed to Weichai Power’s acquisition of a 25% stake in KION Holding 1 GmbH as part of a capital increase for the price of €467 million. In addition, the Framework Agreement provided for a carve-out of the LHY Business into a new entity, Linde Hydraulics KG. Weichai Power will own a 70% stake and we will hold a 30% stake in this entity. The purchase price for this investment was €271 million. Both transactions closed on December 27, 2012. Under the Framework Agreement Weichai Power was granted a call option to increase its shareholding in KION Holding 1 GmbH to 30% upon a potential future IPO of KION Holding 1 GmbH through the subscription of newly issued shares. On December 20, 2012 the parties amended the Framework Agreement in order to further strengthen their strategic partnership. All amendments were conditional on the closing of the overall transaction. Prior to June 30, 2013 or within three months of an initial public offering, Weichai Power has the right to purchase 3.3% (on a fully diluted basis) of the outstanding share capital in KION Holding 1 GmbH from Superlift Holding S.`a r.l. In addition, prior to an initial public offering, Weichai Power has the right to increase its total stake in KION Holding 1 GmbH to either (i) up to 30% if, at the time, it owns less than a 28.3% stake or (ii) up to 33.3% if, at the time, it owns more than a 28.3% stake. The parties also agreed certain put and call rights with respect to our 30% stake in Linde Hydraulics KG. In addition, the parties agreed that if either Superlift or Weichai Power wishes to transfer shares after a potential future IPO, the respective other shareholder will have a right of first offer over such shares. The carve-out of the LHY Business comprised the net assets, contracts and other legal positions exclusively or predominantly attributable to the German hydraulics business (including all activities relating to development, manufacturing, production, sale, marketing, and servicing of hydraulic pumps, hydraulic motors, hydraulic valves, gears and gear drives, ancillary castings and foundry of hydraulic components carried out by LMH GmbH and its subsidiaries in Germany, except for any assets exclusively or predominantly used for the development, production or sales of hydrostatic and electrical axles as well as a plant located in the Czech Republic). It also comprised the shares of the Linde hydraulics companies in Linde Hydraulics Corporation, Linde Hydraulics Ltd., Linde Hydraulics Italia S.p.A, and some assets related to the hydraulics business in China, France and Spain (which were transferred to newly established subsidiaries of Linde Hydraulics KG in these three countries).

Strategic Cooperation Agreement between KION Group GmbH and Weichai Power

As part of the implementation of the Framework Agreement, KION GROUP GmbH and Weichai Power entered into a cooperation agreement on December 27, 2012 (the ‘‘Strategic Cooperation Agreement’’). The purpose of the Strategic Cooperation Agreement is to establish a platform for the future cooperation of the KION Group and Weichai Power. To this aim, the Strategic Cooperation Agreement establishes an institutional and legal framework including a steering committee. The steering committee will be comprised of three representatives from each side and will oversee and guide the implementation of the cooperation projects. In addition to this structure, the Strategic Cooperation Agreement also sets out a number of initial cooperation projects (sharing best practice, developing of Weichai Power engines for installation in certain KION Group products, supply of certain KION components to Weichai Power, sharing distribution networks and supply chains and consolidation of the forklift businesses in China) which will be implemented subject to further discussion and completion of a binding project implementation agreement. The parties’ relationship under the Strategic Cooperation Agreement is of non-exclusive nature except for the Chinese market where the KION Group may not enter into another strategic cooperation of a similar comprehensive nature.

Framework Supply Agreement between LMH GmbH and Linde Hydraulics KG

As part of the carve-out of the LHY Business into Linde Hydraulics KG, Linde Hydraulics KG and KION Group entered into a framework supply agreement on December 27, 2012 (the ''Framework Supply Agreement''). The Framework Supply Agreement provides that Linde Hydraulics KG and its affiliates will supply our Group with a number of hydraulics products which we need to manufacture our own products or for our service offering (spare parts). The initial term of the Framework Supply Agreement is ten years; the term will extend automatically for consecutive two-year periods unless it is terminated with 36 months' notice. Moreover, the agreement may be terminated partially with respect to certain products. Linde Hydraulics KG will supply the products specified in the Framework Supply Agreement to us on an exclusive basis. In return, KION Group will purchase the products specified in the Framework Supply Agreement exclusively from Linde Hydraulics KG for a period of five years. From the sixth year onwards, KION Group agrees to purchase at least 80% of its total supply requirements from Linde Hydraulics KG. KION Group was granted a back license to certain intellectual property rights of Linde Hydraulics KG that have been transferred to Linde Hydraulics KG as part of the carve-out. This additional back-license is granted to us in the event that Linde Hydraulics KG fails to deliver products for a period of three consecutive months, termination of the Framework Supply Agreement by Linde Hydraulics KG without cause or force majeure. The initial product prices are calculated on the basis of the total production costs as of December 31, 2012 plus a margin of 10% and 30%, respectively, depending whether we or Linde Hydraulics KG have the construction lead. These initial prices are fixed until January 1, 2014 and will thereafter be adjusted with regard to the raw materials if a specified scrap index changes by more than 5%.

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report 2012

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of KION Holding 1 GmbH as of and for the fiscal year ended December 31, 2012 and the group management report.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by KION Holding 1 GmbH, Wiesbaden/Germany, - comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements - and the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under § 315a (1) German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KION Holding 1 GmbH, Wiesbaden/Germany, comply with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under § 315a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main/Germany, 13 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Kompenhans	Signed: J. Löffler
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Consolidated Financial Statements as of December 31, 2012

Consolidated income statement

€ thousand	Note	2012	2011
Revenue	[9]	4,726,664	4,368,395
Cost of sales		-3,429,914	-3,256,378
Gross profit		**1,296,750**	**1,112,017**
Selling expenses		-562,404	-520,547
Research and development costs		-124,454	-119,526
Administrative expenses		-313,190	-283,322
Other income	[10]	294,374	81,503
Other expenses	[11]	-59,530	-70,043
Profit from at-equity investments	[12]	15,912	11,192
Other financial result	[13]	2,655	1,886
Earnings before interest and taxes		**550,113**	**213,160**
Financial income	[14]	62,084	73,664
Financial expense	[15]	-301,569	-345,709
Financial result		**-239,485**	**-272,045**
Earnings before taxes		**310,628**	**-58,885**
Income taxes	[16]	**-149,540**	**-34,041**
Current taxes		-122,137	-49,349
Deferred taxes		-27,403	15,308
Net income (loss)		**161,088**	**-92,926**
Attributable to shareholders of KION Holding 1 GmbH		159,008	-95,093
Attributable to non-controlling interests		2,080	2,167

Consolidated statement of comprehensive income

€ thousand	2012	2011
Net income (loss)	**161,088**	**-92,926**
Impact of exchange differences	2,765	6,476
thereof changes in unrealised gains and losses	2,755	6,476
thereof realised gains and losses	10	0
Gains/losses on employee benefits	-151,311	8,394
thereof changes in unrealised gains and losses	-214,109	13,995
thereof tax effect	62,798	-5,601
Gains/losses on cash flow hedges	6,074	-8,149
thereof changes in unrealised gains and losses	27,312	7,071
thereof realised gains and losses	-19,662	-18,452
thereof tax effect	-1,576	3,232
Gains/losses from at-equity investments	-26	532
thereof changes in unrealised gains and losses	-26	532
Other comprehensive loss (income)	**-142,498**	**7,253**
Total comprehensive income (loss)	**18,590**	**-85,673**
Comprehensive income (loss)		
Attributable to shareholders of KION Holding 1 GmbH	16,554	-87,840
Attributable to non-controlling interests	2,036	2,167

ASSETS

€ thousand	Note	2012	2011	1/1/2011
Goodwill	[18]	1,473,245	1,537,996	1,507,010
Other intangible assets	[18]	933,961	977,555	986,410
Leased assets	[19]	191,322	167,354	156,125
Rental assets	[20]	395,093	356,682	321,188
Other property, plant and equipment	[21]	500,345	553,816	590,343
At-equity investments	[22]	154,835	36,545	37,841
Lease receivables	[23]	267,140	242,840	246,808
Other non-current financial assets	[24]	50,171	25,732	17,474
Deferred taxes	[16]	264,974	261,963	241,772
Non-current assets		**4,231,086**	**4,160,483**	**4,104,971**
Inventories	[25]	549,927	625,369	535,529
Trade receivables	[26]	625,462	676,553	633,265
Lease receivables	[23]	132,129	118,381	120,950
Current income tax receivables	[16]	5,501	4,953	4,550
Other current financial assets	[24]	106,778	107,096	106,790
Cash and cash equivalents	[27]	562,357	373,451	252,884
Current assets		**1,982,154**	**1,905,803**	**1,653,968**
Total assets		**6,213,240**	**6,066,286**	**5,758,939**

EQUITY AND LIABILITIES

€ thousand	Notes No.	2012	2011	1/1/2011
Subscribed capital		500	500	500
Contributions for carrying out the approved capital increase		1,132,552	0	0
Capital reserve		348,483	348,483	348,483
Retained earnings		-647,687	-806,429	-711,504
Accumulated other comprehensive loss		-179,672	-37,218	-44,471
Non-controlling interests		6,159	7,077	7,070
Equity	[28]	**660,335**	**-487,587**	**-399,922**
Shareholder loan	[30]	0	643,132	615,250
Retirement benefit obligation	[29]	546,520	382,914	374,063
Non-current financial liabilities	[30]	2,300,656	2,777,354	2,772,417
Lease liabilities	[31]	329,185	300,061	278,814
Other non-current provisions	[32]	89,120	96,168	164,299
Other non-current financial liabilities	[33]	355,078	303,789	260,153
Deferred taxes	[16]	308,821	339,054	334,930
Non-current liabilities		**3,929,380**	**4,842,472**	**4,799,926**
Current financial liabilities	[30]	51,775	227,376	106,470
Trade payables		646,044	634,092	508,108
Lease liabilities	[31]	145,830	146,728	169,929
Current income tax liabilities	[16]	84,958	15,439	6,661
Other current provisions	[32]	137,888	183,678	95,902
Other current financial liabilities	[33]	557,030	504,088	471,865
Current liabilities		**1,623,525**	**1,711,401**	**1,358,935**
Total equity and liabilities		**6,213,240**	**6,066,286**	**5,758,939**

Consolidated statement of cash flows

€ thousand	2012	2011
Net income (loss)	161,088	-92,926
+ income taxes	149,540	34,041
+ financial result	239,485	272,045
= Earnings before interest and taxes	**550,113**	**213,160**
Amortisation, depreciation and impairment charges of non-current assets (excl. leased assets and rental assets)	184,042	192,068
Depreciation/Impairment of leased assets and rental assets	181,227	163,953
Other non-cash income (-) and expenses (+)	-142,530	9,943
Gains (-) / losses (+) on disposal of non-current assets	-103,814	6,428
Change in leased assets and rental assets	-245,764	-208,691
Change in lease receivables, lease liabilities and liabilities from finance leases	24,592	26,056
Change in inventories	20,513	-75,242
Change in trade receivables	56,850	-36,829
Change in trade payables	-3,928	114,886
Cash payments for defined benefit obligations	-23,311	-21,038
Change in other provisions	-39,884	13,989
Change in other operating assets	-26,686	334
Change in other operating liabilities	37,020	30,346
Taxes paid	-54,432	-42,553
= Cash flow from operating activities	**414,008**	**386,810**
Cash receipts from disposal of non-current assets	7,353	3,408
Cash payments for purchase of non-current assets	-155,101	-133,005
Deposits from other loan claims	-5,510	2,879
Dividends received	5,317	6,599
Interest income received	4,488	3,397
Acquisitions of subsidiaries, net of cash acquired	-9,703	-32,916
Cash proceeds from sale of entities (excl. cash and cash equivalents)	259,746	0
Cash payments (-) for sundry assets	-2,538	-2,942
= Cash flow from investing activities	**104,052**	**-152,580**
Dividends paid to non-controlling interests	-2,405	-2,209
Cash paid for increased ownership interests (after control)	-10,373	-1,461
Cash proceeds from sale of ownership interests (after control)	138	82
Contributions for carrying out the approved capital increase	467,000	0
Proceeds from borrowings	7,676	632,691
Loan financing costs paid	-14,549	-24,579
Transactions costs for carrying out the approved capital increase	-1,095	0
Repayment of borrowings	-664,577	-537,018
Proceeds (+) / Repayment (-) of other capital borrowings	-2,723	-21,052
Cash receipts (+) / cash payments (-) for forward foreign exchange hedging contracts	20,490	-13,714
Interest paid	-129,712	-147,455
= Cash flow from financing activities	**-330,130**	**-114,715**
Effect of foreign exchange rate changes on cash and cash equivalents	976	1,052
= Change in cash and cash equivalents	**188,906**	**120,567**
Cash and cash equivalents at the beginning of the year	373,451	252,884
Cash and cash equivalents at the end of the year	562,357	373,451

Consolidated statement of changes in equity

€ thousand

					Accumulated other comprehensive income (loss)						
	Subscribed capital	Contributions for carrying out the approved capital increase	Capital reserves	Retained earnings	Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on Cash Flow Hedges	Gains/losses from equity investments	Total equity attributable to shareholders	Non-controlling interests	Total
Balance as at 1/1/2011	**500**		**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Net loss				-95,093					-95,093	2,167	-92,926
Other comprehensive income (loss)					6,476	8,394	-8,149	532	7,253		7,253
Comprehensive loss				-95,093	6,476	8,394	-8,149	532	-87,840	2,167	-85,673
Dividends										-2,209	-2,209
Other Changes				168					168	49	217
Balance as at 31/12/2011	**500**		**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**
Balance as at 1/1/2012	**500**		**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**
Net income				159,008					159,008	2,080	161,088
Other comprehensive income (loss)					2,765	-151,267	6,074	-26	-142,454	-44	-142,498
Comprehensive income				159,008	2,765	-151,267	6,074	-26	16,554	2,036	18,590
Contributions for carrying out the approved capital increase		1,137,784							1,137,784		1,137,784
Transaction costs		-5,232							-5,232		-5,232
Dividends										-2,405	-2,405
Effects on the acquisition / disposal of non-controlling interests				-425					-425	-549	-974
Other changes				159					159		159
Balance as at 31/12/2012	**500**	**1,132,552**	**348,483**	**-647,687**	**-32,784**	**-130,375**	**-16,894**	**381**	**654,176**	**6,159**	**660,335**

Independent Auditors’ Report 2011

The following auditor’s report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of KION Holding 1 GmbH as of and for the fiscal year ended December 31, 2011 and the group management report.

Independent Auditors’ Report

We have audited the consolidated financial statements prepared by the KION Holding 1 GmbH, Wiesbaden, – comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements – and the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („German Commercial Code“) are the responsibility of the parent Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of the KION Holding 1 GmbH, Wiesbaden, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group’s position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 15, 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: (Kompenhans)	Signed: (J. Löffler)
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Consolidated Financial Statements as of December 31, 2011

Consolidated income statement

€ thousand	Note	2011	2010
Revenue	[8]	4,368,395	3,534,474
Cost of sales		-3,256,378	-2,684,353
Gross profit		**1,112,017**	**850,121**
Selling expenses		-520,547	-483,639
Research and development costs		-119,526	-103,255
Administrative expenses		-283,322	-247,526
Other income	[9]	81,503	59,585
Other expenses	[10]	-70,043	-45,879
Profit from equity investments	[11]	11,192	3,569
Other financial result		1,886	1,660
Earnings before interest and taxes		**213,160**	**34,636**
Financial income	[12]	73,664	88,349
Financial expense	[13]	-345,709	-354,405
Earnings before taxes		**-58,885**	**-231,420**
Income taxes	[14]	**-34,041**	**34,722**
Current taxes		-49,349	-14,997
Deferred taxes		15,308	49,719
Net loss		**-92,926**	**-196,698**
Attributable to shareholders of KION Holding 1 GmbH		-95,093	-198,655
Attributable to non-controlling interests		2,167	1,957

Consolidated statement of comprehensive income

€ thousand	2011	2010
Net loss	**-92,926**	**-196,698**
Impact of exchange differences	6,476	37,260
thereof changes in unrealised gains and losses	6,476	37,260
thereof realised gains and losses	0	0
Gains/losses on employee benefits	8,394	-28,658
thereof changes in unrealised gains and losses	13,995	-39,462
thereof tax effect	-5,601	10,804
Gains/losses on cash flow hedges	-8,149	10,022
thereof changes in unrealised gains and losses	7,071	52,818
thereof realised gains and losses	-18,452	-37,897
thereof tax effect	3,232	-5,369
Gains/losses from equity investments	532	-125
thereof changes in unrealised gains and losses	532	-125
Other comprehensive income (loss)	**7,253**	**18,499**
Total comprehensive income (loss)	**-85,673**	**-178,199**
Comprehensive loss		
Attributable to shareholders of KION Holding 1 GmbH	-87,840	-180,155
Attributable to non-controlling interests	2,167	1,956

ASSETS

€ thousand	Note	2011	2010
Goodwill	[16]	1,537,996	1,507,010
Other intangible assets	[16]	977,555	986,410
Leased assets	[17]	539,731	501,164
Other property, plant and equipment	[18]	538,121	566,492
Equity investments	[19]	36,545	37,841
Lease receivables	[20]	242,840	246,808
Other non-current financial assets	[21]	25,732	17,474
Deferred taxes	[14]	261,963	241,772
Non-current assets		**4,160,483**	**4,104,971**
Inventories	[22]	625,369	535,529
Trade receivables	[23]	676,553	633,265
Lease receivables	[20]	118,381	120,950
Current income tax receivables	[14]	4,953	4,550
Other current financial assets	[21]	107,096	106,790
Cash and cash equivalents	[24]	373,451	252,884
Current assets		**1,905,803**	**1,653,968**
Total assets		**6,066,286**	**5,758,939**

EQUITY AND LIABILITIES

€ thousand	Notes No.	2011	2010
Subscribed capital		500	500
Capital reserve		348,483	348,483
Retained earnings		-806,429	-711,504
Accumulated other comprehensive income (loss)		-37,218	-44,471
Non-controlling interests		7,077	7,070
Equity	[25]	**-487,587**	**-399,922**
Shareholder loan	[27]	643,132	615,250
Retirement benefit obligation	[26]	382,914	374,063
Non-current financial liabilities	[27]	2,777,354	2,772,417
Lease liabilities	[28]	471,131	411,097
Other non-current provisions	[29]	96,168	164,299
Other non-current financial liabilities	[30]	132,719	127,870
Deferred taxes	[14]	339,054	334,930
Non-current liabilities		**4,842,472**	**4,799,926**
Current financial liabilities	[27]	227,376	106,470
Trade payables		634,092	508,108
Lease liabilities	[28]	230,381	250,552
Current income tax liabilities	[14]	15,439	6,661
Other current provisions	[29]	183,678	95,902
Other current financial liabilities	[30]	420,435	391,242
Current liabilities		**1,711,401**	**1,358,935**
Total equity and liabilities		**6,066,286**	**5,758,939**

Consolidated statement of cash flows

€ thousand	2011	2010
Net loss	-92,926	-196,698
+ income taxes	34,041	-34,722
+ net financial income/expenses	272,045	266,056
= Earnings before interest and taxes	**213,160**	**34,636**
Depreciation/Impairment of non-current assets (excl. leased assets)	186,569	169,013
Depreciation/Impairment of leased assets	169,452	176,558
Other non-cash income and expenses	9,943	12,295
Gain (-) / loss (+) on disposal of non-current assets	6,428	4,987
Change in leased assets	-208,691	-129,572
Change in lease receivables and lease liabilities	26,056	-57,440
Change in inventories	-75,242	-45,685
Change in trade receivables	-36,829	-103,890
Change in trade payables	114,886	145,491
Cash payments for defined benefit obligations	-21,038	-29,420
Change in other provisions	13,989	-14,994
Change in other operating assets	334	7,195
Change in other operating liabilities	30,346	43,072
Taxes paid	-42,553	-12,957
= Cash flow from operating activities	**386,810**	**199,289**
Cash receipts from disposal of non-current assets	3,408	4,177
Cash payments for purchase of non-current assets	-133,005	-123,462
Deposits from other loan claims	2,879	-1,799
Dividends received	6,599	2,854
Interest income received	3,397	3,623
Acquisitions of subsidiaries, net of cash acquired	-32,916	-7,638
Cash receipts (+) / cash payments (-) for sundry assets	-2,942	-1,003
= Cash flow from investing activities	**-152,580**	**-123,248**
Dividends paid to non-controlling interests	-2,209	-2,143
Cash paid for increased ownership interests (after control)	-1,461	-9,535
Cash receipts from decreased ownership interests (after control)	82	0
Proceeds from borrowings	632,691	56,742
Loan financing costs paid	-24,579	-5,978
Repayment of borrowings	-537,018	-152,447
Repayment of other capital borrowings	-21,052	-42,133
Cash payments for forward foreign exchange hedging contracts	-13,714	0
Interest paid	-147,455	-134,716
= Cash flow from financing activities	**-114,715**	**-290,210**
Effect of foreign exchange rate changes on cash and cash equivalents	1,052	3,645
= Change in cash and cash equivalents	**120,567**	**-210,524**
Cash and cash equivalents at the beginning of the year	252,884	463,408
Cash and cash equivalents at the end of the year	373,451	252,884

Consolidated statement of changes in equity

€ thousand

	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehensive income (loss): Cumulative translation adjustment	Accumulated other comprehensive income (loss): Gains/losses on defined benefit obligation	Accumulated other comprehensive income (loss): Gains/losses on Cash Flow Hedges	Accumulated other comprehensive income (loss): Gains/losses from equity investments	Total equity attributable to shareholders	Non-controlling interests	Total
Balance as at 1/1/2010	**500**	**348,483**	**-516,199**	**-79,286**	**41,156**	**-24,841**	**0**	**-230,187**	**17,144**	**-213,043**
Net loss			-198,655					-198,655	1,957	-196,698
Other comprehensive income (loss)	–	–	–	37,261	-28,658	10,022	-125	18,500	-1	18,499
Comprehensive loss			-198,655	37,261	-28,658	10,022	-125	-180,155	1,956	-178,199
Dividends									-2,143	-2,143
Effects on the acquisition of non-controlling interests			-1,496					-1,496	-10,419	-11,915
Other Changes			4,846					4,846	532	5,378
Balance as at 31/12/2010	**500**	**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Balance as at 1/1/2011	**500**	**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Net loss			-95,093					-95,093	2,167	-92,926
Other comprehensive income (loss)	–	–	–	6,476	8,394	-8,149	532	7,253	–	7,253
Comprehensive loss			-95,093	6,476	8,394	-8,149	532	-87,840	2,167	-85,673
Dividends									-2,209	-2,209
Other changes			168					168	49	217
Balance as at 31/12/2011	**500**	**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**

ANNEX 1: QUARTERLY FINANCIAL INFORMATION

Quarterly Financial Information 2011 – 2012

Unaudited information								
(€ thousand)	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Order intake	1,157,383	1,195,434	1,111,663	1,217,376	1,207,173	1,202,581	1,076,798	1,213,524
Revenue	1,016,190	1,096,338	1,044,137	1,211,730	1,144,399	1,166,147	1,128,264	1,287,854
EBIT	60,145	98,443	63,422	-8,850	90,924	104,948	79,867	274,374
Adj. EBIT	74,620	100,657	84,326	105,005	101,434	111,258	106,213	119,254
Adj. EBIT margin	7.3%	9.2%	8.1%	8.7%	8.9%	9.5%	9.4%	9.3%
Adj. EBITDA	148,536	173,239	160,059	183,431	175,670	187,675	184,994	198,932
Adj. EBITDA margin	14.6%	15.8%	15.3%	15.1%	15.4%	16.1%	16.4%	15.4%
Free cash flow	45,732	-25,787	30,162	184,123	-73,664	81,730	30,788	479,206
Net financial debt	2,600,205	2,687,633	2,748,619	2,656,613	2,741,282	2,735,482	2,743,954	1,790,074

ANNEX 2: ANNUAL REPORT 2012 – KION HOLDING 1 GMBH

KION HOLDING 1 GmbH

Wiesbaden

Group management report and consolidated financial statements as at 31 December 2012

This is a translation of the German

"KION Holding 1 GmbH
Konzernlagebericht und
Konzernabschluss zum 31.12.2012"

Sole authoritative and universally valid version is the German language document.

KION HOLDING 1 GmbH

Wiesbaden

Group management report
as at
31 December 2012

MATERIAL HANDLING SOLUTIONS

CONTENTS

Highlights in 2012

The KION Group can look back on a successful financial year 2012: a record result through strategic measures, stable demand and a further increase in profitability

- Order intake (€4,700 million) was up from last year despite the downturn in the global market
- Consolidated revenue increased by 8.2 per cent to €4,727 million
- The adjusted EBIT margin reached a new high of 9.3 per cent as a result of structural improvements
- The Group's capital structure was significantly improved following transactions with Weichai Power
- The foundation was laid for further growth in emerging markets

KION Group key figures

in € million	2012	2011	2010	Changes 2012/2011
Revenue	4,727	4,368	3,534	8.2%
In Germany	1,225	1,175	900	4.3%
Outside Germany	3,501	3,194	2,634	9.6%
Order intake	4,700	4,682	3,860	0.4%
Order backlog	808	953	801	-15.2%
EBITDA	915	569	380	60.8%
Adjusted EBITDA[1]	747	665	462	12.3%
EBIT	550	213	35	>100%
Adjusted EBIT[1]	438	365	139	20.2%
Net income (loss)	161	-93	-197	>100%
Cash and cash equivalents[2]	562	373	253	50.6%
Financial debt[3]	2,352	3,005	2,879	-21.7%
Net financial debt	1,790	2,631	2,626	-32.0%
Equity	660	-488	-400	>100%
Adjusted EBITDA Margin[1]	15.8%	15.2%	13.1%	-
Adjusted EBIT Margin[1]	9.3%	8.3%	3.9%	-
Free cash flow[4]	518	234	76	>100%
Capital expenditures[5]	155	133	123	16.6%
Total spending on R&D	120	120	103	-0.1%
R&D spending/revenue (%)	2.5%	2.8%	2.9%	-
Employees incl. apprentices and trainees as at 31 December[6]	21,215	21,862	19,968	-3.0%
R&D employees	847	900	827	-5.9%

[1] Adjusted for KION acquisition items and one-off items
[2] Cash and cash equivalents
[3] Financial liabilities are defined as non-current and current financial liabilities
[4] Free cash flow is defined as Cash flow from operating activities plus Cash flow used in investing activities
[5] Excluding leased assets and rental assets
[6] Number of employees in full-time equivalents as at 31 December

COMPANY PROFILE AND STRATEGY

The KION Group is a leading provider of industrial trucks and logistics solutions. By offering a broad product range, tailored service and system solutions and financing options, KION helps its customers to efficiently manage their internal production processes and global supply chains. KION has six brands – Linde, STILL, Fenwick, OM-STILL, Baoli and Voltas MH – and is the second largest manufacturer of forklift trucks, warehouse trucks and other industrial trucks in the world. It operates 15 production facilities and eleven research and development centres – and has more than 1,100 sales and service outlets in 111 countries.

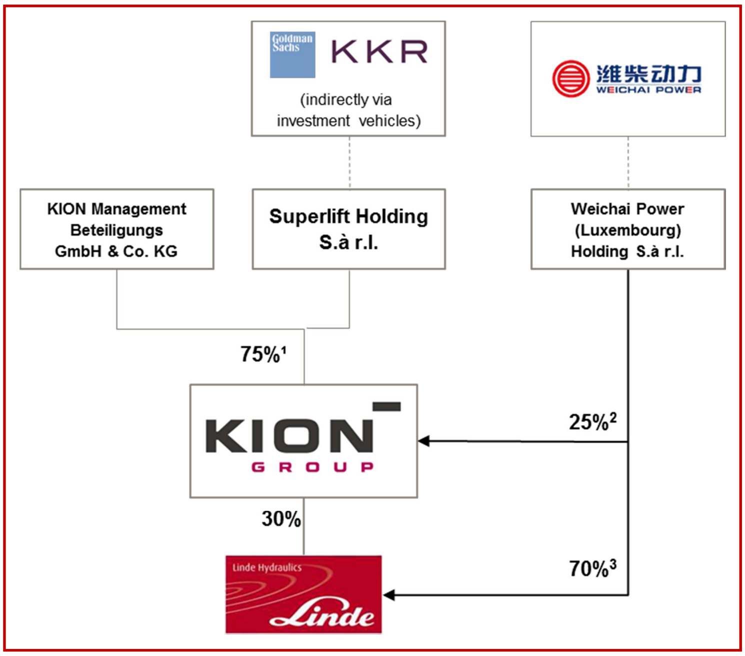
Group structure, organisation, and management

Shareholders

The consolidated financial statements cover the group of consolidated companies belonging to KION Holding 1 GmbH. As at the reporting date of 31 December 2012, KION Holding 1 GmbH indirectly held all shares in KION GROUP GmbH, which acts as the strategic management holding company and operational parent company of the KION Group (also referred to below as simply 'KION').

The number of shareholders increased in the year under review. In December 2012, the shareholders' meeting of KION Holding 1 GmbH passed a resolution to increase the Company's share capital. After the capital increase, Weichai Power Co., Ltd. (referred to below as 'Weichai Power') holds a 25 per cent share in KION Holding 1 GmbH through its subsidiary Weichai Power (Luxembourg) Holding S.à r.l. The contribution amount was paid by Weichai Power on 27 December 2012. The capital increase was entered in the commercial register in January 2013 (see 'Events after the balance sheet date' on page 57). The remaining 75 per cent of the shares will be held on the one hand indirectly through investment vehicles and subsidiaries of former shareholders Goldman Sachs Capital Partners and KKR & Co. L.P., and on the other hand by an management participation company. The latter company manages about 5.7 per cent of the management holdings in KION Holding 1 GmbH.

Chart 2: Shareholders of the KION Group



1) Management participation of around 5.7 per cent included in 75 per cent share in KION Holding 1 GmbH
2) Weichai Power with further options to acquire additional shares
3) Under certain conditions Weichai Power's share in Linde Hydraulics can be increased further.

The acquisition of shares by way of capital contributions made by Weichai Power further strengthened KION's capital structure. A detailed explanation can be found in the presentation of the financial position (see pages 36 to 42). Weichai Power has a call option vis-à-vis Superlift Holding S.à r.l. to acquire a further 3.3 per cent of the shares, which it can exercise before mid-2013 or, should KION be floated on the stock market in future, during the three months after flotation. Moreover, in the event of flotation on the stock market, Weichai Power can increase its equity investment (with full recognition of the resulting dilutive effects) to 33.3 per cent by means of a capital increase, if it previously held at least 28.3 per cent of the shares, or to 30.0 per cent, if it previously held less than 28.3 per cent of the shares.

The acquisition of shares is part of a long-term strategic partnership between the individual companies of KION and Weichai Power, at the core of which is close cooperation in the field of industrial trucks and hydraulic drive technology (further details can be found in the section on strategy, page 16). Under the agreement, Weichai Power also acquired a 70 per cent controlling interest in Linde Hydraulics GmbH & Co. KG (referred to below as 'Linde Hydraulics') with effect from 27 December 2012. The majority of the former hydraulics business of Linde Material Handling GmbH (referred to below as 'LMH GmbH') was transferred into this company. LMH GmbH continues to hold the remaining 30 per cent as a strategic investment. Weichai Power’s share in Linde Hydraulics can be increased further under certain conditions (see note 6 on page 8).

Segment structure

KION is represented in the market by two global brands – Linde and STILL – and four regional brands: Fenwick (France), OM-STILL (Italy), Baoli (China and other emerging markets) and Voltas MH (India). While the brand companies have full operational and commercial responsibility within their particular markets, KION GROUP GmbH acts as a strategic management holding company and is responsible for the cross-brand Group strategy as well as for key Group functions, for which it defines group-wide business standards.

For internal management purposes, KION has divided its business into operating segments that correspond to the reportable segments required by international financial reporting standards (IFRS 8). KION changed this segment structure in 2012, after having already put in place the structures required from an organisational and company law perspective to manage and show the financial services activities of the Group separately in 2012. These are now aggregated in the Financial Services segment. The figures for 2012 and 2011 have been reported in accordance with the revised segment structure as shown below.

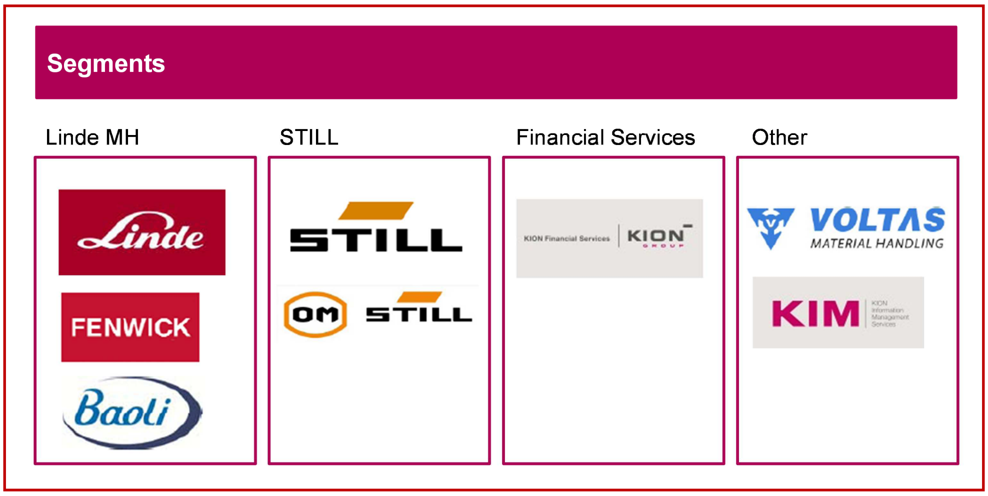
The **Linde Material Handling (LMH)** segment encompasses the Linde, Fenwick and Baoli brands. The hydraulics business was also part of the LMH segment until KION sold its majority stake in Linde Hydraulics on 27 December 2012. Linde Hydraulics is recognised as an affiliated company in the consolidated financial statements (using the equity method).

The **STILL** segment comprises the STILL and OM-STILL brands.

Spare parts business and service form an integral part of the LMH and STILL segments and complement their product portfolios. However, financing business, which promotes sales, is assigned to the new **Financial Services (FS)** segment.

The **Other** segment essentially consists of internal activities relating to IT and logistics as well as the group holding activities of the KION Group. The Voltas MH brand is also assigned to the Other segment.

Chart 3: Segments



Management and control

KION follows generally accepted standards of sound, responsible corporate governance. The German Corporate Governance Code (DCGK) provides the framework for management and control structures and procedures. Further information about corporate governance at KION is available on the Company's website (www.kiongroup.com).

The Executive Board of KION GROUP GmbH is responsible for the operational management of the KION Group, the details of which are set out in the rules of procedure. As at 31 December 2012 the responsibilities of the Executive Board members were as follows:

Gordon Riske, Chief Executive Officer (CEO), is responsible for strategy, communications, governance and compliance, market intelligence and the Group's Asian business.

Dr Thomas Toepfer was appointed to the Executive Board in the role of Chief Financial Officer (CFO) with effect from 1 September 2012. He is in charge of finance, the FS segment, IT activities, mergers & acquisitions and investor relations. He replaced Harald Pinger, who left at his own request on 31 August 2012.

Until his departure at the end of 2012, Otmar Hauck was Chief Operating Officer (COO) and was responsible for quality, central operations, purchasing, logistics and product development in the Group. No new COO was appointed for KION GROUP GmbH. After Mr Hauck left, responsibility for purchasing passed to Dr Thomas Toepfer, while CEO Gordon Riske took charge of KION Warehouse Systems.

Until his retirement on 11 January 2013, Klaus Hofer was responsible for human resources, legal affairs, health & safety and internal audit, and was also KION's Labour Relations Director. His responsibilities have been transferred to Gordon Riske and Dr Thomas Toepfer.

The Executive Board was expanded in January 2013 in response to the growing significance of business in Asia and to make the management of the Linde and STILL brands more involved in running the Group as a whole (see 'Events after the balance sheet date', page 57).

The Executive Board maintains a relationship of trust with, and is monitored by, the Company's Supervisory Board. The Supervisory Board consists of six shareholder representatives, who are chosen by the shareholders' meeting, and six employee representatives. It advises the Executive Board in its handling of significant matters and business transactions. The Supervisory Board has created a Human Resources Committee and an Audit Committee to increase the efficiency of its work. It also has an Arbitration Committee pursuant to section 27 (3) German Codetermination Act (MitbestG), which meets if required to do so in circumstances specified by law or by the memorandum and articles of association. The composition of the Supervisory Board is described in note 44 on pages 86 and 87.

In the year under review the remuneration paid to the Executive Board comprised a fixed salary and non-cash benefits (including pension entitlements) and performance-related components. The basic principles of the remuneration structure and the total amounts paid to the members of the Executive Board and Supervisory Board are set out in the notes to the consolidated financial statements (note 43, pages 84 and 85).

Business model and market positioning

Business model

KION earns most of its consolidated revenue from the sale of industrial trucks. In the reporting year, new products accounted for 56 per cent of the Group's revenue, while service business (including spare parts) generated 40 per cent. Four per cent related to hydraulics components, which were sold to Weichai Power to the furthest extent possible with effect from 27 December 2012.

So that it can offer comprehensive support to customers worldwide, KION covers every step of the value chain: product development, manufacturing, sales and logistics, spare parts business, financial services and system and software solutions.

The purpose of research and development activities (R&D) is to consolidate and extend KION's technology leadership. 847 developers are employed across the KION brand companies. The focus of the Group's R&D activities is described on page 50.

The different industrial trucks are manufactured at production facilities situated at strategically beneficial locations within the global network. Owing to the particular requirements of its business and to ensure security of supply, KION manufactures most of the major components itself – notably lift masts, axles, counterweights and safety equipment. Other components – such as electronic components, rechargeable batteries, engine components and industrial tyres – are purchased through KION's global procurement organisation. There are also long-term supply agreements for hydraulics components with Weichai Power (see p. 16 for further information about the strategic partnership with Weichai Power). KION operates a total of 15 production facilities in eight countries.

The product portfolio includes counterbalance trucks powered by an internal combustion engine or electric drive, warehouse technology (ride-on and hand-operated industrial trucks) and towing vehicles for industrial applications. It covers all load capacities, from 1 tonne to significantly in excess of 40 tonnes.

Table 1: KION's production and major logistics sites

Location	Products/use
Linde Material Handling	
Germany	
Aschaffenburg	IC trucks, E trucks, warehouse trucks
Weilbach	Components production
Kahl	Spare part warehousing, Components production
France	
Châtellerault	Components production
UK	
Merthyr Tydfil[1)]	Heavy IC trucks[1)], container trucks
Basingstoke	Spare part warehousing
Czech Republic	
Český Krumlov	Components production
USA	
Summerville	IC trucks, E trucks, warehouse trucks
China	
Xiamen	IC trucks, E trucks, container and heavy IC trucks, warehouse trucks
Jingjiang	IC trucks, E trucks, warehouse trucks
STILL	
Germany	
Hamburg	IC trucks, E trucks, warehouse trucks
Reutlingen	VNA warehouse trucks
Geisa	Components production
Italy	
Lainate	Spare part warehousing
Luzzara	Warehouse trucks
Brazil	
Indaiatuba / São Paulo	IC trucks, warehouse trucks
Other (Voltas MH)	
India	
Pune	IC trucks, E trucks, warehouse trucks

1) Consultations ongoing concerning restructuring the container handler and heavy forklift truck business and Konecranes taking over certain assets of the container division (see 'Events after the balance sheet date', page 57)

Revenue from the high-margin service business stabilises consolidated revenue and reduces dependency on market cycles. KION's sales and service network encompasses more than 1,100 outlets in over 100 countries. Of the total sales and service workforce – which is predominantly made up of service technicians – about two thirds are employed in the KION companies. In various markets, KION relies on external dealers.

The service business caters to an active fleet of over 1 million industrial trucks. Europe has the greatest concentration of service outlets. In established markets, a significant proportion of services is covered by leasing arrangements and is offered for the entire term of the lease. Service business also includes individual orders for repairs and maintenance, spare parts, used trucks and rental trucks.

Financial services (see page 19 and 20) support product sales in all brand companies. They largely consist of long and short-term rental, and customised fleet management.

Market and influencing factors

Industrial trucks are used for a wide variety of applications. Material handling products are used for tasks such as loading and unloading, linking production steps, moving pallets in logistics centres and transferring containers in ports. They therefore form part of the production processes and supply chains in different industries around the world. Measured in terms of unit sales of new trucks, the growth of the industrial truck market has exceeded global economic growth over the past ten years (2002 to 2012), rising at an average of around 5 per cent per year.

In KION's view, the significant influencing factors with a sustained impact are the following:

- Mature markets are generating strong demand for trucks to replace old ones as customers have not made replacement investments when required in recent years, as a result of the financial and economic crisis. KION estimates that around 90 per cent of sales in western Europe are currently accounted for by replacement investments.

- In China and other emerging markets, economic growth and the increasing need for infrastructure solutions are creating disproportionately strong demand for inexpensive industrial trucks.

- As a result of globalisation, individual steps in the value chain are increasingly being moved to different regions, causing greater demand for transport services and logistics solutions.

- As the technology in industrial trucks becomes more complex, their users are more likely to outsource service functions. The demand for efficient fleet management is also rising.

- The market as a whole will continue to depend heavily on economic conditions in key sales markets, with the level of capital investment and the growth in global trade being particularly crucial. During an economic downturn customers tend to delay purchasing any new trucks they need, whereas they buy more new trucks during an upturn. The service business, which is generally less cyclical, is affected by truck utilisation, which itself depends partly on macroeconomic activity. In addition, the overall market is subject to regulatory intervention, in particular in relation to emission levels, production standards and workplace safety standards (see page 25).

Measured in terms of units ordered, almost half of the volume of new business (46 per cent) was accounted for by counterbalance trucks with an internal combustion engine – with higher proportions in China and other emerging markets. Counterbalance trucks with an electric drive accounted for around 16 per cent and warehouse technology for 38 per cent.

The products in the premium price segment are characterised by an above-average useful life, driver productivity, comfort and high performance, combined with lower running and energy costs. This price segment accounted for 27 per cent of the new trucks ordered according to a study conducted in 2012, although the proportions were lower in China and other emerging markets. The middle price segment (value) generated 48 per cent of orders. The low price segment accounted for 25 per cent of the global market; it is the main segment in China.

Broken down by region, Europe generated 33 per cent of total new trucks sales, followed by China with 23 per cent and North America with 19 per cent.

Market position

KION is one of the world's leading manufacturers of industrial trucks owing to its **global presence** and volume of revenue. Measured in terms of units sold, KION consolidated its position as the number one in Europe and the number two worldwide in the year under review. Based on the sales figures for 2012, KION's market share was 15 per cent worldwide and 34 per cent in Europe. KION is ranked third in the Chinese market behind two domestic manufacturers, making it the largest foreign producer. It is one of the leading manufacturers in Brazil – the largest individual market in South America – and is the market leader for electric forklift trucks and warehouse trucks.

Besides its strong market position in established markets and growth regions, KION has a number of other competitive advantages:

As a result of its **multi-brand strategy** and broad range of products and services, KION is represented in all the major sales regions, product segments and price segments that make up the industrial truck market. The multi-brand strategy has helped KION to systematically expand its presence in the emerging markets in recent years.

KION's **position as a leading technology provider** secures the status of LMH and STILL as premium brands: customers can contain the total cost of ownership (TCO) owing to the trucks' cost efficiency, high productivity and relatively low maintenance and to the high residual values of used trucks. This technology leadership position is based, among other factors, on KION's pioneering role in hydrostatic and diesel-electric drive systems and on its product innovations in the field of energy-efficient and low-emission drive technologies (electric drives, hybrid drives, fuel cells). KION is also one of the leading companies with regard to workplace safety and ergonomics (see the section on research and development, pages 50 to 53). Compared with other companies in the industry, KION spends a high proportion of its revenue on research and development. By operating eleven local development centres, KION ensures that it can fully cater to the specific needs of customers in the different markets. There are two development centres in China, one in Brazil and one in India.

KION has an **integrated business model**, which is based on its presence in all major product categories and the fact that the service business is intrinsically tied into the new truck business. The service business generates above-average margins for KION and is less affected by economic fluctuations. In addition, the growing number of new trucks fitted with customer-specific equipment is also stabilising the service business. The associated production, service and sales processes present a significant barrier to market entry for competitors, as does the extensive network of service outlets.

KION's **attractive profit margins** are derived from the premium positioning of its brands and the significant proportion of revenue contributed by its high-margin service business. Economies of scale, diversification advantages and synergies resulting from its global position also benefit KION.

Moreover, profitability has been improved by implementing effective measures to boost efficiency and lower costs, for example during the financial and economic crisis in 2008 and 2009. Consolidation of production facilities (see page 17) has also increased capacity utilisation. The lower level of fixed costs and the resulting more flexible cost structure have enabled KION to improve its profitability and put it in a better position to absorb the impact of economic downturns than in the past. Modular and platform strategies in product development and production also help to increase cost efficiency.

Strategy of the KION Group

KION's strategy, which is centred on value and growth, is based on the Group's aforementioned strengths. The strategic objectives are:

1. Strengthen KION’s leading position in western European core markets

KION is consolidating its position as the number one in Europe's industrial truck market with customer-focused technological innovations and a high proportion of trucks with bespoke fittings. In recent years, the proportion of revenue spent on research and development has been above the market average and stood at 2.5 per cent in the year under review. KION aims to increase customer benefits in all price segments by introducing innovative drive systems, advanced ergonomics, intelligent intralogistics solutions and other developments.

2. Expand the range of services in European markets and in growth regions

KION is continually extending its portfolio of services and improving their quality at every stage of the product lifecycle. This includes servicing, maintenance and spare parts as well as fleet management solutions, intralogistics processes, efficient supply chains and IT systems. Financial services are also a key component of the service portfolio. KION has an installed base of more than 1 million trucks from which to expand its service business. The Company also intends to increase its market share by, for example, opening additional service outlets in attractive growth markets and stepping up the short-term rental business.

3. Tap the full market potential of growth regions

KION wants to take full advantage of buoyant demand in the BRIC countries (Brazil, Russia, India, China) and other emerging markets. That is why it is launching region-specific products in fast-growing price segments and strengthening its local production and sales network. To do so, KION is making targeted investments in production capacity, product development and the sales and service network. It is also weighing up whether to acquire manufacturing companies and dealers in growth regions. The strategic partnership entered into with Weichai Power in 2012 will play a key role in strengthening KION's position in the Chinese and other Asian growth markets, while KION gains access to the lower price segment in India through Voltas MH.

The range of products and services is tailored to region-specific requirements. To this end, KION operates a multi-brand strategy in the different regions. Region-specific products based on low-cost production platforms are the preferred option in the fast-growing emerging markets of Asia, Central America and South America. For this reason, LMH and STILL are positioned accordingly in those markets, with the Baoli and Voltas MH brand companies also playing a key role. Other external opportunities for growth are examined on an ongoing basis, including in relation to the sales and service network. Fast-growing emerging markets accounted for 30 per cent of consolidated revenue in 2012, compared with 22 per cent in 2011.

4. Optimise production, leverage group-wide synergies and thereby reduce costs

Over the past few years KION has streamlined its production capacity in developed markets, bringing about improvements to capacity utilisation and cost efficiency. At the same time it has created new capacity in Brazil, India and China. This transfer of some aspects of production to emerging markets is expected to continue.

Another way in which KION improves efficiency and increases margins is by operating a cross-brand purchasing organisation. Over the next few years it plans to increase its purchasing volume from emerging markets from 28 per cent in 2012 to as much as 40 per cent.

Although the brand companies in the KION Group are largely responsible for their own market activities, KION harnesses group-wide synergies and ensures that resources are used efficiently by centralising certain functions. Central departments are responsible for quality and production control, logistics and IT. This makes it possible to establish best practice across the Group. There are also a number of research and development initiatives aimed at cutting costs, improving quality and speeding up the development process. For example, KION intends to increase the proportion of standard modules used by multiple brand companies without compromising the brands' independence.

Key strategic measures in 2012

Tap full market potential in growth regions

The primary objective of the strategic partnership that KION entered into with Weichai Power at the end of 2012 is strategic collaboration on hydraulic pumps, engines, valves and drive technologies. Weichai Power and KION have also agreed to cooperate in a number of strategic areas, such as the supply of engines, parts and components. The aim for both companies here is to foster growth and competitiveness in the respective product segments.

Under an agreement reached between the KION Group and Weichai Power, the partnership also extends to the sharing of best practice and the development by Weichai Power of engines for installation in certain industrial trucks. Additional possibilities are also being considered, such as consolidating the forklift truck business in China. An agreement for the joint use of sales and purchasing structures has already been reached. Weichai Power has more than 500 service outlets in China, which KION can use to extend its own sales and service network. Other advantages include the strengthening of the industrial base in Europe and access to Weichai Power's suppliers in China and Europe.

The partnership generates substantial economies of scale for Linde Hydraulics and enables it to improve its international competitive position. On 27 December 2012 Linde Hydraulics entered into a ten-year purchase and supply agreement with LMH GmbH, which includes an exclusivity rule for the first five years. There is also a licence agreement that ensures Linde Material Handling GmbH (LMH GmbH) has access to all the patents necessary for its industrial truck business.

Weichai Power paid a cash contribution (including premium) of €467 million into KION Holding 1 GmbH to take over a 25 per cent of the Company’s share capital as part of a capital increase. The price to acquire 70 per cent of the shares (including options) in Linde Hydraulics GmbH & Co. KG was €271 million.

The partnership with Weichai Power improves KION’s market presence in China via KION Baoli (Jiangsu) Forklift Co., Ltd. (referred to below as 'KION Baoli') – the regional brand for industrial trucks – following LMH GmbH's acquisition of the outstanding 2.7 per cent of the shares. The transaction was completed at the end of August 2012. In addition, Baoli also has a presence in additional emerging markets, particularly in the Near and Middle East, India and Southeast Asia, but also in Australia. By collaborating with Weichai Power, Baoli will be able to expand its product range in the short term, and consequently be an even more attractive business partner for distributors.

A second major milestone was reached in the Indian market. KION acquired the outstanding 34 per cent of shares in Voltas Material Handling Private Limited (referred to below as 'Voltas MH') with effect from 2 November 2012. Founded in 2011 as a means of strategic cooperation between KION and the Indian conglomerate Voltas Limited, Voltas MH develops, manufactures, sells and maintains forklift trucks and warehouse trucks, focusing on India's high-volume market. The acquisition of the outstanding shares in Voltas MH enables KION to tap into the potential of the Indian market more efficiently. Voltas MH's sales and service network encompasses 59 dealers. In the second quarter of 2012 Voltas MH opened a new production facility in Pune, where it builds smaller counterbalance trucks powered by an internal combustion engine or electric drive as well as warehouse trucks.

By setting up a new legal entity, KION South Asia Pte. Ltd., in Singapore in April 2012, KION put in place the necessary organisational structure to fully unlock the market potential in other countries of South and Southeast Asia. KION South Asia is enabling the steady expansion of the local sales and service networks of the Linde, STILL and Baoli brands.

On 1 September 2012, KION South America launched production operations at its new plant in Indaiatuba/São Paulo, Brazil, thereby doubling its capacity. By pooling production in São Paulo and stepping up cross-brand cooperation, KION can leverage synergies and respond faster to customer requirements. KION's strategic competitive position has improved significantly because it can now manufacture counterbalance trucks (with an internal combustion engine) locally in addition to warehouse trucks. Imports of trucks, which are subject to high customs duties, can therefore be reduced significantly. The new facility also has better transport connections. The warehouse technology factory in Rio de Janeiro has closed, and the building and site have been sold. Some employees have transferred to the new plant. KION helped those unwilling to move to find new employment.

Consolidation of market position in Europe and expansion of service network

The sales and service network was strengthened through acquisitions and partnerships in 2012. One of KION's sales channels in the large Russian market is the sales company Liftec, which has been part of LMH since November 2011. In the reporting year LMH also acquired Liftec's business in Kazakhstan (February 2012) and Ukraine (July 2012). This has given LMH direct access to these markets and will enable it to expand its sales and service structures in Eastern Europe and Central Asia. STILL continued to consistently expand its service and distribution organisations in growth regions, by opening new branches in Russia and Poland, and its own Asian representative office in Singapore. In February 2012 LMH acquired the outstanding 51 per cent of shares in the sales company Linde Creighton Ltd., West Bromwich, United Kingdom. This was another measure aimed at strengthening LMH's presence in the United Kingdom following the acquisition of the outstanding shares in Linde Castle Ltd. and Linde Sterling Ltd. in 2011. Between them, the three companies employ over 650 people. LMH has also restructured its sales operations in Croatia by entering into a joint venture with a local dealer.

Increase in cost efficiency through optimisation of production and leverage of group-wide synergies

In 2012 KION continued to rigorously implement the extensive restructuring and consolidation programme that it had begun in 2009 in light of the financial and economic crisis. The long-term optimisation of production capacity has already begun to pay off and was a considerable factor in improving profitability in 2012. By making its cost structure more flexible, KION can take faster and more extensive action in an economic downturn. The relocation of individual warehouse technology production plants within Europe was completed in the year under review. Production operations in Montataire, France, were transferred to Luzzara in Italy, while forklift truck production in Bari, Italy, was moved to Hamburg, Germany. Furthermore, at the end of 2012 the decision was made to carry out the process of restructuring the container handler and heavy forklift truck business at the Merthyr Tydfil site (Wales, UK), which should improve the competitiveness of both segments in the long term, as well as increase the efficiency of KION’s European production network. Steps were also taken to increase efficiency in purchasing and product development.

KION expects that the strategic partnership with Weichai Power will also help to boost cost efficiency, notably through the joint use of sales structures and improved access to low-cost sources of supply for components.

In addition, KION has initiated measures to improve cost efficiency in research and development by using module and platform strategies (see page 50). The aim here is to reduce the complexity and diversity of products and accelerate the development process.

The segments and their products and services

Table 2: Segment overview

Segments 2012								
in € million	Revenue	Year-on-year change	Adjusted EBIT[1]	Year-on-year change	EBIT	Year-on-year change	Em-ployees[2]	Year-on-year change
LMH	3,132	9.8%	330	18.3%	523	>100%	13,148	-4.6%
STILL	1,677	0.6%	123	22.4%	98	>100%	7,253	-0.5%
Financial Services	509	6.2%	1	-48.1%	1	-48.1%	112	16.7%
Other	251	12.4%	44	-34.6%	-12	<-100%	702	2.0%
Consolidation/reconciliation	-842	0.0%	-61	0.0%	-61	0.0%	–	-
Total	**4,727**	8.2%	**438**	20.2%	**550**	>100%	**21,215**	-3.0%

[1] Adjusted for KION acquisition items and one-off items
[2] Number of employees in full-time equivalents as at 31 December

Linde Material Handling (LMH) segment

The LMH segment encompasses the products and services of the Linde, Fenwick and Baoli brands.

Linde is a global premium brand and a technology leader. Its USP is its hydrostatic drive technology, which gives it a significant competitive edge worldwide and enables it to meet customer's high standards of technology, efficiency, functionality and design. The product portfolio ranges from warehouse trucks to heavy trucks and container handlers and caters to all of the major application areas. Linde has been developing and manufacturing electric drive systems for decades and makes the resulting expertise available to external customers for use in a variety of applications.

In France, Linde products are sold under the Fenwick brand. The Baoli brand covers the lower price segment in China and other growth markets in Asia, eastern Europe, the Middle East and Africa as well as Central and South America.

LMH's strategic investment in Linde Hydraulics means it continues to hold a stake in one of the major producers of hydraulic components. An exclusive contract ensures the supply of these components over the long term, which provide the basis for the Linde trucks' precise lifting and handling capabilities as well as their low fuel consumption. LMH will continue to exploit the synergies between the technologies of the trucks and drive systems despite selling its majority stake in the hydraulics business.

In terms of unit sales of industrial trucks, Linde is the second largest brand worldwide and the market leader in Europe, while Fenwick occupies the number-one spot in France.

Around the globe, LMH can rely on a network of around 700 sales outlets (including Fenwick). Its sales are split roughly equally between its own sales companies and external dealers. Baoli has about 150 sales outlets.

STILL segment

The STILL and OM-STILL brands are grouped in the STILL segment. STILL is a global premium provider of trucks with diesel-electric drives. It focuses, above all, on the European and Latin American markets. In Brazil, STILL is ranked second in terms of product sales. OM-STILL is the market leader in Italy. By opening its own representative office in Singapore, an essential prerequisite to creating further growth in Southeast Asia has also been established.

The segment's portfolio consists of forklift trucks and warehouse trucks plus associated services. STILL is a market leader throughout Europe in electric forklift trucks and has also established innovative drive technologies on the market such as hybrid drive in particular. STILL has also positioned itself as a leading provider of intelligent intralogistics solutions. In this manner, STILL realizes the intelligent interplay of forklift trucks, warehousing technology and towing tractors, as well as process-oriented, value-added services concerning internal operations logistics processes, shelving systems and fleet management and services.

The STILL segment operates around 240 sales outlets in its markets, most of which it owns itself.

Financial Services (FS) segment

In view of the increased importance of financial services, KION laid the foundations for combining its activities in the FS segment in 2011 and completed the new segmentation in the year under review. Legally independent FS companies were set up in the main sales markets with a high volume of financing and leasing (France, Germany, Italy, Spain and the United Kingdom) so that financing and leasing business can be managed separately.

The purpose of the FS segment is to act as an internal funding partner for the LMH and STILL brand segments, providing finance solutions that promote sales. FS activities include the internal financing of the short-term rental fleet on the one hand, and the financing of long-term leasing business for KION Group customers on the other hand, as well as the accompanying risk management.

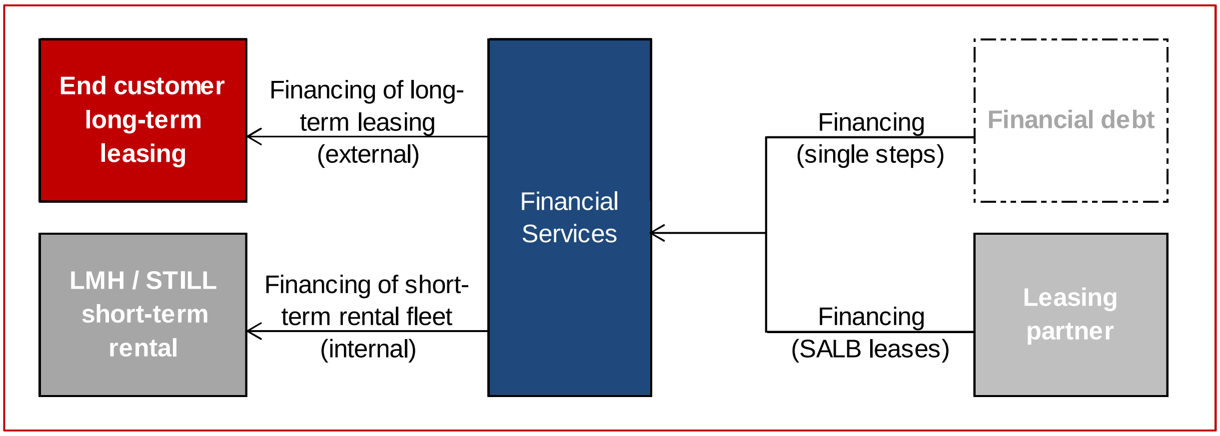
The key performance indicator for the FS segment is earnings before taxes (EBT).

When long-term leasing business is being conducted, FS itself acts as the contractual partner to customers and offers financing. Various financing models are available and give customers the greatest possible flexibility. In long-term business, FS is also responsible for risk management, which includes credit risk management as well as management of residual-value risk. Leases have an average term of four to five years.

In short-term leasing, FS is the internal financing partner of the brand segments: customers are offered rental trucks from a brand segment rental pool for short-term use. Financial performance largely depends on the rental fleet's capacity utilisation, which is controlled by the brand segments. Operational responsibility for the short-term rental business lies with the brand segments. FS acts as the contractual partner to the brand segments, providing the financing primarily in conjunction with external financial partners. The brand segments pay FS for its work in the form of an interest margin at a rate appropriate to the market.

FS works on refinancing with over 40 financing partners worldwide. Leasing is largely refinanced via sale and leaseback agreements, whilst the refinancing of single-step leases via financial liabilities still plays a subordinate role.

Chart 5: Business model of Financial Services



In addition to KION's direct leasing to end clients via FS, lease financing is also procured through independent leasing providers. In such cases, the lessor is not KION, but rather an external leasing company.

Other segment

The Other segment primarily comprises KION GROUP GmbH with its holding activities, the KION Group's service companies, which provide cross-segment services. These include, in particular, IT services from KION Information Management Services GmbH and logistics services.

The subsidiaries of the Voltas MH brand company, which manufacture and sell counterbalance trucks and warehouse technology for the Indian market, also belong to this segment.

Value-based management

The KION Group's strategy, which centres on value and growth, is reflected in how the Company is managed. KION uses six key performance indicators (KPIs) to continuously monitor the market success, profitability, financial strength and liquidity of both the Group and the individual segments. The performance targets of the Group and the segments are based on selected financial KPIs, as is the performance-based remuneration paid to managers (see note 43 on page 84). Each month, the KPIs are measured and made available to the Executive Board as part of a comprehensive report. This enables the management team to take prompt corrective action in the event of discrepancies.

Table 3

Key performance indicators	Order intake	Revenue	Adjusted EBIT[1]	Adjusted EBITDA[1]	Net financial debt	Free cashflow
in € million						
2012	**4,700**	**4,727**	**438**	**747**	**1,790**	**518**
2011	4,682	4,368	365	665	2,631	234
2010	3,860	3,534	139	462	2,626	76

[1] Adjusted for KION acquisition items and one-off items

KPIs related to business volume

Order intake and **revenue** are broken down by region, segment and product group in the KION Group's management reporting so that growth drivers and pertinent revenue trends can be identified and analysed in a timely fashion. Order intake is a leading indicator for revenue. The length of time between receipt and invoicing of an order varies between business units and product groups.

KPIs related to earnings

Adjusted EBIT: The key figure used for the operational management and analysis of financial performance is adjusted earnings before interest and taxes (EBIT). It is calculated in the same way as EBIT, except that it does not take account of the KION purchase price allocation (see note 18, page 34) or any non-recurring items. Adjusted EBIT corresponds to the KPI used in internal management reporting called EBIT. Another important indicator used to measure the KION Group's operational efficiency is the adjusted **EBIT margin**, which is the ratio of adjusted EBIT to revenue.

Adjusted EBITDA: Unlike EBIT, the EBITDA figure is shown before deduction of depreciation, amortisation, impairments and reversals to non-current assets. Adjusted EBITDA also excludes effects from the KION purchase price allocation (see note 18, page 33) and non-recurring items. Adjusted EBITDA constitutes an approximation of the cash flow KPI and provides information on the Company's long-term financial performance.

KPIs related to liquidity

Net financial debt: Net financial debt is defined as the difference between the financial liabilities and cash and cash equivalents shown on the balance sheet. It serves as a measure of performance and is only used at Group level.

Free cash flow: Free cash flow is another relevant KPI for managing leverage and liquidity. It is determined solely by the KION Group's operating and investing activities. Free cash flow does not include interest arising from financing activities. The performance measurement of free cash flow is supported by the carefully targeted management of working capital and by detailed planning of capital expenditure.

KION also analyses **non-financial key performance indicators**. These essentially relate to customers, employees, sustainability and technology. Some of them are used operationally as leading indicators for the financial KPIs. The non-financial KPIs are described in detail on pages 46 to 56.

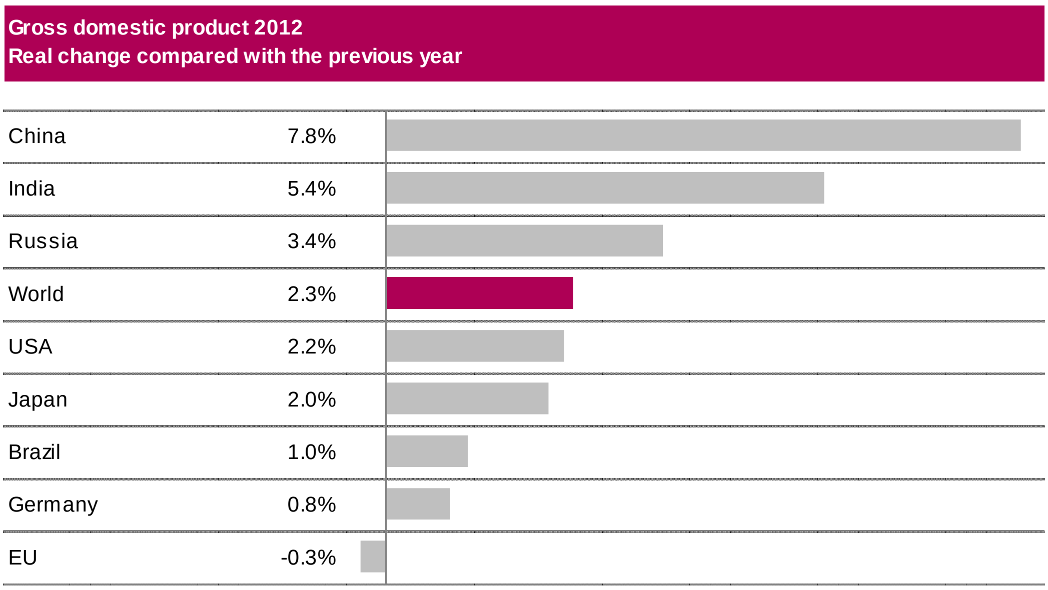
ECONOMIC ENVIRONMENT

Macroeconomic conditions

Global economic growth slowed down in 2012. One of the reasons for this was that the euro zone – still going through a sovereign debt crisis – slid into recession, taking major trading partners with it. The markets were also weighed down by uncertainty regarding fiscal problems in the United States and China's economic prospects. According to a projection by the International Monetary Fund (IMF), global economic output only increased by 3.2 per cent, compared to 3.9 per cent in 2011, whilst advanced industrial nations achieved growth of just 1.3 per cent (2011: 1.6 per cent).

The pace of growth also tailed off in the emerging markets. All four BRIC countries registered lower rates of growth than in 2011 owing to declining demand from Europe and, in particular, dwindling domestic demand and economic policy aimed at stemming inflation in Asia and Latin America.

Chart 6: Economic growth in relevant markets



Source: Oxford Economics (Status 12 February 2013)

Demand for machinery and equipment weakened globally, but especially in the euro zone. A declining willingness to invest was accompanied by a slowdown in the growth of global trade, which more than halved according to the IMF's projection. This brought it down to just 2.8 per cent in 2012 (2011: 5.8 per cent). Imports and exports decreased in equal measure. Unlike in the previous year, demand for industrial trucks therefore received little stimulus from the markets in 2012.

Sectoral conditions

Sales markets

The slowdown of the global economy also filtered through to the market for industrial trucks. Whereas unit sales of new trucks during the early months of 2012 were still influenced by the high level of order intake in the previous year, the subsequent months saw a fall in demand.

The number of trucks ordered globally decreased by 3.1 per cent. In western Europe – KION's largest market by far – the number of orders decreased by 7.1 per cent. Germany, which remains KION's largest individual market, proved somewhat more stable than Europe as a whole and contracted by 5.5 per cent. The United Kingdom bucked the trend with a rise of 4.4 per cent in orders for new trucks, whereas France and Italy both registered sharp falls of 8.0 per cent and 21.5 per cent, respectively.

Order intake in eastern Europe was stable thanks to growth in the Russian market. Decreasing unit sales in Asia were primarily the result of a decline in the Chinese market. A sharp contraction of business in Brazil had a significant adverse impact on unit sales in Central and South America.

There was only a slight shift in the market shares of the individual regions compared with 2011. Western Europe remained in first place with a share of 27 per cent of total unit sales, with as much as 45 per cent of global orders for warehouse trucks coming from western Europe. China accounted for 23 per cent of orders for new trucks in 2012 and was also the largest market for counterbalance trucks with a global market share of 33 per cent.

Order intake broken down by product group shows that the market for warehouse trucks was much more stable than the market as a whole, with orders decreasing by just 1.9 per cent. Within this group, there was a sharp rise in order intake for rider trucks. The decrease of 3.8 per cent in the number of orders for counterbalance trucks was predominantly attributable to declining figures for combustion engine industrial trucks.

Table 4

Global Industrial Truck Market (order intake)

in thousand units	2012	2011	Changes
Western Europe	259	278	-7.1%
thereof			
Germany	72	76	-5.5%
France	51	56	-8.0%
United Kingdom	28	27	4.4%
Eastern Europe	54	54	-1.3%
thereof			
Russia	24	23	4.7%
Europe	**312**	**333**	**-6.1%**
North America	181	170	6.8%
thereof			
U.S.A.	165	155	6.7%
Central & South America	49	55	-12.0%
thereof			
Brazil	19	23	-16.7%
China	217	238	-9.0%
Rest of World	187	181	3.6%
World	**947**	**977**	**-3.1%**

Source: WITS/FEM

Procurement markets

Commodity prices have a direct impact on around 26 per cent of the cost of materials for manufacturing an industrial truck at KION. Owing to the gloomier economic data, the price of steel plate was 9.6 per cent lower on average than it had been in 2012, while the price of steel bars was down by 12.8 per cent. The price of steel scrap, an important commodity used in counterweights, fell by an average of 4.7 per cent. Copper prices decreased by 2.4 per cent year on year. Like rubber (fall of 23.4 per cent) and plastic, copper has a lesser impact on manufacturing costs. The price of lead-acid batteries, which make up a significant proportion of the total price of electric trucks, is particularly dependent on lead prices on the metal exchanges. However, these price fluctuations are borne by customers owing to the way in which contracts are formulated.

Energy prices were higher in 2012 than they had been the previous year. Natural gas prices rose in Europe and Asia. Although KION's production facilities predominantly use electricity and gas, the oil price is used as an indicator because it affects other energy sources as well as the price of plastic. The price of Brent crude oil (listed in US dollars) was 8.6 per cent higher on average than in 2011.

Financial markets

KION bills the bulk of its revenue in euros; the proportion was 63 per cent in 2012 (2011: 66 per cent). The remainder is billed in foreign currencies, notably the Chinese renminbi, pound sterling and the Brazilian real. The renminbi appreciated against the euro by around 10 per cent on average over the year. Pound sterling also increased on average over the year, whereas the Brazilian real depreciated significantly. Exchange-rate fluctuations had a positive, albeit insignificant, impact on KION overall.

Table 5

Currencies

Average rate per Euro	2012	2011
Australia (AUD)	1.24	1.35
Brazil (BRL)	2.51	2.33
Switzerland (CHF)	1.21	1.23
China (CNY)	8.11	9.00
United Kingdom (GBP)	0.81	0.87
Russia (RUB)	39.92	40.89
U.S.A. (USD)	1.29	1.39

Source: Reuters

Regulatory situation

The companies in the KION Group have to comply with specific legal requirements in their markets with respect to their products and services. These requirements serve to minimise or eliminate the risks for users of the products and for other people, equipment and the immediate working environment. Moreover, they can also help to maintain the performance of the machines. The compliance of products and services with the different requirements has to be verified or certified.

KION has established processes aimed at implementing the legal requirements efficiently, documenting its compliance with them and incorporating any changes in the legal framework at an early stage of development. Many of the legal requirements are enshrined in product-specific and other standards (e.g. EN, ISO and DIN). KION endeavours to comfortably comply with the minimum standards defined for its products and services and, in some cases, surpass them.

KION responds to updates to the standards promptly. For example, as a result of the tighter emissions standards for forklift trucks fitted with an internal combustion engine, KION revised a number of product series last year so that they now comfortably meet the new requirements and their emissions are well below the maximum levels permitted (see page 51). This allows KION to differentiate itself from the competition and position itself as a technology leader. In addition, the KION Group is an active member of associations such as the German Engineering Federation (VDMA) and its working groups in which it helps to continually enhance standards and regulations.

The construction and operation of production facilities are also subject to certain legal requirements, including in relation to avoidance of air pollution, noise reduction, waste production & disposal and health & safety. The KION Group has also established stable processes in this regard to ensure that it complies with the regulatory requirements. KION also fulfils all of the legal requirements pertaining to exports and financing business.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Overall assessment of the economic situation

The KION Group can look back on a successful financial year 2012. Despite the slight market downturn, the Group increased its market share in all of its major sales regions and expanded its service business. KION therefore proved that its business model is stable, even in a difficult economic climate. The targeted increase in revenue was exceeded, with revenue rising by 8.2 per cent on the back of higher volumes and price increases. About half of the growth in revenue was generated by the emerging markets, which are KION's strategic focus region – although the volume of business generated by the mature markets also surpassed the prior-year figure. In western Europe, KION consolidated its premium position and gained market share owing to the close cooperation between its new truck business and service business.

The target of achieving a year-on-year increase for the adjusted EBIT margin was also achieved. The increase from 8.3 per cent in 2011 to 9.3 per cent in 2012 can be attributed, above all, to the extensive restructuring and consolidation programme, which was largely completed in the year under review. As planned, capacity utilisation in the plants was higher than in 2011. The more flexible cost structure now in place gives KION a significant competitive edge.

The net income generated of €161 million was very encouraging and exceeded the anticipated figure. It was partly boosted by a net gain from the transactions conducted with Weichai Power, but also by an improvement in the financial result resulting from the success of the steps taken to reduce debt levels.

KION invested in its continued growth in the reporting year. Spending on research and development equated to 2.5 per cent of revenue, which was once again higher than the industry average. Moreover, KION expanded its production capacity in China and Brazil in line with its strategic objective of increasing the volume of production in emerging markets.

The considerable improvement to the financial position resulting from a capital increase, the conversion of a shareholder loan into equity and the extension of the terms of the loans all give KION greater flexibility with which to generate profitable growth in future. Besides optimising its funding structure, the Group also improved its liquidity position. Another contributing factor was the increase in free cash flow on the back of the sale of significant portions of the hydraulics business, strong earnings performance, and efficient management of working capital.

Business situation and financial performance of the KION Group

Key influencing factors

Faltering growth in the economy and global trade impacted on the market for industrial trucks in KION's major sales regions. Against a backdrop of economic uncertainty, customers acted increasingly cautiously and, overall, placed fewer orders for new trucks than in 2011. The decline in volume was offset by price increases that resulted, among other reasons, from the higher proportion of trucks with customer-specific fittings. Postponement of necessary replacement investments in previous years, combined with the high degree of capacity utilisation by customers, also led to greater demand for maintenance services.

Exchange-rate differences – in particular the appreciation of the renminbi and pound sterling against the euro – only had a minor impact on KION's financial performance. Commodity prices, which declined on average over the year, had a slightly positive effect on the cost of sales.

Order intake

Despite the more subdued market conditions, the KION Group continued along its growth trajectory in 2012 and consolidated its market position as the second largest provider worldwide and as number one in the European market.

Bucking the negative market trend, the number of new industrial trucks ordered remained relatively stable. In western Europe, LMH and STILL benefited from their premium position and strong sales network. The KION companies in Italy and France both performed better than the declining market, while in the UK, KION even surpassed market growth. In Germany, KION's unit sales declined largely in line with the market trend.

KION outperformed the largely flat market in eastern Europe and registered a year-on-year increase in unit sales in the emerging Russian market. Unit sales rose in the Asia-Pacific region too, with KION gaining market share in China, Vietnam, Thailand and Australia. In Central and South America, KION significantly expanded its market share. Moreover, it was able to maintain the number of new trucks ordered at a high level in its largest individual market, Brazil, despite the decline in demand there.

At €4,700 million, order intake was slightly above the level of the previous year (2011: €4,682 million). With unit sales of new trucks declining slightly, this small increase was due, above all, to a higher proportion of trucks with bespoke fittings and a different product mix. Price rises on the back of the implementation of new environmental and safety standards also had an impact, as did exchange rate differences. As the year progressed, the economic situation dampened the market for new trucks.

Table 6

Order intake broken down by segment

in € million	2012	2011	Change
LMH	2,978	3,107	-4.2%
STILL	1,577	1,752	-10.0%
Financial Services	509	–	-
Other & consolidation/reconciliation	-364	-178	<-100%
Total	**4,700**	**4,682**	**0.4%**

Measured in terms of the number of new trucks ordered, KION saw a moderate increase in its global market share, which expanded from 14.8 per cent in 2011 to 15.0 per cent in 2012. The Group's share of the market for counterbalance trucks was 11.6 per cent and for warehouse trucks 20.5 per cent. Slightly higher percentages were registered for global market share measured in terms of value because the KION companies have a particularly strong presence in the premium price segment.

The order book for new trucks totalled a high level of €808 million.

Revenue

Consolidated revenue increased at a markedly higher rate than order intake, advancing by 8.2 per cent year on year to €4,727 million (2011: €4,368 million). Both the sale of new trucks and the service business contributed to this rise. KION also benefited from the high degree of capacity utilisation of the industrial trucks in use in its key markets, which had a positive impact on the volume of replacement investments and on demand for service.

Table 7

Revenue broken down by segment			
in € million	2012	2011	Change
LMH	3,132	2,854	9.8%
STILL	1,677	1,667	0.6%
Financial Services	509	480	6.2%
Other	251	223	12.4%
Consolidation/reconciliation	-842	-855	1.5%
Total revenue	**4,727**	**4,368**	**8.2%**

Revenue by product category

Revenue from new trucks went up by 12.1 per cent to €2,651 million (2011: €2,364 million), one of the main reasons being the strong order book from 2011. Targets were exceeded both in the LMH segment and the STILL segment. A significant factor here was the substantial demand for electric forklift trucks and warehouse trucks, which was fulfilled by increasing the utilisation of production capacities.

Table 8

Revenue by product category			
in € million	2012	2011	Change
New business	2,651	2,364	12.1%
Hydraulics	168	173	-2.8%
Service offering	1,907	1,831	4.1%
- After sales	1,150	1,066	7.9%
- Rental business	428	441	-3.1%
- Used trucks	213	219	-2.7%
- Other	117	106	10.8%
Total revenue	**4,727**	**4,368**	**8.2%**

Service business contributed €1,907 million (2011: €1,831 million) to consolidated revenue and thereby accounted for 40.4 per cent of revenue (2011: 41.9 per cent). The growing number of truck fleets covered by service agreements and the high level of truck utilisation pushed up demand for maintenance services. Muted demand from southern Europe decreased revenue to a moderate degree. Both short-term and long-term truck rentals declined slightly compared with the previous year. Revenue from the sale of used trucks was also slightly lower than it had been in 2011. Among other reasons, this was because demand from southern and eastern Europe was lower than anticipated.

KION sold the majority of its hydraulics business on 27 December 2012. The amount of revenue contributed by the hydraulics business amounted to €168 million in 2012 – a marginal change compared to the previous year (2011: €173 million).

Revenue by region

KION's revenue went up in all of its sales regions, with revenue growth exceeding market growth in many countries. Around half of the €358 million increase in revenue was attributable to emerging markets in Asia, South America and eastern Europe.

Germany and its neighbouring western European countries also accounted for a considerable proportion (44 per cent) of the absolute rise in consolidated revenue. Here the KION companies benefited from a higher proportion of trucks with customer-specific fittings and the intrinsic link between new truck business and service business. Expansion of the sales network, which continued in countries such as the United Kingdom in 2012, also helped to improve KION's market position.

The above-average rise in revenue from eastern Europe was largely due to the revenue increases in Russia resulting, among other reasons, from an intensification of sales and service activities. Revenue also went up in Poland and the Czech Republic.

Table 9

Revenue by customer location

in € million	2012	2011	Change
Germany	1,225	1,175	4.3%
EU excl. Germany	2,253	2,115	6.6%
Rest of Europe	248	204	21.7%
America	324	281	15.5%
Asia	486	435	11.7%
Rest of world	191	160	19.2%
Total revenue	**4,727**	**4,368**	**8.2%**

As in 2011, KION maintained a high level of growth in Asia. The strategy pursued in this region is to offer specific products that are based on tried-and-tested platforms but tailored to local requirements. This was a significant factor in the 11.7 per cent rise in revenue compared with the previous year. For the first time, the Asia-Pacific markets generated more than 10 per cent of consolidated revenue, above all as a result of strong growth in China, to which the local Baoli brand made a significant contribution.

In the Americas, KION achieved moderate revenue growth despite the challenging economic situation in South America, primarily due to the volume of new orders in the Brazilian market. It should also be noted that the full effects of the considerable expansion of production capacity during the year have not yet been felt.

Overall, the volume of foreign revenue increased disproportionately by 9.6 per cent to €3,501 million (2011: €3,194 million), causing the share in Group sales to climb from 73.1 per cent to 74.1 per cent. The fast-growing emerging markets contributed 30 per cent of consolidated revenue, compared with 22 per cent in 2011.

Earnings

Table 10

Condensed income statement of the KION Group			
in € million	2012	2011	Change
Revenue	4,727	4,368	8.2%
Cost of sales	-3,430	-3,256	-5.3%
Gross profit	**1,297**	**1,112**	**16.6%**
Selling expenses	-562	-521	-8.0%
Research and development costs	-124	-120	-4.1%
Administrative expenses	-313	-283	-10.5%
Other	253	25	>100%
Earnings before interest and taxes (EBIT)	**550**	**213**	**>100%**
Financial result	-239	-272	12.0%
Earnings before taxes	**311**	**-59**	**>100%**
Income taxes	-150	-34	<-100%
Net income (loss)	**161**	**-93**	**>100%**

EBIT and EBITDA

Earnings before interest and tax (EBIT) more than doubled year on year to €550 million (2011: €213 million). The reasons for this rise of €337 million include one-off items, sustained growth of unit sales in established regional markets, and stable demand from China and eastern Europe. Another factor in the increase in EBIT was improved capacity utilisation in the new truck business.

The non-recurring items included in EBIT totalled €153 million (2011: €-115 million). The capital increase and the sale of significant portions of the hydraulics business resulted in a net gain before taxes of €212 million after deduction of consultancy costs and contractual obligations. In addition to the net gain of €103 million from the sale of the hydraulics business, this includes a gain of €109 million from the remeasurement of the remaining 30 per cent of shares held at fair value. There was also a one-off gain of €13 million resulting from remeasurement of the shareholding in Linde Creighton. Non-recurring losses were largely the result of follow-up costs in connection with the closure of production facilities and the restructuring of the container handler and heavy forklift truck business, including necessary impairment of assets. These, combined with consultancy costs, amounted to losses of €71 million.

The effects of the purchase price allocation in connection with the KION acquisition equated to a loss of €41 million in 2012, compared to the loss reported in 2011 of €36 million. They essentially consist of depreciation and impairment, as well as administrative expenses for KION Holding 1 GmbH.

Adjusted EBIT, which excludes non-recurring items and KION acquisition items, advanced by €74 million to €438 million (2011: €365 million). This equates to an adjusted EBIT margin of 9.3 per cent (2011: 8.3 per cent).

Table 11

Adjusted EBIT			
in € million	2012	2011	Change
Earnings before interest and tax (EBIT)	550	213	>100%
One-off items	-153	115	<-100%
KION acquisition items	41	36	15.3%
Adjusted EBIT[1]	**438**	**365**	**20.2%**

[1] Adjusted for KION acquisition items and one-off items

EBITDA grew from €569 million in 2011 to €915 million in 2012, while adjusted EBITDA rose by €82 million year on year to €747 million. Accordingly, the adjusted EBITDA margin improved from 15.2 per cent to 15.8 per cent.

Financial result

The financial result – financial income offset against financial expense – improved from €-272 million in 2011 to €-239 million in 2012. Interest expenses arising from loan liabilities fell significantly owing to a change in interest rates. By contrast, interest expenses arising from capital market liabilities were higher than in 2011 because the bond had only existed for eight months of that year. The balance of finance costs arising from translation differences increased €33 million year on year. The reasons for this include other income from the translation of loans denominated in US dollars, which were contrasted by an expense in the previous year.

Table 12

Financial result			
in € million	2012	2011	Change
Financial income	62	74	-15.7%
Financial expense	-302	-346	12.8%
Financial result	**-239**	**-272**	**12.0%**

Income taxes

Income taxes amounted to an expense of €150 million (2011: €34 million). Within this amount, current income tax expenses increased by €73 million to €122 million, largely owing to the improvement in operating performance and the net tax effects of €62 million resulting from the sale of the hydraulics business. As in the previous year, additional deferred tax assets were not recognised because it is unlikely that the corresponding benefit can be utilised.

Net income (loss)

Following the net loss of €93 million reported for 2011, KION generated net income of €161 million in the year under review. This difference of €254 million largely resulted from an increase in adjusted EBIT and a net gain from the sale of the hydraulics business. These positive effects were partly offset by the rise in income taxes.

Key influencing factors for earnings

The disproportionately low rise in the cost of sales, which went up by 5.3 per cent to €3,430 million (2011: €3,256 million), was the result of more efficient production operations, greater capacity utilisation and an overall fall in commodity prices. Compared with revenue, selling expenses remained virtually unchanged. Research and development costs advanced by 4.1 per cent to €124 million (2011: €120 million) on the back of larger-scale projects that made it necessary to increase headcount, in particular in preliminary development and series development.

Higher consultancy costs for strategic projects primarily contributed to the 10.5 per cent increase in administrative expenses, which totalled €313 million.

Table 13

Other income and expenses

in € million	2012	2011	Change
Other income	294	82	>100%
Other expenses	-60	-70	15.0%
Other income and expenses	**235**	**11**	**>100%**

The balance of other expenses and income (see notes 10 and 11, pages 23 and 24) was €235 million (2011: €11 million). Other income of €294 million (2011: €82 million) was mainly attributable to one-off income generated from the sale of the hydraulics business. The decline in other expenses to €60 million (2011: €70 million) primarily resulted from the decrease in impairment losses on non-current assets and the decrease in book losses from the sale of non-current assets.

Table 14

EBIT by segment adjusted[1]

in € million	2012	2011	Change
LMH	330	279	18.3%
STILL	123	100	22.5%
Financial Services	1	3	-48.1%
Other & consolidation/reconciliation	-16	-18	8.1%
Total	**438**	**365**	**20.2%**

[1] Adjusted for KION acquisition items and one-off items

Table 15

EBIT by segment			
in € million	2012	2011	Change
LMH	523	258	>100%
STILL	98	-5	>100%
Financial Services	1	3	-48.1%
Other & consolidation/reconciliation	-73	-42	-72.6%
Total	**550**	**213**	**>100%**

Business situation and financial performance of the LMH segment

Revenue

The LMH segment's revenue went up by 9.8 per cent to €3,132 million in 2012 (2011: €2,854 million). This equates to 66.3 per cent of consolidated revenue (2011: 65.3 per cent).

The new truck business grew at a particularly strong rate, rising by 16.0 per cent year on year and thereby exceeding the budgeted figure. All product groups contributed to this increase, with electric forklift trucks proving to be the main growth driver. The number of trucks ordered of this type rose by 2.3 per cent, thereby bucking the global market trend. Strong growth in Asia and the Americas resulted in a rise of 3.4 per cent for diesel trucks despite the market's overall weakness, while warehouse technology also outperformed the market with a decline of just 0.5 per cent.

Service revenue rose on the back of maintenance carried out in response to individual orders as well as under service agreements. LMH's rental business performed better than in 2011 owing to growth in short-term rentals. Sales of used trucks generated less revenue than in the previous year, although the prior-year figure had been boosted by a significant one-off transaction.

LMH saw particularly strong revenue growth in Germany and the United Kingdom. Revenue was also up in Russia and other eastern European countries thanks to more intensive marketing activities. In China, the Linde and Baoli brands bucked the negative market trend and increased their revenue. In fact, revenue in Asia as a whole increased from what had already been a high level the previous year.

Earnings

EBIT more than doubled, from €258 million in 2011 to €523 million in 2012. The crucial factor here was a one-off gain – the sale of the majority stake of the hydraulics business – which totalled €247 million in the LMH segment. EBIT also included an additional one-off gain amounting to €13 million, resulting from the remeasurement made in connection with the acquisition of the remaining 51 per cent of the shares in Linde Creighton. A gain of €3 million generated by the sale of the plot of land in Basingstoke, United Kingdom, was largely offset by follow-up costs caused by the closure of the plant there. Total one-off and non-recurring items amounted to a gain of €226 million. One-off items had amounted to an expense of €5 million in 2011. The KION acquisition items attributable to the LMH segment amounted to an expense of €33 million in 2012, compared with an expense of €26 million in 2011. Adjusted EBIT increased by €51 million to €330 million (2011: €279 million). Apart from the growth in earnings, the reason for this rise was the programme of measures designed to cut costs and boost efficiency. As a result, the adjusted EBIT margin improved from 9.8 per cent in 2011 to 10.5 per cent in 2012. Adjusted EBITDA in the LMH segment came to €478 million (2011: €423 million), corresponding to an adjusted EBITDA margin of 15.3 per cent (2011: 14.8 per cent).

Business situation and financial performance of the STILL segment

Revenue

The STILL segment's revenue increased slightly by 0.6 per cent to €1,677 million (2011: €1,667 million). The reduction in revenue in western Europe was offset by substantial growth in central and eastern Europe and Asia, where significant new orders were secured. STILL's market presence in eastern Europe has been strengthened even further by integrating of the STILL and OM dealers in Russia. In Yekaterinburg in the Ural region, STILL has already founded its third branch in Russia after Moscow and Saint Petersburg. In Poland, STILL's service and distribution structure has been expanded via a new branch in Gdansk.

Also going significantly against the market trend, STILL generated revenue growth in South America, where the core market is Brazil. STILL took a further step towards becoming market leader there by relocating and expanding production (see page 17) and launching the production of diesel trucks. Revenue rose slightly in Asia, where STILL expanded its footprint by opening a new office in Singapore. In Italy, integration of OM into the STILL Group was completed, helping to consolidate STILL's market leadership.

Overall, revenue from new trucks was moderately lower than in 2011 despite the increase in revenue from diesel trucks. The relocation of production led to a decrease in the numbers of units manufactured during the transition period. This one-off effect was in line with expectations.

The small decrease in the new truck business was more than offset by higher revenue from service activities, with especially strong gains in revenue from short-term rental business.

Earnings

EBIT in the STILL segment stood at €98 million in the year under review. This very substantial increase of €103 million was the result of the increase in sales, cost savings, and the use of efficiency gains. The EBIT figure reported for 2011, which had amounted to a net loss of €5 million, had been negatively affected by expenses in connection with the consolidation of production facilities in Europe and closure of the plants in Montataire and Bari, including provisions for the related severance payments. Accordingly, non-recurring items produced an expense of €97 million in 2011, compared with a net expense of just €17 million in 2012.

The KION acquisition items attributable to the STILL segment amounted to an expense of €7 million in 2012, compared with an expense of €8 million in 2011. Adjusted EBIT climbed to €123 million (2011: €100 million). This caused the adjusted EBIT margin to rise from 6.0 per cent in 2011 to 7.3 per cent in 2012. Adjusted EBITDA improved to €218 million (2011: €191 million), while the adjusted EBITDA margin climbed from 11.5 per cent to 13.0 per cent.

Business situation and financial performance of the Financial Services (FS) segment

Business situation

Revenue generated by the Financial Services segment increased from €480 million to €509 million and includes intra-group revenue with the LMH and STILL segments. The revenue that the FS segment generated outside the Group rose by 12.0 per cent to €297 million (2011: €265 million).

The volume (residual value) of leasing in the FS segment amounted to €997 million as at 31 December 2012 (31 December 2011: €906 million). Of this total, 45 per cent was attributable to FS companies. The volume, which was refinanced via sale and leaseback agreements, amounts to 80 per cent of the total value. The refinancing of the remaining 20 per cent takes place via Group treasury as part of KION's financial liabilities. If one includes the indirect leasing business, which is handled via external lease providers and is not a part of the FS segment, 73 per cent of the leasing business concentrates on the core European markets of Germany, France, the UK, Italy and Spain.

Financial performance

The FS segment registered earnings before taxes (EBT) of €5 million in 2012 (2011: €6 million). The adjusted EBT margin, expressed as a percentage of total revenue, decreased from 1.28 per cent to 0.94 per cent.

Business situation and financial performance of the Other segment

Business situation

Total revenue in the Other segment rose significantly year on year to €251 million (2011: €223 million). As in 2011, the main revenue drivers were internal IT and logistics services. Revenue generated from external companies amounted to €43 million (2011: €40 million), most of which was contributed by Voltas MH, which had only been consolidated for nine months in 2011. Voltas MH benefited from the increased production capacity at the plant built in Pune in 2011 and from the further strengthened sales and service network.

Financial performance

EBIT in the Other segment decreased to €-12 million (2011: €43 million), while adjusted EBIT fell from €68 million in 2011 to €44 million in 2012, owing in part to decreased investment income. The markedly positive result of the Other segment includes significant investment income from subsidiaries that were eliminated at Group level. Operationally, Voltas MH in particular made a positive contribution to segment earnings.

Financial position

Principles and objectives of financial management

By pursuing an appropriate financial management strategy, KION GROUP GmbH ensures that sufficient cash and cash equivalents are available at all times to meet the Group companies' operational and strategic funding requirements. In addition, KION GROUP GmbH optimises its financial relationships with customers and suppliers, manages any collateral security offered and mitigates the financial risk to its enterprise value and profitability, notably currency risk, interest-rate risk, price risk, counterparty risk and country risk.

A syndicated credit facility with a group of international banks and investors meets KION's basic borrowing requirements. In addition, KION avails itself of the funding facilities offered by the public capital markets, having issued a corporate bond of 2011.

The financial resources within the Group are provided based on an internal funding approach. According to this approach, KION collects liquidity surpluses of the Group companies in central or regional cash pools and, where possible, covers subsidiaries' funding requirements with intercompany loans. This central source of funding enables KION to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants.

The Group occasionally arranges additional credit lines for KION Group companies with local banks or leasing companies in order to comply with legal, tax and other regulations.

For funding purposes, KION also engages to a small extent in factoring. The volume of non-recourse factoring business amounted to €20 million at the end of 2012 (31 December 2011: €18 million); the Company only uses recourse factoring in isolated cases. The KION Group maintains a liquidity reserve in the form of unrestricted, bindingly committed credit lines and cash in order to ensure financial flexibility and solvency.

The senior facility agreement (SFA), which is the main loan agreement, and the contractual terms and conditions governing the issuance of the corporate bond require, among other things, compliance with covenants. The SFA also requires compliance with specific financial covenants during the term of the agreement. The financial covenants specify required ratios for the financial position and financial performance of the KION Group. If undertakings or financial covenants are breached, this may, for example, give lenders the right to terminate the SFA or permit bondholders to call the corporate bond prior to its maturity date. All the financial covenants were complied with in the past financial year.

KION only uses derivatives to hedge underlying operational transactions; in particular, they comprise currency forwards and interest-rate swaps and are used for hedging purposes to mitigate currency and interest-rate risks. In the year under review only cash flow hedges were used for currency and interest-rate risks.

Main financing activities in 2012

KION's financial position improved substantially in 2012 owing to a number of measures put in place. The steps taken to reduce debt levels will have a positive impact on financial result in future years.

The shareholder loan from Superlift Holding S.à r.l., which had a principal amount of €500 million plus accrued interest of €171 million, was converted into equity on 27 December 2012. On the same date, a contribution of €467 million (including premium) was paid by Weichai Power for the takeover of 25 per cent of the share capital of KION Holding 1 GmbH (see note 28, page 41). These two steps, less credit procurement costs, increased the KION Group's equity by €1,133 million, which had been negative as at 31 December 2011. Another positive impact came from Weichai Power's acquisition of 70 per cent of the shares in Linde Hydraulics. This resulted in earnings of €212 million before taxes, which, together with the favourable operating result, boosted net income in 2012 and thereby also helped to increase equity.

Conversion of the shareholder loan improved the borrowing situation. Furthermore, KION GROUP GmbH successfully negotiated with its creditors to extend the maturities of existing loan facilities with a volume of more than €1 billion (see note 30 on page 53). This also creates greater flexibility with regard to paying back senior facilities agreements (SFAs). The maturity of the existing revolving credit line was also extended from December 2013 to December 2016. Additional commercial and technical changes included a moderate increase in the funds available for acquisitions (acquisition basket). Shareholder loan G, which has a volume of €114 million, was extended from December 2016 to June 2018. By issuing a new corporate bond at the beginning of the new financial year, KION achieved a further extension on its debt maturity profile (see 'Events after the balance sheet date', page 57).

Analysis of capital structure

Table 16

Condensed balance sheet, equity and liabilities

in € million	2012	in %	2011	in %	Change
Equity	**660**	**10.6%**	**-488**	**-8.0%**	**>100%**
Non-current liabilities	**3,929**	**63.2%**	**4,842**	**79.8%**	**-18.9%**
thereof:					
Shareholder loan	–	0.0%	643	10.6%	-100.0%
Corporate bond	489	7.9%	488	8.0%	0.4%
Financial liabilities	1,811	29.2%	2,290	37.7%	-20.9%
Deferred tax liabilities	309	5.0%	339	5.6%	-8.9%
Lease liabilities	329	5.3%	300	4.9%	9.7%
Current liabilities	**1,624**	**26.1%**	**1,711**	**28.2%**	**-5.1%**
thereof:					
Financial liabilities	52	0.8%	227	3.7%	-77.2%
Trade payables	646	10.4%	634	10.5%	1.9%
Lease liabilities	146	2.3%	147	2.4%	-0.6%
Total equity and liabilities	**6,213**		**6,066**		**2.4%**

Financial debt

KION's total financial liabilities – including the bond issued in 2011 – amounted to €2,352 million as at 31 December 2012, down by €652 million compared with the same date a year earlier. The crucial factor here was the reduction of financial liabilities resulting from cash inflows from the Weichai transaction of €471 million, the repayment of a drawdown of €138 million taken on the revolving credit facility in November 2011, as well as the repayment of the multicurrency capex facility in the amount of €56 million and a decrease in the financial liabilities of local Group companies. This was counteracted by the increase in accrued and unpaid interest (payment in kind, PIK).

As at 31 December 2012, the equity and liabilities side of the consolidated statement of financial position continued to be significantly affected by the financial liabilities incurred through KION Group's acquisition financing (SFA).

Non-current financial liabilities stood at €2,301 million as at 31 December 2012 (31 December 2011: €2,777 million), which was primarily due to cash inflows resulting from the Weichai transaction of €471 million, and currency fluctuations. Also included were capital market liabilities of €489 million. These were the liabilities arising from the corporate bond issued in 2011 with a total volume of €500 million. Of this amount, €325 million carried a fixed interest rate and €175 million a floating interest rate. The carrying amount of the bond was reduced by associated borrowing costs of €11 million.

Current financial liabilities, which came to €52 million as at 31 December 2012, largely consisted of the remaining multi-currency capex facility (€18 million) and the financial liabilities of local Group companies (€33 million). The year-on-year decrease (31 December 2011: €176 million) is attributable to the payment of the amount of the revolving credit facility, the partial reduction of the capex facility, and the reclassification of €18 million of non-current financial liabilities to current financial liabilities within the multi-currency capex facility, which were carried out in 2012. The weighted average interest rate on current financial liabilities arising from the multi-currency capex facility was 3.4 per cent as at 31 December 2012 (31 December 2011: 4.4 per cent).

Table 17

Credit terms

in € million	Type	Currency	Interest rate	Maturity	2012	2011
Term Loan Facility Term B1	Bank Loan	EUR	EURIBOR + MARGIN	2014	139	691
Term Loan Facility Term B2	Bank Loan	EUR	EURIBOR + MARGIN	2017	411	–
Term Loan Facility Term B1	Bank Loan	USD	LIBOR + MARGIN	2014	108	311
Term Loan Facility Term B2	Bank Loan	USD	LIBOR + MARGIN	2017	79	–
Term Loan Facility Term C1	Bank Loan	EUR	EURIBOR + MARGIN	2015	287	663
Term Loan Facility Term C2	Bank Loan	EUR	EURIBOR + MARGIN	2017	383	–
Term Loan Facility Term C1	Bank Loan	USD	LIBOR + MARGIN	2015	227	311
Term Loan Facility Term C2	Bank Loan	USD	LIBOR + MARGIN	2017	81	–
Term Loan Facility Term D	Bank Loan	EUR	EURIBOR + MARGIN	2012	–	202
Term Loan Facility Term G	Bank Loan	EUR	EURIBOR + MARGIN	2018	116	111
Term Loan Facility H1a (Corporate bond - fixed rate)			Fixed rate	2018	325	325
Term Loan Facility H1b (Corporate bond - floating rate)			3-M-EURIBOR+MARGIN	2018	175	175
Multicurrency Revolving Credit Facility	Bank Loan	EUR	EURIBOR + MARGIN	2012	–	133
Multicurrency Capex Restructuring and Acquisition Facility	Bank Loan	EUR	EURIBOR + MARGIN	2013	18	72
Other liabilities to banks	Diverse	Diverse	Various currencies and interest terms		33	38
Other financial liabilities to non-banks					4	7
./. Capitalized borrowing costs					-34	-33
Financial debt					**2,352**	**3,005**

Net financial debt

After deduction of cash and cash equivalents, the remaining net financial debt came to €1,790 million as at 31 December 2012 (31 December 2011: €2,631 million). At €34 million, the borrowing costs included within this were close to the level of the previous year (31 December 2011: €33 million). The sharp decline in net financial debt of 32.0 per cent is due to repayments and the net cash provided by the contributions made as part of the resolution to carry out a capital increase.

Table 18

Net financial debt			
in € million	2012	2011	Change
Corporate bond - fixed rate (2011/2018) - gross	325	325	–
Corporate bond - floating rate (2011/2018) - gross	175	175	–
Liabilities to banks (gross)	1,882	2,530	-25.6%
Liabilities to non-banks (gross)	4	7	-38.8%
./. Capitalized borrowing costs	-34	-33	-4.5%
Financial debt	**2,352**	**3,005**	**-21.7%**
./. Cash and cash equivalents	562	373	50.6%
Net financial debt	**1,790**	**2,631**	**-32.0%**

Shareholder loan

The shareholder loan from Superlift Holding S.à r.l., which totalled €671 million (principal amount plus accrued interest), was converted into equity in 2012 in connection with the strategic partnership with Weichai. This item had totalled €643 million at the end of 2011.

Retirement benefit obligation

KION supports pension plans in many countries. These plans comply with legal requirements, local practice and the situation in the country in question. They are either defined benefit pension plans, defined contribution pension plans, or multi-employer benefit plans. Provisions for retirement benefit obligations in connection with defined benefit pension plans amounted to €547 million as at 31 December 2012. The net obligation after deduction of assets arising from pensions worth €23 million was €524 million, compared with €363 million at the end of 2011. The rise was caused by the marked reduction in discount rates as a result of the change in market interest rates. This effect was partly offset by the removal of net pension obligations of €65 million as part of the sale of significant portions of the hydraulics business.

Contributions to pension plans that are funded in whole or in part via a pension fund are paid in as necessary to ensure sufficient assets are available and to be able to make future pension payments to pension plan participants. These contributions are determined by various factors, such as the funded status, legal and tax considerations, and local practice. In 2012, payments to pensioners made by KION under pension plans totalled €23 million, which can be broken down into €9 million for employer contributions to plan assets and €14 million for direct pension payments.

Further details about retirement benefit and similar obligations are provided in note 29 on pages 43 to 45.

Lease liabilities

As at 31 December 2012, lease liabilities arising from financial services activities amounted to €475 million (31 December 2011: €447 million), and were exclusively the result of sale and leaseback transactions used to finance leases with customers. Of this total, €329 million was accounted for by non-current lease liabilities (31 December 2011: €300 million) and €146 million by current lease liabilities (31 December 2011: €147 million). The rise in non-current lease liabilities is attributable, above all, to new leases, reflecting the growing demand for this type of financing. In addition, short-term rental, indirect leasing and procurement leasing were assigned to the brands in 2012 in the context of the new segmentation. The corresponding liabilities were reclassified accordingly under other financial liabilities (see note 33, pages 58 and 59). Other financial liabilities also include liabilities arising from residual-value guarantees amounting to €21 million. These relate to residual-value guarantees, provided in connection with the sale of assets to leasing companies, where the guaranteed amount is more than 10 per cent of the fair value of the asset in question. The lease liabilities are covered to the furthest extent possible by lease receivables, future inflows of funds from sub-leases with customers and revenue from the sale of used trucks.

Equity

The KION Group's equity rose by €1,148 million year on year to €660 million (31 December 2011: minus €488 million). The main contributing factor here was the conversion of the shareholder loan into equity, as well as the contribution made by Weichai Power for the acquisition of 25 per cent of the shares in KION Holding 1 GmbH by way of a capital increase (see page 7). The increase in the balance of retained earnings and net income from minus €806 million to minus €648 million was due to the encouraging level of net income.

Funding vehicles not reported on the statement of financial position

KION makes limited use of funding vehicles not reported on the statement of financial position. As part of its financing activities KION has, both for its own use and to be transferred on to its customers, entered into lease agreements that in accordance with the relevant IFRS requirements are not reported as either an asset or a liability on the statement of financial position. The nominal amount of the contractual obligations arising from such leases not reported on the statement of financial position was €194 million as at 31 December 2012 (31 December 2011: €205 million, see note 34, page 61).

Analysis of capital expenditure

Capital expenditure (excluding leasing and rental assets) was funded by cash flow from operating activities and by withdrawals from the revolving part of the SFA in 2012.

The total volume of investment was €155 million, which represents a year-on-year rise of 16.6 per cent (2011: €133 million). The main reasons for this rise were product developments and production modifications, ongoing modernisation of the IT infrastructure and the construction and expansion of production facilities, particularly in China and Brazil. In both segments, LMH and STILL, capital expenditure increased.

The bulk of capital expenditure went on the development of new counterweight trucks, electric forklift trucks and reach trucks (see the section on research and development, pages 50 to 53) – partly to comply with stricter environmental regulations – and on innovations such as hybrid technology. Operational investments predominantly related to equipment and machinery for the production of new industrial trucks and components. IT investment projects related to areas such as central sales management.

Table 19

Capital expenditures by segment			
in € million	2012	2011	Change
LMH	89	76	17.4%
STILL	51	43	18.1%
Financial Services	0	–	-
Other	15	14	7.3%
Total	**155**	**133**	**16.6%**

Current capital expenditure projects do not incur any significant subsequent financial obligations.

Analysis of liquidity

Liquidity management is an important aspect of central financial management. The sources of liquidity are cash and cash equivalents (including pledged cash deposits), cash flow from operating activities and lines of credit available under the SFA. Cash and cash equivalents totalled €562 million as at 31 December 2012 (31 December 2011: €373 million). Taking into account the available multi-currency revolving credit facility, KION had access to cash and cash equivalents amounting to €931 million as at the reporting date, compared with €499 million as at 31 December 2011.

Table 20

Condensed cash flow statement			
in € million	2012	2011	Change
EBIT	550	213	>100%
Cash flow from operating activities	414	387	7.0%
Cash flow from investing activities	104	-153	>100%
Free cash flow	**518**	**234**	**>100%**
Cash flow from financing activities	-330	-115	<-100%
Currency effects on cash	1	1	-7.2%
Change in cash and cash equivalents	**189**	**121**	**56.7%**
Net financial debt	1,790	2,631	-32.0%

Cash flow from operating activities increased from €387 million in 2011 to €414 million in 2012. This was due to the €337 million increase in EBIT, which had been influenced to some extent by non-recurring items (see page 30). Overall, this more than offset the decrease in cash flow caused by the net increase in leased and rental assets (after the deduction of writedowns).

Cash flow from investing activities resulted in the amount of €104 million (2011: net cash outflow of €153 million). The outflows of cash for the acquisition of the outstanding shares in Linde Creighton and for investment in plant and machinery as well as office equipment – predominantly in Brazil and China – were offset by net inflows of €260 million from the sale of the hydraulics business.

Due to the influencing factors described, free cash flow (see page 21) rose to €518 million (2011: €234 million).

Cash flow from financing activities amounted to a total net cash outflow of €330 million in 2012 (2011: net cash outflow of €115 million). Repayment of the finance facilities resulted in an outflow of cash of €665 million, of which €138 million was used to repay the multi-currency revolving credit facility and €56 million to repay the multi-currency capex facility. Interest payments amounted to €130 million, compared with €147 million in 2011. Of the moderate cash outflow of €10 million, €8 million occurred in connection with the acquisition of the remaining shares in Voltas MH. The inflow of cash from the contribution made as part of the resolution to carry out the capital increase had a positive effect on cash flow.

This caused cash and cash equivalents to rise sharply, from €373 million at the end of 2011 to €562 million at the reporting date (see page 43).

Net assets

Table 21

Condensed balance sheet, assets					
in € million	2012	in %	2011	in %	Change
Non-current assets	**4,231**	**68.1%**	**4,160**	**68.6%**	**1.7%**
thereof:					
Goodwill	1,473	23.7%	1,538	25.4%	-4.2%
Brand names	594	9.6%	594	9.8%	-0.1%
Deferred tax assets	265	4.3%	262	4.3%	1.1%
Leased assets	191	3.1%	167	2.8%	14.3%
Rental assets	395	6.4%	357	5.9%	10.8%
Lease receivables	267	4.3%	243	4.0%	10.0%
Current assets	**1,982**	**31.9%**	**1,906**	**31.4%**	**4.0%**
thereof:					
Inventories	550	8.9%	625	10.3%	-12.1%
Trade receivables	625	10.1%	677	11.2%	-7.6%
Lease receivables	132	2.1%	118	2.0%	11.6%
Cash	562	9.1%	373	6.2%	50.6%
Total assets	**6,213**		**6,066**		**2.4%**

Non-current assets

Non-current assets increased by 1.7 per cent year on year to €4,231 million (31 December 2011: €4,160 million).

The decline in intangible assets, which had fallen by €108 million to €2,407 million as at the reporting date, was predominantly due to the reduction in goodwill as part of the sale of significant portions of the hydraulics business. Depreciation and amortisation on technologies, developments and other intangible assets exceeded the volume of assets capitalised during the period.

As at 31 December 2012 leased assets totalled €191 million, up by €24 million compared with 31 December 2011. The increase can primarily be attributed to the greater volume of operating leases for industrial trucks, in which beneficial ownership remains with KION as the lessor. KION's good operational development led to an increase in leasing assets in spite of the separation of leased and rental assets resulting from the new segmentation (see note 8, page 9). Rental assets also increased by €38 million as at 31 December 2012, to €395 million.

Other property, plant and equipment declined by €53 million year on year to €500 million. New assets were added, above all in connection with the expansion of production facilities in China and Brazil. However, these were offset by disposals resulting from the sale of the hydraulics business, impairment losses recognised in connection with the closure of production facilities as well as depreciation and amortisation.

The marked increase in investments accounted for using the equity method, from €37 million to €155 million is primarily attributable to the consolidation of the minority shareholding in Linde Hydraulics.

The increase in non-current leasing receivables by 10.0 per cent to €267 million reflects the high number of additional long-term leasing agreements.

The increase in other financial assets from €26 million to €50 million was predominantly due to the measurement of derivatives at fair value and the measurement of the put option on additional shares in Linde Hydraulics.

An explanation of the change in deferred tax assets is provided in note 16 on page 27.

Acquisition of the outstanding shares in Linde Creighton resulted in additions of €27 million to non-current assets and of €19 million to current assets.

Current assets

Current assets had grown by €76 million to €1,982 million as at 31 December 2012. The main reason for this was the rise in cash and cash equivalents owing to the contributions made as part of the resolution to carry out a capital increase in connection with Weichai Power's investment in KION Holding 1 GmbH.

Inventories decreased by €75 million to €550 million, predominantly due to the deconsolidation of Linde Hydraulics. Moreover, the year-on-year increase resulting from KION's operating activities was rebalanced at the end of the year under review.

Table 22

Inventories

in € million	2012	2011	Change
Materials and supplies	120	151	-20.5%
Work in progress	75	98	-23.8%
Finished goods and merchandise	349	371	-5.8%
Advances paid	6	5	11.8%
Total inventories	**550**	**625**	**-12.1%**

Trade receivables fell by €51 million to €625 million as at 13 December 2012.

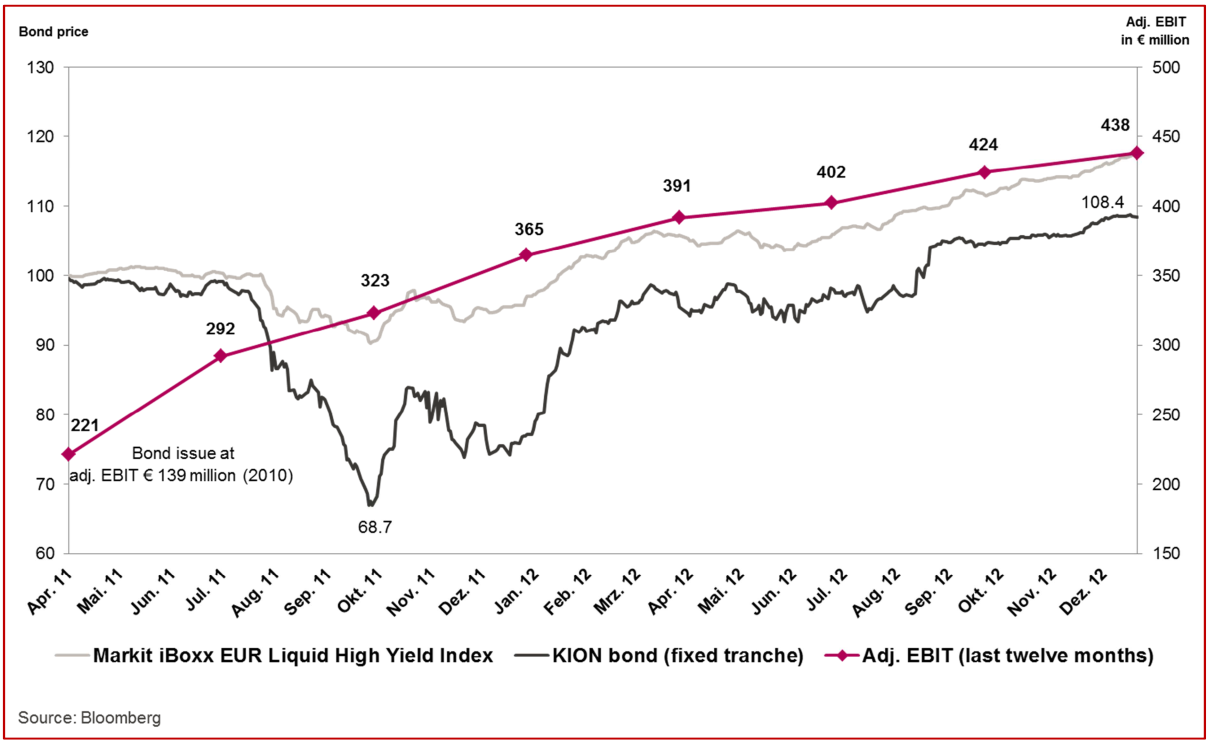
Working capital (inventories and trade receivables less trade payables) was €529 million as at the reporting date, €138 million less than it had been a year earlier (31 December 2011: €668 million).

The substantial rise in cash and cash equivalents, from €373 million at the end of 2011 to €562 million as at 31 December 2012, can be attributed to the considerable improvement to the operational cash flow of the KION Group. The cash inflow of €738 million resulting from the Weichai transactions was used as far as possible to repay financial debt, leading to an increase in cash of €73 million (see page 42).

Investor relations

In April 2011 KION issued its first secured corporate bond, thereby opening up access to the international capital markets and diversifying its investor base. With a maturity date of 2018 and a total volume of €500 million, the bond was issued in a tranche of €325 million at a fixed interest rate and in a tranche of €175 million at a floating interest rate. It is listed on the Luxembourg stock exchange. The coupon on the fixed-interest tranche (ISIN XS0616432224) is 7.875 per cent. The floating-rate tranche (ISIN XS0616442298) is 425 basis points above the prevailing three-month EURIBOR rate, which equated to an average interest rate of 5.0 per cent over the reporting period.

Chart 7: Bond performance since issue in April 2011



Having been rather subdued in 2011, the market for corporate bonds was generally very popular in 2012. Market growth also benefited the performance of the two KION tranches, which completely made up for the falls in price seen during the previous year. As a result, the increase generated in 2012 was sharper than that of the benchmark index, the iBoxx. This was certainly also due to KION's strong operational performance, as reflected in the adjusted annualised EBIT, which benefited the bond prices.

Since issuing the bond, KION has established relationships based on transparent communications with financial analysts and investors specialising in high-yield bonds and has integrated them in its regular capital market communications as part of its investor relations activities. Another important aspect of this work was the cooperation with the rating agencies Standard & Poor’s (S&P) and Moody’s Investors Service (Moody’s), which have rated KION since the bond issue. The credit ratings awarded did not change in 2012: the KION Group's rating was B3/stable (Moody’s) and B/stable (S&P), while the bond's was B2 (Moody’s) and B (S&P).

During the new financial year, Moody’s raised its rating outlook for the KION Group from stable to positive. At the same time, the very successful placement of an additional corporate bond has also confirmed KION’s good standing with bond investors (see ‘Events after the balance sheet date’ on page 57).

NON-FINANCIAL PERFORMANCE INDICATORS

KION's enterprise value is determined not only by financial KPIs but to a significant extent also by non-financial ones. The non-financial KPIs are based on KION's relations with its customers and employees, on its technological position and on environmental considerations. They enable conclusions to be drawn about the extent to which KION succeeds in:

- being an attractive and responsible employer that can retain competent and committed employees;
- developing products that meet customers' needs and environmental requirements now and in future;
- continually increasing the customer benefits provided by its products and services;
- designing production processes in such a way that resources are conserved and emissions are avoided as far as possible.

KION firmly believes that these aspects are crucial to its positioning as a pioneering company in a highly competitive environment.

Human resources

HR strategy

KION's success is founded on the capabilities and commitment of its employees. The Group's human resources (HR) strategy is geared towards providing the best possible support for strategic development and international growth. KION aims to always have a sufficient number of qualified, committed employees at all levels of the Group and to offer them attractive working conditions and the opportunities afforded by working for an international group of companies. This strategy also enables KION to tackle the challenges of demographic change.

The KION Group's growth in 2012 was reflected in the size of its workforce, which amounted to 22,232 employees on average over the year (2011: 20,797 employees). As at 31 December 2012, a total of 21,215 employees (full-time equivalents including trainees and apprentices) were employed across the Group. The reduction is a result of spinning off the hydraulics business. A total of 1,487 employees transferred to the new company Linde Hydraulics on 27 December 2012 and therefore no longer belong to the KION Group.

The number of employees in the LMH segment fell moderately. The aforementioned effect of the sale of the hydraulics business was largely offset by growth in other areas, including the acquisition of the sales company Linde Creighton Ltd. with 300 full-time equivalents. The service teams in eastern Europe were also enlarged in order to meet growing demand in that region. In the STILL segment, the decline in the number of production employees – resulting from the transfer of production to other sites – was offset by an increase in sales and service roles. The new FS segment's headcount advanced from 96 to 112 over the course of the year.

Every region (except Germany) registered a year-on-year rise in employee numbers. Germany is an exception to this, as the divestment of the hydraulics business resulted in a decrease in employees in the KION Group. The strongest percentage increases occurred in the Americas and China. As at 31 December 2012, 65.1 per cent of the workforce was employed outside Germany (31 December 2011: 61.5 per cent).

Headcount

Table 23

Full-time equivalents					
31/12/2012	LMH	STILL	FS	Other	Total
Germany	3,073	3,864	21	439	7,397
France	2,302	739	13	95	3,149
Rest of Europe	3,919	2,193	52	0	6,164
China	3,124	0	9	0	3,133
Americas	122	457	1	0	580
Rest of World	608	0	16	168	792
Total	**13,148**	**7,253**	**112**	**702**	**21,215**
31/12/2011					
Germany	4,331	3,641	16	428	8,416
France	2,221	899	16	107	3,243
Rest of Europe	3,644	2,379	55	2	6,080
China	2,856	0	1	0	2,857
Americas	161	373	3	0	537
Rest of World	573	0	5	151	729
Total	**13,786**	**7,292**	**96**	**688**	**21,862**

Consolidation of the European production sites, which had been initiated in 2011, was implemented in 2012 with the minimum possible social impact and in close collaboration with employee representatives. The site in Montataire (France) was shut down and manufacturing of warehouse trucks was transferred from there to Luzzara (Italy) in the fourth quarter of 2012. The site in Bari (Italy) closed in July 2012, with production of counterbalance trucks transferring to Hamburg.

Due to higher average number of positions during the year under review, coupled with wage and salary adjustments, personnel costs were 13.1 per cent higher than in the previous year.

Table 24

Personnel expenses			
in € million	2012	2011	Change
Wages and salaries	947	834	13.5%
Social security contributions	222	200	11.1%
Post-employment benefit costs	34	30	13.4%
Total	**1,203**	**1,064**	**13.0%**

Diversity

KION sees itself as a global provider with intercultural skills that fosters international cooperation between employees – for example through the Linde expat programme, which enables employees to move to a number of partner countries. As at 31 December 2012, KION employed people from 69 different countries.

Another aspect of diversity is increasing the proportion of female employees, which rose from 14.7 per cent to 15.9 per cent in 2012. Women occupied 8.6 per cent of management positions (2011: 8.2 per cent).

KION has taken a range of steps to tackle the challenges of demographic change. For example, it ensures working conditions are suited to employees' age-related requirements and organises healthy-living programmes so that it can continue to benefit from older employees' experience. KION also offers partial retirement models, in which 333 employees were participating as at the reporting date (31 December 2011: 412). On this date, 23 per cent of employees were over the age of 50 (31 December 2011: 23 per cent).

In addition, KION offers flexible working-time models that promote a good work-life-balance. For example, Linde MH signed a company agreement about 'teleworking/home office' in the first quarter of 2012. The agreement stipulates the terms on which employees can work at home on a mutually agreed, voluntary basis.

Development of specialist workers and executives

Finding highly qualified people to fill specialist and executive positions is crucial to KION's success. As a result, one of the focuses of HR work was again the recruitment of suitable young talent in 2012. KION endeavours to offer them interesting development opportunities and flexible, family-friendly working-time models.

The Group companies collaborate on areas such as talent management and training & development programmes. This helps to systematically identify and support staff with strong potential, high performers and experts in key functions. Launched in 2012, KION Campus is an international, cross-brand executive development programme aimed at the Group's 300 or so top executives. KION cooperates with the European School of Management and Technology (ESMT) on the programme. In addition, new managers at STILL receive support under the First Leading programme during their first few years. Prospective managers can enhance their skills through STILL's Young Professional programme, while international staff with high potential can participate in the International Junior Circle. The STILL Academy offers subject-specific and interdisciplinary skills training courses. Opportunities at LMH include a virtual assessment centre for future managers.

In March 2012 STILL was one of around 100 German companies to receive the 'Germany's Top Employers 2012' award. Certification for this award is carried out by the international Corporate Research Foundation (CRF Institute), which looks at what employers offer in terms of remuneration and employee benefits, career and development opportunities, working conditions and corporate culture.

Training and professional development

The companies in the KION Group currently offer training for 17 professions in Germany. They employed a total of 543 trainees and apprentices as at 31 December 2012 (31 December 2011: 621 including the hydraulics business). Work placements for students combining vocational training with a degree course are also offered in cooperation with various universities. In the year under review STILL came third in the competition 'Hamburg's best workplace training providers'.

Health and safety in the workplace

The steps that the KION companies must take with regard to workplace safety, health and the environment are laid down in a corporate policy. According to this document, KION's obligations include taking comprehensive precautions to ensure a safe working environment and ensuring employees know how to avoid risks and accidents.

Strict rules governing health, safety and the environment apply in all areas of the company. In the reporting year, ten plants were audited in accordance with a group-wide standard. The audits increased awareness of workplace safety and highlighted areas for improvement. In 2012 the KION companies arranged 783 training courses in Germany alone on various aspects of workplace safety. At 97 per cent, the health rate remained at the same high level as in the previous year. The number of workplace accidents and the workdays lost as a result had fallen compared with 2011. Analysis of accidents and detailed action plans help to reduce risks in the workplace.

Research and development

Strategic focus of research and development

In 2012 the KION Group again channelled a considerable proportion of its product revenue into enhancing its portfolio so that it can consolidate its position as a leading technology provider. Research and development (R&D) is therefore geared towards the overarching aim of containing customers' total cost of ownership (TCO) – including purchase price, maintenance and repair costs and fuel consumption – while complying with environmental targets and regulatory requirements. R&D activities also focus on integrating KION's logistics solutions into customers' value chains and harnessing the potential of new application areas.

Brand-specific and cross-brand modular and platform strategies are pursued to ensure R&D is as cost-efficient as possible. KION has taken steps to reduce the complexity and diversity of products and thereby accelerate the development process. The cross-brand R&D platform enables research results and technological expertise to be shared, although responsibility for product development lies mainly with the individual companies.

In the year under review the KION Group continued to expand its international R&D facilities so that it can better cater to the different requirements of customers around the world. A research centre at the new São Paulo plant was set up in 2012 to develop trucks for the South American market. KION also expanded its development departments in Xiamen, China and Pune, India. Following the closure of the plant in Montataire, France, the European development teams for warehouse trucks are now located in Châtellerault, France and Luzzara, Italy.

Key R&D figures

The KION Group spent a total of €120 million on R&D in 2012, the same amount as in the previous year. This corresponded to 2.5 per cent (2011: 2.8 per cent) of revenue, or 4.3 per cent of revenue in new trucks and the hydraulics business. Consequently, R&D costs during the year under review were higher than the industry average. This total included capitalised development costs of €51 million (2011: €53 million), which were offset by depreciation and amortisation of €56 million (2011: €53 million) (see note 18, page 32). The 4.1 per cent rise in the amount recognised as an expense was largely attributable to a multitude of new developments and refinements – which required additional headcount, above all in preliminary and series development – as well as higher salary costs and material costs. The cost increases were kept down by improving efficiency, notably through cross-brand cooperation as part of modular and platform strategies and by concentrating CAD services in Xiamen.

The number of full-time equivalents employed in R&D totalled 847 as at the reporting date (31 December 2011: 914, including hydraulics activities). An increase in full-time positions can be calculated on a comparable basis, which primarily related to the expansion of the KION Asia development centre in Xiamen (China), whereas there was only an insignificant change in headcount in Europe.

External costs predominantly related to engineering services, materials for prototype development and IT. LMH and Linde Hydraulics have begun to collaborate closely on developing new hydraulics products for the future.

Total R&D spending, including depreciation, amortisation and impairment, as well as capitalisation of assets, amounted to €120 million in 2012.

Table 25

Total R&D spending			
in € million	2012	2011	Change
R&D expenses	124	120	4.1%
Amortisation/impairment charges	-56	-53	-5.7%
Capitalised development expenses	51	53	-4.0%
Total R&D spending	**120**	**120**	**-0.1%**
R&D spending as percentage of revenue	2.5%	2.8%	-

KION takes comprehensive measures to protect the products it develops against imitations. In 2012 the KION companies registered a total of 63 patents. The number of patent applications totalled 96, of which 50 were submitted by LMH and 41 by STILL. The decrease year on year (2011: 125 patent applications) results from the disposal of the hydraulics business. On a comparable basis, the number of patent applications increased moderately compared to the previous year.

As at 31 December 2012, the companies of the KION Group held a total of 1,495 patent applications and issued patents (31 December 2011: 1,720 patent applications and issued patents).

Focus of R&D in 2012

Reduction of emissions and fuel consumption

In light of the stricter exhaust emissions standards, LMH and STILL undertook significant projects to reduce emissions (see also page 25and 56).

For example, LMH put new engines into its counterbalance trucks in the 2.5-5 tonne weight category and fitted them with a particulate filter system as standard in order to meet the European Stage IIIB limits for diesel-powered forklift trucks with an output of 37kW or higher, which came into force in January 2013. Trucks in the Linde EVO series produce emissions at a far lower level than permitted limits and achieve double-digit percentage reductions in fuel consumption. Series production will begin in early 2013. Another major project at Linde was the development to production readiness of a new reach truck. This truck also offers lower fuel consumption and a variety of attractive new product features. In addition, LMH expanded the range of model variants in its electric forklift truck series in the 2-5 tonne weight category.

A focus of development activities at STILL was the new reach truck, which is based on the Group's platform concept. Two diesel counterbalance trucks in the 4-5 and 6-8 tonne weight category are also being developed. They will go into series production in 2013 and will also comply with the new emissions standards.

Drive technology

Development of new drive technologies centred on powerful lithium-ion batteries for electric and hybrid trucks. Various sizes of battery for hand pallet trucks and towing vehicles were refined at the development centre in Châtellerault, France. LMH and STILL expect to offer the first trucks fitted with lithium-ion batteries at the end of 2013. They store considerably more energy and can be charged faster than lead-acid batteries.

In addition, LMH and STILL are also pushing forward with the development of lithium-ion batteries for counterbalance trucks in higher weight categories. Another project, which LMH is working on with a strategic partner, is concerned with developing high-performance booster batteries for hybrid trucks. In 2010 STILL was the first manufacturer worldwide to go into series production with a hybrid truck. This truck combines a drive system based on an internal combustion engine with a breaking-energy recuperation system from an electric truck, enabling it to achieve very low emissions values. Customer testing of the trucks provided feedback for product development. In November 2012 the hybrid truck won the new Federal Ecodesign Award from the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the Federal Environment Agency.

In 2012 LMH's Electronic Systems & Drives (ES&D) unit teamed up with a strategic partner to develop the Rotrac E2, an electric trolley for pulling very heavy loads. It can be used to shunt rail vehicles, for example. A prototype of a container loader with an eco-friendly drive concept for use at airports has been undergoing field-testing since mid-2012.

KION is also participating in a government-sponsored research project (E-LOG-Biofleet) to improve handling and environmental friendliness using a fleet of industrial trucks with a fuel-cell hybrid solution. As part of the project, Linde equipped a fleet of ten trucks, which a customer has been putting through field tests since the end of 2012. The strategic partner for this project is a manufacturer of battery charging systems. STILL continued its longstanding international fuel cell activities for industrial trucks in 2012, putting an additional six trucks into operation for two clients.

Workplace safety and ergonomics

The safety features of the industrial trucks continued to be refined in 2012. The new models in the Linde EVO series are the world's first diesel trucks with a 'curve assist' system fitted as standard. This system adjusts cornering speed depending on the steering angle. An automatic parking brake has been developed for electric trucks, thereby improving convenience and safety. STILL developed a new restraint system, netProtect, which operates automatically so that the driver does not have to fasten or undo the seatbelt manually.

The KION companies are also working on further reducing human vibration and other vibrations, including by improving the seats and cushioning.

Region-specific and customer-specific design

In 2012, KION's R&D centre in Xiamen focused on adapting truck concepts to meet the specific requirements of customers in China and other emerging markets. A basic, low-cost variant of a new counterbalance truck, which has a drive unit with a torque converter, was almost ready for series production at the end of 2012. LMH will use a platform concept to offer three models with different drive systems in different price categories. Progress was also made with three types of warehouse truck and a smaller towing vehicle that can pull loads of up to 2 tonnes. It will be marketed in China and elsewhere rounding out the product range at the lower end.

In 2012 customisation of industrial trucks to meet customer requirements featured more heavily in R&D activities than in previous years. The modular concept is intended to help KION to fulfil customers' requirements with even greater flexibility and speed in future.

Networking

The KION Group is working on refining material-flow management systems (MMSs) to meet the growing demand for automated solutions. At the Hannover trade fair in April 2012, STILL showcased a prototype of an autonomous reach truck that can independently navigate through a warehouse and respond to changes in the environment. The prototype was built in cooperation with partners as part of a project sponsored by the Federal Ministry of Economics and Technology.

The order-picker truck that was launched in 2012 can also navigate independently. The STILL PalletShuttle was launched in 2012: this semi-automatic storage and retrieval system can be integrated with STILL's MMS. Presented at CeBIT 2012, the Fleet Data Services software solution from STILL enables vehicle and driver data to be intelligently captured, formatted and made available online. Since February 2012 LMH has offered an extended logistics train programme, providing a more flexible way of optimising production, warehouse and transport logistics.

Represented by STILL, KION is participating in the IdentProLog research project, which is examining how to optimise the flow of goods by using radio frequency identification (RFID). The aim of the project is to establish consistent standards for RFID across the industry.

Customers

Customer focus at KION

KION focuses on the benefit for customers at every stage of the value chain. Its overarching objective is to make the TCO – the total acquisition and operating costs for the customer – as attractive as possible compared with competitor products. Central aspects of KION's focus on customers are:

- product development geared to creating benefits for customers (see page 50);
- interlinking of product and service business, encompassing spare parts, maintenance, fleet management and financing solutions;
- more than 1,100 sales and service outlets in over 100 countries, staffed by more than 8,400 employees and around 4,400 external service technicians and salespeople.

The individual brand companies are responsible for customer relations. They use tried-and-tested feedback processes, among other things, to obtain extensive knowledge about customer preferences in the different regions and price segments. Key account managers look after customers who are important in terms of the volume of unit sales and potential for growth and technology. Nevertheless, KION's reliance on individual customers is low: the ten largest customers generated 6 per cent of consolidated revenue in 2012 (2011: 6 per cent).

Customer-related performance indicators

Systematic customer relationship management (CRM) is crucial to KION's success and is therefore an integral element of how the Company is run. Service levels remained high in 2012, with many services available 24 hours a day. Faster response times are achieved using technologies such as the STILLProActive communications system, which forwards error messages to service engineers automatically.

This high level of service is possible owing to the high number of KION trucks in use, which creates demand for after-sales services. KION firmly believes that, by generating a high proportion of total revenue from services, it can stabilise business performance and reduce its susceptibility to economic downturns. At 40 per cent in 2012, this proportion was at a similar level to 2011 (42 per cent).

The KION companies gauge customer satisfaction in feedback discussions and from the degree of customer loyalty. STILL carries out regular customer satisfaction surveys in service and sales. A CRM project has also been launched with the aim of gaining a better understanding of the customer structure and customer needs so that resources can be deployed in an even more targeted manner. The number and quality of contacts with customers at trade fairs enable KION to draw conclusions about existing and new customers' interest in product innovations.

KION's overarching aim of offering customers a lower TCO than competitors was confirmed by, among other things, a study by the TÜV NORD Group. Two Linde warehouse trucks were subjected to a performance test in the study, which found that their total operating costs – including energy costs – offered potential savings of up to 20 per cent compared with competitor products.

Marketing and sales activities

As in previous years KION took the opportunity to showcase its range of products and services at a number of exhibitions and trade fairs.

Having acquired its trading partner Liftec Rusfors in 2011, LMH had its own stand for the first time at CeMAT Russia – the foremost logistics trade fair in Russia. LMH's StaplerCup, an international competition for forklift truck drivers, won the European Best Event Award (EuBEA) in Milan. Two trade fairs in Germany – MobiliTec in Hannover and sps ipc drives in Nuremberg – provided an opportunity to showcase the portfolio of electric trucks and electric drive systems. Baoli participated in CeMAT Asia, where it presented its new D series of forklift trucks in the 3-tonne weight category.

STILL demonstrated product innovations at the Hannover trade fair as well as updated intralogistics solutions at CeBIT 2012. At the International Supply Chain Conference in Berlin, STILL reported on the use of innovative drive technologies. In 2011 STILL introduced the cubeXX concept truck, which combines six different classes of industrial truck in a single vehicle, thereby creating greater flexibility in warehouse management. Moreover, STILL won the German Award for Business Communications in the category 'Best Event and Trade Fair Marketing' in 2012.

Sustainability

KION endeavours to achieve a balance between environmental, economic and social considerations in its business activities. This focus on sustainability is reflected in the development of eco-friendly and safe products that help customers to conserve energy, reduce emissions and comply with strict workplace safety standards (see the section on research and development, pages 50 to 53).

Furthermore KION designs the production processes in its plants around the globe to have as minimal an impact on the environment as possible. The corporate policy on health, safety and the environment, which was issued in November 2011, defines a number of requirements for the KION companies, including:

- avoiding the release of pollutants, discharge and emissions into the environment as far as possible;

- reducing the volume of waste by making better use of raw materials and using recyclable materials;

- using materials, products and processes that comply with best environmental practice; and

- using resources, energy and raw materials efficiently.

All plants capture data about their energy consumption, volumes of waste and recycling, water consumption, CO_2 emissions and volatile organic compounds (VOC). This data is included in an annual internal environmental report. Data for 2012 was not available at the time this group management report was compiled.

According to the 2011 environmental report, energy consumption had declined slightly compared with 2010 despite the increased volume of production. As in 2010 around 50 per cent of the energy consumed was electricity and just under 30 per cent was gas. Approximately 92.5 per cent of waste was recycled, resulting in a further year-on-year decrease in the volume of waste. Water consumption rose slightly, VOC emissions declined significantly and CO_2 emissions were slightly higher compared with 2010.

The Aschaffenburg site took significant steps in the year under review to ensure environmentally-friendly production by participating in a climate change project in the Lower Main region of Bavaria and by implementing a heat recovery system in its foundry.

LMH and STILL also took part in the Blue Competence sustainability initiative launched by the VDMA, in which participating companies from the plant and mechanical engineering sectors present examples of solutions that protect the environment and conserve resources.

EVENTS AFTER THE BALANCE SHEET DATE

On 11 January 2013, the Supervisory Board of KION GROUP GmbH expanded the Company's Executive Board. Ching Pong Quek, who has headed up KION's entire Asia business since 2008, was appointed to the Executive Board as Chief Asia Pacific Officer. This new post has been created in recognition of the growing importance of the region for the Group's financial performance.

The Supervisory Board has also made the management of the Linde and STILL brands more involved in running the Group as a whole. The CEO of Linde Material Handling GmbH, Theodor Maurer, and the CEO of STILL GmbH, Bert-Jan Knoef, have also been appointed to the Executive Board of the KION Group. They remain in charge of their respective brand companies.

The KION Group's Executive Board now has five members and is presided over by CEO Gordon Riske. CFO Dr Thomas Toepfer has also assumed responsibility for HR and been appointed as the KION Group's Labour Relations Director. Klaus Hofer, who had been in charge of human resources, has left the Company.

At the end of January 2013, KION entered into consultations with employee representatives and trade unions concerning the process of restructuring of its container handler and heavy forklift truck business. This also includes the intended closure of LMH’s plant in Merthyr Tydfil (Wales, UK). The proposed measures are intended to sustainably improve KION’s competitiveness in both areas, as well as the efficiency of its European production network.

In February 2013, the KION Group announced that Konecranes, a world-leading group of Lifting Businesses™, would take over certain assets from LMH’s container handling truck business. The transaction should be concluded during the second quarter of 2013. LMH will continue to offer reach stackers and empty and laden container handlers in the future, the production of which should take place at Konecranes going forward. Both companies also signed a long-term supply agreement and are working together to improve their respective international competitiveness in the container handling truck business.

In February 2013, KION Finance S.A. placed a senior secured note on the European bond market with a total volume of €650 million. The proceeds will be used to fully refinance loans that will fall due in 2014, as well as to partially refinance loans that will fall due in the following years.

The senior secured bond, which will mature in 2020, was issued in a fixed-interest tranche (6.75 per cent) in the amount of €450 million, and in a floating-rate tranche (4.5 per cent above the prevailing three-month EURIBOR rate) in the amount of €200 million.

As a result of the successful bond placement and refinancing, KION is extending the maturity profile of the Group’s financial debt until the year 2020, as well as expanding its circle of investors. In connection with the bond placement, Moody’s raised its rating outlook for KION from stable to positive. In doing so, Moody’s is reacting to KION’s positive operational performance since its initial bond placement in 2011, as well as to the reduction of its financial debt and improved strategic perspectives.

The capital increase that was resolved in 2012 in connection with Weichai Power’s 25 per cent shareholding was entered in the commercial register on 14 January 2013.

EXPECTED DEVELOPMENTS

Opportunities report

Recognising and seizing market, strategic and operational opportunities is an essential element of the KION’s value-driven management. To identify these opportunities, the Company systematically monitors, analyses and evaluates its relevant markets and tracks sectoral and macroeconomic trends. Strategic measures are adopted and implemented on this basis at KION. These are always aimed at profitable growth and a sustained increase in shareholder value.

KION's strengths and strategy – described in detail on pages 14 to 17 – provide the Company with considerable opportunities.

Significant market opportunities are presented, in particular, by:

- growing demand for intralogistics products and services as a consequence of globalisation
- high demand for replacement investments, especially in developed markets
- the trend towards outsourcing service functions to industrial truck manufacturers

KION's strategic opportunities result, in particular, from:

- strengthening of its market-leading position in core western European markets, especially in view of its leading technology and high proportion of customer-specific fittings;
- expansion of the service portfolio at every stage of the product lifecycle, taking advantage of the high number of trucks in use;
- harnessing of market potential in fast-growing regions, including through the strategic partnership concluded with Weichai Power in 2012

The main opportunities involving the supply of goods and services arise in connection with the optimisation of production and the leveraging of group-wide synergies. The associated cost benefits boost the Group's competitiveness.

Risk report

Principles of risk management

KION encounters business risks that may jeopardise its business objectives. Risk management, like opportunity management, therefore forms an integral part of the Company's day-to-day management. To ensure that the risk management systems are fully integrated into KION's overall financial planning and reporting process, they are located in the Group Accounting & Finance function.

The procedures governing the KION Group's risk management activities are laid down in internal risk guidelines. For certain types of risk, such as financial risk or risks arising from financial services, the relevant departments also have guidelines that are specifically geared to these matters and describe how to deal with inherent risks. Risk management is organised in such a way that it directly reflects the structure of the Group itself. Consequently, risk officers supported by risk managers have been appointed for each company and each division. A central Group risk manager is responsible for the implementation of risk management processes in line with procedures throughout the Group. His or her remit includes the definition and implementation of standards to ensure that risks are uniformly captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a group-wide risk catalogue is used to capture the risks attaching to each company. Each risk must be captured individually. If the losses caused by a specific risk or the likelihood of this risk occurring exceed a defined limit, the KION Group's Executive Board and its Accounting & Finance function are notified immediately. Each risk is documented in a specially developed module within the internet-based reporting system used for the entire planning and reporting process.

The risks reported by the individual companies are combined to form divisional risk reports as part of a rigorous reporting process. To this end, minuted risk management meetings are held once a quarter. Moreover, material risks are discussed at the quarterly business review meetings. The divisional risk reports are then used to compile an overall risk portfolio for the KION Group as a whole. To support this, additional meetings are held each quarter with relevant departments of the holding company in order to identify and assess risk, above all Company-wide, cross-brand risk affecting areas such as treasury, purchasing, tax, human resources and financial services. The Executive Board of KION GROUP GmbH and the Supervisory Board's audit committee are informed of the Group's risk position at least once a quarter.

Material features of the internal control and risk management system pertaining to the (Group) accounting process

Principles

The main objectives of the special accounting-related internal control system are to avoid the risk of material misstatements in financial reporting, to identify material mismeasurement and to ensure compliance with applicable regulations and internal work instructions. There can, however, be no absolute certainty that these objectives are achieved in full and at all times.

Material processes and controls in the (Group) accounting process

For its (Group) accounting process, KION has defined suitable structures and processes within its internal control and risk management system and implemented them in the organisation. Changes to the law, accounting standards and other pronouncements are continually analysed with regard to their relevance and effect on the consolidated financial statements; the relevant changes are then incorporated into the Group's internal policies and systems.

Besides defined control mechanisms, this special accounting-related internal control system includes, for example, system-based and manual reconciliation processes, separation of functions, the double-checking principle and adherence to policies and instructions.

The employees involved in the Group's accounting process receive regular training in this field. Throughout the accounting process, the local companies are supported by central points of contact. The consolidated accounts are drawn up centrally using data from the consolidated subsidiaries. A consolidation department with specially trained employees carries out the consolidation activities, reconciliations and monitoring of the stipulated deadlines and processes. This team monitors the system-based controls and supplements them with manual checks. The entire accounting process contains a number of specific approval stages. Employees with the relevant expertise provide support on specialist questions and complex issues. The central Internal Audit department also checks, among other things, the reliability of the accounting work by the subsidiaries in Germany and abroad. It focuses primarily on the following aspects:

- compliance with legal requirements, directives from the Executive Board, other policies and internal instructions;
- integrity and effectiveness of the internal control systems for avoiding financial losses;
- correct performance of tasks and compliance with business principles;
- formal and material correctness of the accounting and of the financial reporting that is based on the accounting.

Market risks

Cyclical fluctuations in macroeconomic activity affect the market for industrial trucks. Customers' decisions on whether to invest, particularly in new trucks, depend to a large degree on the macroeconomic situation and conditions in their particular sector. During an economic downturn, such as the financial and economic crisis of 2008–2009, customers tend to postpone their purchases of new trucks. Although demand for services is less cyclical, it correlates with the degree of utilisation in the truck fleet – which usually declines during difficult economic periods. As KION can only adjust its fixed costs to fluctuations in demand to a limited extent, reductions in revenue impact on earnings.

Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities – help to contain the earnings risk arising from reductions in revenue caused by economic conditions. Diversification of the customer base in terms of industry and region as well as expansion of service activities also play a role in mitigating risk. Moreover, KION closely monitors the market and its competitors so that it can identify market risks at an early stage and adjust its production capacities in good time.

Despite KION’s strong growth in emerging markets, the proportion of revenue it earns in the euro zone continues to be high. As a result, the market conditions that prevail in the euro zone impact significantly on KION's financial performance. Budget consolidation in affected euro-zone countries has resulted in faltering economic growth and higher unemployment. Doubts surrounding the stability of the financial system and the continued existence of the single currency have not been allayed, despite a tangible calming of the markets as a result of steps taken by the European Central Bank and politicians. These doubts are now compounded by fears about the high level of government debt in the United States and the declining pace of growth in China. Overall, these factors could reduce customers' willingness to invest and the resulting demand for KION products.

Current developments, above all in Europe, are making it increasingly difficult to gauge demand patterns reliably. The precise timing and even the extent of any change in the markets remain uncertain. KION therefore continually monitors macroeconomic and market conditions so that it can react at an early stage. Besides global economic growth, KION also analyses exchange rates, price stability, the consumer and investment climate, foreign trade activity and political stability in its key sales markets.

Due to the strained financial and economic situation in the euro zone, risk management analyses its possible impact on the Group's financial position and financial performance on an ongoing basis. In addition to continuous screening and monitoring, separate observations are regularly made in its risk reports concerning the risks surrounding the member state financial crisis.

Competition risks

The markets in which KION operates are characterised by strong competition, including with regard to prices. Although KION's strengths (see page 14) have enabled it to charge appropriate prices until now, competition risks could have a negative impact on the Group's business situation and financial performance.

Manufacturers from Asia have cost advantages in production due to the currency situation and also because local labour costs are lower. Competition is therefore very fierce, particularly in the lower price segment and in emerging markets. Building on their local competitive advantages, Asian manufacturers – especially those from China – are also looking for opportunities to expand. Although customers' high quality expectations and service needs form a barrier to growth for many of these manufacturers, this situation is likely to intensify competition in future.

It is also conceivable that competitors will join forces and their resulting greater competitiveness will be detrimental to KION's sales opportunities. Moreover, predictions of higher volumes and margins may lead to overcapacity, which would put increased pressure on prices.

Alliances, partnerships, acquisitions and other measures are playing an increasing role in improving KION's competitiveness in terms of resources, market access and product range. The steps that KION is taking to mitigate its competition risk include making its plants more efficient and securing low-cost sources of supply, for example through its strategic partnership with Weichai Power. KION also continually evaluates its options for strengthening and consolidating its position in emerging markets.

Research and development risks

KION's market position and business performance depend to a large extent on its ability to remain a leading provider of technology. This requires the Group to continually develop products that meet customer expectations and comply with changing regulatory and technological requirements. To this end, KION must anticipate customers' needs and quickly bring new products to market. If the Company does not succeed in doing this, its technological and competitive position could be compromised in the long term.

KION counteracts research and development risks by carefully managing customer relations (see page 54), focusing on customer benefits (TCO) in its product development (see page 50) and ensuring close cooperation between sales and development teams in order to continuously incorporate customer requirements into the development process.

The innovations developed by KION and its subsidiaries are comprehensively protected by intellectual property rights, in particular patents. Nevertheless, there is always the possibility that products or product components will be imitated. There is also a risk that patent applications will not be successful.

Strategic risks

A mainstay of KION's strategy is the exploitation of potential offered by fast-growing regions in respect of strategic partnerships, joint ventures and the acquisition of local providers. One of the risks of such alliances and acquisitions is that the expected benefits will materialise only partly or not at all. For example, the organisational integration of new units can harm financial performance for a variety of reasons. Other strategic risks arise from having inadequate experience of specific political, economic or cultural parameters in target markets and if there is a lack of attractive strategic partners or companies suitable for acquisition. It is also possible that a partner will collaborate with competitors if exclusivity agreements are not in place.

KION mitigates such strategic risks by, for example, carrying out in-depth market research, conducting thorough evaluation procedures and drafting appropriate contracts – including as part of its strategic partnership with Weichai Power.

In the course of that partnership, Weichai Power acquired the majority of KION’s hydraulics business. To build its industrial trucks, LMH requires hydraulic components that are manufactured by the affiliated company Linde Hydraulics. Because LMH is highly dependent on these components, their supply is secured by detailed contractual agreements. LMH also has access to patents and other intellectual property rights that are important to its business activities. This mitigates the risks resulting from no longer having unrestricted access to the hydraulics business.

Procurement and sales risks

Procurement activities constitute a potential risk for the KION Group in terms of the lack of availability of parts and components for logistical or qualitative reasons, and the rising cost of raw materials, energy, base products and intermediate products. As a result, there is always the possibility that KION will face backlogs in the supply of individual raw materials and components. KION obtains some of its key components, such as combustion engines, tyres, high-performance forged and electronic parts, from a limited number of core suppliers.

Although there were no substantial supply bottlenecks in 2012, the risk of supply bottlenecks – such as in the event of a shortage of raw materials – cannot be eliminated. It is also possible that suppliers will get into economic difficulty and be unable to fulfil orders. KION mitigates this risk through appropriate diversification of its supplier structure in the context of a global procurement organisation. In addition, the supplier development department, which focuses on making improvements to supplier production processes, helps suppliers to ensure the cost efficiency and qualitative excellence of their processes.

Price changes present another procurement-related risk. In 2012 only around 27 per cent of the cost of materials for new trucks was directly influenced by changes in commodity prices. Moreover, conditions on the commodity markets typically affect component prices after a delay of three to six months. KION endeavours to pass on price increases to customers but cannot always do so entirely due to market pressures.

The main sales risks – besides a drop in revenue caused by market conditions – result from dependence on individual customers and sectors. For example, it is possible that customers would postpone or cancel orders during a period of economic difficulty. Significant cancellations have not occurred in the past years, however. It is also conceivable that customers would face a liquidity shortfall and therefore be unable to fulfil their payment obligations immediately or even at all. In terms of its customer portfolio, KION is currently not particularly dependent on any individual sector. Its business is also highly diversified from a regional perspective. In addition, KION supplies companies of all sizes. The risk of possible payment defaults, which experience has shown is low for KION, can be reduced further by realising collateral.

Production risks

High-quality products and a high level of delivery reliability are key aspects of KION's premium positioning. Delays in delivery or a rise in the number of complaints could harm this position and, as a result, KION's financial situation.

KION's closely integrated manufacturing network presents a heightened risk to its ability to deliver goods on time in the event of operational disruptions or lengthy periods of production downtime at individual sites. To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers.

The Company has taken out a commercially appropriate level of insurance cover against loss. Quality assurance is a high priority throughout the value chain and reduces possible quality-related risks arising from the products and services provided. KION mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the process chain and maintaining close contact with customers and suppliers.

Key measures related to consolidation of the European production facilities were completed in 2012 with the closure of plants in Italy and France. However, there is a risk that further structural measures and reorganisation projects, such as the process of restructuring the container handler and heavy-duty forklift business in Merthyr Tydfil, will not be implemented in future owing to disruption of production or strikes. Furthermore, costs may also be incurred by the environmental restoration of sites that have housed production facilities for many years, for example work required due to contamination. Any damage to the environment may also lead to legal disputes and give rise to reputational risk. To mitigate these risks, KION undertakes restructuring measures only after a comprehensive planning process and works closely with employee representatives to ensure HR measures are implemented with the minimum possible social impact.

IT risks

Tight integration between the different sites and with customers and other companies means that KION also relies on its IT systems working flawlessly. KION mitigates any IT risks – which can in part arise from the consolidation of IT systems and infrastructure – by continuously working on developing a robust, expandable and flexible IT systems landscape. Internal IT resources are pooled in KION Information Management Services GmbH, which has well-established processes for portfolio management and project planning and control. Quality assurance also takes place via external independent audits. Various technical and organisational measures protect the data of KION and its Group companies against unauthorised access, misuse and loss. To that end, authorisation to access the group infrastructure is verified and logged, and a virus scanner and firewall systems are also used.

Financial risks

Despite considerable improvements in the funding situation during the year under review, the Group remains dependent on debt financing to a significant degree. This results in obligations relating to interest and capital repayments. Group Treasury is responsible for ensuring that this does not hinder international growth and that sufficient financial resources are always available for this purpose.

The main types of financial risks managed by Group Treasury, including risk from funding instruments, are liquidity, exchange-rate, interest-rate and counterparty risk. Credit risk consists solely of counterparty risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks. In contrast, the individual Group companies directly manage counterparty risks involving customers.

Acquisition financing as part of the Senior Facility Agreement essentially provides the Group with the flexibility needed to meet the requirements of the lending covenants. Accordingly, the KION Group has secured acquisition finance in the form of committed credit lines. The individual tranches have varying maturities from the end of 2013 to 2018. During the year under review, KION significantly reduced its financial liabilities by converting a shareholder loan and receiving the contribution by Weichai Power as part of a resolution to carry out a capital increase (see pages 37 to 40). In the course of negotiating with its lenders, KION GROUP GmbH also managed to extend the due date of its existing credit facilities with a total volume of more than €1 billion. In addition, €483 million of KION's original acquisition finance was funded by issuing a corporate bond for a total of €500 million in April 2011, which will mature in 2018.

The term of the revolving loan facility was extended considerably in the year under review (see page 37). Other steps to ensure the Company's long-term funding are also regularly pursued. As contractually agreed, the capex facility was reduced by approximately €56 million over the course of 2012.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. Deposits are also restricted to the limits covered by the deposit protection fund run by the Federal Association of German Banks.

KION only uses derivatives to hedge underlying operational transactions; they are not used for speculative purposes. Records are kept of the type of financial instruments used, the limits governing their use and the group of banks acting as counterparties.

Group Treasury rigorously complies with and monitors the strict separation of functions between the front, middle and back offices. Each Group company's liquidity planning is broken down by currency and incorporated into KION's financial planning and reporting process. Group Treasury checks the liquidity planning and uses it to determine the funding requirements of each company.

KION is exposed to currency risk because of the high proportion of its business conducted in currencies other than the euro. Normally, at least 50 per cent of the currency risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline. The KION Group uses interest-rate and currency-related derivatives – primarily interest-rate swaps and currency swaps – to hedge the interest-rate and currency risks arising in connection with the acquisition finance. Approximately 65 per cent of the currency risk arising from the US dollar tranche is hedged by currency forwards with an average €-US$ exchange rate of around 1.29. At the end of 2012 around 48 per cent of the interest-rate risk was hedged by interest-rate swaps. The need to add new hedging instruments or replace ones that expire is reviewed on an ongoing basis.

The funds raised for acquisitions also give rise to risks for KION in terms of compliance with certain financial covenants specified in the loan agreement. These covenants could limit the Company's flexibility with regard to its ongoing strategic development. This risk continues to apply in view of the current uncertain economic and financial market environment. However, the Company is mitigating it by continuing steadfastly with steps to boost efficiency and by ensuring sufficient flexibility when defining new lending agreements. KION complied with all the lending covenants in the reporting year.

Accounting risks arising from goodwill and the brands

Goodwill and the brands represented 33 per cent of total assets as at 31 December 2012 (31 December 2011: 35 per cent). Pursuant to IFRS, these assets are not amortised and their measurement depends, above all, on future expectations. If these future expectations are not fulfilled, there is a risk that impairment losses will have to be recognised on these assets.

Risks from financial services

The funding terms and conditions faced by the lenders themselves (manifested, for example, in the payment of liquidity premiums on interbank lending) may result in a future shortage of lines of credit and/or increased financing costs for companies. However, the Group currently does not expect any further changes in its lines of credit or any excessive increases in margins. KION's leasing activities mean that it may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast. KION regularly assesses its overall risk position arising from financial services.

The risks identified are immediately taken into account by the Company in the costing of new leases by recognising writedowns or valuation allowances and adjusting the residual values. Risk-mitigating factors include the demand for used trucks, which stabilises the residual values of KION's industrial trucks. The majority of the residual values have underlying remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the 2012 financial results. Group-wide standards to ensure that residual values are calculated conservatively, combined with an IT system for residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

KION mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have matching maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has sufficient liquidity. Moreover, KION offers the majority of financial services indirectly via selected financing partners that bear the risks of the finance transaction. In order to exclude exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Group has not identified any material changes between 2011 and 2012. KION also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. It also primarily offers financial services indirectly via selected financing partners, and KION bears the counterparty risk in under 5 per cent of cases. The credit risk management system was updated during 2012 in preparation for the pooling of financial services activities in a separate segment. In particular, this involved revising the regulations concerning the process organisation as well as processes for risk management and control.

Human resources risks

KION relies on having highly qualified managers and experts in key roles. If they left, it could have a long-term adverse impact on the Group's prospects.

That is why KION actively engages in HR work aimed at identifying and developing young professionals with high potential who already work for the Company and retaining them over the long term, thereby enabling succession planning for key roles across the Group. KION also positions itself in the external market as an employer of choice. This will enable it to make strategic additions to its portfolio of existing staff and, in this way, avert the risk of possibly losing expertise and thereby becoming less competitive.

The relocation of production and other restructuring measures may result in a risk of strikes and reactions of other kinds by the workforce. As demonstrated several times in the past, this risk is contained by collaborating closely with employee representatives, and, if job losses are necessary, taking comprehensive steps to ensure they are achieved with the minimum possible social impact.

Legal risks

The legal risks arising from KION's business are typical of those faced by any company operating in this sector. The Group companies are a party in a number of pending lawsuits in various countries. The individual companies cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION Group is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were allegedly faulty or the Company allegedly failed to comply with contractual obligations.

The KION Group has taken measures to prevent it from incurring financial losses as a result of these risks. Although legal disputes with third parties have been insignificant both currently and in the past, the Company has a centralised reporting system to record and assist pending lawsuits. In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. These issues are also tackled by teams whose members come from a variety of functions. The aim of the teams is to identify and minimise risks, for example the risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure compliance with mandatory laws, regulations and contractual arrangements at all times.

External risks

External risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, KION is exposed to the consequent risk of government regulation, capital controls and expropriations. Although fairly unlikely, natural disasters and terrorist attacks constitute a further risk to KION's financial position and financial performance.

Aggregate risk

In 2012 KION continuously analysed the risks arising, in particular, from the financial crisis and the performance of the real economy in addition to its normal quarterly risk reporting. Particular attention was paid to the potential impact of financial instability in some economies and financial institutions in the context of the sovereign debt crisis in the euro zone. As far as possible, risk prevention measures were initiated at an early stage where risks were identified.

As conditions in the financial markets eased in the second half of 2012 and global growth is expected to pick up slightly in 2013, KION is acting under the assumption that the economic environment will be somewhat more favourable in 2013 than in the year under review. The situation in the global markets remains challenging, however. Uncertainties in the euro zone, the high level of government debt in the United States and comparatively muted growth prospects in the developed markets all continue to pose a substantial threat to growth.

As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.

Outlook

The forward-looking statements and information given below are based on the Company's current expectations and assessments. Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of KION, affect the Group's business activities and profitability. Any unexpected developments in the global economy would result in the KION Group's performance and profits differing significantly from those forecast below. KION does not undertake to update forward-looking statements to reflect subsequently occurring events or circumstances. Furthermore, KION cannot guarantee that future performance and actual results will be consistent with the stated assumptions and estimates and can accept no liability in this regard.

Expected macroeconomic conditions

According to estimates made by the International Monetary Fund (IMF), global economic growth may pick up slightly in 2013, amounting to 3.5 per cent (2012 estimate: 3.2 per cent). The purchasing managers' index (PMI) also signals a slight economic recovery. Growth prospects are better in particular for emerging markets such as Brazil and China, which could provide considerable stimulus for European exports. The outlook for the euro zone still assumes slightly negative growth, however. On the other hand, an economic upturn is anticipated in the euro zone beginning in 2014, which could also provide additional momentum to the growth anticipated globally.

Global growth will be fuelled, above all, by a rise in capital expenditure, whereas consumer spending may only increase to a small extent. The IMF predicts that the volume of global trade will grow more robustly than it did in 2012. It also anticipates a moderate fall in commodity prices.

Overall, therefore, economic conditions may already be somewhat more benign in 2013 than in the year under review. However, this forecast is based on the assumption that monetary and fiscal policy will support the global economy. There are also considerable risks resulting, in particular, from the sovereign debt problems in the euro zone and the United States, consolidation and tightening of public finances as well as a possible destabilisation of the financial markets.

Expected sectoral conditions

The overall market for industrial trucks will continue to depend heavily on economic conditions in key sales markets, with the level of capital investment and the growth in global trade being particularly crucial. Whereas the global market for industrial trucks in 2012 was around 3 per cent down on the record level achieved in 2011, KION expects demand to recover slightly in 2013 as well as in the following year. China, other Asian countries and eastern Europe are likely to be the main growth engines in the market. Stable demand is expected in western Europe, fuelled predominantly by the in some cases overdue replacement of old trucks.

Market expectations are also positive from a longer-term perspective. Based on current macroeconomic forecasts and in view of past market performance, KION predicts an average annual growth rate of about 4 per cent for the next five years, which should not involve any significant shifts of the shares of the individual product segments in total revenue.

Expected business situation and financial performance

In 2012 KION laid the foundations for continued profitable growth in subsequent years. Drawing on its multi-brand strategy and the successive expansion of its service business, the Group intends to tap the potential offered by the developed markets of western Europe and the emerging markets. A continuing high level of capital investment and research and development spending serve to preserve the technological leadership of LMH and STILL, and ensure their continued position as premium brands.

Adjusted Group revenue is expected to be higher in 2013 than in 2012. KION anticipates that the new truck business will initially grow at a faster rate than the service business in 2013 because of the strong demand for replacement investment – as a result of the investment backlog from the financial crisis – and due to increasing product sales in Asia and Latin America. Once pent-up capital investment has been exhausted, KION expects that the next few years will see above-average growth of the service business due to the large number of trucks that already exist on the market. The service business is expected to contribute around 40 per cent of consolidated revenue.

The emerging markets are predicted to again be a significant factor in the growth of revenue. In this context, the partnership with Weichai Power is expected to have a positive impact in the Chinese and Asian markets as early as 2013, leading to intensified sales activities in these markets. Additional options, such as consolidating the forklift business in China, are currently being examined. Unit sales in Latin America are forecast to rise on the back of increased production capacity and intensified sales activities. The service network in western and eastern Europe, which was expanded in 2012, is intended to make a considerable contribution to growth also in the new truck business.

Similar to the Group as a whole, the two segments LMH and STILL are aiming for a moderate rise in revenue in 2013. Following the deconsolidation of the hydraulics business, LMH intends to increase its volume of business in all key sales regions, with above-average revenue growth in Asia and other growth markets. STILL expects to generate growth in Latin America and eastern Europe. Moreover, sales in 2012 were also impaired by shifts in production. Adjusted EBIT is expected to improve moderately in both segments. KION forecasts a further rise in the volume of leasing in the FS segment, accompanied by almost unchanged EBT. As in 2012 this business will be concentrated in western Europe.

The good market position of the brands, the broad product portfolio, high market share in the core markets in Germany and France, good positioning in growth markets, growing service business, the measures taken towards a more flexible cost structure as well as economies of scale should all contribute to moderately improving the adjusted EBIT margin in 2013 as well. It will also be positively influenced by the consolidation of the European production facilities, which was largely completed in 2012. The higher proportion of procurement in emerging markets, which will be supported by the partnership with Weichai Power, should have a positive effect on earnings by as early as 2013.

The consolidated result for 2012 was influenced by positive one-off items that will not occur again to the same extent. For 2013, however, slightly positive consolidated net income is expected, which should also reflect the reduction of debt.

In 2014, KION anticipates further moderate revenue growth, slightly improved adjusted EBIT, and continued positive net income, all on the back of even more buoyant global economic growth.

Expected financial position

KION significantly improved its financial position in 2012, particularly owing to the investment of Weichai Power. As a result of the successful issue of the corporate bond in February 2013 (see page 57), the debt maturity structure has also been extended. All in all, KION has significantly expanded its financial flexibility and possesses a sound foundation for its course of growth.

The Company will continue to reduce debt levels while at the same time optimising the funding structure. No specific steps were being planned at the time this group management report was compiled.

Wiesbaden, 13 March 2013

The Executive Board

Gordon Riske	Bert-Jan Knoef	Theodor Maurer
Ching Pong Quek	Dr Thomas Toepfer	

KION HOLDING 1 GmbH

Wiesbaden

Consolidated
Financial Statements
31 December 2012

KION Holding 1 GmbH

Consolidated statement of income for the year ended 31 December 2012

Consolidated income statement

€ thousand	Note	2012	2011
Revenue	[9]	4,726,664	4,368,395
Cost of sales		-3,429,914	-3,256,378
Gross profit		**1,296,750**	**1,112,017**
Selling expenses		-562,404	-520,547
Research and development costs		-124,454	-119,526
Administrative expenses		-313,190	-283,322
Other income	[10]	294,374	81,503
Other expenses	[11]	-59,530	-70,043
Profit from at-equity investments	[12]	15,912	11,192
Other financial result	[13]	2,655	1,886
Earnings before interest and taxes		**550,113**	**213,160**
Financial income	[14]	62,084	73,664
Financial expense	[15]	-301,569	-345,709
Financial result		**-239,485**	**-272,045**
Earnings before taxes		**310,628**	**-58,885**
Income taxes	[16]	**-149,540**	**-34,041**
Current taxes		-122,137	-49,349
Deferred taxes		-27,403	15,308
Net income (loss)		**161,088**	**-92,926**
Attributable to shareholders of KION Holding 1 GmbH		159,008	-95,093
Attributable to non-controlling interests		2,080	2,167

Consolidated statement of comprehensive income

€ thousand	2012	2011
Net income (loss)	**161,088**	**-92,926**
Impact of exchange differences	2,765	6,476
thereof changes in unrealised gains and losses	2,755	6,476
thereof realised gains and losses	10	0
Gains/losses on employee benefits	-151,311	8,394
thereof changes in unrealised gains and losses	-214,109	13,995
thereof tax effect	62,798	-5,601
Gains/losses on cash flow hedges	6,074	-8,149
thereof changes in unrealised gains and losses	27,312	7,071
thereof realised gains and losses	-19,662	-18,452
thereof tax effect	-1,576	3,232
Gains/losses from at-equity investments	-26	532
thereof changes in unrealised gains and losses	-26	532
Other comprehensive loss (income)	**-142,498**	**7,253**
Total comprehensive income (loss)	**18,590**	**-85,673**
Comprehensive income (loss)		
Attributable to shareholders of KION Holding 1 GmbH	16,554	-87,840
Attributable to non-controlling interests	2,036	2,167

KION Holding 1 GmbH

Consolidated statement of financial position at 31 December 2012

ASSETS

€ thousand	Note	2012	2011	1/1/2011
Goodwill	[18]	1,473,245	1,537,996	1,507,010
Other intangible assets	[18]	933,961	977,555	986,410
Leased assets	[19]	191,322	167,354	156,125
Rental assets	[20]	395,093	356,682	321,188
Other property, plant and equipment	[21]	500,345	553,816	590,343
At-equity investments	[22]	154,835	36,545	37,841
Lease receivables	[23]	267,140	242,840	246,808
Other non-current financial assets	[24]	50,171	25,732	17,474
Deferred taxes	[16]	264,974	261,963	241,772
Non-current assets		**4,231,086**	**4,160,483**	**4,104,971**
Inventories	[25]	549,927	625,369	535,529
Trade receivables	[26]	625,462	676,553	633,265
Lease receivables	[23]	132,129	118,381	120,950
Current income tax receivables	[16]	5,501	4,953	4,550
Other current financial assets	[24]	106,778	107,096	106,790
Cash and cash equivalents	[27]	562,357	373,451	252,884
Current assets		**1,982,154**	**1,905,803**	**1,653,968**
Total assets		**6,213,240**	**6,066,286**	**5,758,939**

EQUITY AND LIABILITIES

€ thousand	Note	2012	2011	1/1/2011
Subscribed capital		500	500	500
Contributions for carrying out the approved capital increase		1,132,552	0	0
Capital reserve		348,483	348,483	348,483
Retained earnings		-647,687	-806,429	-711,504
Accumulated other comprehensive loss		-179,672	-37,218	-44,471
Non-controlling interests		6,159	7,077	7,070
Equity	[28]	**660,335**	**-487,587**	**-399,922**
Shareholder loan	[30]	0	643,132	615,250
Retirement benefit obligation	[29]	546,520	382,914	374,063
Non-current financial liabilities	[30]	2,300,656	2,777,354	2,772,417
Lease liabilities	[31]	329,185	300,061	278,814
Other non-current provisions	[32]	89,120	96,168	164,299
Other non-current financial liabilities	[33]	355,078	303,789	260,153
Deferred taxes	[16]	308,821	339,054	334,930
Non-current liabilities		**3,929,380**	**4,842,472**	**4,799,926**
Current financial liabilities	[30]	51,775	227,376	106,470
Trade payables		646,044	634,092	508,108
Lease liabilities	[31]	145,830	146,728	169,929
Current income tax liabilities	[16]	84,958	15,439	6,661
Other current provisions	[32]	137,888	183,678	95,902
Other current financial liabilities	[33]	557,030	504,088	471,865
Current liabilities		**1,623,525**	**1,711,401**	**1,358,935**
Total equity and liabilities		**6,213,240**	**6,066,286**	**5,758,939**

Consolidated statement of cash flows

€ thousand	2012	2011
Net income (loss)	161,088	-92,926
+ income taxes	149,540	34,041
+ financial result	239,485	272,045
= Earnings before interest and taxes	**550,113**	**213,160**
Amortisation, depreciation and impairment charges of non-current assets (excl. leased assets and rental assets)	184,042	192,068
Depreciation/Impairment of leased assets and rental assets	181,227	163,953
Other non-cash income (-) and expenses (+)	-142,530	9,943
Gains (-) / losses (+) on disposal of non-current assets	-103,814	6,428
Change in leased assets and rental assets	-245,764	-208,691
Change in lease receivables, lease liabilities and liabilities from finance leases	24,592	26,056
Change in inventories	20,513	-75,242
Change in trade receivables	56,850	-36,829
Change in trade payables	-3,928	114,886
Cash payments for defined benefit obligations	-23,311	-21,038
Change in other provisions	-39,884	13,989
Change in other operating assets	-26,686	334
Change in other operating liabilities	37,020	30,346
Taxes paid	-54,432	-42,553
= Cash flow from operating activities	**414,008**	**386,810**
Cash receipts from disposal of non-current assets	7,353	3,408
Cash payments for purchase of non-current assets	-155,101	-133,005
Deposits from other loan claims	-5,510	2,879
Dividends received	5,317	6,599
Interest income received	4,488	3,397
Acquisitions of subsidiaries, net of cash acquired	-9,703	-32,916
Cash proceeds from sale of entities (excl. cash and cash equivalents)	259,746	0
Cash payments (-) for sundry assets	-2,538	-2,942
= Cash flow from investing activities	**104,052**	**-152,580**
Dividends paid to non-controlling interests	-2,405	-2,209
Cash paid for increased ownership interests (after control)	-10,373	-1,461
Cash proceeds from sale of ownership interests (after control)	138	82
Contributions for carrying out the approved capital increase	467,000	0
Proceeds from borrowings	7,676	632,691
Loan financing costs paid	-14,549	-24,579
Transactions costs for carrying out the approved capital increase	-1,095	0
Repayment of borrowings	-664,577	-537,018
Proceeds (+) / Repayment (-) of other capital borrowings	-2,723	-21,052
Cash receipts (+) / cash payments (-) for forward foreign exchange hedging contracts	20,490	-13,714
Interest paid	-129,712	-147,455
= Cash flow from financing activities	**-330,130**	**-114,715**
Effect of foreign exchange rate changes on cash and cash equivalents	976	1,052
= Change in cash and cash equivalents	**188,906**	**120,567**
Cash and cash equivalents at the beginning of the year	373,451	252,884
Cash and cash equivalents at the end of the year	562,357	373,451

KION Holding 1 GmbH

Consolidated statement of changes in equity for the year ended 31 December 2012

Consolidated statement of changes in equity

€ thousand

					Accumulated other comprehensive income (loss)						
	Subscribed capital	Contributions for carrying out the approved capital increase	Capital reserves	Retained earnings	Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on Cash Flow Hedges	Gains/losses from equity investments	Total equity attributable to shareholders	Non-controlling interests	Total
Balance as at 1/1/2011	**500**		**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Net loss				-95,093					-95,093	2,167	-92,926
Other comprehensive income (loss)					6,476	8,394	-8,149	532	7,253		7,253
Comprehensive loss				-95,093	6,476	8,394	-8,149	532	-87,840	2,167	-85,673
Dividends										-2,209	-2,209
Other Changes				168					168	49	217
Balance as at 31/12/2011	**500**		**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**
Balance as at 1/1/2012	**500**		**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**
Net income				159,008					159,008	2,080	161,088
Other comprehensive income (loss)					2,765	-151,267	6,074	-26	-142,454	-44	-142,498
Comprehensive income				159,008	2,765	-151,267	6,074	-26	16,554	2,036	18,590
Contributions for carrying out the approved capital increase		1,137,784							1,137,784		1,137,784
Transaction costs		-5,232							-5,232		-5,232
Dividends										-2,405	-2,405
Effects on the acquisition / disposal of non-controlling interests				-425					-425	-549	-974
Other changes				159					159		159
Balance as at 31/12/2012	**500**	**1,132,552**	**348,483**	**-647,687**	**-32,784**	**-130,375**	**-16,894**	**381**	**654,176**	**6,159**	**660,335**

Notes to the consolidated financial statements of KION Holding 1 GmbH for the year ended 31 December 2012

Basis of presentation

[1] General information on the Company

KION Holding 1 GmbH, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, is the parent company of the KION Group in Germany. KION Holding 1 GmbH was formed with articles of association dated 24 October 2006, and entered in the commercial register at the Wiesbaden Local Court under reference HRB 22785 on 21 February 2007. The parent company of KION Holding 1 GmbH is Superlift Holding S.à r.l., Luxembourg.

The KION Group is a leading global supplier of industrial trucks (forklift trucks and warehouse trucks). It generated revenue of €4,726,664 thousand in the financial year 2012 from its Linde, Fenwick, STILL, OM-STILL, Baoli and Voltas brands (2011: €4,368,395 thousand).

The consolidated financial statements and the group management report were prepared by the Executive Board of KION Holding 1 GmbH on 13 March 2013.

[2] Basis of preparation

The consolidated financial statements of the KION Group for the financial year ended 31 December 2012 have been prepared in accordance with section 315a of the German Commercial Code (HGB) which requires the application of International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council concerning the application of international accounting standards. All of the IFRSs and IFRICs that were issued by the reporting date and that were required to be applied in the financial year 2012 have been applied in preparation of the consolidated financial statements.

Financial reporting standards adopted for the first time in the financial year under review:

The following financial reporting standard was adopted for the first time in 2012:

- Amendments to IFRS 7 'Financial Instruments: Disclosures': disclosures relating to transfers of financial assets

The first-time adoption of this standard has had no significant effect on the presentation of the financial position or financial performance of the KION Group.

Financial reporting standards issued but not yet adopted

In the consolidated financial statements for the year ended 31 December 2012 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 2012:

- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards': amendments relating to fixed transition dates and severe hyperinflation
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards': amendments relating to government loans with a below-market rate of interest
- Amendments to IFRS 7 'Financial Instruments: Disclosures': offsetting of financial assets and financial liabilities
- Amendments to IFRS 7 'Financial Instruments: Disclosures': disclosures about the transition to IFRS 9 'Financial Instruments'
- IFRS 9 'Financial Instruments'
- Amendments to IFRS 9 'Financial Instruments': mandatory effective date;
- IFRS 10 'Consolidated Financial Statements'
- Amendments to IFRS 10 'Consolidated Financial Statements': amendments relating to the consolidation of investment entities
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities': amendments relating to the consolidation of investment entities
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- IFRS 13 'Fair Value Measurement'
- Amendments to IAS 1 'Presentation of Financial Statements': amendments relating to the presentation of items of other comprehensive income
- Amendments to IAS 12 'Income Taxes': limited amendment to IAS 12 relating to the recovery of underlying assets
- IAS 19R 'Employee Benefits'
- IAS 27R 'Separate Financial Statements'
- Amendments to IAS 27 'Separate Financial Statements': amendments relating to the consolidation of investment entities
- IAS 28R 'Investments in Associates and Joint Ventures'
- Amendments to IAS 32 'Financial Instruments: Presentation': offsetting of financial assets and financial liabilities
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'
- Improvements to IFRSs (2009-2011).

These standards and interpretations will be applied by the companies included in the KION Group from the date on which they must be adopted for the first time.

The transitional requirements of the revised IAS 19R 'Employee Benefits' require retrospective application. In the KION Group, actuarial gains and losses, in consideration of deferred taxes, are already recognised in other comprehensive income (loss). The Management expects that first-time adoption of the revised IAS 19 for the financial year 2013 will increase net income (after income taxes) by €1,030 thousand and decrease other comprehensive income (after deferred taxes) by €983 thousand due to the alignment of the expected return on plan assets with the discount rate for 2012. The retrospective recognition of previously unrecognised past service cost will result in a reduction of retained earnings by €749 thousand as of 1 January 2012.

The impact of the first-time adoption of IFRS 10 'Consolidated Financial Statements' is currently still being evaluated, but we currently do not anticipate any material effects. The effects of the first-time adoption of the other standards and interpretations on the financial position and financial performance of the KION Group are expected to be insignificant.

The various amendments issued in May 2012 as part of the annual improvement project mainly relate to terminological and editorial aspects. They are not expected to have any significant effect on the presentation of the financial position and financial performance.

In order to improve the clarity of presentation, certain items are aggregated on the face of the statement of financial position and the income statement. The items concerned are presented and disclosed in the notes. Assets and liabilities are classified into current and non-current items in accordance with IAS 1.60. The 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) unless stated otherwise. The rounding of amounts added together may result in rounding differences of +/- €1 thousand in the corresponding totals. The separate financial statements included in the consolidation were prepared at the same reporting date as the annual financial statements of KION Holding 1 GmbH.

[3] Principles of consolidation

Acquisitions are accounted for using the acquisition method. In accordance with IFRS 3R, the identifiable assets and the liabilities assumed on the acquisition date are recognised separately from goodwill, irrespective of the extent of any non-controlling interests. The identifiable assets acquired and the liabilities assumed are measured at their fair value.

The amount recognised as goodwill is calculated as the amount by which the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and the fair value of all previously held equity interest at the acquisition-date exceeds the fair value of the group's interest in the acquiree's net assets. If the consideration transferred is lower than the fair value of the acquiree's net assets, the difference is recognised as a gain.

For each acquisition, the group decides on a case-by-case basis whether the non-controlling interest in the acquiree is recognised at fair value or as the present proportion of the net assets of the acquiree. The option to recognise non-controlling interests at fair value is currently not used. As a result, non-controlling interests are recognised at the proportionate share of the fair value of the net assets attributable to them excluding goodwill.

For business contributions achieved in stages, previously held equity interests are recognised at their fair value on the acquisition-date. The difference between their carrying amount and fair value is recognised in the consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are likely to benefit from the business combination.

Transaction costs are immediately recognised in the income statement. Contingent consideration elements are included at fair value at the acquisition-date when determining the consideration transferred. Contingent consideration elements may consist of equity instruments or financial liabilities. Depending on the classification, changes in their fair value are reflected in subsequent measurements.

The consolidated financial statements include all of the parent company's subsidiaries. Intragroup balances, transactions, income and expenses, and gains and losses on intercompany transactions are completely eliminated. Deferred taxes are recognised on temporary tax differences resulting from consolidation entries.

Transactions with non-controlling interests are treated as transactions with the Group's equity investors. Differences between the consideration paid for the acquisition of a non-controlling interest and the relevant proportion of the carrying amount of the subsidiary's net assets are recognised in other comprehensive income. Gains and losses arising from the sale of non-controlling interests are also recognised in other comprehensive income, provided there is no change in control.

Associates and joint ventures that are material to the financial position and financial performance of the KION Group are accounted for using the equity method.

[4] Basis of consolidation

KION Holding 1 GmbH's equity investments include subsidiaries, joint ventures, associates and financial investments.

In addition to KION Holding 1 GmbH, the consolidated financial statements of the KION Group include all material subsidiaries in which KION Holding 1 GmbH holds a majority of the voting rights, either directly or indirectly, and which it exercises control i.e. has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Subsidiaries acquired in the course of the financial year are consolidated from the date at which control is transferred, i.e. the date from which it is possible to govern their financial and operating policies so as to obtain benefits. Companies sold in the course of the financial year are deconsolidated from the date on which control is lost.

A joint venture is an equity interest in which the entity is jointly managed by companies in the KION Group and one or more partners. Joint control differs from significant influence insofar as it is governed by a contractual agreement.

Associates are entities in which companies in the KION Group are able to exercise significant influence, either directly or indirectly, over the financial and operating policies of the entity concerned. Significant influence is generally presumed to exist when KION Holding 1 GmbH holds between 20 per cent and 50 per cent of the voting rights.

All other equity interests over which KION Holding 1 GmbH is unable to exercise control or a significant influence, or that are not jointly controlled by KION Holding 1 GmbH are classified as financial investments and are not consolidated.

The following table shows the number of equity investments broken down by category:

Shareholdings by categories

	1/1/2012	Addtions	Disposals	31/12/2012
Consolidated subsidiaries	**93**	**9**	**4**	**98**
Domestic	17	2	–	19
Foreign	76	7	4	79
At-equity investments in Joint Ventures and Associates	**11**	**1**	**2**	**10**
Domestic	7	1	–	8
Foreign	4	–	2	2
Subsidiaries and financial investments recorded at cost	**70**	**12**	**43**	**39**
Domestic	16	4	13	7
Foreign	54	8	30	32

A total of 19 German and 79 foreign subsidiaries were consolidated in addition to KION Holding 1 GmbH as at 31 December 2012. Following the separation of financial services operations into separate entities, six financial services companies were consolidated as part of the KION Group for the first time in January 2012 because they had become more financially significant (additions, consolidated subsidiaries). Previously, these companies had been reported at cost and are therefore reported as disposals of investments recorded at cost. In addition, a new company, KION South Asia Pte. Ltd., Singapore, Singapore, was founded in July 2012. Information about other acquisitions can be found in note [5] while information about disposals are provided in notes [6] and [13].

Ten joint ventures and associates were accounted for under the equity method as at 31 December 2012 (31 December 2011: eleven). In each case, measurement under the equity method was performed on the basis of the last available annual financial statements. The addition relates to the non-controlling interest held in Linde Hydraulics GmbH & Co. KG.

39 (2011: 70) companies with minimal business volumes or no business operations were not included in the consolidation. The unconsolidated subsidiaries and the associates not accounted for using the equity method are not material to the financial position and financial performance of the KION Group, both individually and as a whole.

Where other requirements are met, the following consolidated companies are exempt from the requirement to prepare annual financial statements and management reports in accordance with sections 264 (3) and 264b HGB due to their inclusion in the consolidated financial statements:

German entities exempted from disclosure requirements	
Entities exempted	Head office
KION Holding 2 GmbH	Wiesbaden
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg

A detailed overview of all the direct and indirect shareholdings of KION Holding 1 GmbH is shown in the list of shareholdings in the annex to these notes.

[5] Acquisitions

The KION Group acquired the business operations of the UK dealer Creighton on 28 February 2012, by acquiring 100 per cent of the share capital and voting rights in Creighton Materials Handling Ltd., Birmingham, United Kingdom (registered office relocated to Basingstoke, United Kingdom, on 28 February 2012), which itself holds 51 per cent of the share capital and voting rights in Linde Creighton Ltd., Basingstoke, United Kingdom. The KION Group already held the other 49 per cent of the share capital and voting rights in Linde Creighton Ltd. before the business combination. Creighton's business operations include an investment of 100 per cent in McLEMAN FORK LIFT SERVICES LTD., Basingstoke, United Kingdom. The acquisition has enabled the KION Group to further strengthen the leading position of the Linde brand and it's UK distribution and service network.

The carrying amount of the equity-investment in Linde Creighton Ltd. immediately prior to the acquisition date was €3,635 thousand. Remeasurement of the previously held investment (49 per cent) resulted in a fair value of €11,387 thousand. The difference of €7,752 thousand (amount on the acquisition date) was recognised in the income statement and reported as profit from equity-investments.

The acquisition-related costs of this business combination amounted to €60 thousand and have been recognised as an expense for the current period and recorded in Administrative expenses on the face of the consolidated income statement.
The table below shows the overall impact of this acquisition on the consolidated financial statements of KION Holding 1 GmbH based on the final fair values on the acquisition-date.

Impact of the acquisition on the financial position of the KION Group

€ thousand	Fair value at the acquisition date
Goodwill	15,794
Other intangible assets	5,017
Property, plant and equipment	5,437
Deferred taxes (net)	1,025
Inventories	4,029
Trade receivables	8,036
Cash and cash equivalents	2,149
Other assets	5,131
Total assets	**46,618**
Provisions	7,907
Liabilities	15,472
Deferred taxes (net)	0
Total liabilities	**23,379**
Total net assets	**23,239**
Cash payment	11,852
Fair value of the purchase price obligation	0
Consideration transferred	**11,852**
Previously held share of equity (49 per cent in Linde Creighton Ltd.)	11,387
Total	**23,239**

The gross amounts of the receivables acquired as part of this transaction, which are exclusively trade receivables, totalled €8,183 thousand. At the acquisition date it was estimated that €147 thousand of these trade receivables were irrecoverable. Revenue rose by €50,076 thousand as a result of the acquisition. The net income (loss) reported for 2012 contains a profit of €1,382 thousand attributable to the entity acquired. If this business combination had been completed as at 1 January 2012, this would have had no further material impact on either the revenue or the net income (loss) reported by the KION Group for 2012.

Goodwill represents the expected strategic and geographical synergies that the KION Group is able to derive from the business combination. The goodwill arising from this acquisition is currently not tax deductible.

[6] Disposal of subsidiaries

With effect from 27 December 2012 the KION Group sold and deconsolidated its controlling interest of 70 per cent in Linde Hydraulics GmbH & Co. KG, Aschaffenburg (referred to below as Linde Hydraulics), to Weichai Power Co., Ltd., Weifang, China (referred to below as Weichai Power).

Before the disposal, significant assets and liabilities of the former hydraulics business of the KION Group, including land and buildings plus shares in the subsidiaries Linde Hydraulics Ltd., Abingdon, United Kingdom, and Linde Hydraulics Corporation, Canfield, USA, were transferred to Linde Hydraulics. As part of the transaction, Weichai Power granted the KION Group a put option on the remaining shares (30 per cent) in Linde Hydraulics. The KION Group also granted Weichai Power two call options relating to these shares. The put option, which is reported in other financial assets, is measured at fair value. The call options, also measured at fair value, are reported in other financial liabilities.

Non-current assets of €164,669 thousand, current assets of €63,330 thousand, cash and cash equivalents of €3,467 thousand, non-current liabilities of €68,414 thousand and current liabilities of €30,328 thousand were derecognised as a result of the sale.

The gain resulting from this sale (before tax) of €138,276 thousand is the difference between the total consideration received for the hydraulics business including the options (€271,000 thousand) and the carrying amounts of the assets and liabilities disposed of. It is reported on the face of the consolidated income statement as other income.

Linde Material Handling GmbH (referred to below as LMH GmbH) continues to hold the remaining 30 per cent of Linde Hydraulics which is included in the scope of consolidation as an at-equity investment on a going-forward basis. It will be accounted for using the equity method. The gain from the remeasurement of the remaining shares at fair value amounts to €108,692 thousand and is also reported as other income.

[7] Currency translation

The financial statements in foreign currencies are translated in accordance with the functional currency concept (IAS 21 'The Effects of Changes in Foreign Exchange Rates'). The functional currency is the currency of the primary economic environment in which a company operates. The closing-rate method is used for currency translation.

The assets and liabilities of foreign subsidiaries, including goodwill, are translated at the middle spot exchange rate, i.e. at the average of the bid or offer rates on the reporting date. Income and expenses are translated at the average rate for the year. With the exception of income and expenses recognised as other comprehensive income (loss), equity is recognised at historical rates. The resulting translation differences are recognised in other comprehensive income (loss) until subsidiaries are disposed of.

Transactions of the consolidated companies in foreign currencies are translated into the relevant company's functional currency at the rate prevailing on the transaction date. On the reporting date, monetary items are translated at the closing rate and non-monetary items at the rate prevailing on the transaction date. Currency translation differences are recognised in the income statement as other income/expenses.

The following translation rates were used for currencies that are material to the financial statements:

Major foreign currency rates in €

	Average rate		Closing rate	
	2012	2011	2012	2011
Australia (AUD)	1.2420	1.3480	1.2693	1.2683
Brazil (BRL)	2.5114	2.3273	2.7033	2.4142
Switzerland (CHF)	1.2052	1.2327	1.2079	1.2154
China (CNY)	8.1138	9.0018	8.2218	8.1551
United Kingdom (GBP)	0.8112	0.8680	0.8129	0.8343
Russia (RUB)	39.9190	40.8810	40.3252	41.7267
U.S.A. (USD)	1.2863	1.3929	1.3197	1.2957

[8] Accounting policies

The consolidated financial statements are prepared on the separate financial statements of the parent and the consolidated subsidiaries, which are prepared in accordance with uniform KION Group accounting policies.

In 2012 the long-term leasing business was separated from the short-term rentals and 'sale with risk' business as part of the changes in the management structure and the separation of the financial services business. To achieve consistency of presentation with segment reporting, this separation required reclassifications in the KION Group's consolidated statement of financial position. Industrial trucks used in short-term rentals and 'sale with risk' business were reclassified from 'leased assets' to 'rental assets', while industrial trucks used in long-term leasing business continue to be reported as 'leased assets'.

In addition, procurement leasing was also separated from 'leased assets' and are reclassified to other property, plant and equipment as it is no longer considered to be part of leased assets under the new structure.

In connection with this reclassification, the corresponding liabilities are reported as other financial liabilities and no longer as lease liabilities. The resulting reclassifications as at 1 January 2011 and 31 December 2011 are as follows:

Assets and Liabilities

€ thousand	01.01.2011 before reclassifications	reclassifications	01.01.2011 after reclassifications
Assets			
Leased assets	501,164	-345,039	156,125
Rental assets	0	321,188	321,188
Other property, plant and equipment	566,492	23,851	590,343
Liabilities			
Non-current lease liabilities	411,097	-132,283	278,814
Other non-current financial liabilities	127,870	132,283	260,153
Current lease liabilities	250,552	-80,623	169,929
Other current financial liabilities	391,242	80,623	471,865

€ thousand	31.12.2011 before reclassifications	reclassifications	31.12.2011 after reclassifications
Assets			
Leased assets	539,731	-372,377	167,354
Rental assets	0	356,682	356,682
Other property, plant and equipment	538,121	15,695	553,816
Liabilities			
Non-current lease liabilities	471,131	-171,070	300,061
Other non-current financial liabilities	132,719	171,070	303,789
Current lease liabilities	230,381	-83,653	146,728
Other current financial liabilities	420,435	83,653	504,088

Revenue recognition

Revenue is the fair value received for the sale of products and services and lease income (excluding VAT) after deduction of trade discounts and rebates. In accordance with IAS 18, revenue is recognised when it is sufficiently probable that a future economic benefit will flow to the company and that it can be reliably measured. Additional criteria also apply, depending on each individual transaction, such as:

<u>Sale of goods</u>

With the exception of items classified as 'sale with risk', revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the goods are accepted by the customer and the flow of benefits to the Group is considered to be probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Appropriate provisions are recognised for risks relating to the sale of goods. In the case of revenue from agreements classified as 'sale with risk', the revenue is recognised pro rata over the term of the agreement if the risks and rewards remain substantially with the KION Group. The term 'sale with risk' and the corresponding revenue recognition are discussed in the following section and under 'Rental assets' below.

<u>Rendering of services</u>

Revenue from the rendering of services is recognised in the year in which the services are rendered. For services provided over several periods, revenue is recognised in accordance with the proportion of the total services rendered in each period (stage of completion). Revenue from long-term service agreements is therefore recognised on the basis of the average term of the service agreements and in line with the progressive cost trends (constant margin).

Revenue from financial service transactions is recognised in the amount of the sales value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. As part of the financial services provided by the Group, industrial trucks are also sold to finance partners who then enter into leases directly with the end customer (sale with risk). If significant risks and rewards remain with the KION Group as a result of an agreed residual value guarantee that accounts for more than 10 per cent of the asset's value or as a result of an agreed default guarantee, the proceeds from the sale are deferred and recognised as revenue on a straight-line basis over the term until the residual value guarantee or the default guarantee expires.

<u>Interest income and royalties</u>

Interest income is recognised *pro rata temporis* in accordance with the effective interest method. Income from royalties is deferred in accordance with the substance of the relevant agreements and recognised *pro rata temporis*.

Regarding the deferral of lease income, please refer to the accounting policies for leases.

Cost of sales

The cost of sales comprises the cost of goods and services sold and includes directly attributable material and labour costs as well as directly attributable overheads, including depreciation of production equipment and amortisation of certain intangible assets, as well as write-downs of inventories. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Government grants

Government grants are recognised at fair value provided that the Group has satisfied the necessary conditions for receiving the grant. Grants not related to capital expenditures are recognised in the income statement, under other income, in the period in which the expense intended to be covered by the grant is incurred. Grants for capital expenditures are deducted from the cost of the asset concerned and result in a corresponding reduction in depreciation over the subsequent periods.

Financial income and expenses

Net financial income mainly consists of interest expenses on financial liabilities, interest income from financial receivables, gains and losses on financial instruments recognised through profit or loss, exchange rate gains and losses on financial activities and the interest expenses on pension provisions. The expected return on plan assets relating to pension provisions is also included in financial income.

Interest income and expenses are recognised in profit and loss in accordance with the effective interest method. The effective interest method is used for calculating the amortised cost of a financial asset or financial liability and the allocation of interest income and interest expenses over the relevant periods. The effective interest rate is the interest rate at which the estimated future payments (including all fees that are part of the effective interest rate, transaction costs and other premiums and discounts) are discounted to the net carrying amount of the financial asset or liability over the expected term of the financial instrument.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the income statement under other financial income/expenses.

Goodwill

Goodwill has an indefinite useful life and is not amortised. Instead, it is tested for impairment in accordance with IAS 36 ('Impairment of Assets') at least once a year, and more frequently if there are indications that the asset might be impaired.

Impairment testing is performed at the level of the individual cash-generating units (CGUs) or groups of CGUs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. CGUs are generally based on the lowest level of an entity at which – for internal management purposes – the management systematically monitors and controls the contribution to earnings made by the assets concerned, including goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'. In particular, CGUs are considered to be clearly defined and independent if the entity's management has prepared independent forecasts relevant to decision-making for the individual CGUs.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the LMH, STILL, Financial Services and Other segments on the basis of their characteristics and risk profile. The 2012 forecast, the budget for 2013, the medium-term planning for 2014 to 2015 and the KION Group's internal market forecasts for 2016 to 2017 were drawn up on the basis of this segment structure.

The relevant CGUs for the purposes of goodwill impairment testing are the LMH and STILL segments and the CGU Voltas Material Handling Private Limited, Pune, India (referred to below as VMH), which is part of the Other segment, as goodwill and brand names have been allocated to these CGUs.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows used in calculating the operating cash flows are taken from financial forecasts approved by KION's management and are also used for internal management purposes. The cash flows forecast for the next five years are used for the impairment test. The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. The budget for 2013, the medium-term planning for 2014 to 2015 and the KION Group's internal market forecasts for 2016 to 2017 were used to determine the cash flows. Cash flows beyond the five-year planning horizon were extrapolated for the CGUs LMH and STILL by using a growth rate of 1 per cent (2011: 1 per cent). A growth rate of 3 per cent (2011: 2 per cent) was used for VMH to take into account of the forecasted trends for the high-growth market of India and the high level of inflation.

CGU cash flows are discounted using a weighted average cost of capital (WACC) that reflects current market assessments of the specific risks of the CGUs. The underlying capital structure for the CGUs LMH and STILL is determined by comparing peer group companies in the same sector. The beta factor derived from the peer group was 1.08 (2011: 1.03). Yield curve data from the European Central Bank as at 31 October 2012 was used to determine a risk-free interest rate; this interest rate was 2.5 per cent (2011: 3.4 per cent). The market risk premium derived from empirical studies of the capital markets was set at 6.0 per cent (2011: 5.5 per cent) and reflects the increased uncertainty currently observed in the capital markets. The country risk taken into consideration for the CGUs LMH and STILL was 0.2 per cent and 0.5 per cent respectively (2011: 0.0 per cent respectively). The risk-adjusted cost of borrowing before tax was based on an interest rate of 4.4 per cent (2011: 5.3 per cent). A leverage ratio of 22.7 per cent (2011: 25.4 per cent) was calculated based on the capital structure determined for the peer group.

To determine the country-specific WACC for VMH, a leveraged beta of 1.07 (2011: 1.10) was used, which was based on the average of three one-year beta factors. An interest rate of 8.7 per cent (2011: 7.3 per cent) was used as the risk-free interest rate for India as at 31 October 2012. The market risk premium is derived from empirical data of the capital markets and was set at 6.0 per cent (2011: 5.5 per cent) and the country risk premium for India was set at 3.0 per cent (2011: 2.3 per cent). The risk-adjusted cost of borrowing before tax was determined to be 10.6 per cent (2011: 11.3 per cent). A leverage ratio of 22.7 per cent (2011: 25.4 per cent) was calculated for the peer group as at 31 October 2012.

The pre-tax interest rate determined on the basis of these parameters and used to discount the estimated cash flows was 10.7 per cent for LMH (2011: 10.5 per cent), 11.0 per cent for STILL (2011: 10.4 per cent) and 21.5 per cent for VMH (2011: 14.6 per cent). The WACC after tax was 7.8 per cent for LMH (2011: 7.7 per cent), 8.0 per cent for STILL (2011: 7.7 per cent) and 15.8 per cent for VMH (2011: 11.0 per cent).

The impairment test carried out as at 31 December 2012 did not reveal any need to recognise impairment losses for the existing goodwill of the LMH, STILL and VMH CGUs. Sensitivity analysis has enabled us to determine that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at cost less all accumulated amortisation and all accumulated impairment losses. If events or market developments suggest impairment has occurred, impairment tests are carried out on the carrying amount of items classified as other intangible assets with a finite useful life. The carrying amount of an asset is compared with its recoverable amount, which is defined as the higher of its value in use and its fair value net of costs to sell. If the reasons for recognising impairment losses in the past no longer apply, impairment losses not exceeding the amortised cost of the assets are reversed.

Other intangible assets with an indefinite useful life are carried at cost and are mainly capitalised brand names. Brand names are not amortised because they have been established in the market for a number of years and there is no foreseeable end to their useful life. In accordance with IAS 36, they are tested for impairment at least once a year or whenever there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill. Assessments of indefinite useful life are carried out in every period.

The brand name of VMH, which is allocated to the Other segment, is subject to a usage right with a contractually limited term and it will therefore be amortised over its useful life.

Development costs are capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the extent to which the intangible asset is expected to generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Capitalised development costs include all costs and overheads directly attributable to the development process. Once they have been initially capitalised, these costs and internally generated intangible assets – particularly internally generated software – are carried at cost less accumulated amortisation and accumulated impairment losses. Internally generated intangible assets are not qualifying assets so finance costs are not capitalised. All development costs which do not meet the recognition criteria are expensed as incurred and reported on the income statement under research and development costs together with research costs and the amortisation on capitalised development costs.

The following useful lives are applied in determining the carrying amounts of other intangible assets:

Useful life of other intangible assets

	Years
Customer relationships/client base	10
Technology	10
Development costs	5-7
Patents and licences	3-15
Software	3-8

Leases/rental

KION Group companies lease equipment, mainly various industrial trucks, to their customers in order to promote sales. The leases may be of a short-term nature (short-term rental) or long-term nature (leasing).

Companies in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, these contracts are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased/rental asset are transferred to the lessee. All other leases and rental transactions are classified as operating leases, in accordance with IAS 17.

If a KION Group company enters into a finance lease as the lessor, the future lease payments to be paid by the lessee are recognised as lease receivables at an amount equal to the net investment in the lease. Interest income is allocated to each reporting period in order to ensure a constant return on the outstanding net investment in the lease.

Leased assets

If the economic ownership of leased assets remains with a KION Group company as the lessor under an operating lease, the assets are reported as leased assets in a separate item on the face of the statement of financial position. The leased assets are carried at cost and depreciated over the term of the underlying leases. Lease-related income is recognised on a straight-line basis over the terms of the leases.

In the case of these long-term leases, industrial trucks are generally sold to leasing companies. The industrial trucks are then leased back to companies in the KION Group, who sub-lease them to customers (described below as 'sale-and-leaseback sub-leases'). Long-term leases generally have a term of four to five years. If, in the case of sale-and-leaseback sub-leases, the risks and rewards incidental to the head lease are substantially borne by KION Group companies, the corresponding assets are reported as non-current leased assets. If substantially the risks and rewards are transferred to the end customer, a corresponding lease receivable is recognised. Long-term customer leases are funded for terms that match those of the lease; funding items are recognised as lease liabilities.

Rental assets

Rental assets are assets resulting from short-term rentals as well as industrial trucks in relation to which significant risks and rewards remain with the KION Group despite having been sold ('sale with risk').
In the case of short-term rentals, LMH and STILL brand companies rent industrial trucks to customers directly. Short-term rental agreements usually have a term of one day to one year. The significant risks and rewards remain with the LMH and STILL brand companies. The industrial trucks are carried at cost and depreciated over their economic usefull lifes. Depending on the product group, the economic useful life is between five and seven years.

As part of 'sale with risk' business, industrial trucks are sold to finance partners who then enter into leases with end customers. If LMH and STILL brand companies provide material residual value guarantees or a customer default guarantee, these transactions, which classify as sale agreements under civil law, are recognised in accordance with the provisions for lessors in operating leases and the IFRS principles for revenue recognition. In this case, the trucks are recognised as assets in the statement of financial position at their cost on the date of the sale and depreciated to their guaranteed residual value, or zero, over the term of the lease between the finance partner and end customer. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under other financial liabilities. The purchase consideration paid by the finance partner is recognised as deferred income and released to revenue on a pro rata basis over the term of the lease between the finance partner and the end customer.

Other property, plant and equipment

Property, plant and equipment are carried at cost less straight-line depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overheads. This includes production-related depreciation and proportionate costs for administration and social insurance / employee benefits.

The cost of property, plant and equipment is reduced by the amount of any government grants received. Expenses for maintenance and repairs are recognised in income to the extent that they are not required to be capitalised. Borrowing costs are capitalised for certain items of property, plant and equipment whose acquisition or production exceeds one year as soon as the definition of a qualifying asset is met. As was the case in the previous year, there were no qualifying assets in 2012.

Depreciation of property, plant and equipment is recognised on a straight-line basis and reported in functional costs. The useful lives and depreciation methods are reviewed annually and adjusted to reflect changes in conditions.

The following useful lives are applied in determining the carrying amounts of items of property, plant and equipment:

Useful life of other property, plant and equipment

	Years
Buildings	10-25
Plant and machinery	6-15
Office furniture and equipment	3-15

KION Group companies also lease property, plant and equipment for their own use using finance leases, which are recognised as other property, plant and equipment. In this case, the lower of the fair value and present value of future lease payments is recognised at the inception of the lease. A corresponding liability to the lessor is recognised under other financial liabilities in the statement of financial position.

Property, plant and equipment covered by finance leases is depreciated over the shorter of its useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the property, plant and equipment is depreciated and the other financial liabilities are reversed over the useful life of the leased assets.

The difference between total finance lease liabilities and the fair value of the financed leased assets represents the finance charge which is recognised in the income statement over the term of the lease at a constant rate of interest on the outstanding balance in each period. At the end of the lease term, the leased assets are either returned or purchased, or the contract is extended.

If there are certain indications of impairment of the property, plant and equipment, the assets are tested for impairment by comparing the residual carrying amount of the assets with their recoverable amount, which is defined as the higher of value in use and fair value less costs to sell. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for an asset.

The KION Group calculates the recoverable amount primarily on the basis of value in use. In determining value in use, the expected future cash flows are discounted using a risk-adjusted discount rate, taking into account the current and future level of earnings and segment-specific, technological, economic and general trends.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer exists, impairment losses not exceeding the amortised cost of the asset concerned are reversed. This does not apply to goodwill.

Equity-accounted investments

In accordance with the equity method, associates and joint ventures are measured as the proportion of the interest in the equity of the investee. They are initially carried at cost. In subsequent periods, the KION Group's interest in the profit or loss generated after acquisition is recognised in income. Other changes in the equity of associates and joint ventures are recognised in other comprehensive income (loss) in the consolidated financial statements in proportion to the Group's interest in the associate or joint venture.

If the Group's interest in the losses made by an associate or joint venture exceeds the carrying amount of the proportionate equity attributable to the Group, no additional losses are recognised. Any goodwill arising from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associate or joint venture. When an associate or joint venture is sold, the Group's interest in its goodwill is taken into account in determining the proceeds on disposal.

If there is evidence that an associate or joint venture may be impaired, the carrying amount of the investment is tested for impairment.

Income taxes

In the consolidated financial statements, current and deferred taxes are recognised on the basis of the tax laws of the relevant jurisdictions. Deferred taxes are recognised in other comprehensive income (loss) if they relate to transactions also recognised in other comprehensive income (loss).

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the IFRS carrying amounts and the tax base, as well as for temporary differences resulting from consolidation measures.

Deferred tax assets also include tax refund claims that arise from the expected utilisation of existing tax loss carryforwards and interest carryforwards in subsequent years and whose utilisation is reasonably certain according to current forecasts. On the basis of this estimate, deferred tax assets were recognised on some interest carryforwards for the first time in 2011.

Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned. In accordance with the provisions in IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are offset against deferred tax liabilities to the extent that they have the same maturity and relate to the same taxation authority.

Inventories

Inventories are carried at the lower of cost and net realisable value.

The acquisition costs of raw materials and merchandise are calculated on the basis of an average.

The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overheads and production-related depreciation directly attributable to the production process. Administrative costs and social insurance / employee benefits are included to the extent that they are attributable to the production process. Borrowing costs as defined by IAS 23 are not a component of cost as they are not qualifying assets as defined by IAS 23.4. The amount recognised is an average value or a value determined in accordance with the FIFO method.

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated selling costs.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability, etc. Write-downs are reversed up to a maximum of cost if the reasons for their recognition no longer apply.

Trade receivables

In the first period in which they are recognised, trade receivables ('LaR') are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Other financial assets

The investments in non-consolidated affiliated companies and (long-term) equity investments that are reported in other non-current financial assets are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted measurement techniques. At present there is no intention to sell these financial instruments. At each reporting date, financial assets or groups of financial assets are tested for impairment. Impairment losses are recognised in income as appropriate.

Primary financial assets are initially recognised and derecognised in the financial statements on their settlement dates.

Under IAS 39 ('Financial Instruments: Recognition and Measurement'), securities allocated to current or non-current financial assets are classified according to those carried at fair value through profit and loss (FAHfT), available for sale (AfS) and held to maturity (HtM).

The KION Group did not designate any securities as carried at fair value through profit and loss (FAHfT) in the reporting year. The FAHfT category therefore only includes derivative financial instruments that do not form part of a formally documented hedge relationship.

Available-for-sale financial instruments (AfS) are carried at fair value. If they are equity investments for which no market price is available, they are carried at cost. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised.

In the first period they are recognised, other financial assets which are categorised as loans and receivables ('LaR') are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Carrying amounts are tested for impairment on every reporting date and whenever indications of impairment arise. If there is an objective indication of impairment (such as a borrower being in significant financial difficulties), an impairment loss must be recognised directly in the income statement.

If objective facts in favour of reversing impairment losses are present on the reporting date, reversals are recognised to an appropriate extent. Reversals may not exceed the amortised cost that would have arisen if the impairment loss had not been recognised. In the case of debt instruments classified as available-for-sale financial assets, reversals of impairment losses are recognised in the income statement.

Held to maturity financial assets are carried at amortised cost less impairment losses in accordance with the effective interest method.

Derivative financial instruments

Derivative financial instruments are measured at their fair value and are reported as financial assets or financial liabilities as at the reporting date.

Derivative financial instruments in the KION Group comprise currency forwards and interest-rate swaps and are used for hedging purposes to mitigate exchange-rate and interest-rate risks. In addition, the options on the remaining shares in Linde Hydraulics are reported as derivative financial instruments (see note [6]).

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial instruments are measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. Changes in the fair value of derivative financial instruments in a formally documented hedge are reported in the income statement (for fair value hedges) or in other comprehensive income (loss) (for cash flow hedges).

The KION Group currently only uses cash flow hedges for exchange-rate and interest-rate risks.

In the case of cash flow hedges, derivatives are used to hedge future cash flow risks from existing underlying transactions or planned transactions. The effective portion of changes in the fair value of derivatives is initially recognised in other comprehensive income (loss), and is subsequently reclassified to the income statement when the revenue from the corresponding underlying transaction is realised. The ineffective portion of the changes in fair value is recognised immediately in net financial income/expenses.

If the criteria for hedge accounting are not met, changes in the fair value of derivative financial instruments are recognised in the income statement.

In the case of hedges of net investments in foreign subsidiaries, the translation risks resulting from investments with a different functional currency are hedged. Unrealised gains and losses on hedging instruments are reported in other comprehensive income (loss) until the company is sold. In the past financial year, KION Group companies have not entered into any hedges for net investments in foreign subsidiaries.

Further information on risk management and accounting for derivative financial instruments can be found in note [36].

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the plan assets used to cover the Group's benefit obligations. Plan assets are measured at fair value.

Actuarial gains and losses, including deferred taxes, are recognised in other comprehensive income (loss). The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the expected return on plan assets are reported in net financial income/expenses. Further details can be found in note [29].

Other provisions

Other provisions are recognised when the Group has a legal or constructive obligation to a third party as the result of a past event that is probable to result in a future outflow of resources and that can be reliably estimated. A provision is recognised in the amount of the mean of the range of probabilities. Measurement is at full cost.

Provisions for identifiable risks and contingent liabilities are recognised in the amount that represents the best estimate of the cost required to settle the obligations. Recourse claims are not taken into account. The settlement amount also includes cost increases identifiable as at the reporting date. Provisions with a maturity of more than twelve months are discounted using the standard market interest rate. The discount rate is a before-tax rate that reflects current market expectations for the time value of money and the specific risks inherent in the liability. Accrued interest is recognised in interest expenses.

Warranty provisions are recognised on the basis of past or estimated future claim statistics. Individual provisions are recognised for claims that are known to the Group. The corresponding expense is recognised in cost of sales at the date on which the revenue is recognised.

Provisions for expected losses from onerous contracts and other business obligations are measured on the basis of the work yet to be performed.

A restructuring provision is recognised when a KION Group company has prepared a detailed, formal restructuring plan and this plan has raised a valid expectation in those affected that the company will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring and not associated with the ongoing activities of the company concerned.

Shareholder loan, financial liabilities, other financial liabilities, trade payables

These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted for all financial liabilities that are not subsequently designated as at fair value through profit or loss.

The shareholder loan, non-current financial liabilities and other financial liabilities are then carried at amortised cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

Assumptions and estimates

The preparation of the IFRS consolidated financial statements requires the use of assumptions and estimates for certain line items that affect recognition and measurement in the statement of financial position and the income statement. The actual amounts realised may differ from estimates. Assumptions and estimates are applied in particular:

- in assessing the need for and the amount of impairment losses on intangible assets, property, plant and equipment and inventories
- in determining the useful life of non-current assets
- in classifying leases
- to the recognition and measurement of defined benefit pension obligations, provisions for tax, and other provisions and
- in assessing the recoverability of deferred tax assets.

Goodwill is tested for impairment annually at the level of the cash-generating units to which goodwill is allocated, applying the budget for 2013 and the medium-term planning for 2014 to 2015 combined with the growth predicted in the market forecasts for 2016 to 2017 and assuming division-specific growth rates for the period thereafter. Any material changes to these factors might result in the recognition of impairment losses. Further information on goodwill can be found in note [18].

Information on leases can be found in the sections on leases/rental, leased assets, rental assets and other property, plant and equipment in this note.

Defined benefit pension obligations are calculated on the basis of actuarial parameters. As differences due to actuarial gains and losses are recognised in other comprehensive income (loss), any change in these parameters would not affect the net profit for the current period. For further details about sensitivity analysis of the impact of certain assumptions, please refer to the information about the retirement benefit obligation in note [29].

Significant estimates are involved in calculating provisions for tax. These estimates may change on the basis of new information and experience (see also note [16]). Where necessary, the KION Group's accounting departments receive assistance from external legal advisers and tax consultants when making the estimates required.

The recognition and measurement of other provisions is based on an estimate taking into consideration the probability of the future outflow of resources, past experience and the circumstances known to the Group at the reporting date. Accordingly, the actual outflow of resources for a given event may be different from the amount recognised in other provisions. Further details can be found in note [32].

Deferred tax assets on tax loss carryforwards and interest carryforwards are recognised on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carryforwards can be utilised. The actual amount of taxable income in future periods, and hence the actual utilisation of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognised.

Changes are recognised in profit or loss when they become known and assumptions are adjusted accordingly.

Notes to the consolidated income statement

[9] Revenue

The revenue generated by the KION Group in the year under review is comprised of the following by product category:

Revenue by product category

€ thousand	2012	2011
New business	2,651,483	2,364,235
Hydraulics	167,771	172,662
Service offering	1,907,410	1,831,498
- After sales	1,149,791	1,065,731
- Rental business	427,610	441,152
- Used trucks	212,974	218,982
- Other	117,035	105,633
Total revenue	**4,726,664**	**4,368,395**

Further information on revenue can be found in note [39] Segment report.

[10] Other income

Other income is comprised of the following:

Other income

€ thousand	2012	2011
Net gains on the Weichai transactions	211,763	–
Foreign currency exchange rate gains	18,926	22,600
Profit from release of deferred lease profits	10,593	6,886
Income from reversal of provisions	5,196	6,638
Remeasurement of purchase price obligations	4,557	11,971
Gains on disposal of non-current assets	4,045	1,381
Rental income	2,677	2,155
Sundry income	36,617	29,872
Total other income	**294,374**	**81,503**

Net gains on the Weichai transactions relate to the gain of €138,276 thousand from the disposal of the (indirect) controlling interest of 70 per cent in Linde Hydraulics (see also note [6]). Costs incurred in connection with the sale amounting to €35,205 thousand are also reported under net gains on the Weichai transactions.

In addition, the net gains on the Weichai transactions also include the gain arising from the remeasurement of the remaining shares (30 per cent) in Linde Hydraulics at fair value in the amount of €108,692 thousand.

The foreign currency exchange rate gains and losses result from the measurement of financial receivables and liabilities denominated in foreign currency and the measurement of corresponding derivatives. The foreign currency exchange rate gains include gains amounting to €9,670 thousand (2011: €11,354 thousand) on derivative financial instruments used to hedge operating exchange-rate risk. These gains were offset by foreign currency exchange rate losses (other expenses) of €5,101 thousand in 2012 (2011: €11,542 thousand). Overall, this resulted in a net gain of €4,569 thousand (2011: net loss of €188 thousand).

The remeasurement of purchase price obligations relates to the shares acquired in Linde Creighton Ltd., Basingstoke, United Kingdom in 2012. This gain results from the significantly improved market environment and a corresponding increase in the value of the investment (see also note [5]).

[11] Other expenses

The breakdown of other expenses is as follows:

Other expenses

€ thousand	2012	2011
Foreign currency exchange rate losses	23,277	19,467
Impairment of non-current assets	21,134	27,032
Losses on disposal of non-current assets	3,334	7,963
Sundry expenses	11,785	15,581
Total other expenses	**59,530**	**70,043**

The change in foreign currency exchange rate gains and losses is attributable to exchange rate movements (see also note [10]). Overall, there was a net gain of €4,569 thousand on derivative financial instruments used to hedge operating exchange-rate risk (2011: net loss of €188 thousand).

The impairment recognised on non-current assets in the reporting year comprised impairment losses of €4,825 thousand on intangible assets (2011: €10,261 thousand) and impairment losses of €16,309 thousand on other property, plant and equipment (2011: €16,771 thousand). It was largely caused by the planned closure of production sites.

[12] Profit from at-equity investments

Profit from equity-accounted investments amounted to €15,912 thousand in the reporting year (2011: €11,192 thousand). This amount includes income of €8,015 thousand (average price) arising from the remeasurement of an existing equity-accounted investment of 49 per cent held in Linde Creighton Ltd., Basingstoke, United Kingdom, over which a controlling influence can be exerted following the acquisition of the remaining shares (see note [5]). Further details on equity-accounted investments can be found in note [22].

[13] Other financial result

Other financial result is essentially comprised of income from equity investments (€2,197 thousand) and gains on the disposal of equity investments (€427 thousand). These gains on the disposal of equity investments largely resulted from the gain of €298 thousand on the disposal of the 80 per cent controlling interest in TPZ Linde Vilicari Hrvatska d.o.o., Zagreb, Croatia, in February 2012.

[14] Financial income

Financial income is comprised of the following:

Financial income

€ thousand	2012	2011
Return on pension plan assets	22,731	22,732
Interest income from leases	22,451	24,414
Foreign currency exchange rate gains (financing)	12,108	23,149
Other interests and similar income	4,794	3,369
Total financial income	**62,084**	**73,664**

The return on pension plan assets item shows the expected return on plan assets used to cover pension obligations.

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group companies operate as lessors (finance leases).

Gains on foreign exchange rate differences – financing – include gains of €9,142 thousand on the translation of a foreign-currency loan denominated in US dollars (2011: €19,022 thousand) and a gain of €75 thousand on hedging transactions (2011: €22,883 thousand).

[15] Financial expense

The financial expense is comprised of the following:

Financial expense

€ thousand	2012	2011
Interest expense from loans	121,100	135,737
Interest cost of defined benefit obligation	43,809	42,436
Interest cost of leases	39,636	37,738
Interest expense from corporate bond	34,458	25,395
Interest cost of shareholder loan	27,653	27,882
Amortisation of finance costs	11,422	11,359
Foreign currency exchange rate losses (financing)	7,632	52,264
Interest cost of non-current financial liabilities	2,192	2,574
Other interest expenses and similar charges	13,667	10,324
Total financial expense	**301,569**	**345,709**

Interest expenses include interest costs of €101,239 thousand arising from variable-rate loan liabilities under the senior facilities agreement (2011: €117,273 thousand) and losses of €19,861 thousand on interest-rate swaps (2011: €18,464 thousand).

The interest cost of the defined benefit obligation is the annual interest expense in connection with the unwinding of the discount on non-current pension obligations.

The interest cost of leases relates to the interest portion of lease payments in financial services transactions in which the material risks and rewards are borne by KION Group companies as the lessee (finance leases). Sale-finance leaseback-operating sub-leases (SALB-FL-OL) incurred interest expenses of €20,719 thousand (2011: €19,587 thousand). These interest expenses were not directly offset by any interest income. The corresponding income reported within revenue as lease payments received.

The foreign currency exchange rate losses – financing – include losses on derivative financial instruments amounting to €7,588 thousand (2011: €31,843 thousand).

[16] Income taxes

The income tax expense of €149,540 thousand (2011: expense of €34,041 thousand) consisted of €122,137 thousand in current tax expense (2011: €49,349 thousand) and €27,403 thousand in deferred tax expense (2011: deferred tax income of €15,308 thousand). The current tax expense includes expenses of €8,820 thousand (2011: expenses of €2,602 thousand) relating to previous financial years.

At the reporting date there were income tax receivables due from tax authorities of €5,501 thousand (2011: €4,953 thousand) and income tax liabilities of €84,958 thousand (2011: €15,439 thousand).

Deferred taxes are recognised for temporary differences between the tax base and the carrying amounts under IFRS. Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent. Taking into account the average trade tax rate of 14.11 per cent and the solidarity surcharge (5.5 per cent of corporate income tax), the combined tax rate for companies in Germany remained at 29.9 per cent. The income tax rates for foreign companies used in the calculation of deferred taxes are between 10.0 per cent and 38.1 per cent (2011: 10.0 per cent and 38.5 per cent).

No deferred taxes have been recognised on differences of €96,090 thousand (2011: €100,146 thousand) between the IFRS carrying amounts and the tax base of the investments (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to sell the investments in the foreseeable future.

Deferred tax assets are allocated to the following items in the statement of financial position:

Deferred tax assets

€ thousand	2012	2011
Intangible assets and property, plant and equipment	107,051	86,789
Financial assets	4,141	1
Current assets	33,832	34,697
Deferred charges and prepaid expenses	8,622	6,065
Provisions	121,478	101,669
Liabilities	250,973	200,678
Deferred income	46,428	46,386
Tax loss carryforwards and interest carryforwards	31,795	70,230
Offsetting	-339,346	-284,552
Total deferred tax assets	**264,974**	**261,963**

Deferred tax liabilities are allocated to the following items in the statement of financial position:

Deferred tax liabilities

€ thousand	2012	2011
Intangible assets and property, plant and equipment	452,436	456,138
Financial assets	3,259	3,139
Current assets	150,410	113,340
Deferred charges and prepaid expenses	398	8,588
Provisions	23,706	29,838
Liabilities	15,361	9,749
Deferred income	2,597	2,814
Offsetting	-339,346	-284,552
Total deferred tax liabilities	**308,821**	**339,054**

The deferred tax liabilities essentially relate to the purchase price allocation as a result of the acquisition of KION Group, particularly for intangible assets and property, plant and equipment.

Deferred tax assets amounting to €233,162 thousand (2011: €211,398 thousand) have not been recognised because due to the current tax structure it is unlikely that the corresponding benefit can be utilised despite the improved income situation. Unrecognised deferred tax assets relate to tax loss carryforwards of €108,630 thousand (2011: €91,636 thousand), interest carryforwards of €123,952 thousand (2011: €116,060 thousand) and other temporary differences of €580 thousand (2011: €3,702 thousand).

Deferred taxes on tax loss carryforwards and interest carryforwards are recognised to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. The deferred tax assets recognised on interest carryforwards in 2011 were utilised in the year under review. No deferred taxes on interest carryforwards had been recognised as at 31 December 2012. The total amount of unrecognised deferred tax assets relating to loss carryforwards of €108,630 thousand (2011: €91,636 thousand) concerns tax losses that can be carried forward indefinitely.

The KION Group's tax loss carryforwards in Germany as at 31 December 2012 amounted to €289,786 thousand (31 December 2011: €381,941 thousand) for corporate income tax and €270,800 thousand (31 December 2011: €263,525 thousand) for trade tax. There were also foreign tax loss carryforwards totalling €190,476 thousand (31 December 2011: €187,438 thousand).

The interest that can be carried forward for an indefinite period of time in Germany amounted to €463,461 thousand as at 31 December 2012 (31 December 2011: €464,939 thousand).

The table below shows the reconciliation of expected income tax expense to effective income tax expense. The Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates, taking into account consolidation effects recognised in income. The expected tax rate applied in the reconciliation is 29.9 per cent (2011: 29.8 per cent).

Income taxes

€ thousand	2012	2011
Earnings before taxes	**310,628**	**-58,885**
Anticipated income taxes	-93,002	17,548
Deviations due to the trade tax base	-3,882	-3,087
Deviations from the anticipated tax rate	-322	13,560
Change in valuation allowance on deferred taxes	-623	-9,765
Losses for which deferred taxes have not been recognised	-19,972	-17,372
Change in tax rates and tax legislation	-1,473	-1,404
Interest carryforwards for which deferred taxes have not been recognised	-7,113	-31,786
Non-deductible expenses	-20,244	-8,556
Tax-exempt income	20,924	1,903
Tax relating to other periods	-8,820	-2,602
Deferred taxes prior periods	-11,168	5,001
Other	-3,845	2,519
Effective income taxes (current and deferred taxes)	**-149,540**	**-34,041**

Tax-exempt income includes €17,410 thousand of tax-exempt income in connection with the transfer of significant parts of the former hydraulics business of LMH GmbH to Linde Hydraulics.

[17] Other income statement disclosures

The cost of materials declined by €64,085 thousand in the reporting year to €2,179,984 thousand (2011: €2,244,069 thousand).

Personnel expenses increased by €138,999 thousand in 2012 to €1,202,725 thousand (2011: €1,063,726 thousand). Personnel expenses include wages and salaries of €946,574 thousand (2011: €833,585 thousand) as well as social security contributions and expenses for pensions and other benefits of €256,151 thousand (2011: €230,141 thousand). The interest cost from the unwinding of the discount on estimated pension obligations is not recognised under personnel expenses and is instead reported under financial expense as a component of interest cost of the defined benefit obligation. The pension expense of €33,688 thousand (2011: €29,741 thousand) is essentially comprised of the pension entitlements of €16,243 thousand vested in 2012 (2011: €16,242 thousand) and the unrecognised past service cost of €399 thousand (2011: €177 thousand).

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expenses on intangible assets amounted to €365,269 thousand in the reporting year (2011: €356,021 thousand). Inventories were written down by €8,167 thousand (2011: €6,179 thousand).

The breakdown of lease and rental payments expensed in the period and related to operating leases where KION Group companies are lessees is as follows:

Lessee: Expenses recognised for operating lease payments

€ thousand	2012	2011
Procurement lease contracts	80,454	67,043
Sublease contracts	18,983	38,181
Total recognised expenses for lease payments	**99,437**	**105,224**

The expenses in connection with sub-leases relate to leases and rental agreements in which KION Group companies are both lessors and lessees. These expenses were offset by income of €53,639 thousand in 2012 (2011: €51,072 thousand).

Notes to the consolidated statement of financial position

[18] Goodwill and other intangible assets

Goodwill is allocated to the segments as follows:

Goodwill broken down by segment

€ thousand	2012	2011
LMH	907,835	971,873
STILL	552,208	552,208
Other	13,202	13,915
Total goodwill	**1,473,245**	**1,537,996**

The change in goodwill was the result of the disposal of goodwill amounting to €80,700 thousand in the LMH segment in connection with the sale of the controlling interest (70 per cent) in Linde Hydraulics. In addition, goodwill of €16,306 thousand arose from the acquisition of the UK dealer Creighton. It was allocated to the LMH segment.

Intangible assets

€ thousand	Goodwill	Brand names	Technology & development	Sundry intangible assets	Total
Balance as at 1/1/2011	**1,507,010**	**591,018**	**261,194**	**134,198**	**2,493,420**
Group changes	31,535	2,982	0	7,634	42,151
Currency translation adjustments	150	524	-14	225	885
Additions	0	99	53,363	16,755	70,217
Disposals	-699	0	-1	-163	-863
Amortisation	0	-244	-52,544	-27,359	-80,147
Impairment	0	0	-10,236	-25	-10,261
Reclassification	0	0	-39	188	149
Balance as at 31/12/2011	**1,537,996**	**594,379**	**251,723**	**131,453**	**2,515,551**
Gross carrying amount as at 31/12/2011	1,537,996	594,609	449,864	236,275	2,818,744
Accumulated amortisation	0	-230	-198,141	-104,822	-303,193
Balance as at 1/1/2012	**1,537,996**	**594,379**	**251,723**	**131,453**	**2,515,551**
Group changes	16,306	0	0	4,691	20,997
Currency translation adjustments	-542	-85	366	230	-31
Additions	185	0	51,247	18,923	70,355
Disposals	-80,700	0	-25,094	-3,433	-109,227
Amortisation	0	-346	-55,527	-29,828	-85,701
Impairment	0	0	-4,758	-67	-4,825
Reclassification	0	0	-65	152	87
Balance as at 31/12/2012	**1,473,245**	**593,948**	**217,892**	**122,121**	**2,407,206**
Gross carrying amount as at 31/12/2012	1,473,245	594,494	426,727	232,942	2,727,408
Accumulated amortisation	0	-546	-208,835	-110,821	-320,202

The Group intends to retain and further strengthen the Linde, STILL, OM-STILL and KION brand names on a long-term basis. Brand names worth €473,755 thousand (31 December 2011: €473,782 thousand) are assigned to the LMH segment. The value of brand names allocated to the STILL segment was unchanged year on year at €114,000 thousand. These assets are not amortised as they have an indefinite useful life. An amount of €1,830 thousand had been allocated to the Voltas brand name and is reported in the 'Other' segment in 2011 as part of the purchase price allocation. Unlike the other brand names, the Voltas brand name is amortised over its useful life. As at 31 December 2012 the brand names allocated to the 'Other' segment had a carrying amount of €6,193 thousand (31 December 2011: €6,597 thousand).

The total carrying amount for technology and development assets as at 31 December 2012 was €217,892 thousand (31 December 2011: €251,723 thousand). Development costs of €51,247 thousand were capitalised in the reporting year (2011: €53,363 thousand). Total research and development costs of €124,454 thousand (2011: €119,526 thousand) were expensed. Of this amount, €60,285 thousand (2011: €62,780 thousand) related to amortisation and impairment losses.

Impairment losses of €4,825 thousand were recognised on these assets in 2012 to reflect the lack of opportunities to use them in future as a result of the planned closure of production sites. Of this amount, €4,741 thousand relates to capitalised development costs. The impairment losses related to the LMH segment.

Other intangible assets relate primarily to the intangible assets identified through the purchase price allocation for the acquisition of the KION Group, such as the customer base.

The amortisation expense and impairment losses on intangible assets are reported under the functional costs.

[19] Leased assets

The changes in leased assets in 2012 and 2011 were as follows:

Leased assets

€ thousand	2012	2011
Balance as at 1/1/	**167,354**	**156,125**
Group changes	0	3,110
Currency translation adjustments	708	-451
Additions	135,096	87,897
Disposals	-60,589	-28,642
Depreciation	-51,171	-49,961
Reclassification	-76	-724
Balance as at 31/12/	**191,322**	**167,354**
Gross carrying amount as at 31/12/	453,945	455,893
Accumulated depreciation	-262,623	-288,539

Leased assets are attributable solely to the Financial Services segment and relate to industrial trucks in the amount of €191,192 thousand (2011: €167,164 thousand) and to truck equipment in the amount of €130 thousand (2011: €190 thousand).

Leased assets include assets leased over the long term with a carrying amount of €142,668 thousand (31 December 2011: €120,742 thousand) that are funded by means of sale-and-leaseback transactions with leasing companies and leased assets with a residual value of €48,653 thousand (31 December 2011: €46,612 thousand) that are largely funded internally or by means of bank loans.

Leased assets resulted in non-cancellable lease obligations from customers amounting to €189,600 thousand (31 December 2011: €162,140 thousand).

The following table shows the maturity structure of the minimum lease payments:

Minimum lease payments		
€ thousand	2012	2011
Cash receipts from minimum lease payments	**189,600**	**162,140**
due within one year	80,127	66,613
due in one to five years	106,082	94,768
due in more than five years	3,391	759

[20] Rental assets

The changes in rental assets in 2012 and 2011 were as follows:

Rental assets		
€ thousand	2012	2011
Balance as at 1/1/	**356,682**	**321,188**
Group changes	1,529	7,580
Currency translation adjustments	1,496	-929
Additions	193,796	196,319
Disposals	-28,191	-51,997
Depreciation	-130,056	-113,992
Reclassification	-163	-1,487
Balance as at 31/12/	**395,093**	**356,682**
Gross carrying amount as at 31/12/	912,994	923,739
Accumulated depreciation	-517,901	-567,057

Additions amounting to €110,145 thousand (2011: €102,336 thousand) and disposals amounting to €19,764 thousand (2011: €28,437 thousand) are attributable to the LMH segment. Additions amounting to €85,372 thousand (2011: €84,518 thousand) and disposals amounting to €10,152 thousand (2011: €14,095 thousand) are attributable to the STILL segment.

The breakdown of rental assets by contract type is shown in the following table:

Rental assets broken down by contract types

	Operating leases as lessor		Sale with risk		Total	
€ thousand	2012	2011	2012	2011	2012	2011
Industrial trucks	323,647	287,913	66,760	66,466	390,407	354,379
Truck equipment	4,585	2,066	101	237	4,686	2,303
Total rental assets	**328,232**	**289,979**	**66,861**	**66,703**	**395,093**	**356,682**

Rental assets comprises assets resulting from short-term rentals ('operating leases as lessor') and assets for which significant risks and rewards remain with the KION Group although they were sold ('sale with risk').

[21] Other property, plant and equipment

The changes in the carrying amounts of other property, plant and equipment were as follows:

Other property, plant and equipment				
€ thousand	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
Balance as at 1/1/2011	**366,609**	**212,389**	**11,345**	**590,343**
Group changes	4,404	1,061	779	6,244
Exchange rate adjustments	3,686	1,165	-291	4,560
Additions	2,049	47,161	13,627	62,837
Disposals	-9,951	-9	-609	-10,569
Depreciation	-15,987	-68,902	0	-84,889
Impairment	-8,796	-7,975	0	-16,771
Reclassification	3,223	3,613	-4,775	2,061
Balance as at 31/12/2011	**345,237**	**188,503**	**20,076**	**553,816**
Gross carrying amount as at 31/12/2011	652,313	1,014,798	20,076	1,687,187
Accumulated depreciation	-307,076	-826,295	0	-1,133,371
Balance as at 1/1/2012	**345,237**	**188,503**	**20,076**	**553,816**
Group changes	3,023	-173	0	2,850
Exchange rate adjustments	-319	-142	-58	-519
Additions	9,937	65,700	17,520	93,157
Disposals	-19,006	-30,374	-6,215	-55,595
Depreciation	-14,105	-63,102	0	-77,207
Impairment	-12,347	-3,962	0	-16,309
Reclassification	9,856	5,973	-15,677	152
Balance as at 31/12/2012	**322,276**	**162,423**	**15,646**	**500,345**
Gross carrying amount as at 31/12/2012	637,632	887,996	15,646	1,541,274
Accumulated depreciation	-315,356	-725,573	0	-1,040,929

Land and buildings in the amount of €4,244 thousand (31 December 2011: €12,168 thousand) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

The KION Group recognised impairment losses of €16,309 thousand in accordance with IAS 36 in 2012, predominantly in connection with the planned closure of production sites. Of this amount, €12,347 thousand related to land and buildings, and €3,962 thousand to plant and machinery as well as office furniture and equipment. The impairment losses related to the LMH segment.

Plant and machinery as well as office furniture and equipment include assets from procurement leases (finance leases) amounting to €15,517 thousand (31 December 2011: €15,695 thousand). The corresponding liabilities are reported as other financial liabilities.

[22] At-Equity-accounted investments

The KION Group reported at-equity investments with a total carrying amount of €154,835 thousand as at 31 December 2012 (31 December 2011: €36,545 thousand). These associates and joint ventures are included in the list of shareholdings in the annex to these notes. Their key figures are as follows:

At-Equity investments

€ thousand	2012	2011
Associates (100 percent)		
Revenue	569,374	540,068
Net income	15,260	10,960
Assets	1,073,037	576,103
Liabilities	712,873	494,021
Joint ventures (100 percent)		
Revenue	132,036	107,874
Net income	4,764	5,612
Assets	54,999	51,546
non-current assets	24,209	25,115
current assets	30,790	26,431
Liabilities	30,225	26,223
non-current liabilities	4,744	2,699
current liabilities	25,481	23,524

The figures shown in the table are based on a notional 100 per cent investment.

The significant increase in the carrying amount of the associates mainly resulted from the remaining shares (30 per cent) in Linde Hydraulics, which were measured at their fair value of €116,143 thousand and will be accounted for using the equity method on a going-forward basis.

[23] Lease receivables

For leases where KION Group companies lease assets directly to customers as part of the Group's financing activities, the Group's net investment in the lease is reported as a lease receivable.

The amounts recognised as lease receivables are based on the following data:

Lease receivables		
€ thousand	2012	2011
Gross investments	**443,452**	**399,726**
due within one year	150,995	135,897
due in one to five years	282,293	254,724
due in more than five years	10,164	9,105
Present value of outstanding minimum lease payments	**399,269**	**361,221**
due within one year	132,129	118,381
due in one to five years	257,328	234,043
due in more than five years	9,812	8,797
Unrealised financial income	**44,183**	**38,505**

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €345,499 thousand (31 December 2011: €326,930 thousand).

Lease receivables include the unguaranteed residual values accruing to the benefit of the KION Group in the amount of €44,051 thousand (31 December 2011: €38,714 thousand).

[24] Other financial assets

Other financial assets of €156,949 thousand (31 December 2011: €132,828 thousand) are comprised of the following:

Other financial assets

€ thousand	2012	2011
Pension assets	22,759	19,958
Investments in affiliated companies	3,919	1,956
Other investments	2,253	2,253
Loans receivable	730	795
Non-current securities	770	770
Derivative financial instruments	19,740	0
Other non-current financial assets	**50,171**	**25,732**
Derivative financial instruments	4,202	23,277
Financial receivables from affiliated companies and related companies	8,477	4,277
Financial receivables from third parties	1,110	1,074
Deferred charges and prepaid expenses	20,357	14,030
Sundry financial assets	72,632	64,438
Other current financial assets	**106,778**	**107,096**
Total other financial assets	**156,949**	**132,828**

Pension assets relate to asset surpluses from defined benefit plans. At the reporting date, the present values of defined benefit obligations are netted against the fair value of plan assets. If the plan assets exceed the obligation, this results in an asset.

The non-current derivative financial instruments include the put option for the remaining shares in Linde Hydraulics amounting to €19,740 thousand (2011: €0 thousand).

The sundry financial assets essentially include receivables from value added tax amounting to €37,178 thousand (2011: €21,782 thousand) and non-derivative financial receivables amounting to €35,236 thousand (31 December 2011: €36,237 thousand) that are within the scope of IFRS 7.

[25] Inventories

The reported inventories are comprised of the following:

Inventories		
€ thousand	2012	2011
Materials and supplies	119,980	150,949
Work in progress	74,954	98,387
Finished goods and merchandise	349,049	370,714
Advances paid	5,944	5,319
Total inventories	**549,927**	**625,369**

The year-on-year reduction in inventories was mainly attributable to disposals in the amount of €56,626 thousand in connection with the sale of the controlling interest (70 per cent) in Linde Hydraulics.

[26] Trade receivables

The trade receivables are comprised of the following:

Trade receivables		
€ thousand	2012	2011
Receivables from third parties	607,303	651,560
thereof receivables from third parties before valuation allowances	657,835	701,125
thereof valuation allowances for overdue receivables > 90 days ≤ 180 days	-7,620	-9,242
thereof valuation allowances for overdue receivables > 180 days	-27,512	-27,988
thereof other valuation allowances for receivables	-15,400	-12,335
Trade receivables from affiliated companies	3,487	3,150
Trade receivables from investments in associated companies and joint ventures	14,672	21,843
Total trade receivables	**625,462**	**676,553**

Valuation allowances of €50,532 thousand (31 December 2011: €49,565 thousand) were recognised for trade receivables.

[27] Cash and cash equivalents

Cash and cash equivalents		
€ thousand	2012	2011
Cash held by banks, on hand and cheque	561,865	372,957
Pledged cash	492	494
Total cash and cash equivalents	**562,357**	**373,451**

The change in cash and cash equivalents is shown in the consolidated statement of cash flows. For more detailed information, please also refer to note [35].

[28] Equity

Subscribed capital and capital reserves

As at the reporting date, the Company's subscribed capital was fully paid up and amounted to €500 thousand, which was unchanged on 31 December 2011.

In December 2012 the Shareholders' Meeting of KION Holding 1 GmbH approved a resolution to increase the share capital by €779 thousand to €1,279 thousand. Weichai Power Co., Ltd., Weifang, China (referred to below as Weichai Power) – a leading manufacturer in the commercial vehicles and automotive supply sector – assumed a share of €320 thousand as part of this capital increase and, on 27 December 2012, paid the capital contribution, including a premium, of €467,000 thousand in cash. The remaining share amounting to €459 thousand was taken by the current shareholder Superlift Holding S.à r.l., Luxembourg, and was paid by contributing a shareholder loan (non-cash capital contribution) amounting to €670,784 thousand (including accrued interest), also on 27 December 2012.

The capital increase was entered in the commercial register on 14 January 2013. The capital contributions paid by Weichai Power and Superlift Holding S.à r.l were therefore recorded in equity under the line item 'Contributions for carrying out the approved capital increase' as at 31 December 2012.

Transaction costs of €5,232 thousand were incurred in connection with the capital increase. These costs were deducted directly from the capital contributions. No tax benefits were recognised for the transaction costs owing to the lack of opportunities to utilise them.

The capital reserve resulted from capital contributions by shareholders.

Retained earnings

The movement of retained earnings is shown in the consolidated statement of changes in equity. The retained earnings comprise the net income (loss) for the financial year and earnings of the consolidated companies, provided they have not been distributed.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the currency translation differences arising from the translation of the financial statements of foreign subsidiaries, the effects of the fair value measurement of derivative financial instruments, the profit (loss) from at-equity investments, and the actuarial gains and losses in connection with defined benefit pension obligations.

Non-controlling interests

Non-controlling interests in companies in the KION Group amounted to €6,159 thousand (31 December 2011: €7,077 thousand).

[29] Retirement benefit obligation

The retirement benefit obligation is recognised for obligations to provide current and future post-employment benefits. Post-employment benefit plans are classified as either defined benefit plans or defined contribution plans, depending on the substance of the plan as derived from its principal terms and conditions.

Defined contribution plans

In the case of defined-contribution pension plans, the Group pays contributions to government or private pension insurance providers based on statutory or contractual provisions, or on a voluntary basis. The Group does not enter into any obligations above and beyond the payment of contributions to an external pension fund. The amount of future pension benefits is based solely on the amount of the contributions paid by the employer (and in some cases the beneficiaries themselves) to the external pension fund, including income from the investment of these contributions. The total expense arising from defined contribution plans amounted to €63,895 thousand in 2012 (2011: €56,118 thousand). Of this total, contributions paid by employers into government-run plans amounted to €59,682 thousand (2011: €53,337 thousand). The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

The KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees. These pensions consist of fixed benefit entitlements and are therefore reported as defined benefit plans in accordance with IFRS. For all of the significant defined benefit plans within the Group, the benefits granted to employees are determined on the basis of their individual income, i.e. either directly or by way of intermediate benefit arrangements.

In accordance with IAS 19 ('Employee Benefits'), pension provisions are recognised to cover obligations arising from the current and future pension entitlements of active and former employees of the KION Group and their surviving dependants.

Some of KION Group's pension obligations in Germany are financed by way of contractual trust arrangements (CTAs), which qualify as plan assets within the meaning of IAS 19. In the United Kingdom, Switzerland and the Netherlands, significant plan assets are invested in external pension funds with restricted access.

In the case of defined benefit plans, the beneficiaries are granted a specific benefit by the Group or an external pension fund. Due to future salary increases, the benefit entitlement at the retirement age of the beneficiary is likely to be higher than the amount granted as at the reporting date. Pensions are often adjusted after an employee reaches retirement age. The amount of the Group's obligation, which is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary, is expressed as the present value of the defined benefit obligation, which includes adjustments for future salary and pension increases.

Measurement assumptions

The discount rate used to calculate the defined benefit obligation at each reporting date is determined on the basis of current capital market data and long-term assumptions about future salary and pension increases in accordance with the best estimate principle. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations.

Benefit obligations are calculated on the basis of current mortality probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service and about the probability of retirement. The defined benefit obligation is calculated on the basis of the following weighted-average assumptions as at the reporting date:

Assumptions underlying provisions for pensions and other postemployment benefits

	Germany		UK		Other	
	2012	2011	2012	2011	2012	2011
Discount rate	3.50%	5.65%	4.35%	4.85%	2.57%	4.01%
Rate of remuneration increase	2.75%	2.75%	4.17%	4.18%	2.36%	2.31%
Rate of pension increase	1.75%	1.75%	2.94%	3.18%	0.26%	0.38%

The assumed discount rate is determined on the basis of the yield as at the reporting date on investment-grade, fixed-interest corporate bonds with maturities that match the expected maturities of the pension obligations. Pension obligations in foreign companies are calculated on a comparable basis taking into account any country-specific requirements.

The rate of remuneration increase relates to expected future increases in salaries, which are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The mortality rates used in the calculation are based on published country-specific statistics and empirical values. Since 31 December 2009, the modified Heubeck 2005 G mortality tables have been used in Germany as the biometric basis; the modified tables include a somewhat higher life expectancy for males than the unmodified tables.

The actuarial assumptions not listed in the table above, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts of the companies concerned.

The assumptions applied in calculating the defined benefit obligation as at the valuation date (31 December of the previous year) also apply to the calculation of the interest cost and the cost of pension entitlements arising in the current year (current service cost).

Differences between the forecast and actual change in the defined benefit obligation and changes in related plan assets (actuarial gains and losses) are recognised immediately in other comprehensive income in accordance with IAS 19. This ensures that the pension liability on the face of the statement of financial position is always the actuarial present value of obligations not covered by assets.

In the case of external financed pension funds, the actuarial present value of the pension obligations as calculated in accordance with the projected unit credit method is reduced by the fair value of the assets of the external pension plan. If the assets of the external pension funds exceed the pension obligations, a corresponding asset is recognised in accordance with IAS 19. IAS 19.58 in conjunction with the supplementary explanatory information in IFRIC 14 states that the recognition of an asset for this excess of pension plan assets over pension obligations is only permitted if the company concerned is entitled to receive a refund of this excess or a reduction in future contributions in its function as the employer responsible for the benefits under the plan. If pension obligations are not covered by the assets of an external pension funds, the net obligation is reported in pension provisions.

In the defined benefit plans in the UK, plan assets exceed the pension obligations. However the pension asset ceiling prescribed under IFRS limiting the asset to be recognised on the statement of financial position did not have an impact on these plans.

Statement of financial position

The change in the present value of the defined benefit obligation is as follows:

Changes in defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Present value of defined benefit obligation as at January 1	**389,271**	**381,913**	**390,396**	**362,716**	**79,362**	**75,681**	**859,029**	**820,310**
Group changes	-67,354	–	-6,866	–	-247	284	-74,467	284
Exchange differences	–	–	10,265	10,769	197	973	10,462	11,742
Current service cost	11,881	11,894	1,443	1,245	2,919	3,103	16,243	16,242
Interest cost	21,680	20,526	19,061	19,132	3,068	2,778	43,809	42,436
Employee contributions	–	–	84	135	834	781	918	916
Actuarial gains (-) and losses (+)	201,473	-14,150	21,707	12,665	17,471	103	240,651	-1,382
Pension benefits paid by the Company	-11,306	-10,697	–	–	-2,255	-1,946	-13,561	-12,643
Pension benefits paid from plan assets	–	–	-16,947	-16,312	-2,972	-1,584	-19,919	-17,896
Liability transfer out to third parties	-232	-215	–	–	–	–	-232	-215
Past service cost (+) and income (-)	–	–	327	46	–	–	327	46
Gains (-) / losses (+) on the curtailment of a plan	–	–	–	–	–	-811	–	-811
Present value of defined benefit obligation as at December 31	**545,413**	**389,271**	**419,470**	**390,396**	**98,377**	**79,362**	**1,063,260**	**859,029**
thereof unfunded	231,397	177,739	–	–	28,186	22,148	259,583	199,887
thereof funded	314,016	211,532	419,470	390,396	70,191	57,214	803,677	659,142

The significant increase in the present value of the obligation caused by actuarial losses is largely attributable to the low discount rates for German pension plans compared with the previous year.

The following table shows the change in the fair value of plan assets:

Changes in plan assets

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Fair value of plan assets as at 1 January	**38,217**	**34,956**	**406,404**	**369,270**	**50,309**	**50,907**	**494,930**	**455,133**
Group changes	-1,834	–	-4,093	–	–	–	-5,927	–
Exchange differences	–	–	10,680	11,309	185	842	10,865	12,151
Expected return on plan assets	2,184	1,936	18,296	18,736	2,251	2,060	22,731	22,732
Actuarial gains (+) and losses (-)	1,449	1,325	17,786	17,364	6,077	-4,975	25,312	13,714
Employer contributions	–	–	7,299	5,902	2,219	2,278	9,518	8,180
Employee contributions	–	–	84	135	834	781	918	916
Pension benefits paid by funds	–	–	-16,947	-16,312	-2,972	-1,584	-19,919	-17,896
Fair value of plan assets as at 31 December	**40,016**	**38,217**	**439,509**	**406,404**	**58,903**	**50,309**	**538,428**	**494,930**

In 2012 employer's contributions in the United Kingdom, which amounted to €7,299 thousand, included payments of €4,931 thousand into pension funds on the basis of contractual agreements. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. For companies outside Germany, decisions also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

The payments expected for the following year amount to €24,501 thousand (2012: €21,845 thousand), which include expected employers' contributions of €11,195 thousand to plan assets (2012: €8,831 thousand) and expected direct payments of pension benefits amounting to €13,306 thousand (2012: €13,014 thousand) that are not covered by corresponding reimbursements from plan assets. According to local measurement rules, there continue to be gaps in the coverage of four plans in the United Kingdom and as a result the expected employer's contributions in 2013 include payments of €7,595 thousand in line with the agreements reached with the trustees. Moreover, KION GROUP GmbH, Wiesbaden, gave an unsecured guarantee for these four UK plans in 2012. This guarantee covers the future contractual payments of the KION Group and employees up to an upper limit of around €75,000 thousand. This upper limit will be reduced by the payments made by the KION Group. At the reporting date, the upper limit for the guarantee had therefore decreased to €58,067 thousand. The likelihood of the guarantee being used is deemed low in view of the position of the individual companies against the backdrop of their current and future financial and earnings situations.

The reconciliation of funded status and net defined benefit obligation to the amounts reported on the face of the consolidated statement of financial position as at 31 December is shown in the following table:

Funded status and net defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Present value of the partially or fully funded defined benefit obligation	314,016	211,532	419,470	390,396	70,191	57,214	803,677	659,142
Fair value of plan assets	40,016	38,217	439,509	406,404	58,903	50,309	538,428	494,930
Surplus (-) / deficit (+)	**274,000**	**173,315**	**-20,039**	**-16,008**	**11,288**	**6,905**	**265,249**	**164,212**
Present value of the unfunded defined benefit obligation	231,397	177,739	–	–	28,186	22,148	259,583	199,887
Surplus (-) / deficit (+) total	**505,397**	**351,054**	**-20,039**	**-16,008**	**39,474**	**29,053**	**524,832**	**364,099**
Unrecognised past service cost (-) and income (+)	–	–	–	–	-1,071	-1,143	-1,071	-1,143
Net defined benefit obligation as at 31 December	**505,397**	**351,054**	**-20,039**	**-16,008**	**38,403**	**27,910**	**523,761**	**362,956**
Reported as "retirement benefit obligation"	505,397	351,054	2,720	3,950	38,403	27,910	546,520	382,914
Reported as "Other non-current financial assets"	–	–	-22,759	-19,958	–	–	-22,759	-19,958

In addition, the KION pension plan for employees of the KION Group in Germany holds plan assets of €19,486 thousand (2011: €18,474 thousand) which are wholly offset by corresponding liabilities relating to the direct pension entitlement plan.

Statement of cash flows

In the case of obligations not covered by external assets, payments to beneficiaries are made directly by the Company and therefore have an impact on cash flows from operating activities. If the benefit obligations are backed by external assets, the payments are made from existing plan assets and have no effect on the Company's cash flow. Instead, any contributions made to the external pension fund by the Company result in net cash used for operating activities.

During the reporting year, pension benefits of €33,480 thousand (2011: €30,539 thousand) were paid in connection with the main pension entitlements in the KION Group, of which €13,561 thousand (2011: €12,643 thousand) was paid directly by the Company and €19,919 thousand (2011: €17,896 thousand) was paid from plan assets. Cash contributions to plan assets in 2012 amounted to €9,518 thousand (2011: €8,180 thousand). Furthermore, pension benefit payments totalling €232 thousand (2011: €215 thousand) were transferred to external pension funds.

Income statement

In accordance with IAS 19, actuarial computations are performed for benefit obligations in order to determine the amount to be expensed in each period in a systematic way. The expenses recognised in the income statement for pensions and similar obligations consist of a number of components that are calculated and disclosed separately.

The service cost is the new pension entitlement arising in the financial year and is recognised in the income statement. It is calculated as the actuarial present value of that proportion of the expected defined benefit obligation when the pension is paid attributable to the year under review on the basis of the maximum length of service achievable by each employee.

The interest cost, i.e. the expense arising from the increase in the defined benefit obligation at the end of the previous year using the discount rate assumed for the year under review, is recognised in the income statement, as is the expected return on plan assets in the case of benefits covered by external assets.

An unrecognised past service cost arises if there is a change to the pension entitlement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2012 is as follows:

Cost of defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Current service cost	11,881	11,894	1,443	1,245	2,919	3,103	16,243	16,242
Interest cost	21,680	20,526	19,061	19,132	3,068	2,778	43,809	42,436
Expected return on plan assets	-2,184	-1,936	-18,296	-18,736	-2,251	-2,060	-22,731	-22,732
Past service cost (+) and income (-)	–	–	327	46	72	131	399	177
Gains (-) or losses (+) on the curtailment of a plan	–	–	–	–	–	-708	–	-708
Total cost of defined benefit obligation	**31,377**	**30,484**	**2,535**	**1,687**	**3,808**	**3,244**	**37,720**	**35,415**

Overall, the KION Group reported an expense of €21,078 thousand (2011: €19,704 thousand) under net financial income/expenses. This amount comprised the interest cost and the expected return on plan assets. All other components of pension expenses are recognised under the functional costs.

The actual total return on plan assets in 2012 was €48,043 thousand (2011: €36,446 thousand).

Other comprehensive income (loss)

The breakdown of actuarial gains and losses on the defined benefit obligation recognised in the statement of comprehensive income in 2012 are as follows:

Accumulated other comprehensive income (loss)

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Accumulated other comprehensive income/loss as at 1 January	**81,458**	**65,983**	**-37,014**	**-40,769**	**-10,160**	**-4,925**	**34,284**	**20,289**
Group changes	–	–	2,235	–	–	–	2,235	–
Gains(-) and losses(+) on the measurement of defined benefit obligation	-201,473	14,150	-21,707	-12,665	-17,471	-103	-240,651	1,382
Gains (+) and losses (-) on plan assets	1,449	1,325	17,786	17,364	6,077	-4,975	25,312	13,714
Exchange differences	–	–	-965	-944	-40	-157	-1,005	-1,101
Accumulated other comprehensive income/loss as at 31 December	**-118,566**	**81,458**	**-39,665**	**-37,014**	**-21,594**	**-10,160**	**-179,825**	**34,284**

The changes in estimates relating to defined benefit pension entitlements resulted in a €151,311 thousand decrease in equity as at 31 December 2012 (after deferred taxes). Of this decrease, €151,267 thousand related to shares held by the shareholders of KION Holding 1 GmbH and €44 thousand to non controlling interests.

Additional disclosures

The plan assets of the main pension plans consist of the following components:

Fair value of plan assets

	Germany		UK		Other		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
Securities	7,134	6,862	86,922	73,583	8,462	7,187	102,518	87,632
Fixed-income securities	18,301	12,580	259,556	267,739	11,743	11,499	289,600	291,818
Real estate	1,551	2,859	–	331	3,888	3,593	5,439	6,783
Insurance policies	–	–	–	–	32,600	26,353	32,600	26,353
Other	13,030	15,916	93,031	64,751	2,210	1,677	108,271	82,344
Total plan assets	**40,016**	**38,217**	**439,509**	**406,404**	**58,903**	**50,309**	**538,428**	**494,930**

The plan assets do not include any real estate or other assets used by the KION Group itself. The Other category largely comprises inflation-linked UK government bonds for the four large plans in the United Kingdom.

The expected return in 2012 and 2011 for the main investment categories of plan assets are as follows:

Expected return on plan assets

	Germany		UK		Other	
	2012	2011	2012	2011	2012	2011
Securities	7.35%	7.45%	5.77%	6.73%	6.80%	7.10%
Fixed-income securities	3.74%	3.50%	4.31%	4.81%	2.40%	2.90%
Real estate	5.10%	5.20%	6.50%	6.50%	4.60%	4.60%
Insurance policies	–	–	–	–	4.69%	3.88%
Other	6.68%	6.68%	3.19%	4.17%	6.00%	6.40%
Weighted average expected return	**5.71%**	**5.54%**	**4.43%**	**5.21%**	**4.51%**	**4.26%**

The expected return on plan assets was determined on the basis of the plan's policy regarding the asset classes in which it invests. Expected returns are based on the current yields on government bonds with corresponding maturities, adjusted for specific credit spreads for the different asset classes. The expected return on plan assets is recognised as income in the relevant period. The differences between expected and actual income on plan assets represent experience adjustments and are recognised in other comprehensive income in the year in which they arise.

The present value of the defined benefit obligation is based on the assumptions detailed above. If the discount rate were to increase or decrease by a quarter of one percentage point (rising to 3.75 per cent or falling to 3.25 per cent in the case of Germany as at 31 December 2012), pension entitlements would be €43,458 thousand (2011: €35,632 thousand) lower or €45,463 thousand (2011: €35,747 thousand) higher, respectively. Other comprehensive loss (2011: gain) after tax would be €31,611 thousand (2011: €25,999 thousand) higher or €33,081 thousand (2011: €26,036 thousand) lower.

Five-year overview

The following table shows a five-year overview of experience adjustments arising from the differences between actuarial assumptions and actual circumstances:

Five-year overview

€ thousand	2012	2011	2010	2009	2008
Present value of defined benefit obligation as at 31 December	**1,063,260**	**859,029**	**820,310**	**722,779**	**629,198**
Experience adjustments arising on the plan liabilities	6,566	144	-76	4,858	39
Fair value of plan assets as at 31 December	**538,428**	**494,930**	**455,133**	**401,510**	**320,248**
Experience adjustments arising on the plan assets	25,312	13,714	17,350	51,763	-107,388
Surplus (-) / deficit (+) in total	**524,832**	**364,099**	**365,177**	**321,269**	**308,950**
Unrecognised past service cost (-) and income (+)	-1,071	-1,143	-1,377	40	–
Net defined benefit obligation as at 31 December	**523,761**	**362,956**	**363,800**	**321,309**	**308,950**

While the actuarial gains and losses on the present value of the obligation only partially result in part from experience adjustments, the actuarial gains or losses on the fair value of the plan asset are entirely attributable to experience adjustments.

[30] Financial liabilities and shareholder loan

The financial liabilities reported by the KION Group essentially comprise interest-bearing liabilities to banks and capital market liabilities in connection with the corporate bond that was issued. The liabilities to banks stem largely from a loan agreement.

The table below shows the contractual maturity structure of the financial liabilities and the shareholder loan.

Maturity structure of financial liabilities and shareholder loan

€ thousand	2012	2011
Liabilities to banks	**1,858,448**	**2,509,889**
due within one year	51,152	223,979
due in one to five years	1,692,072	2,285,910
due in more than five years	115,224	0
Corporate bond	**489,495**	**487,508**
due within one year	0	0
due in one to five years	0	0
due in more than five years	489,495	487,508
Other financial liabilities	**4,488**	**7,333**
due within one year	623	3,397
due in one to five years	0	0
due in more than five years	3,865	3,936
Total current financial liabilities	**51,775**	**227,376**
Total non-current financial liabilities	**2,300,656**	**2,777,354**
Liabilities from shareholder loan	**0**	**643,132**
due within one year	0	0
due in one to five years	0	0
due in more than five years	0	643,132

Loan agreement

In connection with its acquisition of Linde AG's material-handling business the KION Group signed a loan agreement (a senior facilities agreement and a subordinated facility agreement, referred to below as 'SFA') for a total original amount of €3,300,000 thousand with the lead banks Barclays Bank Plc, Bayerische Hypo- und Vereinsbank AG, Credit Suisse (London branch), Goldman Sachs International Bank, Lehman Commercial Paper Inc. (UK branch) and Mizuho Corporate Bank Ltd. on 23 December 2006. The loans provided under the SFA carry variable interest rates. Transaction costs of €23,637 thousand (2011: €20,175 thousand) reduced the carrying amount of the loans as at the reporting date. These costs have been allocated pro rata to each of the tranches and expensed over their respective terms.

The following material amendments were made to the SFA in subsequent years:

- Under amendments made to the SFA on 8 March 2007 the subordinated facility agreement was totally replaced by a senior facilities agreement and unused credit lines totalling €200,000 thousand were returned, thereby reducing the total amount of the SFA to €3,100,000 thousand.
- Under amendments made to the SFA on 23 September 2009 the financial covenants applicable during the term of the loan were modified. At the same time, an additional credit line of €100,000 thousand and an increase in the collateral security provided for this facility were agreed. Furthermore, the interest rates payable on existing credit lines were raised by between 0.25 and 1.50 percentage points. The amounts of these interest-rate increases primarily fall due in the form of bullet payments at maturity (payments in kind, or PIKs). All the interest payable on the new credit line of €100,000 thousand falls due in the form of a bullet payment at maturity. The company making this credit line available is Superlift Funding S.à r.l., Luxembourg, which is a related party to the KION Group.

In July 2012 the KION Group amended its SFA loan again and extended it, thereby improving the maturity profile of existing loans. This included a significant part (€186,677 thousand) of the existing revolving credit line, whose maturity was extended from December 2013 to December 2016, and €966,638 thousand of loans under Loan Facilities B and C, whose maturities were extended from December 2014 (Loan Facility B) and December 2015 (Loan Facility C) to December 2017. In addition, the maturity of the €114,097 thousand loan agreed as part of Loan Facility G was extended from December 2016 to June 2018.

In connection with the extension of the loan facilities, additional lines of €113,323 thousand were granted for the revolving credit facility due in December 2016.

Under the terms of the extension of the loan facilities, it was also agreed to increase the interest margins by 1.0 to 1.5 percentage points. The accrued and unpaid interest (payment in kind, PIK) was capitalized for the extended loan facilities. In future, interest will be paid immediately for the extended loans under term loan facilities B2 and C2.

Until 31 December 2012 transaction costs of €12,899 thousand were incurred. These costs have been allocated pro rata to each of the tranches and expensed over their respective new terms. There were also transaction costs of €1,433 thousand in connection with the revolving credit facility. These are reported as prepaid expenses under current financial assets and are released over the residual term of the revolving credit facility, which is currently not being utilised.

Corporate bond

The KION Group issued a corporate bond for €500,000 thousand through the consolidated subsidiary KION Finance S.A., Luxembourg, in April 2011. Of the bond's total par value of €500,000 thousand, €325,000 thousand is repayable at a fixed interest rate of 7.875 per cent p.a., while €175,000 thousand carries a floating interest rate based on the three-month EURIBOR plus a margin of 4.25 percentage points. Interest on the fixed-rate tranche is paid semi-annually, while interest on the floating-rate tranche is paid quarterly. The bond's principal amount is redeemed as a bullet payment on maturity. Borrowing costs of €10,505 thousand (2011: €12,492 thousand) reduced the carrying amount of the bond as at the reporting date. These costs have been allocated pro rata to each of the tranches and are expensed over their respective terms. The corresponding liability is reported as a capital market liability.

Shareholder loan

KION Holding 1 GmbH and Superlift Holding S.à r.l., Luxembourg, signed an agreement on a shareholder loan for the amount of €500,000 thousand on 27 December 2006. The shareholder loan, amounting to €670,784 thousand (including accrued interest), was converted into equity with effect from 27 December 2012.

Changes in net financial debt

The KION Group uses “net financial debt” as a key performance indicator for analysing the changes in its financial liabilities. Net financial debt is defined as the difference between financial liabilities (excluding lease liabilities) and cash and cash equivalents.

The table below gives a breakdown of the KION Group's net financial debt as at 31 December 2012.

Net financial debt

€ thousand	2012	2011
Corporate bond - fixed rate (2011/2018) - gross	325,000	325,000
Corporate bond - floating rate (2011/2018) - gross	175,000	175,000
Liabilities to banks (gross)	1,882,085	2,530,064
Liabilities to non-banks (gross)	4,488	7,333
./. Capitalized borrowing costs	-34,142	-32,667
Financial debt	**2,352,431**	**3,004,730**
./. Cash and cash equivalents	562,357	373,451
Net financial debt	**1,790,074**	**2,631,279**

The Multicurrency Revolving Credit Facility (€137,604 thousand) drawn down in November 2011 was repaid in 2012. In addition, the Multicurrency Capex Restructuring and Acquisition Facility was reduced by €56,142 thousand. Term Loan Facility D was repaid in full (€202,252 thousand) in December 2012. The financial debt under Term Loan Facility B1 (denominated in euros) was reduced by €147,897 thousand and the financial debt under term loan facility B1 (denominated in US dollars) was reduced by €123,485 thousand. Repayment of Term Loan Facility B1 (denominated in US dollars) generated foreign currency exchange rate gains of €2,803 thousand, as a result of which the KION Group's total repayments in 2012 amounted to €664,577 thousand.

The table below gives details of the changes in financial debt and the applicable terms and conditions.

Credit terms

€ thousand	Interest rate	Notional amount 2012	Notional amount 2011	Maturity
Term Loan Facility B1 (EUR)	EURIBOR + MARGIN	138,503	690,881	2014
Term Loan Facility B2 (EUR)	EURIBOR + MARGIN	411,117	–	2017
Term Loan Facility B1 (USD)	LIBOR + MARGIN	108,014	310,560	2014
Term Loan Facility B2 (USD)	LIBOR + MARGIN	79,129	–	2017
Term Loan Facility C1 (EUR)	EURIBOR + MARGIN	286,645	663,033	2015
Term Loan Facility C2 (EUR)	EURIBOR + MARGIN	382,818	–	2017
Term Loan Facility C1 (USD)	LIBOR + MARGIN	227,105	310,560	2015
Term Loan Facility C2 (USD)	LIBOR + MARGIN	81,271	–	2017
Term Loan Facility D	EURIBOR + MARGIN	–	201,742	2012
Term Loan Facility G	EURIBOR + MARGIN	115,951	111,210	2018
Term Loan Facility H1a (Corporate bond - fixed rate)	Fixed rate	325,000	325,000	2018
Term Loan Facility H1b (Corporate bond - floating rate)	3-M-EURIBOR+MARGIN	175,000	175,000	2018
Multicurrency Revolving Credit Facility	EURIBOR + MARGIN	–	132,691	2012
Multicurrency Capex Restructuring and Acquisition Facility	EURIBOR + MARGIN	18,216	71,596	2013
Other liabilities to banks	Various currencies and interest terms	33,316	37,791	
Other financial liabilities to non-banks		4,488	7,333	
./. Capitalized borrowing costs		-34,142	-32,667	
Total financial debt		**2,352,431**	**3,004,730**	

Term Loan Facilities B and C were split in connection with the adjustment and extension of the Loan Facilities: B1 and C1 represent the original conditions, while B2 and C2 represent the adjusted conditions.

Financial covenants

The SFA and the contractual terms and conditions governing the issuance of the corporate bond require among other things compliance with certain undertakings and covenants. The SFA also requires compliance with specific financial covenants during the term of the agreement. The financial covenants specify required ratios for the financial position and financial performance of the KION Group. The covenants are expressed in the form of key figures relating to leverage, available liquidity, EBITDA, interest paid as well as capital expenditures. If these requirements or financial covenants are breached, this may, for example, give lenders the right to terminate the SFA or permit bondholders to demand repayment of the corporate bond prior to its maturity date.

All financial covenants were complied with in the past financial year.

Loan collateral

Under the SFA, the KION Group is under an obligation to provide collateral for its obligations and liabilities. This obligation also includes the corporate bond (newly added SFA tranches H1a and H1b). By the reporting date a total of 26 (31 December 2011: 26) KION Group companies (guarantors) in five countries – Germany, the UK, France, Spain and Italy – had provided the necessary collateral.

The collateral includes guarantees, the assignment of shares in the guarantors (with the exception of shares in KION GROUP GmbH), the assignment of bank accounts and guarantor receivables, the assignment of claims arising from and in connection with the share purchase agreement between Linde Material Handling GmbH and Linde AG dated November 5, 2006, relating to the shares in the former KION GROUP GmbH, the assignment of shares in KION Information Management Services GmbH and assignments and transfers of title to intellectual property rights by guarantors in Germany. The statutory provisions in the United Kingdom and the agreements entered into require that all the assets of the UK guarantors are pledged as security.

The carrying amounts of the financial assets pledged as collateral amounted to €600,713 thousand as at the reporting date (31 December 2011: €791,985 thousand).

As had been the case at the end of 2011, no liabilities to banks were secured by pledges of real property at the end of 2012.

[31] Lease liabilities

Lease liabilities relate solely to finance lease obligations arising from sale-and-leaseback transactions for the funding of long-term leases with customers.

The amounts recognised as lease liabilities are based on the following data:

Minimum lease payments

€ thousand	2012	2011
Total minimum lease payments (gross)	**524,389**	**490,156**
due within one year	166,802	165,739
due in one to five years	344,613	312,512
due in more than five years	12,974	11,905
Present value of minimum lease payments	**475,015**	**446,789**
due within one year	145,830	146,728
due in one to five years	316,761	288,506
due in more than five years	12,424	11,555
Interest included in minimum lease payments	**49,374**	**43,367**

[32] Other provisions

Other provisions relate to the following items:

Other provisions

€ thousand	Provisions for product warranties	Provisions for personnel	Other obligations	**Total other provisions**
Balance as at 1/1/2012	**74,949**	**148,103**	**56,794**	**279,846**
thereof non-current	69,729	16,935	9,504	96,168
thereof current	5,220	131,168	47,290	183,678
Changes in group of consolidated entities	-454	-4,906	5,644	284
Additions	18,001	27,498	33,402	78,901
Utilisations	-21,590	-40,935	-23,792	-86,317
Reversals	-6,846	-30,078	-11,053	-47,977
Additions to accrued interest	0	2,166	2	2,168
Exchange differences	278	0	25	303
Other adjustments	43	-11,865	11,622	-200
Balance as at 12/31/2012	**64,381**	**89,983**	**72,644**	**227,008**
thereof non-current	61,356	18,369	9,395	89,120
thereof current	3,025	71,614	63,249	137,888

The provisions for product warranties include contractual and statutory obligations arising from the sale of industrial trucks and spare parts. It is expected that the majority of the costs will be incurred within the next two years after the reporting date.

The provisions for personnel comprise provisions for partial retirement obligations, long-service awards, annual bonuses, severance pay and redundancy payments. The provision for partial retirement obligations is recognised on the basis of individual contractual arrangements.

Other obligations largely comprise restructuring provisions, provisions for litigations, guarantees and expected losses from onerous contracts.

The KION Group had recognised restructuring provisions (including redundancy payments) of €74,465 thousand in 2011, predominantly in connection with the relocation of production sites. In 2012 it was possible to reverse €20,083 thousand of this amount following finalisation of the negotiations on the redundancy scheme. In 2012 restructuring provisions (including redundancy payments) amounting to €28,883 thousand were recognised, predominantly in connection with the planned closure of production sites. As a result, total restructuring provisions (including redundancy payments) came to €65,006 thousand as at 31 December 2012.

[33] Other financial liabilities

Other financial liabilities include the following items:

Other financial liabilities		
€ thousand	2012	2011
Liabilities from finance leases	208,136	171,070
Deferred income	132,662	118,455
Sundry other liabilities	4,323	14,264
Derivative financial instruments	9,957	–
Other non-current financial liabilities	**355,078**	**303,789**
Liabilities from finance leases	92,204	83,653
Deferred income	84,357	86,551
Personnel liabilities	161,637	128,349
Derivative financial instruments	33,613	17,742
Social security liabilities	40,460	38,894
Tax liabilities	65,857	50,269
Advances received from third parties	37,596	41,981
Liabilities on bills of exchange	2,295	3,799
Liabilities from accrued interest	9,588	10,360
Sundry current financial liabilities	29,423	42,490
Other current financial liabilities	**557,030**	**504,088**
Total other financial liabilities	**912,108**	**807,877**

The current derivative financial instruments include, among other things, two call options on the remaining shares in Linde Hydraulics amounting to €16,520 thousand (2011: €0 thousand).

Other financial liabilities include non-derivative liabilities of €159,202 thousand (31 December 2011: €180,226 thousand) that fall within the scope of IFRS 7.

Other financial liabilities also include liabilities arising from the financing of industrial trucks for short-term rental (reported under liabilities from finance leases) amounting to €263,745 thousand (2011: €222,246 thousand) and residual value obligations amounting to €21,379 thousand (2011: €15,765 thousand). The KION Group has recognised other financial liabilities amounting to €15,216 thousand (31 December 2011: €16,712 thousand) arising from procurement leases, which are classified as finance leases due to their terms and conditions.

The liabilities from finance leases are based on the following future minimum lease payments:

Minimum lease payments

€ thousand	2012	2011
Total minimum lease payments (gross)	**331,558**	**279,447**
due within one year	105,466	94,491
due in one to five years	217,889	178,168
due in more than five years	8,203	6,788
Present value of minimum lease payments	**300,340**	**254,723**
due within one year	92,204	83,653
due in one to five years	200,280	164,482
due in more than five years	7,856	6,588
Interest included in minimum lease payments	**31,218**	**24,724**

[34] Contingent liabilities and other financial obligations

Contingent liabilities

Contingent liabilities		
€ thousand	2012	2011
Liabilities on bills of exchange	4,445	3,516
Liabilities on guarantees	3,197	2,129
Collateral security for third-party liabilities	65	69
Total contingent liabilities	**7,707**	**5,714**

Guarantees amounting to €797 thousand (2011: €2,129 thousand) relate to contingent liabilities assumed jointly with another shareholder of a joint venture.

Litigation

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The Company is a party in a number of pending lawsuits in various countries. It cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the Company believes it is remote that these ongoing lawsuits will result in additional provisions.

Other financial commitments

Other financial commitments		
€ thousand	2012	2011
Liabilities under non-cancellable operating leases	194,216	205,394
Capital expenditure commitments in property, plant and equipment	7,191	6,109
Capital expenditure commitments in intangible assets	2,597	1,630
Other financial commitments	18,530	16,958
Total other financial commitments	**222,534**	**230,091**

The maturity structure of the total future minimum lease payments under non-cancellable operating leases is as follows:

Minimum lease payments

€ thousand	2012	2011
Nominal minimum lease payments	**194,216**	**205,394**
due within one year	38,808	58,856
due in one to five years	90,394	104,634
due in more than five years	65,014	41,904

The minimum lease payments relate to payments for leased buildings, machinery, office furniture and equipment (procurement leases) as well as payments for industrial trucks refinanced with a sale-and-leaseback and sub-leased to end customers (sale-and-leaseback sub-leases).

Minimum lease payments broken down into procurement leases & sale-and-leaseback subleases

	Procurement leases		Sale-and-Leaseback-Subleases	
€ thousand	2012	2011	2012	2011
Minimum lease payments (cash out)	**142,074**	**151,486**	**52,142**	**53,908**
due within one year	21,329	38,134	17,479	20,722
due in one to five years	55,745	71,452	34,649	33,182
due in more than five years	65,000	41,900	14	4
Minimum lease payments (cash in)	**–**	**–**	**6,843**	**11,257**
due within one year	–	–	3,572	5,813
due in one to five years	–	–	3,268	5,440
due in more than five years	–	–	3	4

The future minimum lease payments for sale-and-leaseback transactions not recognised on the statement of financial position amounting to €52,142 thousand are partially offset by payments received under non-cancellable sub-leases amounting to €6,843 thousand. The future payments also include obligations arising from the refinancing of industrial trucks for which there are no offsetting receipts under short-term sub-leases.

Other disclosures

[35] Consolidated statement of cash flows

The consolidated statement of cash flows shows the changes in cash and cash equivalents in the KION Group resulting from cash inflows and outflows in the year under review, broken down into cash flow from operating, investing and financing activities. The effects on cash from changes in exchange rates are shown separately. Cash flow from operating activities is presented using the indirect method in which the profit or loss for the year is adjusted for non-cash operating items.

The non-cash income of €142,530 thousand essentially comprises the income arising from the remeasurement of the remaining shares (30 per cent) in Linde Hydraulics at fair value (€108,692 thousand), the gain from the re-measurement of the existing, formerly equity-accounted investment in Linde Creighton Ltd. (€ 8,015 thousand) and the income arising on the remeasurement of purchase price obligations (€4,557 thousand).

Cash flow from operating activities increased by 7.0 per cent to €414,008 thousand in 2012 (2011: €386,810 thousand). The underlying reason for this improvement was that earnings before interest and taxes (EBIT) increased to €550,113 thousand in the reporting year (2011: €213,160 thousand).

The net cash provided by investing activities of €104,052 thousand (2011: outflow of €152,580 thousand) was mainly attributable to the sale of the 70 per cent controlling interest in Linde Hydraulics for a purchase consideration of €271,000 thousand including the options. Of the total purchase consideration, €262,870 thousand was paid in cash and €8,130 thousand was paid into a trust account. Cash payments for capital expenditures on non-current assets and property, plant and equipment amounted to €155,101 thousand (2011: €133,005 thousand). The net cash used for acquisitions totalled €9,703 thousand (2011: €32,916 thousand) and essentially related to the acquisition of the outstanding shares (51 per cent) in Linde Creighton Ltd., Basingstoke, United Kingdom. The proceeds from the disposal of non-current assets primarily related to disposals of assets no longer required for the Group's operating activities.

The net cash used for financing activities amounted to €330,130 thousand (2011: €114,715 thousand). Whereas the main factors affecting this cash flow in 2011 were the net inflows resulting from the issuance of a corporate bond (inflow of €500,000 thousand), the funds drawn down under a revolving SFA credit line (inflow of €132,691 thousand) and the repayment of SFA liabilities (outflow of €537,018 thousand), the net outflow of cash in 2012 was largely attributable to the repayment of SFA liabilities (outflow of €664,577 thousand) and the inflow of funds from the capital contribution made by Weichai Power for the approved capital increase (inflow of €467,000 thousand). Interest payments decreased by €17,743 thousand to €129,712 thousand as a result of the declined interest rates. In 2012 there were also receipts of €20,490 thousand from currency hedges (2011: payments of €13,714 thousand).

Following its consolidation for the first time in 2011, on 2 November 2012 the KION Group acquired the remaining shares (34 per cent) in Voltas Material Handling Private Limited, Pune, India, for a purchase consideration of €8,304 thousand. The cash used for this transaction is reported in cash flow from financing activities as required by IAS 7.

The amount of cash and cash equivalents for the year ended 31 December 2012 increased by a total of €188,906 thousand, €976 thousand of which was attributable to exchange-rate movements. This substantial increase was largely the result of the net cash provided by the sale of the 70 per cent controlling interest in Linde Hydraulics (inflow of €262,870 thousand). Cash and cash equivalents amounted to €562,357 thousand as at the reporting date.

[36] Information on financial instruments

The KION Group uses both primary and derivative financial instruments. The following section summarises the relevance of these financial instruments for the KION Group.

The following table shows the measurement categories defined by IAS 39. In line with IFRS 7, the table shows the carrying amounts and fair values of financial assets and liabilities:

Carrying amounts broken down by class and category

Classes	Carrying amount	Categories						Fair value
		FAHfT	AfS	LaR	HtM	FLaC	FLHfT	
€ thousand	2012							
Financial assets								
Loans receivable	730			730				730
Financial receivables	9,587			9,587				9,587
Available-for-sale investments	768		768					768
Lease receivables*	399,269							398,229
Trade receivables	625,462			625,462				625,462
Other receivables	59,178							59,178
thereof non-derivative receivables	35,236			35,236				35,236
thereof derivative financial instruments	23,942	21,077						23,942
Cash and cash equivalents	562,357							562,357
Financial liabilities								
Liabilities to banks	1,858,448					1,858,448		1,858,448
Corporate bond	489,495					489,495		530,906
Other financial liabilities	4,488					4,488		4,488
Shareholder loan	0					0		0
Lease liabilities*	475,015							475,806
Trade payables	646,044					646,044		646,044
Other liabilities	503,112							503,612
thereof non-derivative liabilities	159,202					159,202		159,202
thereof liabilities from finance leases*	300,340							300,840
thereof derivative financial instruments	43,570						23,968	43,570

* as defined by IAS 17

Carrying amounts broken down by class and category

Classes	Carrying amount	Categories						Fair value
		FAHfT	AfS	LaR	HtM	FLaC	FLHfT	
€ thousand	2011							
Financial assets								
Loan receivable	795			795				795
Financial receivables	5,351			5,351				5,351
Available-for-sale investments	768		768					768
Lease receivables*	361,221							362,319
Trade receivables	676,553			676,553				676,553
Other receivables	59,514							59,514
thereof non-derivative receivables	36,237			36,237				36,237
thereof derivative financial instruments	23,277	21,500						23,277
Cash and cash equivalents	373,451							373,451
Financial liabilities								
Liabilities to banks	2,509,889					2,509,889		2,509,889
Corporate bond	487,508					487,508		388,750
Other financial liabilities	7,333					7,333		7,333
Shareholder loan	643,132					643,132		530,045
Lease liabilities*	446,789							446,326
Trade payables	634,092					634,092		634,092
Other liabilities	452,691							452,427
thereof non-derivative liabilities	180,226					180,226		180,226
thereof liabilities from finance leases*	254,723							254,459
thereof derivative financial instruments	17,742						2,471	17,742

* as defined by IAS 17

The change in valuation allowances for lease receivables and trade receivables was as follows:

Change in valuation allowances

€ thousand	2012	2011
Valuation allowances as at 1 January	**49,565**	**47,125**
Group changes	-483	626
Additions (cost of valuation allowances)	12,010	10,547
Reversals	-2,829	-3,092
Utilisations	-7,573	-5,425
Currency translation adjustments	-158	-216
Valuation allowances as at 31 December	**50,532**	**49,565**

The net gains and losses on financial instruments by IAS 39 category are as follows:

Net gains and losses on financial instruments broken down by category

€ thousand	2012	2011
Loans and receivables (LaR)	-1,594	2,062
Available-for-sale investments (AfS)	13	13
Financial assets held for trading (FAHfT)	8,950	14,360
Financial liabilities held for trading (FLHfT)	-11,923	-10,109
Financial liabilities carried at amortised cost (FLaC)	-179,209	-225,277

The above gains and losses do not include losses arising on hedging transactions deferred in the period amounting to €19,861 thousand (2011: €18,464 thousand) because these losses relate to a documented hedge.

Fair value measurement

The majority of the funding, loans, investments, other non-derivative receivables and liabilities, trade receivables and trade payables held by the Group have short-term maturities. The carrying amounts of these financial instruments approximate their fair values.

The fair value of the corporate bond that has been issued is determined using publicly listed market prices. The calculation is based on the offer price applicable on the reporting date.

The fair value of receivables and liabilities from finance leases corresponds to the present value of the net lease payments, taking into account the current market interest rate for similar leases.

The fair value of derivative financial instruments is determined using appropriate valuation methods on the basis of the observable market information at the reporting date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of currency forwards is calculated on the basis of the forward rates at the reporting date. All interest-rate swaps and currency forwards are therefore classified as level 2 measurements.
The fair value of the put and call options for the remaining shares of Linde Hydraulics was determined using the Black-Scholes model. The main input variables for the model were the options' exercise price, which may be modified by individual, specific, contractually agreed factors if necessary, and the fair value of the remaining shares in Linde Hydraulics. As at 31 December 2012 the fair value of the put option was €19,740 thousand and the fair value of the call options was €16,520 thousand. The exercise price of the put option is €77,429 thousand. The exercise price of the two call options totals €116,143 thousand. The options are classified as level 3 measurements.

As at 31 December 2012 the net value calculated for the options on the remaining shares in Linde Hydraulics was €3,220 thousand. If the fair value of the shares had been 10 per cent lower on the reporting date, the net value for the options would have increased by €8,310 thousand to a total of €11,530 thousand and resulted in an additional gain of €8,310 thousand. An increase of 10 per cent in the fair value of the shares in Linde Hydraulics would have decreased the net value for the options by €9,010 thousand to a total of €5,790 thousand and would have resulted in an expense of €9,010 thousand.

In order to eliminate default risk to the greatest possible extent, the KION Group only enters into derivatives with counterparties holding a good credit rating.

With the exception of derivative financial instruments and available-for-sale assets, all financial assets and liabilities are measured at amortised cost.

The fair value of available-for-sale assets is determined on the basis of data in an active market and is classified as level 1.

The following table shows the assignment of the fair values to the individual classification levels.

Financial instruments measured at fair value

	Fair Value Hierarchy			
€ thousand	Level 1	Level 2	Level 3	2012
Financial assets				**24,710**
thereof available-for-sale	768			768
thereof derivative instruments		4,202	19,740	23,942
Financial liabilities				**43,570**
thereof derivative instruments		27,050	16,520	43,570

Financial instruments measured at fair value

	Fair Value Hierarchy			
€ thousand	Level 1	Level 2	Level 3	2011
Financial assets				**24,045**
thereof available-for-sale	768			768
thereof derivative instruments		23,277		23,277
Financial liabilities				**17,742**
thereof derivative instruments		17,742		17,742

[37] Financial risk reporting

Capital management

One of the prime objectives of capital management is to ensure liquidity at all times. Measures aimed at achieving these objectives include the optimisation of the capital structure, the reduction of liabilities and ongoing Group cash flow planning and management. Following the amendment and extension of the SFA loan in July 2012, a further corporate bond was issued in February 2013 (see 'Credit terms' table in note [30]) in order to meet long-term financing requirements.

Close cooperation between local units and the Group head office ensures that the local legal and regulatory requirements faced by foreign group companies are considered in the capital management process.

Net financial debt – defined as the difference between financial liabilities (excluding lease liabilities) and cash and cash equivalents – is the key performance indicator used in liquidity planning at Group level and amounted to €1,790,074 thousand in 2012 (2011: 2,631,279).

Credit risk

In certain finance and operating activities, the KION Group is subject to credit risk, i.e. the risk that partners will fail to meet their contractual obligations. This risk is limited by diversifying business partners based on certain credit ratings. The Group only enters into transactions with business partners and banks holding a good credit rating and subject to fixed limits. Counterparty risks involving our customers are managed by the individual Group companies.

The following table shows the age structure of receivables as at the reporting date.

Age structure analysis of receivables

		Carrying amount	Thereof: Neither overdue nor impaired at the reporting date	Thereof: Overdue and impaired at the reporting date	Thereof: Not impaired at the reporting date, but	
					up to and including 90 days overdue	more than 90 days overdue
€ thousand	2012					
Financial receivables		9,587	9,587			
Lease receivables		399,269	399,269	–	–	–
Trade receivables		625,462	485,621	16,835	110,210	5,499
Other non-derivative receivables		35,236	34,492	734	1	9
€ thousand	2011					
Financial receivables		5,351	5,351			
Lease receivables		361,221	361,221	–	–	–
Trade receivables		676,553	539,560	4,286	117,666	10,727
Other non-derivative receivables		36,237	35,189	643	–	41

Impairment losses are based on the credit risk related to the receivables and are assessed primarily using factors such as a customer’s credit rating and historical pattern of meeting payment terms.

For certain receivables that were overdue as at the reporting date, but for which no impairment losses had been reported, the Company considered trade payables or collateral with the same counterparties. Apart from this item, the Group did not hold any significant collateral.

Liquidity risk

Based on IFRS 7, a liquidity risk arises if a company is unable to meet its financial liabilities. The KION Group maintains a liquidity reserve in the form of lines of credit and cash in order to ensure financial flexibility and solvency. The age structure of financial liabilities is reviewed continuously and was improved by amending and extending the SFA loan in July 2012 as well as issuing a further corporate bond in February 2013 (see 'Credit terms' table in note [30]).

The following table shows all of the contractually agreed payments under recognised financial liabilities as at 31 December 2012, including derivative financial instruments with negative fair values.

Liquidity analysis of financial liabilities and derivatives

€ thousand	2012			
	Carrying amount 2012	Cash flow 2013	Cash flow 2014 - 2017	Cash flow from 2018
Primary financial liabilities				
Gross liabilities to banks	1,882,085	-124,369	-1,994,386	-149,793
Borrowing costs	-23,637			
Net liabilities to banks	1,858,448			
Corporate bond	500,000	-33,677	-138,368	-517,912
Borrowing costs	-10,505			
	489,495			
Other financial liabilities	4,488	-623	–	-5,269
Shareholder loan	–	–	–	–
Trade payables	646,044	-646,044	–	–
Lease liabilities	475,015	-166,802	-344,613	-12,974
Other financial liabilities	459,542	-264,668	-217,889	-8,203
Derivative financial liabilities				
Derivatives with negative fair value	27,050			
+ Cash in		438,150	5,005	–
- Cash out		-452,648	-13,751	–

Liquidity analysis of financial liabilities and derivatives

€ thousand	2011			
	Carrying amount 2011	Cash flow 2012	Cash flow 2013 - 2016	Cash flow from 2017
Primary financial liabilities				
Liabilities to banks	2,530,064	-307,224	-2,643,650	–
Borrowing costs	-20,175			
Net liabilities to banks	2,509,889			
Corporate bond	500,000	-34,864	-143,062	-556,723
Borrowing costs	-12,492			
	487,508			
Other financial liabilities	7,333	-3,397	–	-6,090
Shareholder loan	643,132	–	–	-928,194
Trade payables	634,092	-634,092	–	–
Lease liabilities	446,789	-165,739	-312,512	-11,905
Other financial liabilities	434,948	-274,716	-178,168	-6,788
Derivative financial liabilities				
Derivatives with negative fair value	17,742			
+ Cash in		295,698	32,127	–
- Cash out		-291,278	-36,919	–

The calculation of future cash flows for derivative financial liabilities includes all currency forwards and interest-rate swaps that have negative fair values as at the reporting date.

Bank guarantee lines (e.g. sureties, performance bonds) had been issued under the ancillary facility agreements for a total amount in the low double-digit millions as at 31 December 2012. They included guarantees payable 'on first demand'. No guarantees were utilised in 2012.

The volume of business for which factoring was used in 2012 was €20,024 thousand (2011: €17,844 thousand). Because all material risks and rewards are assigned to the purchaser, these assets are derecognised in full.

Default risk

For financial assets, default risk is defined as the risk that a counterparty will default, and therefore is limited to a maximum of the carrying amount of the assets relating to the counterparty involved. The potential default risk attaching to financial assets is mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees.

Specific valuation allowances for defaults are recognised to reflect the risk arising from primary financial instruments. Financial transactions are only entered into with selected partners holding good credit ratings. Investments in interest-bearing securities are limited to investment-grade securities.

Risks from financial services

The KION Group's leasing activities mean that it may be exposed to residual value risks from the marketing of machinery and equipment that is returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecasted.

KION regularly assesses its overall risk position arising from financial services, recognising write-downs, impairments or provisions to cover the risks it identifies. It immediately takes into account of any changes in residual values when calculating new leases.

In addition, residual values are mainly based on remarketing agreements that continued to achieve positive outcomes in 2012. Under these agreements, any residual-value risk is transferred to the leasing company concerned. Group-wide standards to ensure that residual values are calculated conservatively reduce risk and provide the basis on which to create the transparency required. KION also has an IT system for residual-value risk management.

The KION Group mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have comparable maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has sufficient liquidity.

In order to eliminate exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Company did not identify any material year-over-year changes in 2012. KION's losses from defaults are also mitigated by its proceeds from the sale of repossessed trucks. In addition, it primarily offers financial services indirectly via selected funding partners, and KION bears the counterparty risk in less than 5 per cent of cases. The credit risk management system was refined as part of the work involved in transferring financial services activities to a separate segment. In particular, this involved revising procedures on operational and organisational structure as well as processes for risk management and control.

Exchange rate risk

In accordance with its treasury risk policy, the KION Group hedges exchange rate risks both locally at the level of the individual companies and centrally via KION GROUP GmbH in order to meet the prescribed minimum hedging ratios.

The main hedging instruments employed are foreign-currency forwards, provided that there are no country-specific restrictions on their use.

At company level, hedges are entered into for highly probable future transactions on the basis of a rolling 15-month forecast, as well as for firm obligations not reported in the statement of financial position. In accordance with IAS 39, these hedges are generally classified as cash flow hedges for accounting purposes (see note [38]).

Foreign-currency forwards are also employed to hedge the exchange rate risks resulting from internal financing.

The following table shows an overview of the foreign-currency forwards entered into by the KION Group.

Foreign-currency forwards

		Fair value		Notional amount	
€ thousand		2012	2011	2012	2011
Foreign-currency forwards (assets)	Hedge	2,865	1,765	89,240	73,758
	Trading	1,337	21,500	103,671	363,277
Foreign-currency forwards (liabilities)	Hedge	1,006	8,650	29,765	189,351
	Trading	7,448	2,471	414,160	103,018

Significant exchange rate risks from financial instruments are measured on the basis of value at risk (VaR) as part of internal Group management. VaR figures are calculated using historical variance-covariance analyses. Correlations and volatilities are calculated on the basis of the 250 working days prior to the reporting date (unweighted).

Exchange rate risks from financial instruments as defined by IFRS 7, are only included in calculating value at risk if the financial instruments are denominated in a currency other than the functional currency of the reporting entity concerned. This means that exchange rate risks resulting from the translation of the separate financial statements of subsidiaries into the Group reporting currency, i.e. currency translation risk, are not included.

Value-at-Risk

€ thousand	2012	2011
Currency risk	30,343	54,676

The value at risk in respect of currency risk as at 31 December 2012 was €30,343 thousand (31 December 2011: €54,676 thousand). Value at risk is the gain or loss that is not expected to be exceeded over a holding period of one year with a confidence level of 97.7 per cent (2011: 97.7 per cent).

Interest-rate risk

Interest-rate risk within the KION Group is managed centrally. The basis for decision-making includes sensitivity analyses of interest-rate risk positions in key currencies.

The table below shows the cumulative effect of an increase or decrease of 100 basis points (bps) in the relevant interest-rate curves, with a rate of 0 per cent constituting the lower limit of the calculation.

Interest-rate sensitivity

	+100 bps	-100 bps	+100 bps	-100 bps
€ thousand	2012	2012	2011	2011
Other comprehensive income (loss)	16,020	-1,627	28,702	-18,031
Net income (loss)	-8,469	8,469	-9,358	9,358

The Group essentially funds itself by drawing down loans under its agreed credit facilities. Interest-rate derivatives – mainly interest-rate swaps – are used to hedge the resulting interest-rate risk.

Interest-rate swaps

		Fair value		Notional amount	
€ thousand		2012	2011	2012	2011
Interest-rate swaps (assets)	Hedge	–	–	–	–
	Trading	–	–	–	–
Interest-rate swaps (liabilities)	Hedge	18,596	6,621	1,670,000	2,070,000
	Trading	–	–	–	–

[38] Hedge accounting

Hedging currency risk

In accordance with its treasury risk policy, the KION Group applies hedge accounting in hedging the exchange rate risks arising from highly probable future revenues in various currencies. Foreign-currency derivatives with settlement dates in the same month as the expected cash flows from the Group's operating activities are used as hedges.

The effectiveness of the Group's hedging transactions is assessed on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. The effective portion of the changes in the fair value of foreign-currency derivatives is recognised in accumulated other comprehensive income (loss) and only reversed when the corresponding hedged item is recognised in income.

Because of the short-term nature of the Group's payment terms, reclassifications to the income statement and the recognition of the corresponding cash flows generally take place in the same reporting period. A foreign-currency receivable or liability is recognised when goods are shipped or received. Hedge accounting continues until the corresponding payment is received, with the changes in the fair value of the derivative being recognised in the income statement, thereby largely offsetting the effect of the measurement of the receivable at the reporting date.

The changes in fair value recognised and reclassified in other comprehensive income in 2012 are shown in the consolidated statement of comprehensive income. The ineffective portion of the changes in the fair value of the hedging transactions is recognised directly in the income statement. There were no significant ineffective portions in 2012.

In total, foreign-currency cash flows with a notional amount of €114,329 thousand (2011: €263,109 thousand) were hedged and designated as hedged items, of which €99,744 thousand is expected by 30 September 2013 (2011: €187,298 thousand by 30 September 2012). The remaining cash flows designated as hedged items fall due in the period up to 24 February 2014.

Hedging of interest-rate risk

The KION Group uses hedge accounting in connection with the hedging of interest-rate risk.

The KION Group is essentially financed by the utilisation of loans with variable interest rates and in different currencies. Interest-rate derivatives denominated in various currencies were used to hedge the resulting interest-rate risk in 2012. Because the KION Group used interest-rate swaps to convert 48 per cent of its variable-rate exposure into fixed-rate obligations as at the reporting date (31 December 2011: 51 per cent), it is not fully benefiting from the low level of market interest rates. These swaps were designated as hedges at inception.

The effective portion of the hedges was recognised in other comprehensive income (loss). As in the previous year, the cumulative effectiveness of the hedging transactions was almost 100 per cent. As in 2011, there were no ineffective portions.

In total, variable portions of future interest payments amounting to €6,340 thousand (2011: €27,196 thousand) were designated as hedged items, of which €2,365 thousand are due by 30 September 2013 (2011: €8,126 thousand fell due by 30 September 2012). The remaining cash flows designated as hedged items are due by 31 December 2014.

[39] Segment report

The chief-operating decision makers divide the KION Group into the two brands Linde Material Handling (LMH) and STILL, as well as the financial services (FS) activities for management purposes. Segment reporting follows the same breakdown, taking into account the relevant organisational structures and corporate strategy of the KION Group.

Since 2011 the chief-operating decision makers divided the KION Group into the LMH and STILL brands for management purposes and therefore for segment reporting. Starting in 2011 the KION Group had put in place the organisational structures required under the German Commercial Code (HGB) to enable it to manage and report the Group's financial services activities as a separate segment in 2012. The segment reporting in the notes to the 2011 financial statements included additional voluntary disclosures based on the future reporting model. These additional disclosures provide the basis for the comparative data. The new segment structure has been used for management purposes since the end of 2012.

In this context, separate financial services companies have been established in the core markets of Germany, France, United Kingdom, Italy and Spain. Further companies will be gradually introduced in countries with a high proportion of finance and leasing business. In countries with lower levels of FS activity, the sales and service companies will continue to run the financial services operations.

Description of the segments

The Linde Material Handling (LMH) segment encompasses the Linde, Fenwick and Baoli brands. The remaining 30 per cent held in Linde Hydraulics is allocated to the LMH segment at fair value and will be accounted for using the equity method on a going-forward basis.

The STILL segment comprises the STILL and OM-STILL brands.

FS activities include the financing of long-term leasing business for KION Group customers and risk management. When long-term leasing business is being conducted, FS operates as a contractual partner to external customers and provides the necessary refinancing in conjunction with external financial partners. Besides management of residual-value risk, risk management also includes the management of credit risk. In addition, FS provides the financing for short-term rental fleets on behalf of the LMH and STILL brand segments.

The 'Other' segment comprises the companies operating under the Voltas brand as well as holding and service companies in the KION Group. Voltas is a KION Group brand company whose manufacturing is based in India and whose business activities focus primarily on this market. The service companies perform cross-segment services for the KION Group. The bulk of the revenue in this segment is generated by internal IT and logistics services rendered by the service companies.

Segment management

The key performance indicator used to manage the brand segments is 'adjusted EBIT'. Segment reporting therefore includes a reconciliation of externally reported consolidated earnings before interest and tax (EBIT) – including KION acquisition items and non-recurring items – to the adjusted EBIT of the segments ('adjusted EBIT').

The key performance indicator used to manage the FS segment is earnings before tax (EBT).

Intra-group transactions are generally conducted on an arm's-length basis. The regular (interest) margin income that FS generates from its business activities reflects prevailing market conditions. Surpluses from the leasing business that exceed this interest margin are reflected in the producer margin within the operating profit generated by the LMH and STILL brand segments.

Segment reports are prepared in accordance with the same accounting policies as the consolidated financial statements, as described in note [8]. Contrary to these policies, however, the LMH and STILL brands' intersegment sales to FS are always treated as revenue for the brand segments, irrespective of the possible remain of opportunities and risks. These sales always take place at market price.

Assets and liabilities associated with the long-term leasing business are assigned to the FS segment. The expenses in the FS segment's income statement therefore reflect, in particular, depreciation/amortisation of the assets, interest expenses relating to the financing of these assets as well as operating expenses. These expenses correspond to income by the finance instalments paid by the customer (lease payments excluding service portion).

Whereas the main feature of long-term leasing business is the provision of a financial service to the external lessee, the focus in short-term leasing is on the service function. External customers are offered rental trucks from a rental pool – including associated services – for short-term use. Unlike the situation in long-term leasing, financial performance in the short-term business is largely dependent on the achieved level of utilisation of the rental fleet, management of which lies entirely within the responsibility of the brand segments. Given this structure, the assets associated with the short-term business and the related income and expenses remain on the brand segments' income statement or statement of financial position.

In an indirect leasing arrangement ('sale with risk'), the otherwise typical financing function of the FS segment as a lender for the leasing transaction no longer applies. As a result of the sale of the leased asset to the external finance provider in such transactions, the brand segments view the transactions in the same way as a sale to an end-user. Consequently, these transactions and all the revenue that they generate are recognised in the LMH and STILL brand segments.

The following tables show information on the KION Group's operating segments for 2012 and 2011:

Segment report

€ thousand 2012	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,903,163	1,483,832	296,755	42,914	–	4,726,664
Intersegment revenue	229,084	192,758	212,571	208,023	-842,436	–
Total revenue	3,132,247	1,676,590	509,326	250,937	-842,436	4,726,664
Earnings before taxes	505,338	70,067	4,798	-205,643	-63,932	310,628
Financial income	28,180	6,054	44,704	21,747	-38,601	62,084
Financial expense	-46,258	-34,089	-41,308	-215,224	35,310	-301,569
= Financial result	-18,078	-28,035	3,396	-193,477	-3,291	-239,485
EBIT	523,416	98,102	1,402	-12,166	-60,641	550,113
+ Non-recurring items	-226,053	17,113	–	55,533	–	-153,407
+ KION acquisition items	32,994	7,394	–	1,065	–	41,453
= Adjusted EBIT	330,357	122,609	1,402	44,432	-60,641	438,159
Segment assets	4,513,827	2,068,249	1,040,559	902,292	-2,311,687	6,213,240
Segment liabilities	1,461,278	1,191,605	998,854	4,205,982	-2,304,814	5,552,905
Carrying amount of equity investments	135,499	6,148	13,188	–	–	154,835
Equity result	13,477	1,226	1,209	–	–	15,912
Capital expenditures*	89,139	51,115	53	14,794	–	155,101
Depreciation**	102,503	42,661	9	17,735	–	162,908
Order intake	2,977,674	1,576,810	509,326	250,937	-614,671	4,700,076
Number of employees***	13,148	7,253	112	702	–	21,215

* Excluding leased assets and rental assets
** Omitted on intangible assets and property, plant and equipment excl. leased and rental assets
*** Number of employees in full-time equivalents as at 31 December

Segment report

€ thousand 2011	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,601,587	1,461,968	264,896	39,944	–	4,368,395
Intersegment revenue	251,927	204,836	214,864	183,365	-854,992	–
Total revenue	2,853,514	1,666,804	479,760	223,309	-854,992	4,368,395
Earnings before taxes	246,450	-30,586	6,160	-191,729	-89,180	-58,885
Financial income	29,380	5,804	45,360	32,371	-39,251	73,664
Financial expense	-40,651	-31,302	-41,901	-267,529	35,674	-345,709
= Financial result	-11,271	-25,498	3,459	-235,158	-3,577	-272,045
EBIT	257,721	-5,088	2,701	43,429	-85,603	213,160
+ Non-recurring items	-4,830	97,308	–	23,005	–	115,483
+ KION acquisition items	26,468	7,960	–	1,537	–	35,965
= Adjusted EBIT	279,359	100,180	2,701	67,971	-85,603	364,608
Segment assets	4,425,263	1,983,278	840,005	708,616	-1,890,876	6,066,286
Segment liabilities	1,495,301	1,064,798	798,845	5,043,405	-1,848,476	6,553,873
Carrying amount of equity investments	19,244	4,647	12,654	–	–	36,545
Equity result	5,074	1,557	459	–	–	7,090
Capital expenditures*	75,952	43,270	0	13,783	–	133,005
Depreciation**	100,563	48,152	0	16,321	–	165,036
Order intake	2,929,844	1,694,941	479,760	223,153	-645,842	4,681,856
Number of employees***	13,786	7,292	96	688	–	21,862

* Excluding leased assets and rental assets
**Omitted on intangible assets and property, plant and equipment excl. leased and rental assets
*** Number of employees in full-time equivalents as at 31 December

The table below gives a breakdown of revenue from external customers by region.

Segment revenue broken down by customer location

€ thousand	2012	2011
Germany	1,225,236	1,174,777
EU excl. Germany	2,253,227	2,114,588
Rest of Europe	247,648	203,530
America	324,175	280,611
Asia	485,636	434,814
Rest of world	190,742	160,075
Total segment revenue	**4,726,664**	**4,368,395**

There are no relationships with individual customers that generate revenue deemed to be significant as a proportion of total consolidated revenue.

Financial income and expenses including all interest income and expenses are described in notes [14] and [15].

The non-recurring items mainly comprised costs incurred in connection with severance payments, social plan costs, costs relating to the relocation and closure of production sites and consultancy costs. They totalled €70,928 thousand in 2012 (2011: €115,483 thousand). Also included for 2012 are the gain from the disposal of the controlling interest (70 per cent) in Linde Hydraulics (€-103,071 thousand), the gain from the remeasurement of the remaining shares (30 per cent) in Linde Hydraulics (€-108,692 thousand), the gain from the remeasurement of the shares already held in Linde Creighton Ltd., which were previously accounted for using the equity method, (€-8,015 thousand) and the gain from the remeasurement of purchase price obligations (€-4,557 thousand). In 2012 material non-recurring items amounting to €-107,092 thousand were non-cash items. In the segment LMH the non-cash items result in an income of €-109,397 thousand and in the segment STILL €-5,825 thousand. The segment other includes non-cash expenses amounting to €8,130 thousand. The KION acquisition items comprise depreciation, amortisation and impairment charges on the fair value adjustments identified as part of the purchase price allocation (PPA).

The assets attributable to the Financial Services segment include long-term leases which were reported as either leased assets or lease receivables, depending on the type of lease. At the reporting date, lease receivables due from unrelated third parties amounted to €379,946 thousand (31 December 2011: €361,225 thousand). There were also intra-group lease receivables of €373,354 thousand (31 December 2011: €300,046 thousand), which primarily resulted from the funding of the short-term rental business of LMH and STILL.

KION Group's consolidated statement of financial position include liabilities to leasing companies arising from procurement leases, from financing of the rental fleet and from agreements classified as 'sale with risk' in the amount of €300,340 thousand (2011: €254,723 thousand), which are reported as other financial liabilities. Thereof €260,154 thousand (2011: €222,245 thousand) are allocated to the liabilities of Financial Services. The segment liabilities attributable to the financial services business also include liabilities to external leasing companies of €470,180 thousand (2011: €446,789 thousand) arising from finance lease obligations from sale-and-leaseback transactions for the funding of long-term leases with customers, which are reported as lease liabilities in the consolidated financial statements. Moreover, they include net financial debt of €174,853 thousand (2011: €127,337 thousand) arising from general financing of the Financial Services segment.

The equity-accounted investment (45 per cent) in Linde Leasing GmbH, Wiesbaden, was allocated to the FS segment when the new segment reporting model was introduced. The purpose of Linde Leasing GmbH is to provide financial services and it is therefore assigned to the FS segment.

Capital expenditures of the Financial Services segment includes additions to intangible assets and property, plant and equipment. Leased assets are described in note [19].

Capital expenditures broken down by company location (excl. leased and rental assets)

€ thousand	2012	2011
Germany	104,966	92,340
EU excl. Germany	30,452	27,796
Rest of Europe	733	233
America	8,411	5,849
Asia	9,915	5,378
Rest of world	624	1,409
Total capital expenditures	**155,101**	**133,005**

Depreciation/amortisation relates to intangible assets with finite useful lives and property, plant and equipment. The regional breakdown of non-current assets excluding financial assets, financial instruments, deferred tax assets and post-employment benefits is as follows:

Non-current assets broken down by company location

€ thousand	2012	2011
Germany	2,552,611	2,703,550
EU excl. Germany	695,537	665,590
Rest of Europe	27,858	24,492
America	46,240	34,672
Asia	122,176	116,428
Rest of world	49,544	48,671
Total non-current assets (IFRS 8)	**3,493,966**	**3,593,403**

[40] Employees

The KION Group employed an average of 22,232 people in the reporting year (2011: 20,797). The number of employees (including part-time employees expressed as a proportion of full-time equivalents) is broken down by region as follows:

Employees (average)

	2012	2011
Germany	8,497	8,145
France	3,245	3,196
UK	1,807	1,423
Italy	884	1,030
Rest of Europe	3,443	3,194
Asia	3,243	2,816
Rest of world	1,113	993
Total employees	**22,232**	**20,797**

The number of employees increased by 300 due to the first-time consolidation of Linde Creighton Ltd., Basingstoke, United Kingdom.

[41] Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, the KION Group has direct or indirect business relationships with a number of unconsolidated subsidiaries, joint ventures and associates in the course of its ordinary business activities. The related parties that are controlled by the KION Group, that are able to exert a significant influence over the KION Group, or are members of the Superlift group are either included in the list of shareholdings (annex to these notes) or in the table below.

Related parties	
Superlift Holding S.à r.l., Luxembourg	Parent company
Kohlberg Kravis Roberts & Co. L.P., New York, USA	Entity with significant influence
Goldman, Sachs & Co., New York, USA	Entity with significant influence
Superlift Funding S.à r.l., Luxembourg	Affiliated company
Weichai Power Co., Ltd., Weifang, China	Entity with significant influence

Superlift Funding S.à r.l., Luxembourg

Under a supplementary loan agreement dated 23 September 2009, investment funds advised by Kohlberg Kravis Roberts & Co. L.P. ('KKR') and Goldman Sachs Capital Partners extended the SFA to include an additional loan of €100,000 thousand to be paid via Superlift Funding S.à r.l., Luxembourg. The purpose of the supplementary loan was to further strengthen the operational and strategic options for the KION Group. Both the loan amount and the associated interest are repayable as a bullet payment on maturity (payment in kind, 'PIK'). The carrying amount of the loan including accrued interests was €115,951 thousand as at 31 December 2012 (31 December 2011: €111,210 thousand).

Shareholder loan agreement

On 27 December 2006, KION Holding 1 GmbH (then Neggio Holding 1 GmbH) entered into a shareholder loan agreement with Superlift Holding S.à r.l., Luxembourg, for €500,000 thousand of principal. The shareholder loan, amounting to €670,784 thousand (including accrued interest), was converted into equity with effect from 27 December 2012.

Disposal of a significant part of the hydraulics business

The KION Group sold its controlling interest of 70 per cent in Linde Hydraulics to Weichai Power Co., Ltd., Weifang, China, for a consideration of €271,000 thousand with effect from 27 December 2012. As part of the transaction, Weichai Power granted LMH GmbH a put option on the remaining shares in Linde Hydraulics. LMH GmbH also granted Weichai Power two call options relating to the shares. For further information, please refer to note [6].

Advisory agreement

On 8 May 2007, KION GROUP GmbH, Kohlberg, Kravis Roberts & Co. L.P. ('KKR') and Goldman, Sachs & Co. entered into an advisory agreement under the terms of which KKR and Goldman Sachs undertook to perform advisory services for the KION Group. These advisory services relate, in particular, to financial and strategic issues. The annual advisory fee payable to KKR and Goldman, Sachs & Co. is €4,763 thousand (2011: €4,624 thousand) and it has been recognised as an expense.

Under the terms of the adjustment and extension of the SFA loan, an advisory fee totalling €2,015 thousand was paid to KKR and Goldman, Sachs & Co. This fee has been allocated pro rata as transaction costs to each of the tranches and is expensed over their respective new terms.

Goldman & Sachs AG, Frankfurt am Main, also provided additional advisory services totalling €11,500 thousand in connection with the new shareholder Weichai Power and the sale of the hydraulics business.

As at the reporting date, the receivables due from related parties were as follows:

Receivables from related parties

€ thousand	2012	2011
Non-consolidated subsidiaries	7,421	4,403
Associates	10,845	17,262
Joint ventures	2,622	2,964
Other related parties	5,901	4,825
Total receivables from related parties	**26,789**	**29,454**

As at the reporting date, liabilities to related parties were as follows:

Liabilities to related parties

€ thousand	2012	2011
Non-consolidated subsidiaries	4,845	4,188
Associates	35,861	39,955
Joint ventures	6,051	4,719
Other related parties	132,529	769,255
Total liabilities to related parties	**179,286**	**818,117**

[42] KION management partnership plan ('MPP')

Arrangements for management to invest in the Company have been in place since 2007. These arrangements are governed by the 'Shareholders' and co-investment agreement on the implementation of the management partnership plan for the KION Group' (the co-invest agreement) dated 14 June 2007, entered into by Superlift Holding S.à r.l., KION Holding 1 GmbH and KION Management Beteiligungs GmbH & Co. KG. The managers who have joined the management partnership plan also became parties to the co-invest agreement in 2007, 2008, 2010 and 2011.

Taking account of the approved capital increase and the conversion of the shareholder loan, KION Management Beteiligungs GmbH & Co. KG holds an equity interest of 5.711 per cent (2011: 14.61 per cent) in KION Holding 1 GmbH. In total, the Executive Board holds an interest of €2,800 thousand in the limited partner capital of KION Management Beteiligungs GmbH & Co. KG, which equals to an indirect interest of 1.066 per cent (2011: 3.31 per cent) in the share capital of KION Holding 1 GmbH. In addition to the KION Group's Executive Board, around 300 executives around the world have purchased shares in KION Management Beteiligungs GmbH & Co. KG. The shares are sold at their fair value and shareholdings are divided into virtual 'A', 'B', and 'C' shares. Different terms and conditions concerning payment of the purchase price and rights to purchase attach to these virtual shares. The purchase price for 'A' shares became payable when participants joined the programme, while KION Management Beteiligungs GmbH granted participants interest-bearing loans for the purchase price of the 'B' and 'C' shares. The vesting conditions and resulting purchase rights for 'B' shares accrue to participants in equal, annual tranches over a period of five years. By contrast, managers become eligible to purchase 'C' shares if the targets for revenue, EBITA and operating cash flow set in the business plan are achieved over a five-year period or predefined target returns are achieved if the Group is sold or there is a change of control.

In 2010, the performance-related vesting conditions for the 'C' shares relating to the 2009–2012 bonus period were adjusted to take into account of the revised long-term KION business plan, which is in turn based on the amended loan terms in the supplementary agreement to the SFA dated 23 September 2009. The change in vesting conditions affects a total of 1,034 shares with an expected exercise price of €16 thousand each. The articles of association expire on 31 December 2016. The vesting period ended on 31 December 2012. The total fair value of this adjustment was €1,044 thousand. The fair value of the individual purchase rights amounted to €1 thousand. The number of purchase options outstanding as at the reporting date remained unchanged at 1,034, of which 876 (31 December 2011: 584) were exercisable.

Expenses of €159 thousand were incurred by the management partnership plan in 2012 (2011: €295 thousand).

[43] Remuneration of key management

Executive Board

Gordon Riske, Chief Executive Officer (CEO), is responsible, among other things, for the strategic management of the Group, communications, governance and compliance. On 11 January 2013 he also took over responsibility for KION Warehouse Systems and internal audit.

On 31 December 2012 Otmar Hauck, until then Chief Operating Officer (COO) of KION GROUP GmbH, Wiesbaden, stepped down from the Executive Board of the KION Group. He had been responsible for quality and central operations (operational excellence & production control), purchasing, logistics, health & safety and environmental issues in the Group.

Klaus Hofer stepped down from the Executive Board of the KION Group on 10 January 2013. As Chief Human Resources Officer (CHRO), he had been responsible for human resources, legal affairs and internal audit.

Bert-Jan Knoef is CEO of the brand company STILL GmbH and, since 11 January 2013, has also overseen all cross-brand logistics activities and managed the intra-group logistics service provider, Urban.

Theodor Maurer is CEO of the brand company Linde Material Handling GmbH and, since 11 January 2013, has also held cross-brand responsibility for quality, facility management, health, safety and the environment.

Harald Pinger, who had been Chief Financial Officer (CFO), stepped down from the Executive Board of the KION Group on 31 August 2012.

Ching Pong Quek was appointed Chief Asia Pacific Officer with effect from 11 January 2013 and heads up the KION Group's entire Asia business.

Dr Thomas Toepfer, who has been Chief Financial Officer (CFO) since 1 September 2012, is responsible, among other things, for finance (including financial services) and IT activities. On 11 January 2013 he also took over responsibility for purchasing and the role of Labour Relations Director.

The remuneration paid to the Executive Board comprises a fixed salary and non-cash benefits, pension entitlements and performance-related components. The variable performance-related components are paid each year on the basis of the Group's performance. The pension entitlements consist of retirement, invalidity and surviving dependants' benefits.

The total remuneration paid to the members of the Executive Board in 2012 amounted to €12,026 thousand (2011: €5,209 thousand). This consisted of short-term remuneration amounting to €5,551 thousand (2011: €4,755 thousand), post-employment benefits totalling €436 thousand (2011: €386 thousand), termination benefits of €6,000 thousand (2011: €0 thousand) and share-based payments of €39 thousand (2011: €68 thousand). The current service cost resulting from pension provisions for the Executive Board is reported under the retirement benefit obligation. No loans or advances were made to members of the Executive Board in 2012 (2011: loans and advances totalling €0 thousand).

The total remuneration paid to former members of the Executive Board in 2012 amounted to €165 thousand (2011: €162 thousand). Provisions for pension obligations to former members of the Executive Board or their surviving dependants amounting to €3,636 thousand (2011: €2,819 thousand) were recognised in accordance with IAS 19.

Supervisory Board

The total remuneration paid to the members of the Supervisory Board for the performance of their duties at the parent company and subsidiaries in 2012 amounted to €953 thousand including VAT (2011: €1,071 thousand). There were no loans or advances to members of the Supervisory Board in 2012. Furthermore, the members of the Supervisory Board did not receive any remuneration or benefits for services provided as individuals, such as consulting or brokerage activities.

In addition the members of the Supervisory Board receive for services short-term employee benefits totalled €550 thousand in 2012 (2011: €539 thousand).

[44] Members of the Executive Board and Supervisory Board

Executive Board

Gordon Riske
CEO

Klaus Hofer
(until 10 January 2013)
CHRO

Bert-Jan Knoef
(since 11 January 2013)
Member of the Executive Board / CEO, STILL

Theodor Maurer
(since 11 January 2013)
Member of the Executive Board / CEO, LMH

Harald Pinger
(until 31 August 2012)
CFO

Ching Pong Quek
(since 11 January 2013)
Chief Asia Pacific Officer

Dr Thomas Toepfer
(since 1 September 2012)
CFO

Supervisory Board

Dr John Feldmann
(Chairman of the Supervisory Board)
Chief executive officer of the non-profit Hertie Foundation, Frankfurt am Main, member of the Supervisory Board and member of the Supervisory Board's Presiding Committee at Bilfinger Berger SE, Mannheim

Joachim Hartig[1]
Deputy Chairman of the Supervisory Board
Chairman of the Plant I & II Works Council, Linde Material Handling GmbH, Aschaffenburg

Holger Brandt[1]
(since 19 March 2012)
Head of After Sales STILL Group, STILL GmbH, Hamburg

Dr Alexander Dibelius
Chief Executive Officer of Goldman Sachs AG, Frankfurt am Main

Denis Heljic[1]
(until 19 March 2012)
Deputy Chairman of the Works Council of STILL GmbH, Dortmund plant
Service Technician at STILL, Dortmund plant

Dr Martin Hintze
Managing Director of Goldman Sachs Capital Partners, London

Johannes P. Huth
Member of Kohlberg Kravis Roberts & Co. L.P., New York

Jiang Kui
(since 27 December 2012)
President of Shandong Heavy Industry Group Co., Ltd., Jinan, China

Thilo Kämmerer[1]
Trade Union Secretary, IG Metall, Bamberg Administrative Office

Dr Roland Köstler[1]
Head of Business Law at Hans-Böckler-Stiftung, Düsseldorf

Peter Kolb[1]
(until 19 March 2012)
Head of Facility Management, Linde Material Handling GmbH, Aschaffenburg

Kay Pietsch[1]
Chairman of the KION Group Works Council and Chairman of the Works Council of STILL GmbH, Hamburg

Silke Scheiber
Member of Kohlberg Kravis Roberts & Co. L.P., New York

Dr Michael Süß
(until 26 December 2012)
Member of the Managing Board and CEO of the Energy Sector of Siemens AG, Munich

Hans-Peter Weiß[1]
(since 19 March 2012)
Chairman of the Plant III Works Council, Linde Material Handling GmbH, Kahl

[1] Employee representatives

[45] Auditors' fees

The fees recognised as an expense and paid to the auditors of the consolidated financial statements in 2012 amounted to €960 thousand (2011: €970 thousand) for the audit of the financial statements, €650 thousand (2011: €892 thousand) for other attestation services, €444 thousand (2011: €206 thousand) for tax consultancy services and €45 thousand (2011: €63 thousand) for other services.

[46] Events after the reporting date

The KION Group issued a corporate bond for €650,000 thousand through the consolidated subsidiary KION Finance S.A., Luxembourg, in February 2013. Of the bond's total par value of €650,000 thousand, €450,000 thousand is repayable at a fixed interest rate of 6.75 per cent p.a., while €200,000 thousand carries a floating interest rate based on three-month Euribor plus a margin of 4.5 percentage points. The payout amount for the variable portion was €1,000 thousand below the par value (discount). The interest on the fixed-rate tranche is paid semi-annually, while interest on the floating-rate tranche is paid once a quarter. The bond's principal is redeemed as a bullet payment on maturity. Of the total proceeds of €649,000 thousand, €636,000 thousand was used to repay existing senior facility agreement (SFA) liabilities and €13,000 thousand will be used to pay the expected transaction costs.

[47] Information on preparation and approval

The Executive Board of KION Holding 1 GmbH prepared the consolidated financial statements on 13 March 2013 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of examining and deciding whether to approve the consolidated financial statements.

Wiesbaden, 13 March 2013

The Executive Board

Gordon Riske　　Bert-Jan Knoef　　Theodor Maurer

Ching Pong Quek　　Dr Thomas Toepfer

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2012

Annex to the notes

List of shareholdings as of December 31, 2012

according to section 313 para. 2 No. 1-4 Commercial Code (HGB)

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
1	KION Holding 1 GmbH	Wiesbaden	Germany			1,299,794	-33,574	
	Consolidated affiliated companies							
	Domestic							
2	BlackForxx GmbH	Stuhr	Germany	19	100.00%	757	0	[B]
3	Eisenwerk Weilbach GmbH	Wiesbaden	Germany	11	100.00%	288	0	[A]
4	Fahrzeugbau GmbH Geisa	Geisa	Germany	19	100.00%	7,329	0	[B]
5	KION Financial Services GmbH	Wiesbaden	Germany	11	100.00%	1,558	0	[A]
6	KION GROUP GmbH	Wiesbaden	Germany	7	100.00%	485,611	-57,802	
7	KION Holding 2 GmbH	Wiesbaden	Germany	1	100.00%	1,115,331	0	[E]
8	KION Information Management Services GmbH	Wiesbaden	Germany	6	100.00%	129	0	[D]
9	KION Warehouse Systems GmbH	Reutlingen	Germany	19	100.00%	22,670	0	[B]
10	Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan	Germany	11	100.00%	12,177	2,502	
11	Linde Material Handling GmbH	Aschaffenburg	Germany	6	100.00%	461,786	180,264	
12	LMH Immobilien GmbH & Co. KG	Aschaffenburg	Germany	11 & 13	99.64%	42,361	14,196	
13	LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg	Germany	11	94.00%	247	67	
14	LMH Immobilien Holding Verwaltungs-GmbH	Aschaffenburg	Germany	11	100.00%	29	2	
15	LMH Immobilien Verwaltungs-GmbH	Aschaffenburg	Germany	11	100.00%	29	1	
16	OM Deutschland GmbH	Neuhausen a.d. Fildern	Germany	65	100.00%	-2,041	-876	[R]
17	Schrader Industriefahrzeuge GmbH & Co. KG	Essen	Germany	11	100.00%	2,322	2,378	
18	STILL Financial Services GmbH	Hamburg	Germany	5	100.00%	1,533	0	[C]
19	STILL Gesellschaft mit beschränkter Haftung	Hamburg	Germany	11	100.00%	206,247	0	[A]
20	Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim	Germany	11	100.00%	3,181	0	[A]
	Foreign							
21	Linde Material Handling Pty. Ltd.	Huntingwood	Australia	11	100.00%	42,965	3,519	
22	STILL N.V.	Wijnegem	Belgium	19 & 69	100.00%	7,373	1,911	
23	KION South America Fabricação de Equipamentos para Armazenagem Ltda.	Rio de Janeiro	Brazil	19	100.00%	19,730	1,451	
24	KION Baoli (Jiangsu) Forklift Co., Ltd.	Jiangjiang	China	58	100.00%	23,242	-3,518	
25	Linde (China) Forklift Truck Corporation Ltd.	Xiamen	China	11	100.00%	149,653	39,518	
26	STILL DANMARK A/S	Kolding	Denmark	19	100.00%	4,890	437	
27	BARTHELEMY MANUTENTION SAS	Vitrolles	France	31	88.40%	3,265	1,229	
28	Bastide Manutention SAS	Toulouse	France	31	100.00%	2,517	689	
29	Bretagne Manutention S.A.	Pacé	France	31	54.27%	7,226	3,689	
30	FENWICK FINANCIAL SERVICES SAS	Elancourt	France	32	100.00%	2,336	0	
31	FENWICK-LINDE S.A.R.L.	Elancourt	France	32 & 11	100.00%	183,867	22,570	
32	KION France SERVICES SAS	Elancourt	France	11	100.00%	122,828	9,193	
33	LOIRE OCEAN MANUTENTION SAS	Saint-Herblain	France	31	87.81%	4,725	2,842	
34	Manuchar S.A.	Gond Pontouvre	France	31	100.00%	3,416	1,613	
35	MANUSOM SAS	Rivery	France	40	50.13%	676	193	
36	OM PIMESPO FRANCE S.A.S.	Mitry Mory	France	65	100.00%	-384	-156	[R]
37	SAS Société Angoumoisine de Manutention - SAMA	Champniers	France	40	100.00%	14,332	777	
38	SM Rental SAS	Roissy Charles de Gaulle	France	31	100.00%	1,447	870	
39	STILL Location Services SAS	Marne la Vallée	France	32	100.00%	869	48	
40	STILL SAS	Marne la Vallée	France	32	100.00%	22,319	28,660	
41	KION FINANCIAL SERVICES Ltd.	Basingstoke	U.K.	56	100.00%	3,783	586	
42	Linde Castle Ltd.	Basingstoke	U.K.	47	100.00%	4,927	1,119	
43	Linde Creighton Ltd.	Basingstoke	U.K.	47	100.00%	10,722	3,050	
44	Linde Heavy Truck Division Ltd.	Basingstoke	U.K.	47	100.00%	49,910	-16,583	
45	Linde Holdings Ltd.	Basingstoke	U.K.	56	100.00%	272,483	4,102	
46	Linde Jewsbury's Ltd.	Basingstoke	U.K.	47	100.00%	8,442	2,131	
47	Linde Material Handling (UK) Ltd.	Basingstoke	U.K.	45	100.00%	86,909	5,811	
48	Linde Material Handling East Ltd.	Basingstoke	U.K.	47	100.00%	477	1,928	
49	Linde Material Handling Scotland Ltd.	Basingstoke	U.K.	47	100.00%	7,956	1,325	
50	Linde Material Handling South East Ltd.	Basingstoke	U.K.	47	100.00%	2,497	-277	
51	Linde Severnside Ltd.	Basingstoke	U.K.	47	100.00%	8,112	854	
52	Linde Sterling Ltd.	Basingstoke	U.K.	47	100.00%	9,686	1,828	
53	McLEMAN FORK LIFT SERVICES LTD.	Basingstoke	U.K.	43	100.00%	1,552	153	[1]
54	OM PIMESPO (UK) Ltd.	Basingstoke	U.K.	65	100.00%	-226	-23	[R]
55	STILL Materials Handling Ltd.	Exeter	U.K.	56	100.00%	-21,676	-3,027	
56	Superlift UK Ltd.	Basingstoke	U.K.	11	100.00%	45,616	-8,320	
57	Trifik Services Ltd.	Basingstoke	U.K.	47	100.00%	0	0	[R]
58	KION ASIA (HONG KONG) Ltd.	Kwai Chung	Hong-Kong	11	100.00%	29,085	-433	
59	Linde Material Handling Hong Kong Ltd.	Kwai Chung	Hong-Kong	11	100.00%	3,171	803	
60	Voltas Material Handling Private Limited	Pune	India	83	100.00%	15,416	-1,697	
61	Linde Material Handling (Ireland) Ltd.	Walkinstown	Ireland	45	100.00%	5,905	-376	
62	COMMERCIALE CARRELLI S.r.l.	Lainate	Italy	67 & 63	100.00%	483	-42	
63	KION Rental Services S.p.A.	Milan	Italy	64 & 65 & 67	100.00%	6,662	-84	
64	Linde Material Handling Italia S.p.A.	Buguggiate	Italy	11	100.00%	16,209	417	
65	OM Carrelli Elevatori S.p.A.	Lainate	Italy	11 & 67	100.00%	45,161	-10,618	

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2012

Annex to the notes

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
	Consolidated affiliated companies							
	Foreign							
66	QUALIFT S.p.A. (formerly: Cailotto Carrelli S.p.A.)	Verona	Italy	64	100.00%	1,097	-436	
67	STILL ITALIA S.p.A.	Lainate	Italy	19	100.00%	8,240	-105	
68	KION Finance S.A.	Luxembourg	Luxembourg	-	-	27	-2	[4]
69	STILL Intern Transport B.V.	Hendrik Ido Ambacht	Netherlands	19	100.00%	15,908	4,377	
70	AUSTRO OM PIMESPO Fördertechnik GmbH	Linz	Austria	65	100.00%	9,845	-26	
71	Linde Fördertechnik GmbH	Linz	Austria	11 & 70	100.00%	10,130	919	
72	STILL Ges.m.b.H.	Wiener Neudorf	Austria	19	100.00%	4,710	957	
73	Linde Material Handling Polska Sp. z o.o.	Warsaw	Poland	11	100.00%	15,907	3,117	
74	STILL POLSKA Spólka z o.o.	Gadki	Poland	19	100.00%	13,131	2,475	
75	OOO "Linde Material Handling Rus"	Moscow	Russia	11 & 3	100.00%	5,125	303	
76	OOO "STILL Forklifttrucks"	Moscow	Russia	11 & 19	100.00%	1,659	434	
77	STILL MOTOSTIVUITOARE S.R.L.	Giurgiu	Romania	11 & 19	100.00%	664	131	
78	Linde Material Handling AB	Örebro	Sweden	11	100.00%	39,818	8,162	
79	STILL Sverige AB	Stockamöllan	Sweden	19	100.00%	2,208	20	
80	Linde Lansing Fördertechnik AG	Dietlikon	Switzerland	11	100.00%	13,585	3,082	
81	STILL AG	Otelfingen	Switzerland	19	100.00%	7,829	2,837	
82	KION South Asia Pte. Ltd.	Singapore	Singapore	11	100.00%	-58	-58	[3]
83	Linde Material Handling Asia Pacific Pte. Ltd.	Singapore	Singapore	11	100.00%	30,545	1,461	
84	Linde Material Handling Slovenska republika s.r.o.	Trencin	Slovakia	11 & 94	100.00%	2,467	416	
85	STILL SR, spol. s r.o.	Nitra	Slovakia	19 & 96	100.00%	1,360	136	
86	Linde Vilicar d.o.o.	Celje	Slovenia	11	100.00%	1,396	32	
87	IBER-MICAR S.L.	Gava	Spain	11	100.00%	3,102	58	
88	Islavista Spain S.A.U.	L'Hospitalet de Llobregat	Spain	11	100.00%	26,895	-5,506	
89	KION Rental Services S.A.U.	L'Hospitalet de Llobregat	Spain	88	100.00%	3,060	378	
90	Linde Holding de Inversiones S.R.L.	Pallejá	Spain	88	100.00%	31,079	6	
91	Linde Material Handling Ibérica, S.A.U.	Pallejá	Spain	90	100.00%	47,517	1,355	
92	STILL, S.A.U.	L'Hospitalet de Llobregat	Spain	88	100.00%	15,101	-791	
93	Linde Material Handling (Pty) Ltd.	Linbro Park	South Africa	11	100.00%	19,543	1,939	
94	Linde Material Handling Ceská republika s r.o.	Prague	Czech Republic	11 & 19	100.00%	8,736	2,098	
95	Linde Pohony s r.o.	Ceský Krumlov	Czech Republic	11	100.00%	37,665	9,836	
96	STILL CR spol. s r.o.	Prague	Czech Republic	11 & 19	100.00%	5,778	1,635	
97	Linde Magyarország Anyagmozgatási Kft.	Dunaharaszti	Hungary	11	100.00%	1,409	172	
98	STILL Kft.	Környe	Hungary	19	100.00%	1,349	310	
99	Linde Material Handling North America Corporation	Summerville	United States	11	100.00%	-2,701	1,817	
	Non-consolidated affiliated companies							
	Domestic							
100	Klaus Pahlke Betriebsführungs-GmbH	Haan	Germany	11	100.00%	46	1	[1]
101	proplan Transport- und Lagersysteme GmbH	Aschaffenburg	Germany	1	100.00%	573	0	[E]
102	Schrader Industriefahrzeuge Verwaltung GmbH	Essen	Germany	11	100.00%	72	4	[1]
	Foreign							
103	Lansing Bagnall (Aust.) Pty. Ltd.	Huntingwood	Australia	47 & 11	100.00%	2,194	0	[1]
104	Baoli France SAS	Elancourt	France	32	100.00%	131	-166	[3]
105	SCI Champ Lagarde	Elancourt	France	31	100.00%	104	0	[1]
106	URBAN LOGISTIQUE SAS	Elancourt	France	20	100.00%	1,437	227	[1]
107	Castle Lift Trucks Ltd.	Basingstoke	U.K.	47	100.00%	846	1,046	[1]
108	Creighton Materials Handling Ltd.	Basingstoke	U.K.	47	100.00%	0	0	[1], [R]
109	D.B.S. Brand Factors Ltd.	Basingstoke	U.K.	52	100.00%	0	0	[1], [R]
110	Fork Truck Rentals Ltd.	Basingstoke	U.K.	47	100.00%	356	0	[1], [R]
111	Fork Truck Training Ltd.	Basingstoke	U.K.	47	100.00%	0	0	[1], [R]
112	Lancashire (Fork Truck) Services Ltd.	Basingstoke	U.K.	52	100.00%	0	0	[1], [R]
113	Stephensons Enterprise Fork Trucks Ltd.	Basingstoke	U.K.	52	100.00%	0	0	[1], [R]
114	Sterling Mechanical Handling Ltd.	Basingstoke	U.K.	47	100.00%	1,240	0	[1], [R]
115	Urban Logistics (UK) Ltd.	Basingstoke	U.K.	20	100.00%	473	127	[1]
116	Handling & Storage Equipment (Ireland) Ltd.	Walkinstown	Ireland	61	100.00%	0	0	[1], [R]
117	Carest SRL	Lainate	Italy	65	100.00%	10	-1	[1], [R]
118	Milano Carrelli Elevatori S.r.l.	Monza	Italy	65	100.00%	14	-7	[1], [R]
119	URBAN LOGISTIKA S.R.L.	Lainate	Italy	20	100.00%	48	6	[1]

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2012

Annex to the notes

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
	Non-consolidated affiliated companies							
	Foreign							
120	TOO "Linde Material Handling Kazakhstan"	Almaty	Kazakhstan	11 & 3	100.00%	117	-31	
121	Linde Viljuskari d.o.o.	Belgrade	Serbia	71	100.00%	86	15	[1]
122	STILL VILICAR d.o.o.	Ljubljana	Slovenia	19	100.00%	-1,087	-91	[1]
123	Baoli Material Handling Ceská republika s r.o.	Teplice	Czech Republic	94	100.00%	-58	-65	
124	Urban Transporte spol. s.r.o.	Moravany u Brna	Czech Republic	20	100.00%	1,666	812	[1]
125	TOV "Linde Material Handling Ukraine"	Kiev	Ukraine	11 & 3	100.00%	783	-261	
	Associates (at-equity investments)							
	Domestic							
126	Beutlhauser-Bassewitz GmbH & Co. KG	Hagelstadt	Germany	11	25.00%	8,470	3,126	[1]
127	Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Hamburg	Germany	11	21.00%	5,604	3,504	[1]
128	Linde Leasing GmbH	Wiesbaden	Germany	11	45.00%	30,805	2,687	[1]
129	Linde Hydraulics GmbH & Co. KG	Aschaffenburg	Germany	11	30.00%	-	-	[3]
130	MV Fördertechnik GmbH	Blankenhain	Germany	11	25.00%	1,017	71	[1]
131	Pelzer Fördertechnik GmbH	Kerpen	Germany	11	24.96%	16,048	290	[1]
132	Willenbrock Fördertechnik Holding GmbH	Bremen	Germany	11	23.00%	11,862	4,025	[1]
	Foreign							
133	Linde High Lift Chile S.A.	Santiago de Chile	Chile	11	45.00%	12,653	1,353	[1]
	Joint Ventures (at-equity investments)							
	Domestic							
134	Eisengießerei Dinklage GmbH	Dinklage	Germany	19	50.00%	4,126	140	[1]
	Foreign							
135	JULI Motorenwerk s.r.o.	Moravany	Czech Republic	11 & 19	50.00%	25,952	5,513	
	Associates (accounted at cost)							
	Domestic							
136	JETSCHKE GmbH	Hamburg	Germany	11	22.00%	70	3	[1]
137	Linde Hydraulics Verwaltungs GmbH	Aschaffenburg	Germany	11	30.00%	-	-	[3]
138	Supralift Beteiligungs- und Kommunikationsgesellschaft mbH	Hofheim am Taunus	Germany	11	50.00%	19	1	[1]
139	Supralift GmbH & Co. KG	Hofheim am Taunus	Germany	11	50.00%	805	8	
	Foreign							
140	Labrosse Equipement S.A.	Saint-Peray	France	31	34.00%	6,327	1,736	[1]
141	Normandie Manutention S.A.	Le Grand Quevilly	France	31	34.00%	17,264	3,389	[1]
142	Chadwick Materials Handling Ltd.	Corsham	U.K.	47	48.00%	1,316	24	[1]
143	EUROPA CARRELLI S.R.L.	Bastia Umbra	Italy	67	40.00%	562	-14	[2]
144	Nordtruck AB	Örnsköldsvik	Sweden	78	25.00%	721	324	[2]
145	Carretillas Elevadoras Sudeste S.A.	Murcia	Spain	91	38.53%	4,014	289	
146	CAYSA MANUTENCION S.L.	Valladolid	Spain	91 & 145	46.71%	143	-1	
147	Motorové závody JULI CZ s r.o.	Moravany	Czech Republic	11	50.00%	8	0	[2]
	Other investments							
	Foreign							
148	TPZ Linde Vilicari Hrvatska d.o.o. (formerly: Linde Vilicari Hrvatska d.o.o.)	Zagreb	Croatia	11	20.00%	168	20	[1]

[1] Financial figures as of 31 December 2011

[2] Last provided financial statement

[3] New during 2012

[4] Consolidated as required by IAS 27 in conjunction with SIC-12 ("Consolidation - special purpose entities")

[A] Profit and loss transfer agreement with Linde Material Handling GmbH

[B] Profit and loss transfer agreement with STILL Gesellschaft mit beschränkter Haftung

[C] Profit and loss transfer agreement with KION Financial Services GmbH

[D] Profit and loss transfer agreement with KION GROUP GmbH

[E] Profit and loss transfer agreement with KION Holding 1 GmbH

[R] Dormant company

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of KION Holding 1 GmbH as of and for the fiscal year ended December 31, 2012 and the group management report.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by KION Holding 1 GmbH, Wiesbaden/Germany, - comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements - and the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under § 315a (1) German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KION Holding 1 GmbH, Wiesbaden/Germany, comply with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under § 315a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main/Germany, 13 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Kompenhans	Signed: J. Löffler
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

ANNEX 3: ANNUAL REPORT 2011 – KION HOLDING 1 GMBH

KION GROUP

KION HOLDING 1 GmbH

Wiesbaden

Annual Report
31 December 2011

KION Holding 1 GmbH

Management report 2011

This is a translation of the German

„KION Holding 1 GmbH
Konzernabschluss 2011“

Sole authoritative and universally valid version is the German language document.

Contents

Highlights in 2011

The KION Group can look back on a successful 2011. Strong demand and rigorous cost management led to significant year-on-year increases in revenue and earnings.

- Strong demand in Germany and the BRIC countries
- Order intake rises by 21 per cent to €4,682 million
- Revenue climbs by 24 per cent to €4,368 million
- Adjusted EBIT margin more than doubles to 8.3 per cent
- Negative net earnings due to one-off items
- Free cash flow before tax increases more than threefold
- Successful placement of a secured corporate bond with a volume of €500 million
- Leading position maintained in the global market: number one in Europe, number two worldwide

KION Group key figures

€ million	2011	2010	2009	Changes 2011/2010
Revenue	4,368	3,534	3,084	23.6%
In Germany	1,175	900	770	30.6%
Outside Germany	3,194	2,634	2,314	21.2%
Order intake	4,682	3,860	3,028	21.3%
Order backlog	953	801	533	18.9%
EBITDA	569	380	183	49.7%
Adjusted EBITDA[1]	665	462	311	43.9%
EBIT	213	35	-182	>100%
Adjusted EBIT[1]	365	139	-29	>100%
Loss for the year	-93	-197	-366	52.8%
Cash and cash equivalents[2]	373	253	463	47.7%
Financial debt after borrowing costs	2,997	2,872	2,918	4.4%
Financial debt	3,030	2,894	2,948	4.7%
Net financial debt	2,657	2,641	2,484	0.6%
Equity	-488	-400	-213	-21.9%
Adjusted EBITDA margin[1]	15.2%	13.1%	10.1%	-
Adjusted EBIT margin[1]	8.3%	3.9%	-0.9%	-
Free cash flow before tax[3]	282	83	34	>100%
Capital expenditures	133	123	108	7.7%
Total spending on R&D	120	103	101	16.3%
R&D spending/revenue (%)	2.8%	2.9%	3.3%	-
Employees incl. apprentices and trainees as at 31 December	21,862	19,968	19,953	9.5%
R&D employees	900	827	833	8.8%

[1] Adjusted for KION acquisition items and one-off items
[2] Cash and current securities
[3] Internal key performance indicator

Group management report of KION Holding 1 GmbH

for the year ended 31 December 2011

1. Milestones in 2011

2011 – growth markets continue to gain in importance

KION Group increases order intake to €4,682 million – growth markets account for almost one in three trucks delivered

Despite the European sovereign debt crisis and uncertainties in the financial markets, the global market for industrial trucks experienced a strong upturn in 2011. Two factors encouraged this positive trend: the recovery of demand in Europe and the rapid pace of economic growth in the emerging markets. The KION Group particularly benefited from the sharp rise in global demand for warehouse trucks and for efficient counterbalance trucks with electric motors or internal combustion (IC) engines. Aftersales business also expanded compared to 2010, and there was a year-on-year rise in revenue from rental and used trucks. Order intake for the KION Group rose to €4,682 million, representing a year-on-year increase of around 21 per cent (2010: €3,860 million). Revenue advanced by 24 per cent year on year to €4,368 million (2010: €3,534 million). The KION Group's earnings before interest and tax (EBIT), adjusted for non-recurring items, rose from €139 million in 2010 to €365 million in 2011. This represented an EBIT margin of 8.3 per cent, which was higher than the figure achieved in the record year of 2008 and represents a significant year-on-year improvement. The 2010 adjusted EBIT margin amounted to 3.9 per cent.

The KION Group successfully continued with its globalisation strategy in 2011. Germany, France, China and Brazil were the most important regions in terms of sales of new industrial trucks last year. Three in ten trucks supplied by the KION Group went to customers in emerging markets. The KION Group intends to make even greater use of the high potential for growth in these markets over the coming years, particularly in the BRIC countries.

On a global basis KION Group slightly lost market share to 14.8% (2010: 15.3%). By continuing to expand in fast-growing regions, the KION Group hopes to maintain its leading positions in the European and global markets for material-handling trucks in the long term. The KION Group is currently number one in the European market and number two worldwide.

Consolidation of the STILL and OM brands in the STILL brand segment

Back in 2010, the KION Group had begun to more closely integrate the sales activities and product portfolios of the STILL and OM brand companies in order to serve the markets more efficiently. OM focuses on its home Italian market and now incorporates STILL's activities in Italy. It also began to improve the breadth and depth of its own product range by adding products from STILL in 2011. This focused business expansion has enabled the OM brand to remain one of market leaders in Italy, while STILL is benefiting from stronger sales support, above all in eastern Europe and the emerging markets. OM has been operating under the brand name 'OM STILL' in Italy since January 2012.

Further improvements to efficiency in the production facilities

Last year the KION Group drew up various plans to safeguard the long-term competitiveness of its production facilities. The planned transfers of production within Europe, the further expansion of production and the existing sales and service networks in fast-growing markets are enabling the Group to become more flexible as well as strengthening its position in regional markets worldwide. A decision was made to concentrate the STILL brand segment's production of warehouse trucks and counterbalance trucks at individual European locations so that production facilities can focus on particular product series and optimise their capacity utilisation.

Production processes and product quality have also continued to be steadily improved at KION's Baoli brand production facility in Jingjiang near Shanghai. The three primary objectives were to step up inhouse training, modernise the production methods and workflows and optimise cooperation with suppliers. This involved providing employees with ongoing training on all aspects of quality management as well as standardising their work by introducing defined processes and guidelines.

Baoli has also restructured the production plant in order to make the material flows and production processes more efficient. In addition, Baoli has familiarised its suppliers with the new production processes. By selecting its suppliers carefully and continually developing its partnership with them, the brand company guarantees quality, a continuous supply of materials and compliance with technological standards. This results in better product quality, higher productivity and shorter delivery times.

The KION Group is also strengthening its presence in Brazil by setting up a plant geared to the manufacture of counterbalance trucks in São Paulo. Production is scheduled to start there in 2012. The existing Brazilian plant in Rio de Janeiro manufactures warehouse technology for KION's STILL and Linde brands. Counterbalance trucks with IC engines are the most popular form of industrial truck in South America. KION is expanding its South American distribution and service network so that it can continue to meet rising demand. The São Paulo site enables the KION Group's current sales offices in the region to intensify their relations with existing STILL and Linde customers.

Voltas Material Handling opening up the Indian market

As part of its continued focus on the world's emerging markets, the KION Group and the Indian conglomerate Voltas Ltd. founded Voltas Material Handling (VMH) in April 2011. The KION Group acquired a majority share of this company using existing funds. VMH develops, manufactures, sells and services forklift trucks and warehouse technology. KION will add truck and warehouse technology to the Voltas product range and, based on market demand, will focus above all on warehouse technology. India's material-handling market has grown rapidly in recent times, with a sharp rise in demand for warehouse technology solutions. Voltas has built a new plant in Pune, India, in order to fully exploit the strong future growth potential offered by the Indian market. Products from Voltas have enjoyed an excellent reputation in the Indian market for many years. The brand's 25 branches provide it with a strong distribution and service network even given India’s material handling market today still being characterized by low volumes.

Successful expansion of sales and service network

The KION Group continues to enhance the position occupied by its two premium brands – Linde and STILL – in Russia. In 2011, the Linde Material Handling subsidiary acquired the business of its longstanding dealer partner Liftec in Russia and, on the basis of high growth forecasts for the region, also acquired Liftec's Kazakhstan business at the start of February 2012. The purchase of Liftec's business in Ukraine is planned for mid-2012. This provides Linde Material Handling with even better and direct access to the growth potential of these major eastern European markets. Russia is one of the most buoyant high-growth regions alongside Brazil, India and China. In 2011, it was the fifth largest market in Europe. STILL has strengthened its Russian market presence by opening an additional branch in St. Petersburg.

The KION Group is expanding and optimising its sales structures on an ongoing basis in western Europe. As part of this process, Linde Material Handling has acquired the outstanding 51 per cent of shares in the UK-based Linde dealer Linde Sterling Ltd. Linde Sterling is the leading provider of new and used industrial trucks, rental trucks and aftersales service in north-west England and north Wales. This transaction has enabled the KION Group to further strengthen the leading position of Linde and the brand's UK distribution and service network. In December 2011, Linde Material Handling also acquired the outstanding 25.5 per cent of shares in Linde Castle Ltd. and now holds 100 per cent of the shares either directly or indirectly.

Stable financial footing

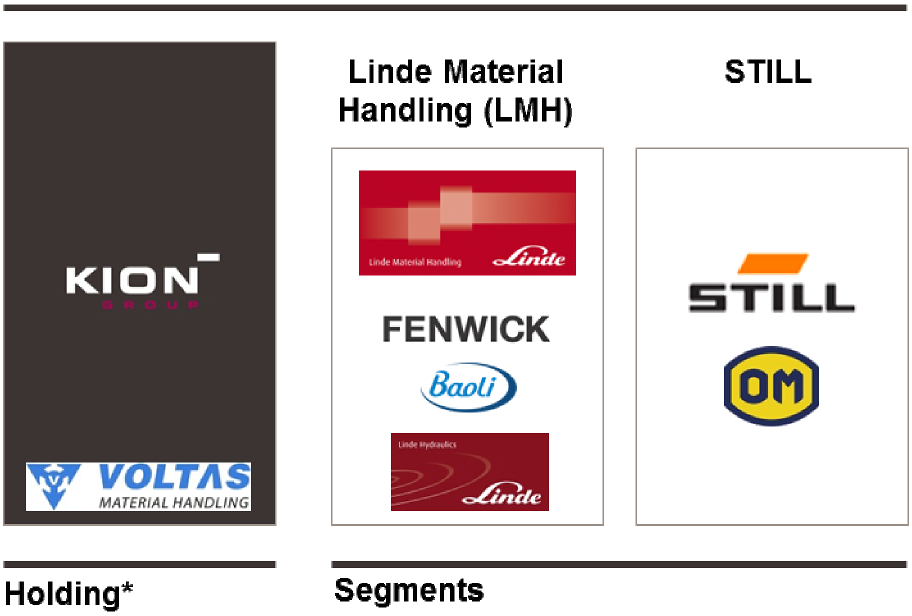
In spring 2011, KION successfully issued a secured corporate bond with a total volume of €500 million in the capital markets. This has enabled the KION Group to improve the maturity profile of its debt, with some financial liabilities being extended to 2018. It has also diversified its investor base. The Company used some of the cash from the issuance of the bond to fund existing loans. With a maturity date of 2018, the secured bond was issued at par in a tranche of €325 million at a fixed interest rate and in a tranche of €175 million at a variable interest rate. The interest rate for the fixed-interest tranche is 7.875 per cent per annum, while interest is charged annually on the floating-rate tranche at three-month Euribor plus 4.25 percentage points.

2. Company profile

2.1 Group structure

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 manages the brand companies as the strategic management holding company and operational parent company. In this report, 'the KION Group' refers to all the companies of the KION Group collectively. The KION Group pursues a multi-brand strategy so that it can optimally cater to the different market and customer requirements. The Group is represented in the markets by its Linde, Fenwick, STILL, OM, Baoli and Voltas brands. They each have different areas of focus in terms of regional presence and factors such as product range, services and technological expertise. In addition to its industrial truck business, the KION Group operates in the hydraulics sector through its Linde Hydraulics brand.

The KION Group's segment structure in 2011



* Holding incl. segment Other with the Indian company Voltas Material Handling (VMH)

KION GROUP GmbH acts as a strategic management holding company and is responsible for key head office functions, for which it defines Group-wide business standards. Strategic, financial, and market-specific objectives are agreed separately with the individual brand companies and monitored. These companies have full operational and commercial responsibility for their activities and for achieving the agreed objectives.

The operating segments of KION Group pursuant to IFRS 8 are Linde Material Handling (in which Baoli, Linde Hydraulics and the French brand Fenwick are managed) and STILL (in which the OM brand is also managed). In 2011, the KION Group integrated Voltas Material Handling Ltd. – in which it holds a majority stake – into the 'Other' segment.

2.2 Business activities of the KION Group

2.2.1 Overview of the KION Group

KION Group is a leading provider of industrial trucks. In 2011, it generated revenue of €4,368 million and an order intake of 144,774 units. In its home European market, the KION Group is the market leader with a market share of more than 30 per cent. KION Group is also one of the most successful companies of the sector in the emerging markets of China and Brazil. This market presence is particularly important from a financial perspective because three in ten forklift trucks sold by the KION brand companies are now delivered to customers in the emerging markets. Measured in terms of revenue and the number of trucks sold, the KION Group is the world's number two and the market leader in Europe.

The KION Group's origins go back to 1904 when Carl von Linde founded Güldner-Motoren-Werke in Aschaffenburg (Germany) with Hugo Güldner and other partners. In 1929, Güldner-Motoren-Werke was acquired by Linde AG. Then in 1973, Linde AG acquired STILL GmbH (founded in 1920), thus paving the way for both organic growth and growth through acquisitions. This enabled it to continually expand its portfolio and strengthen its market position. One of the most important acquisitions in the Group's history was the French company Fenwick in 1984. Fenwick is the local brand of the Linde Material Handling Group in France, where it is market leader. The long-established company OM, which was founded in 1917, was added to the brand portfolio in 1992. The material-handling division of Linde AG, Munich, was spun off as an independent company called the KION Group in August 2006 and was sold to investment funds advised by Kohlberg Kravis Roberts and Goldman Sachs Capital Partners in December of that year. Further acquisitions then took place to add to the existing brand companies. The KION Group acquired the Chinese company Baoli in 2009, before assuming complete management control the following year. The main aim with Baoli is to unlock the potential of the growth markets more effectively. In 2011, the KION Group acquired a majority stake in the Indian company Voltas Material Handling Ltd.

Across all its brands, the KION Group provides its customers with a complete portfolio for managing their internal goods flows. Besides warehouse trucks and counterbalance trucks with IC engines or electric motors, the KION Group also offers full-service solutions, for which demand is rising sharply. The services, financing and process management available to customers represent an increasingly significant line of business for the KION Group.

The KION Group is a global player and has around 1,200 sales outlets in 100 countries, forming one of the most extensive distribution and service networks in the entire industrial truck sector. The production facilities for industrial trucks, plus further component production sites and foundries, are situated at strategically beneficial locations within this broad network.

As at the end of 2011, the KION Group had 21,862 employees.

2.2.2 Segment overview

Linde Material Handling – Engineered for your Performance

The Linde Material Handling segment is synonymous with innovative trucks and services. It provides users of industrial trucks with product and service solutions that meet demanding technological requirements, while always taking into account efficiency improvements and complex stipulations in terms of functionality and design. The Linde and Fenwick brand companies supply high-quality material-handling products, while the Baoli brand serves the economy segment in the emerging markets. Linde Hydraulics focuses on hydraulic components that are used both in its own trucks and in the products of third-party manufacturers. Above all, the quality and diversity of its material-handling products and services enable the Linde brand to maintain its technology and innovation leadership as well as a global market share of 9 per cent. Linde Material Handling's portfolio contains a broad range of premium products for moving goods around.

The slogan of Linde Material Handling, 'Engineered for your Performance', reflects the company's objective of enabling customers to use its material-handling solutions to make sustained improvements to their efficiency. Linde Material Handling's warehouse trucks were therefore subjected to an efficiency test certified by TÜV Nord, a technical inspection, testing and certification organisation, and compared with the trucks of other providers in terms of costs and performance. This test, which looked at the overall cost of the loading cycle for a heavy-goods vehicle, found that Linde's trucks had 20 per cent lower costs than competitors' products.

In order to safeguard its technology and innovation leadership, it is essential that Linde Material Handling constantly develops new premium solutions in a diverse range of product areas. Linde Material Handling satisfies its customers' requirements firstly with a broad portfolio of products, ranging from warehouse trucks to heavy trucks and container handlers. Secondly, every product is based on user-friendly, ergonomic concepts and meets high standards of efficiency and sustainability. Moreover, the company's strong service expertise and extensive aftersales services boost customer loyalty.

In 2011, Linde Material Handling attended CeMAT, the world's leading intralogistics trade fair, which took place in Hannover from 2 to 6 May 2011, seizing this opportunity to showcase the LMH brand and numerous product innovations. The stars of the show were the new E 20 – E 50 series of electric forklift trucks, which have a load capacity of between 2 and 5 tonnes. Available in 19 standard model variants with different lengths, heights, and widths, they enable Linde Material Handling to offer trucks geared precisely to customers' needs. The driver's workstation with its new, ergonomic design is protected against vibration, jolts and noise as it is separated from the front axle and mast. This enables the driver to work for longer without becoming tired, even in harsh conditions. The new model series won *MM Logistik* magazine's logistics award at CeMAT. It also received two of the highest accolades for product design in 2011: the iF design award and the red dot award.

In the H40 – H50 range of IC trucks, which have a load capacity of 4 to 5 tonnes, a new variable displacement pump in the lift hydraulics is significantly reducing energy consumption and lowering noise emissions. Linde Material Handling's logistics train is a new product for optimising logistics in production. It is formed from the Linde P 50 C tow truck, which has a tractive force of 5 tonnes, and four trailers – making it ideal for use in just-in-time and just-in-sequence manufacturing. In the area of warehouse technology, Linde Material Handling presented solutions for the driverless transport of materials: an automated stacker crane and an automated tow tractor.

Early on, Linde Material Handling picked up on the trend for alternative drives that, as far as possible, produce zero emissions. At CeMAT, for example, the company featured a pallet truck with a fuel-cell drive system and a fully functioning prototype of a pallet stacker with a lithium-ion battery, thereby also proving its competence with alternative drives.

Besides its vast expertise in moving goods around, Linde Material Handling is also a major producer of hydraulic components and hydrostatic drives. The hydrostatic drive provides the basis for the Linde trucks' precise lifting and handling capabilities as well as their low fuel consumption. As a result, Linde Material Handling regularly generates synergies between truck development and drive technology development. Major brand manufacturers around the world install components from Linde Hydraulics in their equipment for the construction, agricultural and forestry sectors – proof positive of their performance and reliability.

Linde Hydraulics' growth was also stimulated by the development of new products, the market launch of electric technologies, and the global sales and distribution alliance that it had formed with EATON Corporation in mid-2010. This significantly improved Linde Hydraulics' access to the markets in 2011, in particular enabling it to win new projects with big-ticket customers in Asia and North America.

Last year, Linde Hydraulics set new standards in drive technologies with the MPR 50 medium-pressure pump and the LINC 2 electronic control unit. Both products are playing a key role in improving the efficiency and reducing the emissions of mobile machinery. Fuel savings of up to 20 per cent can be achieved thanks to the optimised interaction between the hydraulic and electric drive technologies combined with intelligent electronics.

Drive and power takeoff systems powered by electric motors represent a new growth market that is a valuable addition to Linde Hydraulics' traditional core business of high-pressure hydraulics. Concept projects have successfully gone into series production just a year after their launch on the market. One of these projects is the New Karabag 500 E electric car. The entirely electric drive system – including the engine, converter, fan and electronic control – was designed and supplied by Linde Hydraulics.

As at 31 December 2011, Linde Material Handling, which is headquartered in Aschaffenburg, employed 13,838 people worldwide. Driven by the upturn in the German market as well as in the emerging markets of China, South America and eastern Europe, order intake rose by 22 per cent to 88,300 units, generating revenue of €2,856 million. Adjusted EBIT increased by over 100 per cent to €283 million. Linde Material Handling has an extensive global distribution and service network with more than 700 sales outlets. Depending on the country and region, products are sold by Linde Material Handling's own sales outlets or via dealers that cover the market. The two sales channels account for roughly equal proportions of total revenue. International production sites are located in Châtellerault (France), where warehouse handling equipment is produced, and Merthyr Tydfil (UK), which focuses on extra heavy-duty trucks and container handlers. To cater to local needs and requirements, Linde Material Handling manufactures region-specific products in Summerville, South Carolina (USA), and in Xiamen (China).

Baoli operates as an independent brand in the market, focusing on the low-cost economy segment in China and other growth markets. The range of attractive and sturdy products, combined with the KION Group's excellent distribution network, enables Baoli to satisfy the high demand in emerging economic regions such as South America very effectively. As an integral part of the Linde Material Handling (LMH) segment, Baoli generated an order intake of 3,894 units in 2011. Worldwide, it has more than 120 distribution and service outlets, the majority of which are in Baoli's home Chinese market. The distribution network was expanded last year to include Europe, the Middle East and Africa (EMEA). Production is located at Baoli's head office facilities in Jingjiang, China. It employed 555 people at the end of 2011.

STILL – First in Intralogistics

The STILL brand positions itself as a leading supplier of intelligent intralogistics solutions. Besides its core range of forklift trucks, warehouse technology and tow tractors, STILL's wide-ranging portfolio also includes process-related value-added services for warehouse logistics, the design of internal logistics processes, goods flow management and fleet management. STILL is known for its sustainable and successful logistical innovations such as in the field of hybrid drives. In the electric forklift truck sector, the company has always been one of the top providers in Europe. In 2011, STILL's market share in the European focus markets was around 14 per cent. STILL already occupies an outstanding position in the high-growth South American region. It also pursues a successful market penetration strategy, above all in the Asian regions. Its global market share is approximately 5 per cent. Integration of OM into the STILL Group was largely completed in 2011. The STILL Group's portfolio is complemented by OM's products: the RC 40 diesel truck, the ECU and ECU-SF pallet trucks and the Xlogo low-level order picker are offering STILL new sales opportunities around the world, while OM is enhancing its own range of products in Italy with intralogistics solutions from STILL. Some of the two brands' strongest products are being offered jointly from 2012; they are marketed worldwide under the STILL brand and in Italy under the 'OM STILL' brand. This makes OM STILL one of the leading players in Italy.

The STILL Group uses its portfolio of industrial trucks, financial services, aftersales services, hardware and software to create customised packages of products and services tailored to customers' individual needs. That is why the company developed the interactive PartnerPlan tool, which helps it to select the best options for the customer from its entire range of products, technologies and services. The aim in putting together the packages is always to find a system-based solution that optimises the customer's logistics processes and thereby its efficiency and costs.

In 2011, STILL added innovative forklift trucks and warehouse technologies as well as services to its portfolio and presented them to the public. For example, it showcased fully automated material flow solutions at the LogiMAT trade fair in Stuttgart during the first quarter of last year. The broad range of trucks with various types of navigation ensures that STILL can always offer tailored solutions for any warehouse layout – including warehouses with challenging narrow aisles and racks at heights of up to 15 metres as well as horizontal transport systems. In the field of automated picking, STILL demonstrated a version of the EK-X high-level order picker that can drive automatically and combines a picking height of up to 3.90 metres with a pick-by-voice function. The innovative features of the EK-X significantly reduce the number of pick errors and boost picking efficiency by up to 25 per cent.

Another combination of STILL trucks and intelligent software for intralogistics systems was achieved in a benchmark project with Güldenkron, which produces fruit juice and other beverages. This involved using MX-Q turret order pickers and EGV-S pallet stackers to automate the entire flow of materials in fruit juice production, from putting away and retrieving goods in high-bay storage areas to planning the dispatch of goods. The customer benefits from the vehicles' flexible dual operating modes, which enable automated or manual operation at any time. STILL also provided the bay systems, thereby demonstrating that it can deliver end-to-end logistics solutions.

STILL presented its cubeXX concept truck at CeMAT, the world's leading intralogistics trade fair, which took place in Hannover. An efficient warehouse requires many different trucks to carry out the various logistics tasks. The cubeXX is an intralogistics solution of the future and combines six different applications in a single truck, serving as an order picker, pallet truck, pallet stacker and double-decker truck. It can also be converted into a tugger train or a forklift truck. Depending on how it is being used, the cubeXX can be operated automatically or manually with a driver as it is fitted with a retractable cab. The cubeXX therefore offers the highest degree of flexibility and compact dimensions, impressively underlining STILL's claim to be the 'first in intralogistics'.

STILL already caters to customers' requirements with fully integrated warehouse systems and a comprehensive range of products and services. In future it will increasingly work on solutions further up and down the supply chain. Development and refinement of products and services is always aimed at creating the maximum benefit for customers at all process stages. Besides being flexible and safe to use, the products must therefore be of outstanding quality so that they can withstand the heavy loads associated with warehouse logistics. That is why STILL regularly gathers feedback from its customers to ensure that its products meet their requirements. However, the company has also received objective confirmation of the high quality of its products in terms of their functionality, user-friendliness, ergonomics and design. In November 2011, for example, STILL received the 'Best Supplier of the Year Award' from retail chain SPAR for its special achievements in the areas of product innovation, sustainability, customer relationship management & support, quality and flexibility.

The market upturn, particularly in Germany, eastern Europe and Brazil, was of great benefit to STILL, which was able to boost its order intake by 15 per cent to 51,200 units. Revenue rose by 17 per cent to €1,666 million, enabling STILL to generate EBIT – adjusted for non-recurring items – of €102 million.

At its head office in Hamburg, Germany, STILL produces forklift trucks, reach trucks and tow tractors. The Reutlingen plant focuses on very narrow aisle (VNA) trucks. Counterbalance trucks are manufactured in Bari (Italy), in particular for the Italian market. Other types of warehouse technology are produced in the French Montataire plant and in Luzzara (Italy). The aim of the planned consolidation of the plants in Italy and France is to concentrate the production of product series at individual locations, which will also ensure greater capacity utilisation at each plant. Under these plans, the trucks currently produced in Montataire will be built at the Luzzara plant while the production of forklift trucks in Bari will shift to the counterbalance truck plant in Hamburg. As at 31 December 2011, STILL including OM employed 7,328 people worldwide.

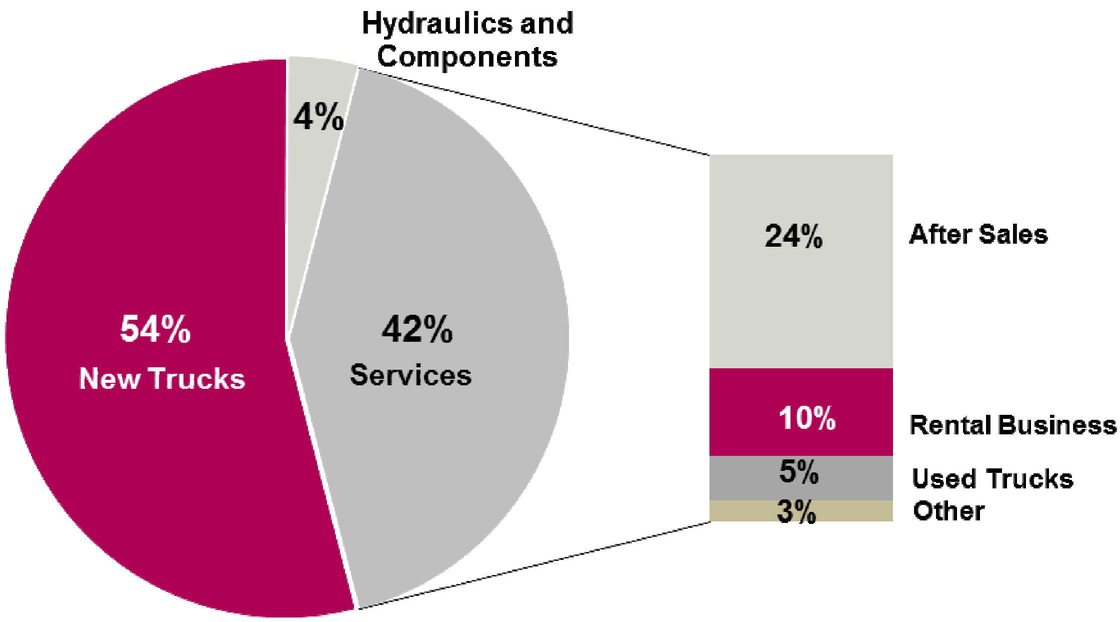
Germany remains the most important sales region for the STILL brand, followed by France and Italy. The German and French markets are served by a direct sales organisation. In its UK and Spanish markets, STILL uses dealers to supplement its own direct sales operations. This is also the case in Italy, which is OM's home market. All other European markets are largely served by direct sales organisations and, in some cases, by a highly efficient network of dealers. STILL opened new branches in St. Petersburg (Russia) and Katowice (Poland) as part of the expansion of its sales structure. At the same time, the successful integration of the STILL and OM dealers in Russia has enabled STILL to strengthen its market presence in eastern Europe. It has also gained market share in this region thanks to numerous projects with large international companies. In addition, expansion of the dealer network improved STILL's market position in high-growth countries during 2011, especially those in Asia. Equipwell (India), PT Power Trucks Mitra Perkasa (Indonesia) and TCJ Asia (Thailand) all became STILL sales partners last year. The sales network in south-east Asia has been managed by a new STILL office in Singapore since 1 November 2011.

BlackForxx GmbH, headquartered in Stuhr near Bremen (Germany), is a subsidiary of STILL which started up in 2008. Since then BlackForxx has been leasing special forklift trucks and warehouse trucks and selling used and reconditioned forklift trucks and warehouse trucks in Germany and abroad through its own online marketplace. On the back of strong domestic and international demand for industrial trucks, BlackForxx considerably expanded its customer base in the year under review and opened two further lease centres in Stuttgart and Paris. As a subsidiary of STILL, BlackForxx cooperates closely with the STILL sales organisation if required. In spring 2011, for example, it helped with the resale of two fleets containing 90 and 221 used STILL trucks respectively.

2.2.3 Service business improves customer retention

The scope and quality of the services offered is a key factor for many customers when they select a technology partner. That is why the service business is more than just a good source of revenue for the KION Group. It is also an important means of improving customer loyalty. Besides classic aftersales business such as spare parts sales or maintenance and repairs, the services offered by the KION Group include higher-value services, for example the complete planning and organisation of automated logistics processes. Along with these services, customers can also request IT solutions that enable them to manage their truck fleets and material flows reliably. This gives customers a rapid yet detailed overview of all their major performance and consumption figures and of the running costs for their fleets.

In 2011, service accounted for 42 per cent of revenue (2010: 46 per cent). This slight percentage decline is due to the disproportionately strong rise in the new trucks business on the back of the recovery in the industrial truck markets. The KION Group divides its service business into aftersales services, rental business and the used trucks trade. The 'other' product category also includes services such as consultancy, IT solutions and warehouse equipment systems.



Aftersales service levels tailored to customers' needs

The extensive dealer and service network enables the KION Group to offer its customers repair and maintenance services worldwide. The KION Group employs some 7,600 service staff, of whom 6,000 are service technicians. In places where the KION Group does not have its own staff, external dealers provide the aftersales services in accordance with the KION Group's specifications. Customers can access the service organisation of all KION brands round the clock. In Europe, spare parts are mostly guaranteed to be supplied within one working day.

An active fleet of currently over one million trucks plus the increasing presence of the KION brands worldwide provides a sound basis for the future growth of the KION Group's service business. To enable customers to budget for their service costs more accurately, the KION Group brands usually offer service contracts. Customers can decide on the scope of the services they require to meet their individual needs. For example, they can take out a contract that covers regular maintenance, a defined number of ad-hoc repairs within a defined response time and the replacement of any wearing parts required during the year. The KION Group also offers a wealth of finance, leasing and rental solutions so that it can fully cater to customers' varying needs at all times.

Used trucks open up new customer groups

Many customers opt to rent industrial trucks. As a result, used trucks come onto the market once the leases or fleet management contracts have expired – provided they are not extended or renewed. For customers interested in quality trucks at an affordable price, these high-quality used trucks offer an attractive alternative to new trucks from other providers with less sophisticated technology. Selling a used truck from the KION Group also opens up the possibility of future orders for new trucks.

The KION brands naturally offer aftersales services and financial services for the used trucks. All used trucks are reconditioned to ensure that they will operate properly once they have been sold to customers.

Rental trucks with variable services

In its truck rental business, the KION Group offers three variants: short-term rental, long-term rental and fleet management. Each of these generally also incorporates financing services.

- **Short-term rentals of up to twelve months**
  The KION Group's short-term rental business enables customers to meet short-term requirements such as seasonal spikes in demand. The term of the rentals offered can be anywhere between one day and twelve months. The KION Group's local subsidiaries and dealers maintain their own rental pools to ensure optimum availability of trucks.

- **Long-term rentals, including a comprehensive selection of products and services**
  Long-term leases run for an average term of four to five years and usually cover not just the financing itself but also services such as maintenance, repairs, spare parts and insurance. The package of services is tailored to meet the customer's individual requirements. At the end of the lease, the customer returns the truck, extends the old lease or signs a new one.

- **Customised fleet management particularly attractive to big-ticket customers**
  Fleet management is the most flexible form of leasing and is becoming increasingly popular with big-ticket customers. The KION Group takes on the comprehensive management and financing of customers' truck fleets and ensures, among other things, that trucks can always be used optimally. Fleet management includes analysing and optimising how the trucks are used and the methods used to replace old trucks that no longer meet requirements. The package of services is tailored to meet the customer's individual requirements. The KION Group has developed proprietary software applications, which it uses to analyse and implement fleet management processes.

Increasing importance of financial services as a sales function requires separate management structure

Around 60 per cent of the KION Group's total unit sales of new trucks are already supported by financial services activities. This segment caters to the increasing demand for one-stop solutions that, in addition to the trucks themselves, include finance and other services.

In 2011, the KION Group's leasing portfolio grew to a total of 230,500 trucks. This equates to a replacement value of €4,528 million as at the end of 2011. The core markets France, Germany, Italy, Spain and the United Kingdom accounted for 74 per cent of the total leasing portfolio at the end of the year under review. In the key markets, the proportion of the portfolio accounted for by long-term leasing declined slightly compared with the proportion at the end of 2010 to around 80 per cent.

The Financial Services (FS) segment encompasses key cross-brand functions for the two brand segments Linde and STILL. In terms of promoting sales and customer loyalty, it represents an important vehicle which the KION Group will be exploiting even further in the future.

The first separate FS companies were established in the core markets of the KION Group in 2011. Further countries with a high proportion of finance and leasing business will be integrated gradually.

The increasing importance of the FS segment is also reflected in separate management and control of the financial services business. (For more detailed information on the future segment structure, please refer to section 4.3 of the management report and to the notes starting on page 72.) The cross-brand FS segment brings together all the KION Group's services in connection with financing of short-term rental fleets and long-term leasing business by providing innovative and tailored finance solutions.

3. Economic conditions

3.1 General business environment

Global economic recovery continues in 2011

The year under review saw a further recovery in the macroeconomic environment. Global gross domestic product (GDP) grew by a further 2.7 per cent following the 4.1 per cent growth achieved in 2010. Emerging markets continued to be the key growth drivers and stabilising factors in the global economy. By contrast, growth in the industrialised nations was subdued. During the course of the year, various uncertainties in international markets resulted in a slowdown in the economic upturn overall. This represented a normal cyclical pattern following the strong growth in the previous year, although there were also other temporary contributory factors, such as the sovereign debt problems in the euro zone and in the USA, the earthquake in Japan, and the sharp increase in commodity prices. In view of the sovereign debt issues, and given the slackening pace of economic growth, most industrialised countries had already switched to the pursuit of policies focusing on savings and retrenchment, with expansionary monetary policies providing further stabilisation. In 2011, significant momentum in favour of capital expenditure in the private sector also cushioned the impact from a generally weak increase in output.

Gross Domestic Product 2011
Real change compared with the previous year

China	9.2%
India	6.5%
Russia	4.3%
Germany	3.0%
Brazil	2.7%
World	2.7%
USA	1.7%
EU	1.6%
Japan	-0.9%

Source: Eurostat, National statistics, World Bank (Status 07.03.2012)

The impetus behind the global economy's emergence from the crisis over the last two years eased off markedly during the course of the year under review. By the end of the year, financial market data and sentiment in the economy were pointing to a significant economic slowdown. In contrast, real economic data remained overwhelmingly positive until recently. According to an assessment by the International Monetary Fund, the global economic situation will continue to be fragile in 2012, the result of flagging growth in the real economy in all regions and uncertainty regarding the funding position in public finances and financial institutions.

Sovereign debt crisis in the euro zone leaves its mark – Germany remains the economic driving force

After starting the year strongly, the European economy cooled off noticeably during the course of 2011. Overall, GDP in the European Union grew by 1.6 per cent, although growth rates varied considerably from country to country, as in 2010. Germany continued to be the engine of the European economy, achieving robust growth of around 3.0 per cent for the year, during the course of which it exceeded pre-crisis levels. Economic performance was also fairly dynamic in countries such as Poland and Sweden, where growth rates of 4.0 per cent were achieved. In contrast, two of the largest economies, Spain and Italy, remained static. Growth in Greece and Portugal continued to weaken as a consequence of comprehensive austerity measures. In 2011, the uncertainty arising in connection with sovereign debt issues had a noticeable impact on the core countries of the euro zone for the first time, ultimately highlighting the extent to which European economies are interlinked.

A whole range of negotiations, rescue packages and austerity programmes were unable to restore investor confidence or stimulate the growth sorely needed by individual countries. In mid-2011, the sovereign debt crisis finally hit the Italian economy, which came under intense pressure. As a consequence, sentiment in both industry and on global capital markets disintegrated. However, general economic momentum was also hampered by retrenchment programmes and the tough labour market conditions that continued to prevail in many countries. There was an appreciable corresponding fall in government and consumer spending, as well as in domestic demand, particularly in the second half of the year.

As in the case of GDP growth, the labour market situation also varied from country to country. Germany recorded its lowest unemployment rate for years at 5.9 per cent; there were also sharp drops in the unemployment rates in Belgium and Sweden. However, many other euro zone countries saw unemployment rise: it increased threefold in Ireland in the course of the crisis; in Greece, the rate also climbed significantly to the current level of 21 per cent. The situation was particularly precarious in Spain, where the unemployment rate rose to nearly 22 per cent in 2011, yet another indicator of the structural problems in the country.

Economic indicators

	Gross domestic product		Unemployment rate (%)		Consumer Price Inflation		Industrial Production	
Changes %	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Advanced economies								
Germany	**3.0**	3.7	**5.9**	7.1	**2.5**	1.2	**7.5**	10.9
France	**1.6**	1.5	**9.7**	9.8	**2.3**	1.7	**2.4**	4.7
Italy	**0.5**	1.5	**8.4**	8.4	**2.9**	1.6	**0.0**	6.4
Spain	**0.7**	-0.1	**21.7**	20.1	**3.1**	2.0	**-1.5**	0.9
United Kingdom	**0.9**	2.1	**8.4**	7.8	**4.5**	3.3	**-1.2**	1.8
USA	**1.7**	3.0	**8.9**	9.6	**3.0**	1.5	**4.2**	5.3
Emerging economies								
Brazil	**2.7**	7.5	**6.0**	6.7	**6.5**	5.9	**0.3**	10.5
Russia	**4.3**	4.0	**7.0**	7.0	**6.1**	8.8	**4.7**	8.2
China	**9.2**	10.4	**4.1**	4.1	**5.4**	3.3	**13.9**	15.7

Source: Eurostat, Statistical Offices, World Bank (Status 07.03.2012)

Growth in the USA still weak

Economic growth in the USA was inconsistent over the course of 2011: after a weak start to the year, growth in the second half of the year was stronger and also higher than that in other industrialised nations. The primary growth driver in the US economy was strong domestic demand but the economic climate in the USA continued to be impacted by structural problems in terms of government debt, the real-estate market and unemployment. The argument between policymakers regarding government debt had a negative impact on investment in inventories, particularly at the start of the year. In contrast to the approach in 2010, companies therefore held back from further increases in inventories. On the other hand, capital spending on equipment continued to hold up well with growth of approximately 10 per cent. Overall year-on-year GDP growth was 1.7 per cent.

Emerging markets provide key stimulus for growth

Economic performance in the emerging markets was again excellent in 2011 and this acted as a stabilising force for growth in the global economy owing to the impact of increased global integration. Growth rates in emerging economies were more than double those in the industrialised countries on average, which meant that the BRIC countries (Brazil, Russia, India and China) contributed more than half of the growth in global output. Leading the way was the People's Republic of China, where growth of 9.2 per cent provided an important stimulus for the global economy, although the contribution from Brazil and India also continued to increase. Economic output in Russia saw a year-on-year rise of 4.3 per cent. However, this growth was based on the relative strength of the primary sector in Russia (energy, commodities); when adjusted for the steep rise in price of oil, the growth was actually weaker than in the years prior to the crisis. The general economic conditions in the large emerging markets, with their low levels of indebtedness, low unemployment, and in some cases significant currency reserves, proved to be particularly beneficial.

Having said all that, during the course of the year, the emerging markets were no longer able to escape the effects of the European debt crisis or the economic uncertainty in the USA and Japan and were thus also affected by an economic slowdown. The most obvious feature of this was a notable loss of momentum in exports to the industrialised countries.

3.2 Business environment in the sector

Sector boosted by willingness to invest

The global economic recovery in 2011 improved the level of orders on hand in many sectors – albeit with regional differences. According to the German Association of the Automotive Industry (VDA), the worldwide market for new cars expanded by around 6 per cent to 65.4 million units last year. Continued growth in world trade also benefited the logistics sector. The German Engineering Federation (VDMA) reported a 10 per cent rise in order intake for Germany's export-oriented engineering sector in 2011. The strong starting position and the ongoing recovery in some areas were accompanied by spending on capital equipment. This increase in investing activities had a positive impact on demand for industrial trucks.

Commodities price index reaches all-time high

Prices for many commodities rose sharply in 2011. Among the commodities relevant to the KION Group that increased in price, oil and metal particularly stood out – with at times substantial increases. Although prices declined during the last few months of 2011, having shot up at the start of the year, the commodities price index of the Hamburg Institute of International Economics (HWWI) reached its highest ever average for the year. Commodity prices, as measured by the HWWI index, climbed by 22.4 per cent in euros and 28.6 per cent in US dollars compared with 2010. The oil price – an indicator of the price of plastics and of energy costs – increased to over US$ 125 per barrel on the back of unrest in North Africa and the Middle East. Metal prices were pushed up by the improving global economy and strong demand from China for copper, steel and aluminium.

Euro loses value

Exchange rates proved highly volatile over the course of the year against the backdrop of the euro crisis and partly due to government intervention. The relative stability of the euro over the year as a whole was mainly due to its strong performance in the first six months. However, the euro fell against other reserve currencies at the end of 2011. A weaker euro is generally favourable for European exports but it also makes important input materials more expensive. Sharp fluctuations throughout the year were the major challenge in 2011 rather than the euro's absolute exchange rate.

The KION Group sells many of its products in the European Economic Area and issues invoices in euros even outside the European Monetary Union, depending on the sales structure. Owing to increasing unit sales in emerging markets, some trade receivables are denominated in foreign currencies. The most significant foreign currencies for the KION Group are the Chinese renminbi, pound sterling and the Brazilian real.

Currencies

Average rate per Euro	2011	2010
Brazil (BRL)	2.33	2.33
Switzerland (CHF)	1.23	1.38
China (CNY)	9.00	8.99
United Kingdom (GBP)	0.87	0.86
Russia (RUB)	40.89	40.32
USA (USD)	1.39	1.33

Source: Reuters

3.3 Market for industrial trucks

Global market sees record unit sales

Worldwide demand for industrial trucks remained relatively unaffected by economic uncertainties in 2011. Global sales rose by 23 per cent year on year to reach a record 977,000 units (2010: 796,000 units). The recovery in the markets seen in 2010 continued in the first six months of 2011, with order intake amounting to 506,500 units. There was a slowdown in the second half of the year however, and sales declined to 470,600 units. Over half of market growth was generated by the markets in western Europe and China. Eastern European markets also achieved high growth rates, driven above all by Russia. The high-growth regions underpinned their importance as markets and continued to stabilise in the global market. Order intake in the industrialised countries, above all Germany and the United States, was buoyant and grew at a faster rate than the global market.

German market above pre-crisis level

The western European market benefited from strong demand in the first half of 2011 and generated growth of 26 per cent over the year as a whole. Order intake in western Europe came to 278,400 units, a significant improvement on the 222,000 units achieved in 2010. Around 12,200 units were accounted for by the Turkish market, which has counted as part of western Europe instead of Asia since 2011 following a restructuring for statistical purposes. Making up 38 per cent of order intake in western Europe, sales of counterbalance trucks with electric motors or IC engines were driven by the benign investment climate and rose more sharply than sales of warehouse technology. Although the overall picture was positive in 2011, the situation was very mixed in the individual countries as it had been in 2010. Germany reported an order intake of 76,400 units, thereby surpassing the market volume seen in the record year of 2007 and remaining the biggest driver of growth in western Europe. Following only moderate growth in 2010, unit sales in the French market went up by 20 per cent to 55,800 units but was 10 per cent below the volume generated in 2007. In contrast, demand for industrial trucks in Spain and Italy was very subdued compared with 2010, rising by 4 per cent and 6 per cent respectively.

Global Industrial Truck Market (order intake)

in thousand units	2011	2010	2009	Changes 2011/2010
Western Europe[1]	278	222	181	26%
thereof				
Germany	76	62	45	24%
France	56	47	42	20%
United Kingdom	27	22	17	26%
Eastern Europe	54	40	21	36%
thereof				
Russia	23	15	3	51%
Europe	**333**	**262**	**202**	**27%**
North America	170	136	98	25%
thereof				
USA	155	124	89	25%
Central & South America	55	45	21	23%
thereof				
Brazil	23	23	8	-1%
China	238	200	118	19%
Rest of World	181	153	110	18%
World	**977**	**796**	**549**	**23%**

[1] 2011 incl. Turkey/Cyprus
Source: WITS/FEM

Continued upturn in eastern Europe

The positive trend in the eastern European markets seen in 2010 continued, with growth of 36 per cent to 54,500 units in the year under review. Russia was the main driver of the upturn with unit sales rising to 23,000, which equates to a year-on-year rise of 51 per cent. In Poland, the second largest market in eastern Europe, sales advanced encouragingly from 9,700 units to 12,000 units in 2011. While growth rates were generally high across all product segments, unit sales of counterbalance trucks with IC engines were especially buoyant owing to continued pent-up demand.

Brazil stagnates at a high level

The Brazilian market was slightly below the record level achieved in 2010 and, despite high growth in warehouse technology, suffered a small decline of 1 per cent to 22,600 units in 2011. However, the other markets in Central and South America were more upbeat and contributed to the region's year-on-year rise in demand of 23 per cent.

Encouraging growth in the USA

Against a background of increasing investment in capital equipment, the US industrial truck market expanded by 25 per cent to 155,000 units. All product types benefited from this upturn.

Chinese market continues to drive growth

China, which is the largest single market worldwide, accounted for almost two-thirds of Asia's entire order intake last year. While it did not grow at the same rapid pace as it had in 2010, the Chinese market expanded by 19 per cent to 238,400 units in the year under review. Classic IC trucks remained the dominant segment and the main source of growth in absolute terms. As far as warehouse technology was concerned, there was greater demand for efficient trucks and intralogistics solutions, as evidenced by extremely high growth of 41 per cent. Despite the difficult conditions in 2011, the Japanese market also increased by 15 per cent to 67,000 units, but was about a quarter down on the record figure reported in 2007.

3.4 Legal situation

The KION Group's material-handling products are machines that have to comply with certain legal requirements in all of the major geographical markets in which the Company operates. These requirements serve to minimise or eliminate the risks for users of the products and for other people, equipment and the immediate working environment. They also help to maintain the performance of the machines.

In the European Union, for example, the products are subject to the machinery directive (2006/42/EC), other technical regulations such as the emissions directives on noise (2000/14/EC) and exhaust gases (2004/26/EC) and the electromagnetic compatibility directive (2004/108/EC). Product-specific regulations also apply, for example the directive on products for use in potentially explosive atmospheres (94/9/EC) and the German Equipment and Product Safety Act (GPSG), which implements the requirements of the directive on general product safety (2001/95/EC) in Germany. The GPSG stipulates that manufacturers only put safe products on the market, i.e. those that satisfy the requirements regarding health and safety and other criteria applicable to these products.

As a manufacturer of material-handling products that are governed by these regulations, the Company must ensure that its products comply with the regulations and must verify and certify this compliance in the prescribed manner. The procedures stipulated by the regulations for the mandatory declaration of conformity vary depending on the product type. Corresponding regulations and standards apply in other countries around the world, and the Company's products sold in those markets must comply with them as well.

The Company has implemented processes that enable it to implement these legal requirements efficiently, document its compliance with them and incorporate any changes in the legal framework at an early stage of development. For example, the Company uses both self-certification (e.g. declarations of conformity) and third-party certification (e.g. EC type-examination certificates). As a result, when customers receive a product, they always have confirmation – in the form of the CE marking – that the product complies with all regulations in force. Many of the aforementioned legal requirements, especially the directives underlying the 'new approach to technical harmonisation and standardisation', are defined in precise terms in product-specific standards and other standards (e.g. EN, ISO and DIN). These standards provide simplified procedures for complying with the defined legal requirements in a verifiable manner, and the Company makes extensive use of them. As a technology leader, the KION Group endeavours to surpass the minimum standards defined for the products that it makes.

The construction and operation of production facilities is subject to certain legal requirements in the various jurisdictions relevant to the Company. In Germany, for example, a permit pursuant to the Federal Emissions Control Act (BImSchG) must be obtained. Many of these requirements impose stipulations on the operators of such facilities regarding matters such as the avoidance of air pollution, noise reduction, waste production & disposal and health & safety. Most of the Company's buildings also require planning permission, which governs not only their construction and conversion but also any changes in how they are used. In Germany, the operating permit pursuant to the BImSchG covers the relevant planning permissions, which means that separate planning permission is only required for buildings whose construction and operation are not subject to the BImSchG. The KION Group has also established stable processes in this regard to ensure that it complies with the regulatory requirements applicable to its plants.

Besides these product-specific and plant-specific rules and regulations, the Company's business activities are subject to the requirements typically placed on companies that have a strong export business (e.g. the relevant export controls) and that work with distribution partners (e.g. EU Block Exemption Regulation). Moreover, the Company's leasing activities in some jurisdictions are governed by particular regulatory requirements. In Germany, for example, a licence has been required for certain leasing activities since the introduction of relevant provisions under the German Banking Act (KWG) on 1 January 2009. STILL Financial Services GmbH obtained the licence in 2011, the year in which it was founded. The KION Group satisfies all the requirements for this licence, in particular certain stipulations regarding the qualifications of senior management, the quality of risk management and corporate reporting procedures. These regulations and the corresponding legislation in sales markets do not place any material restrictions on the Company's business activities.

Technical standards, product & plant safety regulations and environmental requirements are constantly being updated by the authorities responsible for them. Examples include the tighter emissions levels permitted for IC trucks and the requirements and limits placed on employers so that they protect their employees against excessive levels of noise and vibration. As a technology leader, the Company is well placed to more than simply fulfil these requirements. In fact, its products' existing technical advantages create potential for KION to successfully differentiate itself further from the competition. In addition, the KION Group is an active member of associations such as the German Engineering Federation (VDMA) and its working groups in which it helps to continually enhance standards and regulations. Overall, the KION Group does not expect the changing regulations to have any material negative effects on its business model.

4. Strategy

4.1 Strategic objectives

The KION Group's top priority is to deliver a sustained increase in shareholder value. It has therefore set itself four strategic objectives:

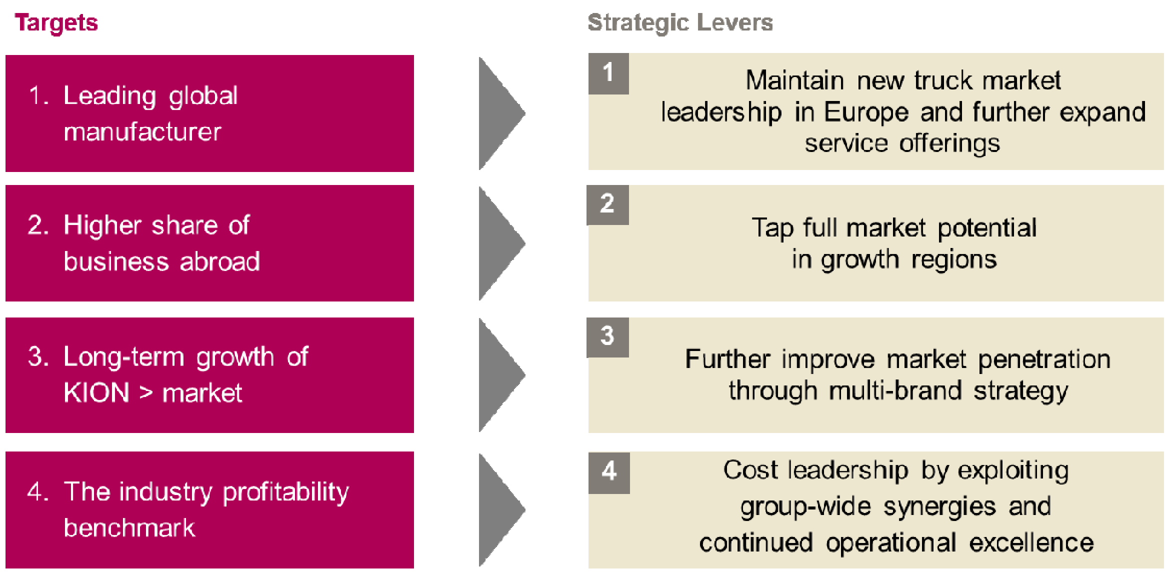
1. Become the global market leader
2. Increase market share in the high-growth markets
3. Generate sustained growth above the rate of market growth
4. Achieve the best profitability in the sector

The KION Group is already the world's second largest supplier of industrial trucks. By building on its leading competitive position in Europe and achieving continuous growth in the key markets of eastern Europe, South America and Asia, the KION Group aims to become the provider with the largest market share in the sector over the coming years. Market-leading technologies and strong service expertise are creating the foundations for achieving this best-in-class position. The KION Group intends to continue extending its range of products and services so that it is always able to optimally satisfy the needs of the logistics markets.

At the same time, the Company is continually taking steps to further improve its efficiency and profitability. One such measure is the standardisation of processes and structures – where practical across all locations and brands. However, the Company ensures that, although aiming for the highest possible degree of standardisation, it always takes account of the individual logistics markets' regional characteristics. In the year under review, the KION Group also continued to systematically implement its KIARA performance enhancement programme, which it launched in 2009.

To provide practical support with achieving its objectives, the KION Group has defined four points of leverage. It applies these in strategic projects and initiatives that are always under the direct control of the Executive Board.

Diagram showing the strategy of the KION Group



4.2 Strategic levers

1. Consolidation of market-leading position in Europe and expansion of range of services

The KION Group is the technological leader in the industry with a broad range of products and solutions across six brands and a constantly growing service offering at group level. It intends to undertake further consolidation of its market-leading position in Europe and to build on its competitive advantage.

The Group's range of highly efficient products enables customers to achieve significant improvements in their logistics operations in terms of consumption, performance and ergonomics. For 50 years, the Linde brand has enjoyed an outstanding market reputation with its hydrostatic drive and economical, efficient, low-maintenance units. Linde also has many years of experience and expertise in electric trucks and is continuously pressing ahead with new developments in its Linde Hydraulics business unit and the new Electronic Systems and Drives division. STILL is strongly placed in the high-potential market for hybrid drives with its diesel-electric drive system – a unique concept in the sector. In addition, STILL offers a broad selection of automated logistics vehicles, including vehicles for challenging warehouse environments.

The Linde and STILL brands are focusing a great deal of effort on separate concepts and development projects involving alternative power sources for drives such as hybrid, fuel-cell and lithium-ion technologies in order to ensure that they can benefit from the long-term trend towards 'green logistics'. In 2011, the KION Group's research and development expenditure amounted to 2.8 per cent of total revenue, or 4.7 per cent of revenue from new and hydraulics business. The research and development expenditure ratio in the KION Group is therefore at the upper end for the industry, allowing the Company to continue to consolidate its technological advantage and at all times offer its customers innovative logistics solutions that are fit for the future.

The KION Group aligns its range of products and services directly with the requirements of its logistics customers and thereby secures customer loyalty. The range therefore extends well beyond the straightforward sale of trucks to encompass a comprehensive service offering that covers customer requirements for solutions and services over their entire internal material flow. This includes the provision of, and ongoing support for, individual and fleet solutions as well as efficient, end-to-end material flow management including the necessary IT systems. Services worth highlighting in addition to conventional aftersales business include the sale and leasing of used trucks and the provision of finance and leasing services. In 2011, service business accounted for 42 per cent of total revenue.

Given an active fleet numbering more than one million units over the entire market, service business is of huge significance to the KION Group. This business represents a key driver for long-term customer loyalty and its importance to the Group will continue to grow in the future. This is the basis for continuous expansion of the range of support services and increasing service cover for the active fleet.

2. Developing the full potential in growth markets

The KION Group is already superbly positioned in all growth regions – eastern Europe, South America and Asia – and is endeavouring to consolidate its position primarily in the BRIC countries so that it can benefit from the potential for further growth in these regions. In two of these markets of the future, China and Brazil, the KION Group has established local production facilities. Regional research and development teams have also been set up. These teams take into account local market requirements early in the product development phase, thereby facilitating the development of solutions that are both customer-oriented and cost-effective. The KION Group will continue to target growth regions in terms of capital investment, expansion of its product range and strengthening of the sales and service network so that it is able to fully leverage the potential in the global logistics market.

3. Multi-brand strategy aimed at increasing market penetration

The KION Group has six brands. It is the market leader in Europe and the global number two in the industrial trucks market. Different regions as well as different markets and customer requirements are efficiently covered and supported by the brands Linde, Fenwick, STILL, OM (OM STILL from 2012), Baoli and Voltas. The KION Group operates globally with its premium brands Linde and STILL, which are complemented in Europe by Fenwick in France and OM STILL in Italy. The international Chinese brand Baoli, which has been part of the KION Group since 2009, and the local Indian brand Voltas (part of the Group since 2011) service the high-volume economy segment.

The multi-brand approach allows the KION Group to pursue a targeted sales and service strategy adapted to each particular market. This approach also means that the Group can offer a number of different options compared with competitors and thereby boost its market presence. In addition, the KION Group plans to expand and achieve further improvements in its global market position through selective acquisition of local providers.

4. Cost leadership through synergies and continuous operational excellence

Since the KION Group was hived off from the Linde Group in 2006, the Company has systematically exploited potential efficiency improvements and thereby enhanced its performance. The organisation is structured so that synergies can be realised across brands and a best-practice approach can be implemented throughout the Group. Despite the moves towards standardised processes and structures, one of the key strategic elements of marketing is a clear differentiation between the brands.

The corporate functions in the KION Group are managed centrally under the umbrella of Central Operations (COPS) in order to ensure that standards are established and expertise is made available throughout the Group. Efforts to improve efficiency focus both on continuous streamlining of production processes and on platform strategies and other modular concepts. Central purchasing generates cost benefits for the entire Group, cross-brand research and development activities pool resources and promote efficient utilisation of capacity; in turn, standardisation of IT systems and platforms reduces costs and facilitates maintenance. The KION Group plans to continue to improve its cost structures and thereby its market position over the long term by exploiting further potential synergies and enhancing operating performance on a continuous basis.

An approval process for capital expenditure projects has been implemented throughout the KION Group. It supports appraisal and decision-making for capital expenditure projects to ensure that such projects are efficient and economic over the long term. Capital expenditure projects in excess of €250,000 are presented individually in detail and are also subject to an investment appraisal using the discounted cash flow method. The results are reviewed to ensure that the internal rate of return and the payback period are acceptable. Capital expenditure projects aim to generate a sustained increase in enterprise value and must therefore achieve a higher internal rate of return than the cost of capital.

4.3 Financial Services segment

In the year under review, the KION Group laid the main foundations that will enable it to manage and report the Group's financial services activities as a separate segment (Financial Services, FS).

The reasons behind managing FS separately are the rising demand for innovative, tailored finance solutions and the resulting growth in the importance of such activities for the KION Group. Within the Group, the FS activities constitute a key cross-brand service function that cuts across the business of the Linde and STILL brands and acts as a valuable sales tool and means of customer retention. Other important factors behind the spin-off of the FS organisation include the different business models and value drivers in the industrial and finance businesses.

In future, the cross-brand FS segment will take over responsibility for the management of the following key areas of activity in the KION Group: financing of short-term rental fleets, long-term leasing as part of sales financing through the provision of innovative and tailored finance solutions, and risk management for the leasing business. Short-term rentals and indirect leasing arrangements will remain with the brand segments.

Separate financial services companies have been established in the core markets of France, Germany, Italy, Spain and the United Kingdom. Further countries with a high proportion of finance and leasing business will be integrated gradually.

During the course of 2011, the Group also developed a reporting model for the discrete recording and management of financial services business. Future reporting in the KION Group will be based on this model. Page 72 onwards in the notes to the financial statements in this annual report include voluntary additional disclosures based on the new reporting model and the associated revised breakdown of business activities in order to give prominence to the increasing importance of financial services activities in the KION Group and to the future segment structure. In doing so, the aim of the KION Group is to provide the highest possible degree of transparency for capital markets.

4.4 Initiatives to cut costs and improve efficiency

Since being spun off from Linde AG in December 2006, the KION Group has successfully initiated and implemented various restructuring programmes. Besides leading to considerable efficiency improvements, they have enabled us to leverage synergies throughout the Group and adapt to changing market conditions.

As a consequence of the financial and economic crisis that began in late 2008, the KIARA restructuring programme was launched in the second quarter of 2009 to make the KION Group less dependent on the business cycle. As a first step, rapid action was taken to reduced fixed costs.

The KIARA performance enhancement programme was terminated at the end of 2011 as most of the measures had already been implemented by that time. KIARA's main elements were the successful implementation of long-term structural improvements and efficiency increases. The planned savings were achieved as a result of regular and detailed reporting and ongoing evaluation of KPIs by the relevant managers in the KION Group and its brand companies. At the same time, the impact of the short-term measures tapered off much faster than had been estimated in the KIARA business case owing to the unexpectedly strong recovery in 2011.

Nonetheless, the KION Group will continue to implement long-term structural and efficiency measures. Structural changes will include the further consolidation of our European production sites by closing the plants in Bari (Italy) and Montataire (France). The production capacity of these plants will be shifted to other production facilities with the aim of improving the capacity utilisation of the European plants.

4.5 Financial KPIs for managing the Company's business

The management approach is based on six key performance indicators: order intake, revenue, adjusted EBIT, adjusted EBITDA, net financial debt and free cash flow before tax. These key figures are used for the KION Group as a whole and at segment level. They form the basis for the performance targets for both the KION Group and its segments as well as determining a significant proportion of senior managers' performance-related remuneration. The key performance indicators are determined once a month and submitted to the Executive Board as part of a comprehensive reporting package. Net financial debt is only relevant at Group level. The table below shows the key performance indicators used in the KION Group's internal financial reporting.

Key performance indicators

€ million	Order intake	Revenue	Adjusted EBIT[1]	Adjusted EBITDA[1]	Net financial debt	Free cashflow before tax
2011	**4,682**	**4,368**	**365**	**665**	**2,657**	**282**
2010	3,860	3,534	139	462	2,641	83
2009	3,028	3,084	-29	311	2,484	34

[1] Adjusted for KION acquisition items and one-off items

Order intake and revenue

Order intake and revenue are broken down by region, segment and product group in the KION Group's management reporting so that revenue growth drivers and pertinent trends can be identified and analysed in a timely fashion.

Adjusted EBIT

The key figure used for the operational management and analysis of the KION Group's financial performance is adjusted earnings before interest and tax (EBIT). The EBIT figure is shown net of depreciation for property, plant and equipment and leased assets and of amortisation for intangible assets. Non-recurring items are not included for the purposes of performance measurement; these items include the effect of purchase price allocation in connection with the KION acquisition, costs incurred in connection with the KIARA performance enhancement programme, redundancy schemes and severance pay. The EBIT margin is also used to measure the KION Group's operational efficiency. The EBIT margin is the ratio of adjusted EBIT to revenue.

Management reporting EBIT is a performance indicator used for internal management purposes that differed from adjusted EBIT for the last time in 2011 in that it did not take account of the share of profit (loss) of equity-accounted investments or other net financial income/expenses. From 2012, management reporting EBIT will correspond to adjusted EBIT.

Adjusted EBITDA

Unlike EBIT, the EBITDA figure is shown before deduction of depreciation for property, plant and equipment and leased assets and of amortisation for intangible assets. As with adjusted EBIT, the effects of the KION acquisition purchase price allocation and non-recurring items are not included for the purposes of performance measurement. Adjusted EBITDA constitutes an approximation of the cash flow KPI and provides information on the Company's long-term financial performance.

Net financial debt

Net financial debt – defined as the difference between liabilities to banks and cash and cash equivalents – is the key performance measure used in liquidity planning at Group level. Lease liabilities and other financial liabilities are excluded from this figure.

Free cash flow before tax

Future free cash flows have a direct impact on the value of the Company. They are determined solely by the KION Group's operating activities and investing activities. Free cash flow before tax does not include tax payments or interest arising from financing activities, interest expense and similar charges from leases, or interest and similar income from leases. The performance measurement of free cash flow before tax is supported by the carefully targeted management of working capital and by detailed planning of capital expenditure.

4.6 Acquisitions and alliances

Foundation of a company with Voltas in India

The KION Group and Voltas Ltd. agreed to establish an Indian company to develop, manufacture, sell and service forklift trucks and warehouse trucks. It went into operation in May 2011 and is called Voltas Material Handling. As part of the transaction, Voltas incorporated its forklift truck and warehouse technology business into the new company, in which the KION Group holds a majority stake.

Voltas is the sixth brand in the KION Group and focuses primarily on India's high-volume market. Its product range includes diesel, gas and electric forklift trucks with load capacities of between 1.5 and 16 tonnes. In July 2011, Voltas commenced operations at a new plant in Pune (India) with the aim of better meeting the strong demand in this market. Voltas Material Handling intends to use its network of 25 branches and authorised dealers to exploit the future potential of one of the world's most attractive markets and, as part of the KION Group, to strength its market position considerably.

Acquisition of further shares in Baoli in China

In 2011, the KION Group acquired further shares in the Chinese company KION Baoli (Baoli), which is based in Jingjiang. The KION Group had established Baoli with Jiangsu Shangqi Group (formerly Jiangsu Baoli Group) and Jingjiang Baoli Forklift in January 2009. Baoli has been under the complete management control of the KION Group since 2010. Having acquired a further stake in Baoli in 2011 of 5.34 per cent, the KION Group now controls 97.34 per cent of the company. The Baoli brand occupies a global position in the economy segment and is helping drive the KION Group's rapid expansion into the world's emerging markets. Baoli's product range encompasses IC trucks, electric forklift trucks and warehouse trucks with loading capacities of between 1 and 10 tonnes. Its extensive distribution and service network serves customers in all provinces of China and in 80 other countries.

Expansion of sales footprint in eastern Europe

The KION Group aims to expand its presence in the emerging markets. With this in mind, the Linde Material Handling subsidiary acquired the business of its dealer partner Liftec in Russia in September 2011, thereby gaining well-established direct access to the fast-growing Russian market. Linde had been working successfully with Liftec in Russia for the previous 20 years. This means that, like STILL, Linde also now has its own distribution and service structure in Russia.

With sales of more than 23,000 new trucks in 2011, Russia is Europe's fastest-growing market and has become the fifth largest European market for industrial trucks in a very short space of time. Linde also wants to step up its activities in Ukraine and Kazakhstan and took over Liftec's business in Kazakhstan in February 2012; a similar transaction in Ukraine is planned for summer 2012.

Boost to market position in the United Kingdom

In June 2011, Linde Material Handling acquired the outstanding 51 per cent of shares in its UK-based dealer Linde Sterling. Linde Sterling is one of the largest exclusive dealers of Linde products in the United Kingdom. For the past 30 years it has been successfully supplying new and used trucks, rental trucks and related services in north-west England and north Wales. It employed around 300 people at its four sites at the end of 2011. In December 2011, Linde Material Handling also acquired the outstanding 25.5 per cent of shares in Linde Castle Ltd. and now holds 100 per cent of the shares either directly or indirectly. These acquisitions have boosted Linde's market position and customer service activities in the United Kingdom.

5. Notes on financial position and financial performance

5.1 Operating and financial performance

5.1.1 Order intake

Order intake (units)

The continued growth of the Chinese market, the larger volume of orders received from Russia and Brazil, and equally strong demand in Europe enabled the KION Group to further improve its intake of orders for new trucks in 2011. Global order intake rose by 19 per cent year on year to 144,800 units in 2011 (2010: 121,500 units). The KION Group therefore remained Europe's undisputed market leader and the second largest provider worldwide.

Electric and internal-combustion engine counterbalance trucks, which constituted almost half of the KION Group's order intake and are mainly used in industrial applications, benefited significantly from the economic recovery in western Europe, especially in Germany, and from the robust demand from the major emerging markets. These trucks generated much stronger growth than the Company's warehouse technology.

Order intake in China – the third-largest market for the KION Group's sales – rose by 23 per cent year on year to 14,500 units in 2011 on the back of the strong growth of the market as a whole and the introduction of additional market-specific products. Consequently, the KION Group achieved growth rates in excess of general market growth levels. China generated especially strong demand for low-priced IC trucks, which the KION Group sells under its Baoli brand. The KION Group also expanded its market share slightly in the technologically more sophisticated electric forklift truck segment, which is the second most important market segment. In China, the KION Group is represented by its Linde and Baoli brands, which cater to different market segments and customer needs. Overall, the KION Group is by far the most important international supplier in China, which is the largest single market.

Demand also increased in Brazil, rising by 12 per cent year on year to 5,200 units. It was particularly encouraging that the KION Group gained significant market share despite tough operating conditions. Almost one in four of the new trucks sold in Brazil in 2011 was manufactured by the KION Group. KION will be in an even better position to develop the South American market from 2012 once it has completed the construction of an additional production facility for IC trucks in São Paulo.

The KION Group managed to increase its market share in eastern Europe as well. Its enlarged footprint in Russia as a result of its acquisition of local dealer Liftec in 2011 had a particularly positive impact on its order intake, which doubled in Russia year on year to 2,700 new trucks. The KION Group's market share jumped to 12 per cent.

Order intake in western Europe also saw significant growth in 2011. The KION Group increased its total volume of orders by 19 per cent year on year to 100,000 units. Growth in Germany, the largest single market in the region, was especially impressive. Order intake here surged by 23 per cent to 36,400 units in 2011 compared with 29,600 new trucks in 2010. France remained the second-largest market with approximately 23,000 units sold. One in three of the new forklift trucks sold in western

Europe in 2011 once again bore a KION Group brand name. As market leader, the KION Group also benefits from its efficient distribution network in the industrial-truck markets of Germany, France, Italy, the United Kingdom and Spain.

Total order intake (€)

The total value of the orders received by the KION Group in 2011 rose by 21 per cent year on year to €4,682 million. This order value includes not only business in new trucks but also rental business, the sale of used trucks, and aftersales services. Order intake in all product categories rose year on year. The benign macroeconomic trends prevailing in 2011 increased industry's willingness to invest in capital equipment, thereby boosting KION's business in new trucks. The further rise in fleet capacity utilisation in the market also created an additional need for services and spare parts. Stronger demand for used and rental trucks generated further growth as well.

Order intake broken down by segment

€ million	2011	2010	Change
LMH	3,107	2,510	23.8%
STILL	1,752	1,518	15.4%
Other & consolidation	-178	-168	-5.5%
Total	**4,682**	**3,860**	**21.3%**

Linde Material Handling (LMH), which is the largest segment in the KION Group, saw its business in new trucks boosted primarily by China's economic growth. Demand from Germany also continued to strengthen, which enabled LMH to achieve the largest year-on-year increase in order intake in its domestic market. The intake of orders for new trucks in the LMH segment grew by 22 per cent compared with 2010 to 88,300 units. This corresponded to a total order intake value of €3,107 million – or a year-on-year increase of 24 per cent – in 2011.

The intake of orders for new trucks in the STILL segment amounted to 51,200 units in 2011, growing by 15 per cent year on year. This encouraging trend was largely driven by the German market, Brazil and the emerging markets of eastern Europe. The total value of orders received by STILL grew by more than 15 per cent from €1,518 million in 2010 to €1,752 million in the reporting year.

5.1.2 Order backlog

The KION Group's order backlog as at 31 December 2011 totalled €953 million, which represented a year-on-year increase of 19 per cent. The main reasons for the larger inventory of outstanding orders at the end of the year were the stronger demand for new trucks and the generally high utilisation of capacity at KION's production facilities.

5.1.3 Income statement

Revenue broken down by segment

€ million	2011	2010	Change
LMH	2,856	2,254	26.7%
STILL	1,666	1,420	17.3%
Other	223	160	39.7%
Consolidation	-376	-300	-25.6%
Total revenue	**4,368**	**3,534**	**23.6%**

The growth in order intake also boosted the KION Group's revenue, which rose by approximately 24 per cent from €3,534 million in 2010 to €4,368 million in the reporting year.

The LMH segment was once again the key revenue driver, generating 65 per cent of the KION Group's total revenue. This segment raised its revenue by almost 27 per cent year on year from €2,254 million to an impressive €2,856 million. STILL increased its revenue by 17 per cent from €1,420 million to €1,666 million over the same period. The 'Other' segment, which comprises the activities attributable to Voltas Material Handling – the KION Group's Indian company – as well as cross-segment services and IT services, contributed revenue of €223 million in 2011 prior to consolidation; in 2010 it contributed €160 million.

Revenue by customer location

€ million	2011	2010	Change
Germany	1,175	900	30.6%
EU w/o Germany	2,115	1,820	16.2%
Rest of Europe	204	152	34.1%
America	281	233	20.6%
Asia	435	302	44.0%
Rest of world	160	128	24.9%
Total revenue	**4,368**	**3,534**	**23.6%**

The revenue generated by the KION Group in Germany rose by more than 30 per cent year on year to €1,175 million; it therefore grew even more strongly than the revenue earned outside Germany, which increased by 21 per cent year on year. Of the KION Group's total volume of business, 73 per cent was transacted outside Germany, generating revenue of €3,194 million. The revenue earned outside Germany in 2010 amounted to €2,634 million and accounted for 75 per cent of total revenue.

The KION Group achieved its highest percentage revenue growth in Asia, where revenue rose by 44 per cent – or €133 million – year on year. The strongest year-on-year revenue growth in absolute terms came from the Company's European markets outside Germany, which increased their revenue by €346 million. Germany also generated encouraging revenue growth of €275 million.

The revenue generated by the KION Group from new trucks grew by 33 per cent from €1,776 million in 2010 to €2,364 million in the reporting year. This encouraging trend was largely driven by the significant market growth rates achieved in Germany, France, China and Brazil. The Company's business in new trucks was boosted by the continued rise in demand for counterbalance trucks. Its other product categories were also buoyed by the benign market environment and the generally more pronounced global demand for industrial trucks.

Revenue by product category

€ million	2011	2010	Change
New business	2,364	1,776	33.1%
Hydraulics	173	120	44.0%
Service offering	1,831	1,639	11.7%
- After sales	1,066	971	9.8%
- Rental business	441	402	9.6%
- Used trucks	219	187	16.9%
- Other	106	79	34.3%
Total revenue	**4,368**	**3,534**	**23.6%**

Service business grew by a total of around 12 per cent from €1,639 million in 2010 to €1,831 million in the reporting year. Aftersales business accounted for the largest share of service revenue, raising its revenue by approximately 10 per cent year on year to €1,066 million (2010: €971 million). Very similar growth rates were achieved by the rental business, which advanced from €402 million in 2010 to €441 million in the reporting year. The KION Group also earned revenue of €219 million from used trucks in 2011 compared with €187 million in the previous year. Revenue in the 'Other' category – which includes advisory services, IT solutions and warehouse technology systems – jumped by 34 per cent from €79 million in 2010 to €106 million in 2011. In percentage terms, the strongest growth was achieved by the hydraulic components business, which increased its revenue by 44 per cent year on year.

Condensed income statement of the KION Group

€ million	2011	2010	Change
Revenue	4,368	3,534	23.6%
Cost of sales	-3,256	-2,684	-21.3%
Gross profit	**1,112**	**850**	**30.8%**
Selling expenses	-521	-484	-7.6%
Research and development costs	-120	-103	-15.8%
Administrative expenses	-283	-248	-14.5%
Other	25	19	29.6%
Earnings before interest and taxes (EBIT)	**213**	**35**	**>100%**
Net finance cost	-272	-266	-2.3%
Loss before taxes	**-59**	**-231**	**74.6%**
Income taxes	-34	35	<-100%
Loss of the year	**-93**	**-197**	**52.8%**

Whereas the KION Group's revenue for 2011 rose by 24 per cent year on year, its cost of sales grew by only 21 per cent over the same period. In absolute terms, the cost of sales increased from €2,684 million in 2010 to €3,256 million in 2011. Consequently, the KION Group's gross profit for 2011 came to €1,112 million, which constituted a year-on-year increase of 31 per cent. The gross margin in relation to revenue improved accordingly by 1.4 percentage points year on year to 25.5 per cent. The main reasons for this performance were further efficiency gains in production, higher overall capacity utilisation, and improvements in gross operating revenue across all product categories.

Other functional costs also rose only modestly during the reporting year. Selling expenses grew by only 8 per cent year on year despite the sharp rise in revenue. Research and development costs increased by just under 16 per cent owing to the large number of new development projects and product innovations; administrative expenses grew by 14 per cent, which was also less than the percentage rise in revenue.

The sharp rise in revenue coupled with the only modest increases in functional costs and the cost of sales owing to the Company's successful cost management policies once again enabled the KION Group's earnings before interest and tax (EBIT) to improve significantly by €178 million to €213 million in the reporting year. EBIT for 2010 had amounted to only €35 million.

Adjusted EBIT

€ million	2011	2010	Change
Earnings before interest and tax (EBIT)	213	35	>100%
One-off items	115	76	52.6%
KION acquisition items	36	29	23.9%
Adjusted EBIT[1]	**365**	**139**	**>100%**

[1] Adjusted for KION acquisition items and one-off items

The KION Group's EBIT (adjusted for non-recurring items and KION acquisition items) also showed a highly impressive year-on-year improvement in 2011, advancing from €139 million in 2010 to €365 million in 2011. This presentation of adjusted EBIT included the profit from equity-accounted investments, other net investment income and other net financial income/expenses totalling €7 million (2010: €4 million). These investments relate almost exclusively to investments in dealers in the material-handling segment.

KION acquisition items and non-recurring items amounted to €151 million in the reporting year (2010: €105 million), €115 million of which was attributable to non-recurring items compared with €76 million in 2010. A significant proportion of these items related to restructuring costs in connection with the plans to relocate production facilities in France and Italy.

EBIT by segment adjusted[1]

€ million	2011	2010	Change
LMH	283	139	>100%
STILL	102	20	>100%
Other & consolidation	-20	-20	0.1%
Total	**365**	**139**	**>100%**

[1] Adjusted for KION acquisition items and one-off items

The KION Group's adjusted EBIT for 2011 was boosted by LMH's EBIT contribution of €283 million, which was twice as high as the figure of €139 million that it had reported for 2010. STILL also delivered an impressive earnings performance, with a five-fold increase in EBIT (net of KION acquisition items and non-recurring items) from €20 million in 2010 to €102 million in the reporting year. These considerable earnings improvements are essentially attributable to the optimised utilisation of capacities at the brand companies and to the KIARA performance enhancement programme that was successfully continued in 2011.

Net finance costs rose by €6 million year on year to €272 million in 2011. They included a net interest expense for the senior facilities agreement (SFA) of €117 million (2010: €129 million) and, for the first time, a net interest expense for the corporate bond of €25 million.

Even though its business performance was encouraging, the KION Group still incurred a net loss of €93 million owing to non-recurring items although this was a significant improvement compared with 2010. This was achieved despite a tax expense of €34 million (2010: tax income of €35 million). The KION Group had reported a net loss of €197 million for 2010.

5.2 Financial position

Principles and objectives of financial management

By pursuing an appropriate financial management strategy, KION Group GmbH ensures that sufficient liquidity is available at all times and mitigates the financial risk to its enterprise value and profitability. As an entity that operates worldwide, the KION Group is exposed to risks in respect of currencies, interest rates, prices, counterparties and countries.

The KION Group provides sufficient financial resources for its day-to-day business, optimises its financial relationships with customers and suppliers, ensures that the necessary liquidity is available to its companies, and manages any collateral security offered. A group of international banks and investors meets the Company's basic borrowing requirements. In addition, the Company availed itself of the funding facilities offered by the public capital markets by issuing its first corporate bond in April 2011. The financial resources required within the KION Group are provided through internal funding. The KION Group collects liquidity surpluses of the Group companies in central or regional cash pools and, where possible, covers subsidiaries' funding requirements with intercompany loans. This central source of funding enables the KION Group to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants.

The Group occasionally arranges additional credit lines for KION Group companies with local banks or leasing companies in order to comply with legal, tax and other regulations.

The SFA, which is the main loan agreement, and the contractual terms and conditions governing the issuance of the corporate bond require compliance with certain undertakings and covenants among other things. The SFA also requires compliance with specific financial covenants during the term of the agreement. The financial covenants specify required ratios for the financial position and financial performance of the KION Group. The covenants are expressed in the form of key figures relating to net gearing, available liquidity, EBITDA, interest paid and capital expenditure. These loan terms and conditions were adjusted in line with prevailing market conditions and with the broad consent of the lenders in 2009. In return for adjusting the covenants, the lenders were granted an increase in the interest premium. This premium is mainly payable as a bullet payment at maturity, thereby ensuring that there is no additional adverse effect on the KION Group's liquidity in the meantime. If undertakings or financial covenants are breached, this may, for example, give lenders the right to terminate the SFA or permit bondholders to call the corporate bond prior to its maturity date. All the financial covenants were complied with in the past financial year.

In addition, investment funds advised by Kohlberg Kravis Roberts & Co. L.P. and Goldman Sachs Capital Partners loaned the KION Group a principal amount of €100 million under the terms of the SFA in order to offer the Company greater strategic flexibility. The loan amount and the associated interest are repayable as a bullet payment at maturity. For funding purposes, the KION Group also engages to a small extent in factoring. The volume of non-recourse factoring business amounted to €18 million at the end of 2011 (31 December 2010: €20 million); the Company only uses recourse factoring in isolated cases. KION Group disposes of a liquidity reserve through unrestricted, bindingly committed credit lines and cash to ensure that it remains solvent and financially flexible.

Cash flow

The key performance indicator for liquidity in the KION Group is free cash flow before tax, which does not include tax payments or interest arising from financing activities, or interest expense and similar charges from leases, or interest and similar income from leases. For further information about free cash flow before tax and other KPIs used to manage the KION Group, see section 4.5 'Financial KPIs for managing the Company's business'.

Condensed cash flow statement

€ million	2011	2010	Change
EBIT	213	35	>100%
Cash flow from operating activities	387	199	94.1%
Cash flow from investing activities	-153	-123	-23.8%
Free cash flow	**234**	**76**	**>100%**
Cash flow from financing activities	-115	-290	60.5%
Currency effects on cash	1	4	-71.1%
Change in cash and cash equivalents	**121**	**-211**	**>100%**
Net financial debt[1]	2,657	2,641	0.6%

[1] Before borrowing costs

Cash flow from operating activities jumped by €188 million to €387 million in 2011 (2010: €199 million). The underlying reason for this improvement was that earnings before interest and tax (EBIT) had increased to €213 million (2010: €35 million). The increase in working capital from €661 million in 2010 to €668 million in 2011, which was associated with the larger volume of business, was disproportionately low compared with revenue growth. This also had a positive impact on the cash flow from operating activities.

The net cash used for investing activities in the KION Group increased by 24 per cent to €153 million in 2011 (2010: €123 million). The reason for this was the higher capital expenditure on non-current assets and on property, plant and equipment (capex), for which the total cash payments amounted to €133 million (2010: €123 million). Cash payments relating to acquisitions rose by €25 million to €33 million in 2011. This amount essentially comprised cash payments of €16 million in connection with the acquisition of Voltas Material Handling, India, and payments of €10 million as part of the purchase of the remaining shares (51 per cent) in UK-based dealer Linde Sterling. In addition to a smaller acquisition in Italy, the KION Group invested a further €5 million, primarily in Liftec's business in Russia during the reporting year.

Cash flow from financing activities amounted to a total net cash outflow of €115 million in 2011 (2010: net cash outflow of €290 million). €483 million of the cash received from issuing the corporate bond was used to refinance the senior facility agreement (SFA). The Company also had to make cash payments of €12 million in connection with its bond issue in the reporting year. A further €54 million was used for the scheduled repayment of the credit line (capex facility). Interest payments rose by €13 million to €147 million due to higher interest rates for financial and capital market liabilities. This was counteracted by the €133 million drawdown of the revolving credit facility under the SFA. In 2011, there were also payments of €14 million for currency hedges (2010: 0).

The cash and cash equivalents reported on the face of the balance sheet as at 31 December 2011 amounted to €373 million (31 December 2010: €253 million).

For internal management purposes, free cash flow is much more narrowly defined as the total of cash flow from operating activities plus cash flow from investing activities.

Reconciliation to free cash flow before tax

€ million	2011	2010	Change
Cash flow from operating activities	387	199	94.1%
Cash flow from investing activities	-153	-123	-23.8%
Free cash flow	**234**	**76**	**>100%**
Taxes paid	43	13	>100%
Interest on lease receivables/liabilities	12	10	18.2%
Finance receivables incl. interest income	-6	-2	<-100%
Cash out from ownership interests (after control)	-1	-10	90.0%
Other items	-1	-4	75.0%
Free cash flow before tax[1]	**282**	**83**	**>100%**

[1] Internal key performance indicator

In contrast to the free cash flow of €234 million, free cash flow before tax (the figure used for management purposes) does not include any income tax payments (€43 million) or lease interest payments (€12 million). Cash receipts from financial receivables and interest income (€6 million) and other individual items that are treated differently in accordance with IAS 7 were also reclassified in 2011. Allowing for these items, the free cash flow before tax amounted to €282 million, which was a sharp year-on-year rise of €199 million.

5.3 Net assets

The Company's total assets had grown by €307 million year on year to €6,066 million as at 31 December 2011.

The structure of the KION Group's balance sheet continued to reflect its acquisition finance and the KION purchase price allocation. The net loss of €93 million reported for 2011 considerably increased the amount of negative equity reported on the balance sheet. The KION Group's equity came to minus €488 million as at 31 December 2011 (31 December 2010: minus €400 million).

Assets

Condensed balance sheet, assets

€ million	2011	in (%)	2010	in (%)	Δ in %
Non-current assets	**4,160**	**68.6%**	**4,105**	**71.3%**	**1.4%**
thereof:					
Goodwill	1,538	25.4%	1,507	26.2%	2.1%
Brand names	594	9.8%	591	10.3%	0.6%
Deferred tax assets	262	4.3%	242	4.2%	8.4%
Leased assets	540	8.9%	501	8.7%	7.7%
Lease receivables	243	4.0%	247	4.3%	-1.6%
Current assets	**1,906**	**31.4%**	**1,654**	**28.7%**	**15.2%**
thereof:					
Inventories	625	10.3%	536	9.3%	16.8%
Trade receivables	677	11.2%	633	11.0%	6.8%
Lease receivables	118	2.0%	121	2.1%	-2.1%
Cash	373	6.2%	253	4.4%	47.7%
Total assets	**6,066**		**5,759**		**5.3%**

Non-current assets rose by €56 million to €4,160 million, while current assets grew by €252 million to €1,906 million.

The increase of €31 million in goodwill, which is reported as a non-current asset, to €1,538 million as at 31 December 2011 was almost exclusively attributable to the acquisition of India's Voltas Material Handling (€15 million), the purchase of a non-controlling interest in UK-based dealer Linde Sterling (€9 million) and the acquisition of Liftec's business in Russia (€7 million).

The €20 million rise in deferred tax assets during the year under review was due in particular to the recognition of provisions in connection with restructuring activities.

The carrying amount of leased assets reported on the face of the balance sheet increased by €39 million to €540 million on the back of the larger volume of business.

Inventories, which are reported as current assets, grew sharply by €89 million to €625 million. The larger volume of business caused a rise in inventories of materials, supplies and finished goods. At 17 per cent, the rate of increase in inventories was lower than that of revenue growth. Even as its business in new trucks grows, the KION Group still aims to optimise its inventories by managing its working capital rigorously.

The larger volume of business also caused trade receivables to rise by €43 million to €677 million. The KION Group's optimised receivables management meant that there was no significant increase in valuation allowances and that receivables grew by less than revenue.

The KION Group's cash and cash equivalents advanced by €120 million year on year to €373 million as at 31 December 2011 (31 December 2010: €253 million). This significant jump was largely a result of the €133 million drawdown of the revolving credit facility. This line was drawn in November 2011 as a precautionary measure in view of the uncertain situation in economic and financial markets and, as at 31 December 2011, was held as liquidity.

Equity and liabilities

Condensed balance sheet, equity and liabilities

€ million	2011	in (%)	2010	in (%)	Δ in %
Equity	**-488**	**-8.0%**	**-400**	**-6.9%**	**-21.9%**
Non-current liabilities	**4,842**	**79.8%**	**4,800**	**83.3%**	**0.9%**
thereof:					
Shareholder loan	643	10.6%	615	10.7%	4.5%
Corporate bond	488	8.0%	–	0.0%	-
Financial liabilities	2,290	37.7%	2,772	48.1%	-17.4%
Deferred tax liabilities	339	5.6%	335	5.8%	1.2%
Lease liabilities	471	7.8%	411	7.1%	14.6%
Current liabilities	**1,711**	**28.2%**	**1,359**	**23.6%**	**25.9%**
thereof:					
Financial liabilities	227	3.7%	106	1.8%	>100%
Trade payables	634	10.5%	508	8.8%	24.8%
Lease liabilities	230	3.8%	251	4.4%	-8.1%
Total equity and liabilities	**6,066**		**5,759**		**5.3%**

The equity and liabilities side of the balance sheet primarily reflects the financial liabilities incurred by the KION Group's acquisition finance (SFA). KION Finance S.A., a recently established subsidiary based in Luxembourg, issued a corporate bond for €500 million in April 2011. The interest on the fixed-rate tranche of €325 million (7.875 per cent per annum) is paid semi-annually, while interest on the floating-rate tranche of €175 million (three-month Euribor + 4.25 percentage points per annum) is paid once a quarter. The bond's principal is redeemed as a bullet payment on maturity. €483 million of the total proceeds of €500 million was used in 2011 to repay existing SFA liabilities, which reduced current and non-current financial liabilities from €2,878 million in 2010 to €2,517 million in 2011. A capital market liability of €488 million was recognised in respect of the bond after borrowing costs of €12 million had been deducted.

Although the SFA funding was originally taken out in euros, some of it was converted into US dollars. The last dates for the repayment of amounts drawn down under the syndicated loan are between December 2013 and December 2016. In both currencies, the interest payable is based on a variable rate. The KION Group has entered into interest-rate and currency derivatives – primarily interest-rate swaps, currency swaps and currency options – to hedge some of the interest-rate and exchange-rate risk arising from the acquisition finance. About half of the currency and interest exposures were hedged as at the reporting date.

Financial liabilities before borrowing costs advanced by €136 million in 2011. As at 31 December 2011, current and non-current liabilities to banks amounted to €2,530 million (gross), while liabilities relating to the corporate bond totalled €500 million. The liabilities to banks alone therefore reduced by €364 million year on year. Net inflows of €483 million from the issuance of the corporate bond were used to repay the SFA liabilities to banks and make a scheduled repayment of €54 million under the multi-currency capex facility. However, this was counteracted by the precautionary €133 million drawdown of the revolving credit facility and by new SFA interest liabilities from deferred interest (PIK) of €34 million. In addition, exchange differences arising from translation of the US dollar tranche of the SFA increased liabilities to banks by €19 million.

Credit terms

€ million	Typ	Currency	Interest rate	Maturity	2011	2010
Term Loan Facility Term B	Bank Loan	EUR	EURIBOR + MARGIN	2014	691	911
Term Loan Facility Term B	Bank Loan	USD	LIBOR + MARGIN	2014	311	297
Term Loan Facility Term C	Bank Loan	EUR	EURIBOR + MARGIN	2015	663	870
Term Loan Facility Term C	Bank Loan	USD	LIBOR + MARGIN	2015	311	297
Term Loan Facility Term D	Bank Loan	EUR	EURIBOR + MARGIN	2016	202	201
Term Loan Facility Term G	Bank Loan	EUR	EURIBOR + MARGIN	2016	111	106
Term Loan Facility H1a (Corporate bond - fixed rate)			Fixed rate	2018	325	–
Term Loan Facility H1b (Corporate bond - floating rate)			3-M-EURIBOR+MARGIN	2018	175	–
Multicurrency Revolving Credit Facility	Bank Loan	EUR	EURIBOR + MARGIN	2013	133	–
Multicurrency Capex Restructuring and Acquisition Facility	Bank Loan	EUR	EURIBOR + MARGIN	2013	72	162
Other liabilities to banks	Diverse	Diverse	Diverse		38	50
Financial debt					**3,030**	**2,894**
./. Capitalized borrowing costs					-33	-22
Financial debt after borrowing costs					**2,997**	**2,872**

The total borrowing costs of €33 million incurred by the loan negotiations conducted in 2009 and in connection with the issuance of the corporate bond were allocated to the individual tranches on a pro-rata basis and deducted from the carrying amounts of the liabilities in accordance with IAS 39.

The weighted average interest rate on financial liabilities was 4.96 per cent at the reporting date (31 December 2010: 4.55 per cent).

Total net financial debt – including deferred refinancing costs – rose by €16 million to €2,657 million.

Net financial debt

€ million	2011	2010	Change
Corporate bond - fixed rate (2011/2018) - gross	325	–	–
Corporate bond - floating rate (2011/2018) - gross	175	–	–
Liabilities to banks (gross)	2,530	2,894	-12.6%
Financial debt	**3,030**	**2,894**	**4.7%**
./. Cash and cash equivalents	373	253	47.7%
Net financial debt	**2,657**	**2,641**	**0.6%**
./. Capitalized borrowing costs	33	22	49.7%
Net financial debt after borrowing costs	**2,624**	**2,619**	**0.2%**
Financial debt after borrowing costs	**2,997**	**2,872**	**4.4%**

Non-current lease liabilities grew by 15 per cent to €471 million owing to recently signed leases. This increase reflects operating conditions in the key western European markets. The volumes of business in all the key leasing markets in 2011 exceeded the levels achieved in the five years leading up to the crisis.

Trade payables advanced by 25 per cent to €634 million in line with rising production output and higher capital expenditure. Total lease liabilities also rose, from €662 million in 2010 to €701 million in 2011, owing to the increase in revenue from new trucks.

The net loss of €93 million gave rise to negative equity of €488 million (31 December 2010: minus €400 million). Exchange differences and other comprehensive income increased equity by €7 million. Dividends paid to non-controlling interests amounted to €2 million.

The equity calculated on the basis of these consolidated financial statements for the KION Group is of no relevance under the covenants agreed with the financing banks or under the German Commercial Code (HGB). The relevant figure under HGB in Germany is primarily the equity of KION Group GmbH as reported in that company's single-entity financial statements in accordance with HGB. This equity figure was €276 million as at 31 December 2011. The equity of KION Holding 1 GmbH reported in the single-entity financial statements of that company in accordance with HGB as at 31 December 2011 amounted to €201 million.

6. Research and development (R&D)

The KION Group stepped up its research and development activities and pushed ahead with important projects in the year under review. Its R&D team of 900 developers included over 70 additional employees compared with 2010. Spending on R&D in 2011 amounted to €120 million. This equates to 2.8 per cent of total revenue or 4.7 per cent of its relevant revenue from new trucks and hydraulics, making the KION Group an industry leader in this regard.

In 2011, the KION brands Linde, STILL and OM submitted more than 125 new patent applications, while almost 100 patents were registered for the applications already submitted. This enabled the brands to secure the fruits of their research for their own benefit – an important step in maintaining and enhancing the KION Group's technology leadership, as set out in its strategy.

Total R&D spending

€ million	2011	2010	Change
R&D expenses	120	103	15.8%
Amortisation	-53	-47	-11.0%
Capitalised development expenses	53	48	12.3%
Total R&D spending	**120**	**103**	**16.3%**
R&D spending as percentage of revenue	2.8%	2.9%	-

Research and development is a key corporate function in the KION Group. Ongoing, structured expansion of the product portfolio is crucial if the KION Group is to maintain its technology leadership in the sector over the long term. The KION Group's R&D team works steadfastly on designing the Company's material-handling solutions to be even more powerful, flexible and energy-efficient and on responding now to the logistics requirements of tomorrow. Valuable synergies have been generated in the KION Group thanks to its cross-brand, multi-site approach to research and development, intensive sharing of knowledge and experience between the individual R&D teams and close consultation with other areas of the Company such as procurement and production. For example, by developing modular components for forklift trucks, the Company has significantly lowered the manufacturing and product lifecycle costs of major system components. One of the main challenges of this was aligning the individual requirements of the individual brand companies and the region-specific market and customer needs with the common parts strategy so that the intended efficiency increases could be achieved within the KION Group's value chain. All of this contributes to the overarching objectives of rapid development, excellent product quality and sustained efficiency for KION trucks.

The focus of preliminary development, which the KION Group carries out in close cooperation with various universities, in particular the universities in Munich and Hamburg, is predominantly the use of alternative drive technologies and the continuous improvement of driver ergonomics and safety in the workplace. Hybrid engines, new types of lithium-ion batteries and fuel cells contribute to reducing CO_2 and noise emissions while lowering the costs of drive systems for industrial trucks. Intelligent energy recovery systems that make optimum use of the drive system's energy represent a key challenge for preliminary development, as does the application of the latest findings from medical and workplace research on improving the trucks' safety, comfort and user-friendliness.

To meet differing needs worldwide, the KION Group again expanded its international R&D sites in 2011. In October, for example, it inaugurated the newly built KION Asia development centre in Xiamen, which has more than 130 employees. Established more than ten years ago, the research and development unit hired new staff in 2011 to meet the growing demand for localisation and development. The new R&D centre brings together teams that were previously located in different places, thereby further improving the unit's efficiency. Furthermore, the larger premises enable various projects to be worked on simultaneously. This shortens development times considerably. The Asian market is seeing growing demand for warehouse technology solutions, which is why the KION Group expanded its range of such trucks in China last year, adapting them to the needs of the local market. This trend is repeated in nearly all emerging markets and is therefore an integral part of international development projects.

The KION Group has also taken on staff for electric and electronic development in order to maintain its pioneering role in this field. Continuous improvement of processes and the targeted application of expertise enable the Company to remain in its market-leading position. It has been working on implementing software standards from the automotive industry that can be flexibly deployed thanks to their modular design. The focus of preliminary development in the electronics field has been ways to make trucks even easier to operate and the introduction of safety systems. In addition, the KION Group has optimised its electronics testing unit, speeding up processes so that it can run the tests faster and at lower cost overall. The product innovations revealed at CeMAT, the world's leading intralogistics trade fair, which took place in Hannover in May 2011, reflected the Company's development work of recent years in the form of even more powerful, more energy-efficient and more ergonomic material-handling solutions. These achievements encompassed nearly all areas of the KION product portfolio.

The KION Group publicly showcased the Linde, STILL and Baoli brands' latest technological innovations at CeMAT in Hannover. A new generation of electric forklift trucks with load capacities of 2 to 5 tonnes was the main talking point at the Linde stand. The Linde E25 Li-Ion prototype is powered solely by rechargeable lithium-ion batteries and boasts a load capacity of 2.5 tonnes. The particularly small batteries, whose individual cells can be installed completely flexibly, resulted in extra space that was used to make improvements to the truck's ergonomics.

Another highlight was the presentation of the world's first series-production hybrid truck in the most important market: IC trucks with a load capacity of 2.5 to 3.5 tonnes. Sophisticated management of the energy flows in the truck, combined with intelligent energy storage technology, have reduced consumption by STILL's RX 70 Hybrid truck by up to 20 per cent. Energy efficiency and the reduction of CO_2 emissions represent one of the biggest challenges of the 21st century, one that STILL is tackling successfully with smart and resource-efficient product solutions. Besides its environmental benefits, hybrid technology has also become attractive from a commercial perspective. The higher investment will pay off within two years assuming that the truck is operated for 1,500 hours per year. Work on refining hybrid technology will be a key focus due to the exclusively beneficial effects of its use.

In 2011, KION presented a study of a tow tractor with fuel-cell technology and a new warehouse truck concept with a lithium-ion drive system. These innovations mean the warehouse trucks produce zero emissions and little noise, making it possible to use them in almost any area.

Besides the development of resource-efficient industrial trucks and warehouse trucks, the KION Group's R&D activities also focus on the intelligent use of software to manage and control intralogistics. STILL's Fleet Data Services offer various software solutions for capturing and preparing vehicle and driver data and making it available online. This enables the optimum coordination of maintenance and service because, for example, service-related data can be sent to the responsible service technician ahead of an appointment. The system's day-by-day monitoring of the total cost of ownership provides customers with good cost transparency and valuable information for calculating the profitability of their truck fleet.

7. Capital expenditure

Capital expenditure by the KION Group in the year under review amounted to €133 million, up by 7.7 per cent compared with 2010, owing to the continued market recovery in Europe and the additional business in China and Brazil. During 2011, capital expenditure (excluding equity investments and additions to leased assets) was focused on product development and the subsequent adjustments in production, on the streamlining of production and on IT systems. Other major capital expenditure projects – construction of the production facility in Brazil and the new KION Asia development centre in Xiamen – resulted from expansion.

In São Paulo, the KION Group began to build a new production site for counterbalance trucks last year. Significant capital was spent on the building and infrastructure in 2011. Good progress had been made on the construction work by the end of the year, and production at the new site is therefore expected to start up in mid-2012.

The KION Group uses an innovative and collaborative product development process for its trucks. This process shortens the development period, optimises the cost of both development and manufacturing and improves product quality. Duplication of work is avoided by making sure that all of the necessary departments are involved in the product development process at a very early stage. This forms the basis for financially viable, customer-focused products in existing markets and for the rapid expansion of the product range, especially in South America, Asia and eastern Europe.

At Linde's Aschaffenburg plant, one of the biggest projects in terms of capacity and cost was the refinement of the vehicle and mast concepts for reach trucks. This type of truck, which was built in Basingstoke (United Kingdom) until 2010, was significantly improved in terms of safety, performance, comfort, reliability and efficiency and has now moved into series development. Other capital expenditure in 2011 went on the new generation of electric forklift trucks with a load capacity of 2 to 5 tonnes; they have now gone into full production. There were also investments in the development of very narrow aisle trucks and in alternative drive technologies, such as hybrid technology, fuel cells and lithium-ion batteries.

The STILL brand's investing activities at its Hamburg site focused largely on the development of new trucks and refinement of existing ones as well on the integration of hybrid storage technology into its products. For example, the company pushed ahead with developing an IC/electric forklift truck with a load capacity of 6 to 8 tonnes and a STILL IC truck in the 2.2 to 3.5 tonne load capacity range with innovative hybrid storage technology. The enhanced compact electric/IC truck with a load capacity of 6 to 8 tonnes is designed especially to meet the requirements of the paper and beverage industries. This work is aimed at consolidating and expanding STILL's leading position in the fast-growing segment of heavy-duty and container trucks. The hybrid truck for the 2.2 to 3.5 tonne load capacity range is enabling STILL to steadfastly pursue its aim of minimising energy consumption and reducing CO_2 emissions. STILL also invested in a reach truck with a vastly improved lift mast incorporating a mast damping system. The lift mast is based on the platform of the Linde model, thereby considerably lowering development costs as approximately 50 per cent of the parts are the same.

New product developments and legal changes regularly require modifications to the manufacturing process. In response to the amended European regulations on exhaust emissions, the KION Group invested in a new paint shop at its site in Luzzara, Italy, which will go into operation in 2012. Capital expenditure on a new technology for diesel engines reduced the emissions of KION trucks with diesel engines. The centralised European distribution centre for Linde spare parts, which is located in Kahl (Germany), began to invest in expanding and optimising its warehouse capacity in 2011 so that it can cope better with the increase in the high-margin spare-parts business. Capital expenditure is also used to modernise production machinery and to exploit the potential for greater efficiency offered by lean manufacturing processes.

The Group-wide IT system used in sales is being continually refined and optimised as part of the 'KION ONE Sales & Services' project. The KION ONE Infrastructure project also continued in 2011. Its aim is to merge the European data centres and optimise the existing infrastructure hardware and software.

8. Purchasing

The far higher volume of orders taken in 2011 compared with 2010, the accompanying rise in material requirements and the generally high prices for commodities presented considerable challenges to the KION Group purchasing unit in the reporting year. Bottlenecks in the supply chain that had first emerged in mid-2010, particularly for electronic components, continued into 2011. The high level of order intake also generated bottlenecks in the supply of industrial tyres. There were only slight delays in engine deliveries as a result of the earthquake and tsunami in Japan, and this hardly affected the KION Group's supplies at all. Close partnership with suppliers protected the KION Group's procurement flow at all times.

Interdisciplinary teams in supply development had been set up in late 2010 to identify and systematically leverage potential for improving the Company's cooperation with suppliers. The teams offered workshops to the suppliers – particularly for small and medium-sized enterprises – as well as concrete support on refining lean management, redesigning the layout of their factories and improving supply sources and terms. The steps taken were very well received by the KION suppliers and proved exceedingly successful thanks to the great flexibility of the suppliers and their exceptional willingness to optimise processes.

The KION Group's costs for commodities in 2011 were very different to what they had been in 2011. Whereas steel plate rose by a moderate 7 per cent on average, prices for scrap and natural rubber rocketed by over 20 per cent and 26 per cent respectively in the middle of the year. However, the sovereign debt crisis caused the price of certain commodities to decline from mid-2011 onwards, although this did not compensate for the sharp year-on-year rises seen in the first half of the year. Steel accounts for the largest share of the volume of commodities purchased by the KION Group. Prices for steel peaked in the first half of 2011 and fell continuously after that. In contrast, prices for scrap only stopped climbing at the end of last year. Copper prices reached a record high in March 2011 but tended to decline as the year progressed.

As the KION Group mainly uses processed materials and components in the production of industrial trucks, increases in the market price for commodities do not impact fully and directly on the Group's cost of materials. The KION Group also has long-term agreements with its main suppliers, under which it obtains key components at fixed prices. As a result, sustained price increases are only felt at a later date. In some cases, for example batteries, rises in purchase prices can be passed on directly to end customers.

The cost of materials in the KION Group increased by 3.7 per cent overall in 2011 compared with 2010. As a result of the KIARA performance enhancement programme, the KION Group realised potential cost savings of 1.3 per cent. To ensure an uninterrupted supply of critical components, the KION Group secured additional capacities from some of its suppliers. However this was only possible by paying higher prices. By the end of 2011, the cost of materials had climbed to €2,244 million (2010: €1,714 million) due to the far higher order intake.

9. Employees

Positive business performance and acquisitions increase headcount

On 31 December 2011, the KION Group employed 21,862 people (including trainees and apprentices), roughly 62 per cent of whom worked outside Germany in 27 different countries. The number of employees a year earlier had been 19,968.

The significant increase in headcount was a result of the KION Group's strong performance and the acquisition of companies abroad. The United Kingdom and India saw particularly sharp rises owing to the acquisition of the UK dealer Linde Sterling and the establishment of Voltas Material Handling. Personnel resources were expanded in Germany and China, above all in production, to cope with increased demand. Across the Company as a whole, the number of employees increased by 9.5 per cent year on year.

Full-time equivalents

31/12/2011	LMH	STILL	Other	Total
Germany	4,334	3,646	436	8,416
France	2,234	902	107	3,243
Rest of Europe	3,674	2,404	1	6,079
China	2,857	0	0	2,857
Americas	161	376	0	537
Rest of World	578	0	152	730
Total	**13,838**	**7,328**	**696**	**21,862**
31/12/2010				
Germany	3,863	3,642	395	7,900
France	2,169	877	97	3,143
Rest of Europe	3,074	2,364	1	5,439
China	2,487	0	0	2,487
Americas	153	351	0	504
Rest of World	494	1	0	495
Total	**12,240**	**7,235**	**493**	**19,968**

In line with the expansion in headcount during 2011, personnel expenses advanced to €1,064 million (2010: €968 million) – an increase of 9.9 per cent. The personnel expenses ratio fell again, from 27.4 per cent in 2010 to 24.3 per cent in the reporting year, owing to the increased capacity utilisation in all segments of the Group on the back of increased market demand.

Consolidation of locations with minimum possible social impact

The KION Group has decided to further consolidate its production operations within Europe. As part of this, the Company plans to relocate the manufacture of warehouse trucks from Montataire (France) to Luzzara (Italy) and to shift production of counterbalance trucks from Bari (Italy) to Hamburg (Germany). The KION Group has been cooperating closely with the responsible employee representatives and other partners within the company from an early stage in order to implement the two projects. It is examining all the options to ensure that it consolidates the locations in the most socially compatible way.

Investing in the future with training

With a total of 621 (2010: 557) trainees and apprentices at the end of 2011, the Group continued to invest in training and development at the same high level to ensure that it can continue to recruit as many as possible of the skilled workers it requires inhouse. The proportion of trainees and apprentices in Germany remained stable at 5.1 per cent in 2011.

Securing tomorrow's potential with strategic executive development

The KION Group continued to establish talent and succession management in 2011 as a key element of strategic staff development. It has revised its annual management review so as to enable it to fill key positions across the Group with highly qualified executive talent. This tool is used to identify high-potential staff and young talent in the Group and then give them targeted support, such as participating in programmes in different brand companies and countries.

The KION Group uses 360-degree feedback for the development of its specialist workers and executives. In this scheme, employees assess their own skills and performance and receive feedback from colleagues. Based on the results, a personal development plan is then drawn up and put into action.

The Management Board of Linde Material Handling has initiated 'The Linde Way', a long-term corporate development programme for the brand that aims to bring business activities into line with the company's vision and strategic objectives. The concept, which was completed in 2011, will define management principles and guidelines for establishing a global performance culture and ensuring a high level of staff loyalty. Reports on the project's progress are produced each month, and the first results are expected as early as this year.

Partial retirement models and occupational pension scheme as voluntary employee benefits

The KION Group as an employer helps its employees to transition smoothly into retirement within the framework of local legal requirements. In Germany, for example, a partial retirement model consisting of two blocks is used: a working phase followed by a non-working phase. As at 31 December 2011, 412 employees of the KION Group in Germany were partially retired.

The KION Group regards offering an occupational pension scheme as an important element of the employee/employer relationship. It arranges and offers such schemes in the various countries depending on local legal requirements. For example, the KION Group offers its employees in Germany attractive occupational pension scheme options, including both direct insurance and a direct pension entitlement scheme.

Direct insurance comes in the form of a tax-privileged endowment insurance or pension insurance policy, which the employer takes out with an insurance company on behalf of the employee as a form of occupational pension scheme. The employee pays the insurance premiums in the form of deferred compensation, which means that part of his or her gross remuneration is paid directly into the insurance policy. The direct insurance policy is paid out to the employee when it matures, which will be no sooner than the employee's 60th birthday. The benefits are paid either to the employee or to his or her surviving dependants.

Under the direct pension entitlement scheme, which the KION Group operates in Germany in accordance with various pension benefit conditions and the pension plan, the employer pays the contributions into the occupational pension scheme directly. In contrast to direct insurance, the KION Group as employer undertakes to provide the entitled employee with benefits in the form of a lump sum or a pension when the employee retires dies or becomes unable to work.

The KION pension plan offers a further element to the occupational pension scheme for employees in the KION Group. The advantage is that employees can defer compensation and thereby taxation on it as well as making use of allowances for occupational pension schemes under collective pay agreements for the German metals industry. As at 31 December 2011, 1,181 employees were in the KION pension plan.

Outside Germany, the brand companies in the KION Group also offer occupational pension schemes, for example in the United Kingdom, Austria, Switzerland and the Netherlands.

Competitive advantages of diversity

As a global company, the KION Group benefits from national, cultural and social diversity. In the year under review, it employed people of more than 40 nationalities in Germany. Globally, employees of around 70 nationalities work for the KION Group. Because the Company is headquartered in Germany, people from this country make up the largest proportion of staff (36.6 per cent) – as they have in previous years. They are followed by French staff (14.9 per cent) and Chinese staff (12.9 per cent), which is in line with market share.

Female employees made up around 14.7 per cent of the KION Group's workforce as at the end of 2011. The proportion of female managers rose significantly year on year to 8.2 per cent.

Tackling demographic change with optimum working conditions

Demographic change is having an increasing impact on the competitiveness of many companies, particularly in Europe and North America. The KION Group has deliberately set itself the task of finding the best way to use the potential of older and experienced employees in the Company and to create the optimum working conditions for older employees.

At the end of the year under review, approximately 23 per cent of the KION Group's workforce were more than 50 years old and 57.5 per cent were aged between 30 and 50. Based on the situation at the end of 2011, more than a third of staff will be over the age of 50 by 2015. The KION Group began preparing itself for this predicted age structure at an early stage and has launched various age management projects. Its overarching aim is to always be able to offer all its employees the ideal conditions for their work.

10. Management

10.1 Key management team

The Executive Board of KION Group consists of Gordon Riske, Harald Pinger, Otmar Hauck and Klaus Hofer.

Gordon Riske has been Chief Executive Officer (CEO) since 2008 and is responsible, among other things, for strategy, communications, governance and compliance, market intelligence and the Group's Asian business. The CEOs of the brand parent companies Linde Material Handling, STILL and Voltas Material Handling report to him.

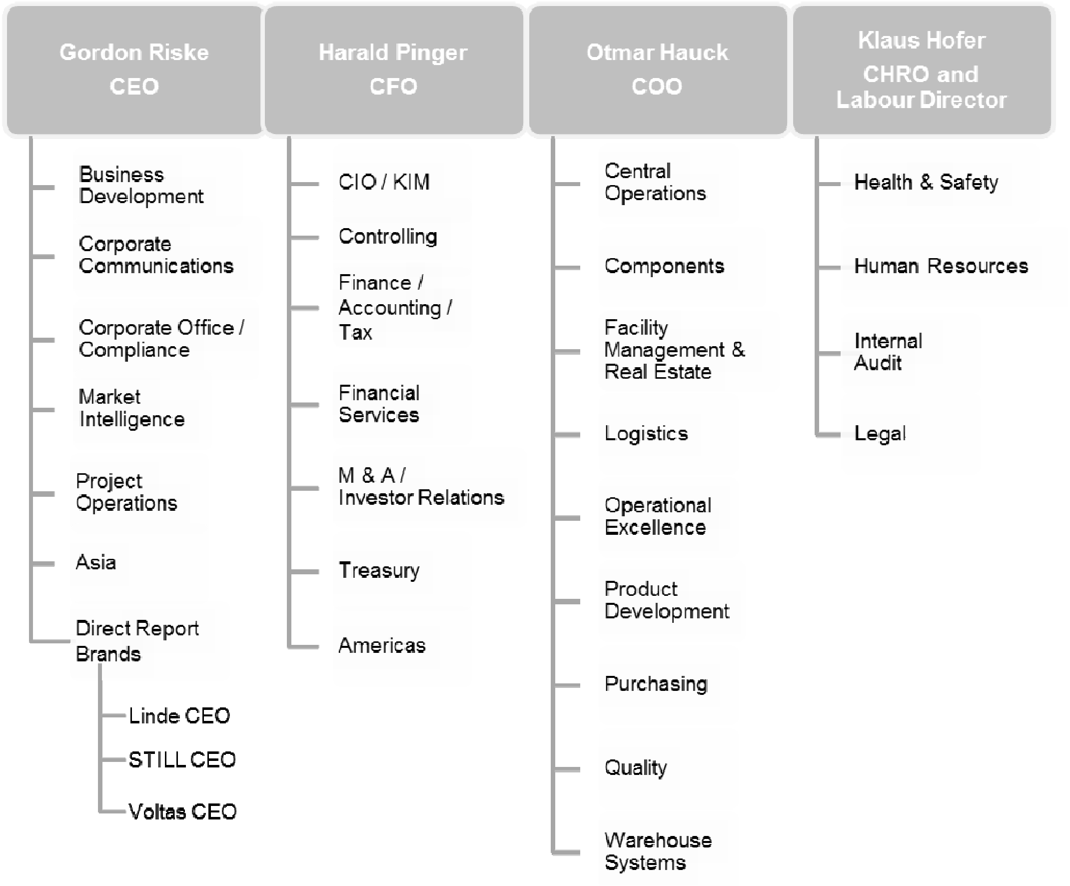
Harald Pinger has been Chief Financial Officer (CFO) since 2008 and is responsible for finance (accounting, controlling, tax, treasury), financial services, IT activities, mergers & acquisitions, investor relations and the Americas region. He held the post of Labour Relations Director until 30 September 2011.

Otmar Hauck has been Chief Operating Officer of KION Group GmbH since 2009. He is responsible for quality and central operations, purchasing, logistics and product development in the Group.

Klaus Hofer joined the Executive Board on 1 October 2011 and is responsible for human resources, legal affairs, health & safety and internal audit. He also took over as Labour Relations Director on that date.

The Executive Board normally meets every 14 days. Apart from preparing and taking all decisions relating to the day-to-day management of the Company, the Executive Board also uses these meetings to discuss and approve any transactions in the brand subgroups that require its consent. A list of the transactions requiring such consent is included in the rules of procedure for the relevant Management Boards. Under its rules of procedure, the Executive Board must have certain transactions approved by other decision-making bodies such as the Supervisory Board or the shareholders' meeting.

Diagram showing the responsibilities of the KION Group's Executive Board



10.2 Supervisory Board

The Company's Supervisory Board comprises six shareholder representatives and six employee representatives in accordance with the requirements of the German Commercial Code (HGB) and those of the German Codetermination Act (MitbestG). The Supervisory Board is responsible for the tasks specified by law, the memorandum and articles of association and the rules of procedure relating to the supervision of the management of the business by the Executive Board. It also advises and supports the Executive Board in its handling of significant matters and business transactions.

John Feldmann, a former member of BASF SE's Board of Executive Directors, has been the chairman of the Supervisory Board since 28 September 2011. He took over as chairman from Johannes Huth, the representative of Kohlberg Kravis Roberts & Co., New York, USA. Mr Huth had assumed the chairmanship of the Supervisory Board on an interim basis from 28 June 2011 to 28 September 2011 after Manfred Wennemer had stepped down from the Company's Supervisory Board.

In addition to a human resources committee and an audit committee, the Supervisory Board has set up an arbitration committee pursuant to section 27 (3) MitbestG. Shareholders and employees have equal numbers of representatives on all the Supervisory Board committees.

The Supervisory Board normally meets once during each quarter. The committees hold regular meetings (the audit committee meets four times a year, for example); although the arbitration committee only meets if required to do so in circumstances specified by law or by the memorandum and articles of association. If required, the committees also meet between the regular scheduled meetings. The remit of the Supervisory Board and its committees is defined by law, the memorandum and articles of association and the rules of procedure for the Supervisory Board and each committee.

10.3 Shareholders' meeting

A meeting of the Company's shareholders is held as required by the memorandum and articles of association or if demanded by other special circumstances. Resolutions may also be adopted by shareholders using a procedure conducted in writing.

10.4 Corporate governance

The KION Group publishes details of its corporate governance in a separate corporate governance report on its website: www.kiongroup.com.

11. Sustainability

The KION Group is aware of its responsibility towards society, the environment and the economy. That is why the KION Group goes above and beyond its legal duties to specifically promote sustainable development in matters of social and environmental importance. Prevention of climate change and conservation of resources therefore take top priority – and are an integral element of the Code of Compliance. Innovative products support the KION Group's role as one of the pioneers in the use of cutting-edge environmental technologies. The Linde and STILL brands have developed ground-breaking concepts for conserving resources.

Focus on the environment and efficiency

Linde attaches particular importance to ergonomics, the environment and efficiency. For example, ever since the first hydrostatic drive was developed in the 1950s, Linde has continually worked to improve the technology. Modern-day hydrostatic wheel motors operate at 170 revolutions per minute, instead of 3,500 as they used to do. Trucks need less fuel and produce fewer emissions, thereby enabling customers to operate more efficiently.

Linde also occupies a leading position when it comes to trucks powered by diesel engines. The particulate emissions of its diesel engines (H25D 392 model) are only approximately 35 per cent of those of competitors in the market. In addition, particulate filter systems are offered as optional extras. The H 40-50 series' energy consumption has been reduced by fitting a variable displacement pump for the lift hydraulics. The internal gear pump with a constant internal volume that was used previously has been replaced by an axial-piston pump developed by Linde Hydraulics. This new pump has a variable flow that can be controlled electronically depending on load and lift height and reduces fuel consumption by up to 18 per cent.

The electric forklift trucks developed by Linde also reflect its technology lead: energy recovery and three different eco modes enable the E 20-50 series to use up to 35 per cent less energy yet still score top marks as far as performance and efficiency are concerned. The Linde brand company has also succeeded in reducing the noise levels of these trucks by 30 per cent compared to the products of other manufacturers. The rate of wear is up to 20 per cent less for wearing parts. Moreover, the electric forklift trucks are low-maintenance, requiring a service every 1,000 hours and a hydraulic oil change only every 6,000 hours, while the encapsulated AC motors are entirely maintenance-free. In short, LMH generates benefits, not just for people but also for business and the environment.

STILL has also pursued a clear strategy of greater sustainability for many years. Three of the main elements of this strategy are the Blue-Q efficiency mode, which was launched in 2005, the drive technologies developed by STILL and process optimisation.

In 2011, STILL continued to press ahead with the introduction of the Blue-Q energy-saving feature, which is now available in electric and diesel trucks, the FM-X reach truck and the new MX-X order-picker truck. Blue-Q offers energy savings of up to 20 per cent through intelligent management of the drive and ancillary power consumption. Optimising the characteristics of the drive saves energy without impairing operation of the truck. STILL's RX 70 series, which already boasted the lowest energy consumption in its class, is now even more efficient thanks to the addition of the RX 70 Hybrid (rated capacity of 3.0 and 3.5 tonnes). The RX 70 Hybrid is the first series-production hybrid forklift truck. Electric energy is stored during braking and can then be used by the drive. The new RX 70 has two energy storage systems. This technology was first presented at CeMAT 2008 as ready for full production. Besides its environmental benefits, hybrid technology has also become attractive from a commercial perspective. The higher investment will pay off within two years assuming that the truck is operated for 1,500 hours per year. STILL continues to focus on refining hybrid technology. Considerable efficiency gains are possible when tugger trains are used to supply the production line. Although still new, this concept has proven in practice to cut energy consumption by up to 90 per cent. Trucks fitted with lithium-ion battery technology were showcased for the first time at CeMAT. The PalletShuttle is the first STILL product with a series-production lithium-ion battery and is designed to move pallets along a rack channel. It offers greater efficiency and saves energy.

Intelligent technology secures competitive edge

Pioneering technologies such as energy recovery in trucks, biodiesel, gas-powered trucks, the use of diesel particulate filters and adjustable pumps for lift drives, plus fuel-cell powered trucks, have a long tradition at the KION Group. Innovative drive concepts are the technology of the moment according to forecasts from industry experts at the 2010 Congress of the European Federation of Materials Handling (FEM) in Istanbul, where the future of industrial trucks was a major theme. The Industrial Truck Association, which represents forklift truck manufacturers and their suppliers in Canada, the United States and Mexico, expects that some 90 per cent of all trucks will be electric by 2025. A survey by the Engineering Committee of the Japanese Industrial Vehicles Association (JIVA) comes to similar conclusions and states that lithium-ion batteries and hybrid drives are the way forward.

LMH is taking a step in this direction by heading up the 'E-Log-Biofleet' research project in Austria. Working with prestigious partners, LMH is conducting an extensive field test in which a fleet of Linde industrial trucks with a fuel-cell hybrid solution and a range extender are being trialled in realistic operating conditions. The fuel cell replaces the conventional battery so that the trucks can be used for longer and efficiency is improved. A supply of hydrogen is integral to the system and is ensured by the installation of a new decentralised unit for producing hydrogen from biogas, a carbon-neutral energy source.

STILL is also responding to the trend for innovative drive concepts. Its new RX 70 Hybrid truck is pursuing the twin aims of low energy consumption and low CO_2 emissions. The concept is based on the RX 70 model, which itself previously earned the FLTA environment award from the UK's Fork Lift Truck Association. In 2011, Hamburg Port Authority (HPA) and Fraport AG, which operates Frankfurt Airport, received the first series-production hybrid forklift trucks. STILL also handed over a new-generation forklift to ALBA Nord GmbH in late 2011. ALBA Nord GmbH is a subsidiary of the ALBA Group, a Berlin-based environmental services provider and trader in raw materials. For STILL, the key to pioneering, innovative operations is above all sustainable business practices. The new hybrid drive makes it possible to reduce energy consumption by up to 15 per cent and thereby lower CO_2 emissions.

Responsible use of resources

The KION Group's innovative capabilities and the technological improvements it has made to its product portfolio enable it to constantly optimise the resource consumption of customers' truck fleets. Its responsible use of resources is also reflected in its use of recyclable materials, its energy-efficient products and manufacturing processes and its environmentally friendly workplaces.

One such example is the powder coating equipment used at STILL, which means that trucks only require one coat of paint. Solvents are not used in production. Any unused paint is collected and reused. Moreover, the STILL plant in Hamburg has been using just 32 per cent of its previous natural gas consumption since it switched to low-CO_2 district heating. As a certified member of Hamburg's environmental partnership, the plant is trialling the voluntary monitoring of CO_2. Electricity consumption has fallen considerably since 2004 due to intelligent energy management, in which electricity consumers are switched off at regular intervals. Hydraulic optimisation of the heating system has significantly cut the amount of water in circulation and reduced the return water temperature. The plant saves electricity and water by connecting the heating and ventilation systems to a control station.

A closed water circulation system, eco-friendly coating equipment, grease separators and efficient, powerful extraction systems in the production facilities and foundry are standard at Linde. Emissions checks, environmentally efficient production requirements and the need to comply with environmental and health & safety standards all result in continuous improvements to products and work processes. The recycling of a truck at the end of its lifetime is already taken into consideration when it is developed. As a result, 99 per cent of a Linde truck can be recycled. The cast iron, which accounts for 70 per cent, is used to make a new truck. Other materials, such as steel, copper, glass and service fluids, are almost 100 per cent recyclable.

Staff development programmes safeguard the Group's future

The KION Group's employees form the basis for its long-term success. That is why employee orientation lies at the heart of all processes. The corporate culture of the entire Group is characterised by mutual respect and appreciation. Managers and their staff live by these values. Their above-average loyalty to the Company shows that they appreciate this culture – and is a crucial competitive advantage for the KION Group. After all, the brands can only develop, manufacture and sell premium products if they have employees who see their work as more than just a job.

Professional training activities start with support for universities, work placements and apprenticeships, continue with professional development opportunities for the workforce and reach their apex with carefully structured personal development programmes to support managers and talented staff.

Linde Material Handling has cooperated with high schools in Aschaffenburg, the Aschaffenburg Chamber of Industry and Commerce, Aschaffenburg University of Applied Sciences and the Bavarian State Government for many years and has developed a pupil/engineer academy for high schools in which topics relevant to technological and scientific careers are incorporated into the curriculum for older pupils.

Work placements, discussions and school projects thereby forge links between business and schools. Support and development for the next generation of young professionals is provided by a wide range of work placement options for students at university and a close partnership with Aschaffenburg University of Applied Sciences.

Another example is Linde's alliance programme with the Karlsruhe Institute of Technology (KIT) in which business, engineering and science students gain key qualifications, preparing them to tackle future challenges in the world of work.

When it comes to vocational training, Linde Material Handling sets standards as the largest training provider in the Lower Main region of Bavaria. Besides professional training, other essential elements of the personal development plan for all trainees and apprentices are mutual appreciation and respect. These values are specifically taught and developed during training sessions.

One advantage of KION's training and professional development models is their flexibility. This can be seen in the opportunities for working and learning in other countries. The Linde expat programme, for example, enables employees to move from headquarters in Germany to almost any partner country and vice versa.

Last year, 27 Linde employees took part in the 'managerial driving licence' scheme. About half of them have already completed the programme and the remainder will do so this spring. The 'managerial driving licence' helps employees to optimally define and exercise their managerial responsibilities within their team. A modular series of seminars teaches new managers how to improve their leadership behaviour in practice.

Encouraging the next generation of young professionals is also a fundamental aspect of STILL's training activities. STILL is involved in a number of projects in this area, including an alliance with the Career Center Hamburg, the SMS programme (STILL moves students) and cooperation with Hamburg University of Applied Sciences (HAW), Kurt Körber High School and Helmut Schmidt University on the 'e-truck' robot construction project in Hamburg. These initiatives aim to establish ties with tomorrow's potential trainees, apprentices and employees while they are young.

The quality of the KION brands' training models has been recognised by external experts: a trainee at STILL was recognised by the Chamber of Crafts as 'Hamburg's best trainee 2011' for his outstanding exam results.

In the annual talent reviews, managers at STILL systematically identify staff with strong potential, high performers and experts in key functions and define development plans for them. Talented young professionals take part in various programmes that will enable them to flourish. One of these is STILL's International Junior Circle for international staff with high potential. Participants take part in various activities that will help them to develop, such as working on challenging projects as part of international teams and attending training courses on project and team management, change management and presentation skills. The Young Professional Programme in Germany is a chance for younger high performers to learn about a wide range of topics at STILL, providing them with an excellent insight into the company and the links between finance, marketing, production and development. This broadens their horizons and results in active STILL-wide networks.

Safety is an important topic, and the KION Group constantly provides initial and continuing training for its employees in this area. To improve safety at its sites, the KION Group conducted more than 1,000 training courses in Germany alone during 2011, including fire protection training, courses for safety officers and induction courses. In-depth analyses of accidents and detailed action plans are used to reduce risks in the workplace. Training for managers heightens safety awareness at all levels.

Standardised health, safety and the environment (HSE) audits are carried out at all production sites. The first step is to analyse the sites in detail. Local managers then work with their HSE auditor to define strategies and measures for making continuous improvements in the area of HSE.

At their annual international meeting with Klaus Hofer, Chief Human Resources Officer of the KION Group, the international HSE managers presented the activities they carry out regarding health, safety and the environment. The HSE experts were able to adopt good solutions for use at other sites. KION has also put in place an HSE policy that provides central guidelines on health, safety and the environment for all KION Group companies.

LMH responds to demographic change

The impact of demographic change on society poses a particular challenge to companies. LMH is developing healthy living programmes for an ageing workforce that will have to work for longer, flexible working-time models and attractive solutions that give women more options when it comes to combining a career and family. LMH's workplace support programme enables employees with problems in their personal or professional life to obtain counselling from qualified experts.
Good training and career development opportunities in an employee-oriented working environment that also meets changing expectations regarding work-life balance are key factors that help the brand companies to position themselves as attractive employers in the job market.

Brands and employees support society

Recognising their social responsibility, both the Executive Board and employees personally support numerous charities.

Following two earthquakes that devastated large areas of the eastern Turkish province of Van, KION and Linde Material Handling each donated around €35,000 to the rebuilding of the main lecture hall at Yüzüncü Yil University in Van. This gesture demonstrates the Group's support for education projects in its local markets.

STILL sponsors the Mittagskinder e.V. foundation, which looks after children from deprived areas of Hamburg, providing them with lunch and help with their homework on a regular basis as well as giving them the chance to take part in educational activities. Other associations supported by STILL are Kinderkrebs-Zentrum Hamburg e.V., which supports children with cancer, Switch e.V., which runs multicultural projects, and the Nordchance training programme, which helps young people with limited employment prospects. For more than ten years now, STILL has employed a group of workers from Winterhuder Werkstätten, an organisation that trains and integrates people with disabilities.

LMH established the StaplerCup hilft e.V. association in 2008 to support charities that look after children, young people and the elderly. The association arranges charitable events and collects donations at the final of the StaplerCup ('truck cup') tournament. In 2011, StaplerCup hilft e.V. donated €7,500 to Deutscher Kinderhospizverein, a children's hospice association in Germany, and the same amount to Suppenschule, which provides childcare in Aschaffenburg. LMH trainees organised a charity tombola at the 2011 StaplerCup, raising €15,000 for Initiative für Tapfere Kinder. This charity provides financial assistance for severely ill children, supports the integration of young people with disabilities into everyday life and helps orphans and street children.

A number of KION sites in various countries have stopped giving gifts to customers at Christmas and use the budget instead to support the work of charitable organisations. For example, Linde Lansing Fördertechnik AG (Dietlikon/Switzerland) donated five warehouse trucks to support the logistics processes of Schweizer Paraplegiker-Stiftung, a unique foundation in Switzerland that helps people with spinal paralysis.

12. Opportunities and risks report

12.1 Opportunities report

Recognising and seizing strategic and operational opportunities is an integral element of successful corporate management. To identify these opportunities, the Company systematically monitors and analyses its relevant markets and tracks overall and sectoral economic trends. Once it has analysed and evaluated the opportunities, the KION Group adopts and implements strategic initiatives. These are always aimed at profitable growth and a sustained increase in shareholder value.

The following developments open up significant potential opportunities:

Logistics trends offer good growth opportunities in industrialised nations

The market for industrial trucks is strongly correlated with industrial output – and therefore also with macroeconomic trends. Growth of the global economy, particularly in terms of world trade, has a corresponding positive effect on the demand for industrial trucks. Greater division of labour and rising inventory turnover rates in the major industrialised nations continue to increase the degree of mechanisation in logistics. These growing demands on warehouse organisation will, in turn, increase demand for efficient warehouse equipment and comprehensive intralogistics solutions. The KION Group is excellently placed in the industrial trucks market and will seize the opportunities presented by market growth, drawing on its outstanding portfolio of products and services.

Strong basis for future growth in the emerging markets

The KION Group is already very well positioned in the major emerging markets. It is a leading supplier in eastern Europe, the largest international manufacturer in China and the second largest manufacturer in Brazil. Since 2011, it has also had a stronger foothold in India. In the fast-growing markets of eastern Europe, South America and Asia, sales of industrial trucks will continue to benefit from more rapid overall economic growth and associated expansion investment and will therefore rise faster than in the more established markets. Trucks from the economy segment are predominantly offered in the fast-growing regions, enabling the high level of demand in these markets to be met yet also fulfilling the need for high-quality products at an affordable price. Thanks to its brand portfolio, the KION Group is very well placed to satisfy these requirements.

Different brands and products for differing customer requirements

Customers' requirements vary significantly depending on the situation in the individual market and other local characteristics. The KION Group is able to meet these requirements at all times with its six brands – Linde, Fenwick, STILL, OM (from 2012 OM STILL), Baoli and Voltas. They cover the entire spectrum of industrial trucks, from basic warehouse equipment to container handlers. Ergonomics and intelligent intralogistics are the hallmarks of products from Linde, Fenwick, STILL and OM STILL. These brands are industry leaders in technology and innovation thanks to their technologically sophisticated, solution-oriented product portfolios. Baoli und Voltas, on the other hand, cater to the economy segment in the high-growth markets. This broad-based structure enables the KION Group to benefit from growth in all market and product segments and thereby effectively build market share.

Service business improves revenue planning and increases customer retention

In contrast to new truck sales, the service business is largely independent of the economic cycle and gains further support and impetus from growth in the number of active trucks in the market. An increasingly important role is being played by services such as maintenance & repairs, spare-parts business, short-term & long-term truck rentals, the range of finance solutions and IT-based approaches to efficient fleet management. The KION Group's broad spectrum of services and an active fleet of more than one million trucks worldwide provide solid foundations for continued growth of its service volume. Service activities also improve customer loyalty and enable the Company to predict its revenue streams over a longer period. The KION Group will apply its expertise to further expanding its range of efficient service solutions, adapting them to local needs and thereby increasing its market share.

Ongoing evaluation of opportunities for growth by acquisition

Despite the increasing degree of consolidation, the market for industrial trucks remains highly fragmented and is dominated by suppliers with a regional focus. Besides potential for organic growth, the KION Group continuously evaluates opportunities for growth by acquisition in relevant foreign markets. The Company studies the markets on an ongoing basis, examining not only well positioned manufacturers but also service providers and distributors.

'Green logistics' remains a megatrend in the industry

Efforts to reconcile economic and environmental requirements are an important issue when it comes to logistics. As an innovation leader, the KION Group therefore examines eco-friendly, fuel-saving technologies in all product classes. Customers benefit from lower product lifecycle costs, which encompass the purchase, maintenance and repair costs as well as fuel consumption and labour costs. Linde Material Handling regularly looks at how protecting people and the environment can be optimised in each area of the company and is implementing projects to put this into practice. STILL offers forklift trucks with particularly low fuel consumption, while its hybrid technology has elevated it to a leading market position. Developing sustainable technologies and translating them into cost-effective yet environmentally sustainable products will remain a focus for the KION Group in future as they continue to generate further growth opportunities for the Company.

Greater competitiveness through operational excellence

The KION Group believes that its organisational structure with locations worldwide and various brand companies offers additional potential for synergies, above all in purchasing, development, production and logistics. The Company wishes to make the best possible use of the variety of options for boosting operational efficiency and thus profitability. Implementation of uniform production standards, consolidation of the product portfolio, design-to-cost initiatives and supplier management projects are just some examples of current efforts to improve operational excellence. Opportunities for improving efficiency and therefore the competitiveness of the entire Group are assessed and exploited on an ongoing basis.

12.2 Risk management

The KION Group encounters business risks that may jeopardise its business objectives. Risk management, like opportunity management, therefore forms an integral part of the Company's day-to-day management. To ensure that the risk management systems are fully integrated into the KION Group's overall financial planning and reporting process, they are located in the Group Accounting & Finance function. The procedures governing the KION Group's risk management activities are laid down in internal risk guidelines. For certain types of risk, such as financial risk or risks arising from financial services, the relevant departments also have guidelines that are specifically geared to these matters and describe how to deal with inherent risks.

Risk management is organised in such a way that it directly reflects the structure of the Group itself. Consequently, risk officers supported by risk managers have been appointed for each company and each division. A central Group risk manager is responsible for the implementation of risk management processes in line with procedures throughout the Group. His or her remit includes the definition and implementation of standards to ensure that risks are uniformly captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a Group-wide risk catalogue is used to capture the risks attaching to each company. Each risk must be captured individually. If the losses caused by a specific risk or the likelihood of this risk occurring exceed a defined limit, the KION Group's Executive Board and its Accounting & Finance function are notified immediately. A specially developed module within the internet-based reporting system used for the entire planning and reporting process is used to document each risk.

The risks reported by the individual companies are combined to form divisional risk reports as part of a rigorous reporting process. To this end, minuted risk management meetings are held once a quarter. Moreover, material risks are discussed at the quarterly business review meetings. The divisional risk reports are then used to compile an overall risk portfolio for the KION Group as a whole. To support this, additional meetings are held each quarter with relevant departments of the holding company in order to identify and assess risk, above all Company-wide, cross-brand risk affecting areas such as treasury, purchasing, tax, human resources and financial services. The Executive Board and the Supervisory Board's audit committee are informed of the KION Group's risk position at least once a quarter.

Material features of the internal control and risk management system pertaining to the (Group) accounting process

Principles

The main objectives of the special accounting-related internal control system are to avoid the risk of material misstatements in financial reporting, to identify material mismeasurement and to ensure compliance with the applicable regulations. There can, however, be no absolute certainty that these objectives are achieved in full and at all times.

Material processes and controls in the (Group) accounting process

For its (Group) accounting process, the KION Group has defined suitable structures and processes within its internal control and risk management system and implemented them in the organisation. Changes to the law, accounting standards and other pronouncements are continually analysed with regard to their relevance and effect on the consolidated financial statements; the relevant changes are then incorporated into the Group's internal policies and systems.

Besides defined control mechanisms, this special accounting-related internal control system includes, for example, system-based and manual reconciliation processes, separation of functions, the double-checking principle and adherence to policies and instructions.

The employees involved in the Group's accounting process receive regular training in this field. Throughout the accounting process, the local companies are supported by central points of contact. The consolidated accounts are drawn up centrally using data from the consolidated subsidiaries. A consolidation department with specially trained employees carries out the consolidation activities, reconciliations and monitoring of the stipulated deadlines and processes. This team monitors the system-based controls and supplements them with manual checks. The entire accounting process contains a number of specific approval stages. Employees with the relevant expertise provide support on specialist questions and complex issues.

The central Internal Audit department also checks, among other things, the reliability of the accounting work by the subsidiaries in Germany and abroad. It focuses primarily on the following aspects:

- Compliance with legal requirements, directives from the Executive Board, other policies and internal instructions
- Integrity and effectiveness of the internal control systems for avoiding financial losses
- Correct performance of tasks and compliance with business principles
- Formal and material correctness of the accounting and of the financial reporting that is based on the accounting.

12.3 Types of risk

12.3.1 Risks arising from the sovereign debt crisis

Even though the markets performed very well overall in 2011, risk management continued to examine the possible impact of the financial crisis and of the performance of the real economy on the KION Group's financial position and financial performance. In addition to ongoing screening and monitoring, the risk reports therefore included a separate assessment of the risks arising from the sovereign debt crisis. The economic problems in Greece, Italy, Spain, Portugal and Ireland, the EU rescue packages and the undercapitalisation of European banks that has become apparent were all signs that the financial crisis – and in particular the economic crisis in southern Europe – has not yet ended. Furthermore, it may flare up again at any time and spread to other regions.

Government action to support economies and the financial system resulted in a rise in government indebtedness worldwide. In Greece, Italy, Spain, Portugal and Ireland, debt repayments and the consolidation of national budgets restrict future flexibility and increase the pressure on governments to take appropriate action in terms of both income and expenditure. It is impossible to predict the implications that this may have for the material-handling market and therefore also for the KION Group.

12.3.2 Market risks

Cyclical fluctuations in macroeconomic activity have always affected the market for industrial trucks. A downturn or stagnation in the industries and regions relevant to the KION Group represents a risk. Customers' decisions on whether to invest, particularly in new trucks, depend to a large degree on the economic situation. The KION Group mitigates this risk with its multi-brand strategy, comprehensive product portfolio and a diverse customer base consisting of companies of different sizes in different industries and regions. Market risk is also reduced by close monitoring of markets and competitors as well as any resulting necessary adjustments to production capacities. The KION Group takes measures to boost its sales and further expand less cyclical business activities such as services in order to counteract economic downturns.

Global economic prospects have been very varied in recent times, and the markets therefore remain fragile. The International Monetary Fund (IMF) believes the global economic situation is still at risk due to the decline in the pace of growth in all regions of the world and owing to uncertainties regarding the funding position of public finances and financial institutions. In addition to a high level of uncertainty in the euro zone, there is also a continuing risk of a slowdown in growth in the United States. Current developments, above all in Europe, are making it increasingly difficult to gauge demand patterns reliably. The precise timing and even the extent of any change in the markets remains uncertain. The KION Group therefore closely monitors macroeconomic and market conditions so that it is ready to promptly step up action already implemented or initiate additional measures if required.

12.3.3 Competition risks

Manufacturers from Asia, especially those from China and Korea, have cost advantages in production due to the currency situation and also because Asian labour costs are lower. Providers from Asia can create additional competitive pressures in Europe, especially in this market environment. However, customers' high quality expectations and performance needs form a barrier to growth for many of these manufacturers. Their lack of an established distribution and service network in Europe makes it more difficult for them to gain a foothold in this market.

Alliances, partnerships and acquisitions are playing an increasing role in improving competitiveness in terms of resources, market access and product range. The KION Group continually evaluates its options for strengthening and consolidating its market position. An example of this in 2011 was the establishment of Voltas Material Handling in India.

12.3.4 Procurement and sales risks

The KION Group is exposed to risks in its procurement and sales activities. In 2011, the Group rigorously maintained its more intensive management of receivables and procurement as a result of the economic crisis.

Procurement activities constitute a potential risk for the KION Group in terms of the lack of availability of parts and components and the rising cost of raw materials, energy, base products and intermediate products. As in 2010, the supply of components was a source of risk last year due to the surge in demand. Whereas there had still been isolated problems in the supply of electronic components at the start of the year, supplies of industrial tyres proved difficult as the year progressed. During the second half of 2011, the KION Group experienced sometimes considerable delays in the supply of plastic and electronic parts from individual suppliers. The shortage of parts had improved significantly by the end of the year due to the intensive efforts on the part of the Company's logistics staff and the new supplier development department, which works with suppliers on the ground to improve processes.

The earthquake and tsunami in Japan in spring 2011 did not lead to any major supply problems for the KION Group because it obtains just a small volume of goods directly from there. Only the supply of internal combustion engines was interrupted for a few weeks in May and June 2011. However, the Japanese suppliers had caught up with the delivery backlog by July.

Prices had been rising quickly from the second quarter of 2010 onwards as a result of the aforementioned increase in demand in the supplier markets. This trend continued into the first six months of 2011, but the second half of the year saw a much calmer price situation in the commodity markets.

As far as its sales are concerned, the KION Group is exposed to stiffer competition and therefore downward pressure on prices as a result of increasing globalisation and greater market transparency. Nevertheless, the KION Group was again able to maintain appropriate pricing for its customers in a competitive environment in 2011. At the same time, it is also optimising its cost structures and business processes. For example, the KION Group continued to systematically implement its KIARA performance enhancement programme, thereby significantly lowering its costs. The successful programme finished at the end of 2011. The brand companies in the KION Group are also steadily improving their services. Key factors for success here are the expansion of the distribution network, better logistics processes for spare parts and 24/7 availability of the service team.

The Baoli brand enables the KION Group to supply customers in low-price market segments who were previously difficult to reach. Baoli also provides the KION Group with a line of trucks with which to meet demand for basic products, particularly in developing markets. In addition, the KION Group has strengthened its position in the Indian market by establishing Voltas Material Handling.

12.3.5 Production risks

The KION Group's closely integrated manufacturing network presents a potential risk to its ability to deliver goods on time in the event of operational disruptions or lengthy periods of production downtime at individual sites. To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers.

The Company has taken out a commercially appropriate level of insurance cover against loss. Quality assurance is a high priority throughout the value chain and reduces possible quality-related risks arising from the products and services provided. The KION Group mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the process chain and maintaining close contact with customers and suppliers.

12.3.6 Financial risks

The main types of financial risk managed by Group Treasury, including risks from funding instruments, are liquidity, exchange-rate, interest-rate and counterparty risk. Credit risk consists solely of counterparty risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks. In contrast, the individual Group companies directly manage counterparty risks involving customers.

The restructuring of the existing acquisition finance during 2009 continued to provide the Group with the flexibility needed to meet the requirements of the lending covenants. Accordingly, the KION Group has secured acquisition finance in the form of committed credit lines. The individual tranches have varying maturities, the longest bank liability extending until the end of 2016. Apart from that, €483 million of the original acquisition financing have already been repaid through the corporate bond of €500 million with maturity in 2018. The revolving credit facility has the shortest maturity expiring end of 2013 (cf. table credit terms on page 50, section 5.2 Financial position). The Company expects that it will be able to agree an extension with the banks before this date or that alternative refinancing schemes can be implemented. Further measures to ensure long-term financing are actively and continuously pursued by the company. As contractually agreed, the capex facility was reduced by approximately €54 million over the course of 2011.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. Deposits are also restricted to the limits covered by the deposit protection fund run by the Federal Association of German Banks. On 7 November 2011, the KION Group drew down €133 million from the revolving credit facility. Although sufficient liquidity was available for operational business, capital expenditure and debt servicing, a stronger cash position is considered sensible in view of the current volatility of the financial markets. The KION Group also established a further diverse group of creditors that is independent of the banks by issuing a corporate bond of €500 million in April 2011.

The KION Group only uses derivatives to hedge underlying operational transactions; they are not used for speculative purposes. Records are kept of the type of financial instruments used, the limits governing their use and the group of banks acting as counterparties. Group Treasury rigorously complies with and monitors the strict separation of functions between the front, middle and back offices.

Each Group company's liquidity planning is broken down by currency and incorporated into the KION Group's financial planning and reporting process. Group Treasury checks the liquidity planning and uses it to determine the funding requirements of each company. Normally, at least 50 per cent of the exchange-rate risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline.

The KION Group uses interest-rate and currency-related derivatives – primarily interest-rate swaps and currency swaps, but also interest-rate and currency options – to hedge the interest-rate and currency risks arising in connection with the acquisition finance. Approximately 50 per cent of the currency risk arising from the US dollar tranche is hedged by currency forwards with an average €-US$ exchange rate of around 1.38. These derivative contracts expire in November 2012. When the currency hedges expire, there may be a material outflow of funds, depending on the US dollar exchange rate. At the end of 2011, around 60 per cent of the interest-rate risk was hedged by interest-rate swaps or was subject to a fixed rate of interest. The need to add new hedging instruments or replace ones that expire is reviewed on an ongoing basis.

The funds raised for acquisitions also give rise to risks for the KION Group in terms of compliance with certain financial covenants specified in the loan agreement. This risk continues to apply in view of the current uncertain economic and financial market environment. However, the Company is mitigating it by continuing steadfastly with steps to boost efficiency and by ensuring sufficient flexibility when defining new lending agreements. The KION Group complied with all the lending covenants in the reporting year.

12.3.7 Accounting risks arising from goodwill and the brands

In 2011, goodwill and the brands represented 35 per cent of total assets (2010: 36 per cent). Pursuant to IFRS, these assets are not amortised and their measurement depends, above all, on future expectations. If these future expectations are not fulfilled, there is a risk that impairment losses will have to be recognised on these assets.

12.3.8 Risks from financial services

The funding terms and conditions faced by the lenders themselves (manifested, for example, in the payment of liquidity premiums on interbank lending) may result in a future shortage of lines of credit and/or increased financing costs for companies. However, the Group currently does not expect any further changes in its lines of credit or any excessive increases in margins.

The KION Group's leasing activities mean that it may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast.

KION regularly assesses its overall risk position arising from financial services. The risks identified are immediately taken into account by the Company in the costing of new leases by recognising writedowns or valuation allowances and adjusting the residual values.

Risk-mitigating factors are the development and refinement of the KION Group's international used-truck marketing, the ongoing expansion of used-truck marketing to end customers, and the increase in demand accompanied by the optimisation of its profitability, which all stabilise the residual values of its industrial trucks. The majority of the residual values have underlying remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the 2011 financial results. Group-wide standards to ensure that residual values are calculated conservatively, combined with an IT system for residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

The KION Group mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have matching maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has sufficient liquidity. Moreover, the KION Group offers the majority of financial services via selected financing partners that bear the risks of the finance transaction.

In order to exclude exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Group has not identified any material changes between 2010 and 2011. KION also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. It also primarily offers financial services indirectly via selected financing partners, and KION bears the counterparty risk in under 5 per cent of cases. The credit risk management system was updated during 2011 in preparation for the planned transfer of financial services activities to a separate segment. In particular, this involved revising the regulations concerning the process organisation as well as processes for risk management and control.

12.3.9 Human resources

For KION to secure its long-term success, it is vital that managerial staff and young professionals of sufficient quality and quantity to meet its future challenges are retained within the Company for a long period, particularly in key functions.

One of the critical challenges is to identify and develop young professionals with high potential who already work for the Company and to retain them over the long term, thereby enabling succession planning for key roles across the Group. The KION Group must also position itself in the external market as an employer of choice so that it can identify and recruit suitable talented candidates. This will enable it to make strategic additions to its portfolio of existing staff and, in this way, avert the risk of possibly losing expertise and thereby becoming less competitive.

In the year under review, the KION Group introduced plans to consolidate its European production facilities. These may have a negative impact on the Company's business and thus its financial position and financial performance if they lead to strikes or reactions of other kinds by the workforce, employee representatives or third parties. The planned consolidation will see the current production of warehouse technology at the site in Montataire (France) transferred to Luzzara (Italy), while the manufacture of STILL and OM counterbalance trucks will move from Bari (Italy) to the production site in Hamburg.

These plans are aimed at increasing capacity utilisation and improving flexibility in order to permanently safeguard the future of the European production sites. Even after these plans have been implemented, the KION Group will continue to have by far the highest number of European production facilities within the industry, with factories in all major markets in which demand is high. In 2011, the KION Group initiated the procedures necessary for such restructuring projects in conjunction with the employee representatives in France and Italy. The Company aims to implement the planned measures smoothly and in a socially compatible way as quickly as possible and in accordance with legal requirements.

12.3.10 IT

In order to process and manage its business transactions, the Group needs a reliable IT system landscape that is expandable and flexible enough to be adjusted in line with the requirements of the market. Complexity must be reduced so that differentiation is restricted only to those functions where it is absolutely required. This allows the KION Group to share existing expertise between the brands (on the basis of best practice) and strengthen its competitive position.

The rationalisation of the current brand-specific systems is being driven forward under the auspices of the 'KION ONE' project, which has three modules: 'KION ONE Factory', 'KION ONE Sales & Service' and 'KION ONE Infrastructure Consolidation'. Internal and external specialists with the necessary skills are implementing these action plans without impairing the day-to-day running of the business.

For this project, the KION Group is using its internal IT service provider KION Information Management Services (KIM), which was established in 2007 as a private limited company in Germany (GmbH). KIM pools internal IT resources and makes them available throughout the Group. The Group remains able to monitor risk via the Group-wide portfolio management and project planning & control system. Independent external audits are conducted to provide additional quality assurance.

Various technical and organisational measures protect the Company's data against unauthorised access, misuse and loss. The technical protection measures include virus scanners, firewall systems and access controls. Access to the Group's infrastructure is also validated and recorded.

12.3.11 Legal risks

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector.

The Company is a party in a number of pending lawsuits in various countries. It cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the Company is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were allegedly faulty or the Company allegedly failed to comply with contractual obligations. The KION Group has taken measures to prevent it from incurring financial losses as a result of these risks.

Although legal disputes with third parties have been insignificant both currently and in the past, the Company has a centralised reporting system to record and assist pending lawsuits.

In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. These issues are also tackled by teams whose members come from a variety of functions. The aim of the teams is to identify and minimise risks, for example the risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure compliance with mandatory laws, regulations and contractual arrangements at all times.

12.3.12 External risks

External risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, the KION Group is exposed to the consequent risk of government regulation, capital controls and expropriations. Although fairly unlikely, natural disasters and terrorist attacks constitute a further risk to the KION Group's financial position and financial performance.

12.4 Overall risk

In 2011, the KION Group continuously analysed the risks arising, in particular, from the financial crisis and the performance of the real economy in addition to its normal quarterly risk reporting. Particular attention was paid to the potential impact of financial instability in some economies and financial institutions in the context of the sovereign debt crisis. As far as possible, risk prevention measures were initiated at an early stage where risks were identified – for example by using the revolving credit facility. Despite market growth in 2011, the situation in the global markets remains challenging due, in particular, to the uncertainties in the euro zone but also the possible slowdown in growth in the United States. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.

13. Events after the balance sheet date

No events of any importance occurred after the balance sheet date.

14. Outlook

The forward-looking statements and information given below are based on the Company's current expectations and assessments. Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of the KION Group, affect the Group's business activities and profitability. Any unexpected developments in the global economy would result in the KION Group's performance and profits differing significantly from those forecast below. The KION Group does not undertake to update forward-looking statements to reflect subsequently occurring events or circumstances. Furthermore, the KION Group cannot guarantee that future performance and actual profits generated will be consistent with the stated assumptions and estimates and can accept no liability in this regard.

14.1 Outlook for the global economy

The economic recovery lost momentum at the end of 2011. As a result, the robustness of the global economy will be closely scrutinised in 2012 and the risk of a downturn appears heightened in many countries. The prevailing uncertainty about what will happen is reflected above all in the variance between current economic forecasts. Two main trends can be observed: firstly the astonishingly strong data for the real economy in many countries and, secondly, significant political and economic imponderables. These relate primarily to the outcome of the euro crisis, further developments in the financial sector, unstable financial policy in the USA and the slackening pace of economic activity in the world's growth regions.

The economic risks are mirrored by the lower growth forecasts published in recent months and by the volatility of the financial markets. It is still not known how effective the additional consolidation measures taken by many industrialised countries will prove to be. Overall, there are signs that domestic demand will weaken in the advanced economies. The economic slowdown that has become apparent in recent months in the emerging markets, combined with declining momentum in the export sector, also point to a cooling off of the global economy. Commodity prices are also exhibiting a downward trend in line with general economic uncertainties and the falling level of global trade. Whereas prices for utilities that are not dependent on oil seem to be decreasing further, expectations regarding oil prices are less favourable due to the geopolitical situation.

On the basis of the aforementioned challenges and provided that no other uncertainties hold back the economy, the general assumption is that the global economy will grow at a slower pace in 2012 than it did last year. As long as economic conditions stabilise soon, experts anticipate that the European economy will stagnate this year, with France, Germany and the United Kingdom likely to have the better economic prospects among the western Europe countries. Based on the same assumptions, as well as recent developments, the outlook is more positive for the USA than for other large industrialised countries as US growth is forecast to stay at the same level. Demand in the emerging markets is likely to continue to normalise within a cyclical pattern, but at a high level, and will help bring relative stability to the world economy. In 2013, the economy is expected to pick up again.

14.2 Market outlook

The market for industrial trucks is closely correlated with macroeconomic conditions. The statements below should therefore be read in the context of the conditions described above. If the performance of the global economy is adversely impacted by unforeseen exogenous factors, the consequences will also affect the industrial trucks market. From the current perspective, it is not possible to determine the extent, the timing or the likelihood of these exogenous factors.

Based on the assumption that the global economy will cool off in 2012 and in view of the high market volume in 2011, growth prospects for industrial trucks will be lower this year in all regions. On the one hand, the market situation looks likely to adapt to the economic cycle while, on the other, investing activities are expected to be more subdued in a macroeconomic context. The KION Group therefore anticipates moderate growth of around 2 per cent in the global market for industrial trucks in 2012. As far as 2013 is concerned, the KION Group expects the sector's prospects to improve in line with economic forecasts.

The KION Group predicts that truck capacity utilisation and usage in 2012 will remain roughly the same in the western European market, although the situation will vary between the individual countries. In eastern Europe, the markets are expected to recover further and will therefore significantly stronger growth than western Europe. The US market points to continued stabilisation with moderate growth. The KION Group expects growth in the emerging markets to continue to normalise but to remain far higher overall than in the advanced markets.

14.3 Outlook for the KION Group

In 2012, the KION Group is likely to benefit from the further cost-structure improvements already begun as well as from last year's capital expenditure on developing new and additional products and on expanding the sales and service network – as long as market conditions remain broadly stable. Provided that they do, the planned restructuring of the production sites is expected to bring significant, lasting improvements to capacity utilisation at the Luzzara and Hamburg plants, thereby boosting the necessary long-term competitiveness of the Group as a whole.

Further improvement of margins

The KION Group began 2012 with a large order backlog and is currently cautiously optimistic that it will again generate a slight year-on-year increase in revenue. This assumes that no external events have a direct negative impact on either the global industrial truck markets or the Company. Moreover, demand for the Company's products must remain at the same high level as in 2011. In these circumstances, growth would be driven by all segments and business activities. Along with rigorous management of fixed costs, the improvements initiated – especially those designed to improve capacity utilisation at the production sites – would lead to a further increase in profitability from 2013. The brand companies in the KION Group responded to the increase in staff costs and commodity prices by raising their gross list prices in December 2011 and early 2012. Against this background, the KION Group believes another slight rise in its adjusted EBIT margin is possible. This positive trend would also be reflected in net income, although this figure will be affected by non-recurring items in 2012. These will mainly be related to expenses for consolidating the production of warehouse equipment and counterbalance trucks of the STILL brand at one European site. The KION Group therefore expects to achieve a significantly better financial performance this year, although falling just short of breaking even.

Provided that the global economy maintains its positive trajectory, the KION Group believes further slight growth in its revenue and margin and a continued gradual improvement in net income are possible for 2013.

Wiesbaden, 15 March 2012

Gordon Riske Klaus Hofer Harald Pinger

KION HOLDING 1 GmbH

Wiesbaden

Consolidated
Financial Statements
31 December 2011

MATERIAL HANDLING SOLUTIONS

Linde STILL FENWICK OM Baoli VOLTAS

KION Holding 1 GmbH

Consolidated statement of comprehensive income for the year ended 31 December 2011

Consolidated income statement

€ thousand	Note	2011	2010
Revenue	[8]	4,368,395	3,534,474
Cost of sales		-3,256,378	-2,684,353
Gross profit		**1,112,017**	**850,121**
Selling expenses		-520,547	-483,639
Research and development costs		-119,526	-103,255
Administrative expenses		-283,322	-247,526
Other income	[9]	81,503	59,585
Other expenses	[10]	-70,043	-45,879
Profit from equity investments	[11]	11,192	3,569
Other financial result		1,886	1,660
Earnings before interest and taxes		**213,160**	**34,636**
Financial income	[12]	73,664	88,349
Financial expense	[13]	-345,709	-354,405
Earnings before taxes		**-58,885**	**-231,420**
Income taxes	[14]	**-34,041**	**34,722**
Current taxes		-49,349	-14,997
Deferred taxes		15,308	49,719
Net loss		**-92,926**	**-196,698**
Attributable to shareholders of KION Holding 1 GmbH		-95,093	-198,655
Attributable to non-controlling interests		2,167	1,957

Consolidated statement of comprehensive income

€ thousand	2011	2010
Net loss	**-92,926**	**-196,698**
Impact of exchange differences	6,476	37,260
thereof changes in unrealised gains and losses	6,476	37,260
thereof realised gains and losses	0	0
Gains/losses on employee benefits	8,394	-28,658
thereof changes in unrealised gains and losses	13,995	-39,462
thereof tax effect	-5,601	10,804
Gains/losses on cash flow hedges	-8,149	10,022
thereof changes in unrealised gains and losses	7,071	52,818
thereof realised gains and losses	-18,452	-37,897
thereof tax effect	3,232	-5,369
Gains/losses from equity investments	532	-125
thereof changes in unrealised gains and losses	532	-125
Other comprehensive income (loss)	**7,253**	**18,499**
Total comprehensive income (loss)	**-85,673**	**-178,199**
Comprehensive loss		
Attributable to shareholders of KION Holding 1 GmbH	-87,840	-180,155
Attributable to non-controlling interests	2,167	1,956

KION Holding 1 GmbH

Consolidated statement of financial position at 31 December 2011

ASSETS

€ thousand	Note	2011	2010
Goodwill	[16]	1,537,996	1,507,010
Other intangible assets	[16]	977,555	986,410
Leased assets	[17]	539,731	501,164
Other property, plant and equipment	[18]	538,121	566,492
Equity investments	[19]	36,545	37,841
Lease receivables	[20]	242,840	246,808
Other non-current financial assets	[21]	25,732	17,474
Deferred taxes	[14]	261,963	241,772
Non-current assets		**4,160,483**	**4,104,971**
Inventories	[22]	625,369	535,529
Trade receivables	[23]	676,553	633,265
Lease receivables	[20]	118,381	120,950
Current income tax receivables	[14]	4,953	4,550
Other current financial assets	[21]	107,096	106,790
Cash and cash equivalents	[24]	373,451	252,884
Current assets		**1,905,803**	**1,653,968**
Total assets		**6,066,286**	**5,758,939**

EQUITY AND LIABILITIES

€ thousand	Notes No.	2011	2010
Subscribed capital		500	500
Capital reserve		348,483	348,483
Retained earnings		-806,429	-711,504
Accumulated other comprehensive income (loss)		-37,218	-44,471
Non-controlling interests		7,077	7,070
Equity	[25]	**-487,587**	**-399,922**
Shareholder loan	[27]	643,132	615,250
Retirement benefit obligation	[26]	382,914	374,063
Non-current financial liabilities	[27]	2,777,354	2,772,417
Lease liabilities	[28]	471,131	411,097
Other non-current provisions	[29]	96,168	164,299
Other non-current financial liabilities	[30]	132,719	127,870
Deferred taxes	[14]	339,054	334,930
Non-current liabilities		**4,842,472**	**4,799,926**
Current financial liabilities	[27]	227,376	106,470
Trade payables		634,092	508,108
Lease liabilities	[28]	230,381	250,552
Current income tax liabilities	[14]	15,439	6,661
Other current provisions	[29]	183,678	95,902
Other current financial liabilities	[30]	420,435	391,242
Current liabilities		**1,711,401**	**1,358,935**
Total equity and liabilities		**6,066,286**	**5,758,939**

Consolidated statement of cash flows

€ thousand	2011	2010
Net loss	-92,926	-196,698
+ income taxes	34,041	-34,722
+ net financial income/expenses	272,045	266,056
= Earnings before interest and taxes	**213,160**	**34,636**
Depreciation/Impairment of non-current assets (excl. leased assets)	186,569	169,013
Depreciation/Impairment of leased assets	169,452	176,558
Other non-cash income and expenses	9,943	12,295
Gain (-) / loss (+) on disposal of non-current assets	6,428	4,987
Change in leased assets	-208,691	-129,572
Change in lease receivables and lease liabilities	26,056	-57,440
Change in inventories	-75,242	-45,685
Change in trade receivables	-36,829	-103,890
Change in trade payables	114,886	145,491
Cash payments for defined benefit obligations	-21,038	-29,420
Change in other provisions	13,989	-14,994
Change in other operating assets	334	7,195
Change in other operating liabilities	30,346	43,072
Taxes paid	-42,553	-12,957
= Cash flow from operating activities	**386,810**	**199,289**
Cash receipts from disposal of non-current assets	3,408	4,177
Cash payments for purchase of non-current assets	-133,005	-123,462
Deposits from other loan claims	2,879	-1,799
Dividends received	6,599	2,854
Interest income received	3,397	3,623
Acquisitions of subsidiaries, net of cash acquired	-32,916	-7,638
Cash receipts (+) / cash payments (-) for sundry assets	-2,942	-1,003
= Cash flow from investing activities	**-152,580**	**-123,248**
Dividends paid to non-controlling interests	-2,209	-2,143
Cash paid for increased ownership interests (after control)	-1,461	-9,535
Cash receipts from decreased ownership interests (after control)	82	0
Proceeds from borrowings	632,691	56,742
Loan financing costs paid	-24,579	-5,978
Repayment of borrowings	-537,018	-152,447
Repayment of other capital borrowings	-21,052	-42,133
Cash payments for forward foreign exchange hedging contracts	-13,714	0
Interest paid	-147,455	-134,716
= Cash flow from financing activities	**-114,715**	**-290,210**
Effect of foreign exchange rate changes on cash and cash equivalents	1,052	3,645
= Change in cash and cash equivalents	**120,567**	**-210,524**
Cash and cash equivalents at the beginning of the year	252,884	463,408
Cash and cash equivalents at the end of the year	373,451	252,884

KION Holding 1 GmbH

Consolidated statement of changes in equity for the year ended 31 December 2011

Consolidated statement of changes in equity

€ thousand

	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehensive income (loss): Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on Cash Flow Hedges	Gains/losses from equity investments	Total equity attributable to shareholders	Non-controlling interests	Total
Balance as at 1/1/2010	**500**	**348,483**	**-516,199**	**-79,286**	**41,156**	**-24,841**	**0**	**-230,187**	**17,144**	**-213,043**
Net loss			-198,655					-198,655	1,957	-196,698
Other comprehensive income (loss)	–	–	–	37,261	-28,658	10,022	-125	18,500	-1	18,499
Comprehensive loss			-198,655	37,261	-28,658	10,022	-125	-180,155	1,956	-178,199
Dividends									-2,143	-2,143
Effects on the acquisition of non-controlling interests			-1,496					-1,496	-10,419	-11,915
Other Changes			4,846					4,846	532	5,378
Balance as at 31/12/2010	**500**	**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Balance as at 1/1/2011	**500**	**348,483**	**-711,504**	**-42,025**	**12,498**	**-14,819**	**-125**	**-406,992**	**7,070**	**-399,922**
Net loss			-95,093					-95,093	2,167	-92,926
Other comprehensive income (loss)	–	–	–	6,476	8,394	-8,149	532	7,253	–	7,253
Comprehensive loss			-95,093	6,476	8,394	-8,149	532	-87,840	2,167	-85,673
Dividends									-2,209	-2,209
Other changes			168					168	49	217
Balance as at 31/12/2011	**500**	**348,483**	**-806,429**	**-35,549**	**20,892**	**-22,968**	**407**	**-494,664**	**7,077**	**-487,587**

Notes to the consolidated financial statements of KION Holding 1 GmbH for the year ended 31 December 2011

Basis of presentation

[1] General information on the Company

KION Holding 1 GmbH, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, is the parent company of the KION Group in Germany. KION Holding 1 GmbH was formed with articles of association dated 24 October 2006, and entered in the commercial register at the Wiesbaden Local Court under reference HRB 22785 on 21 February 2007. The parent company of KION Holding 1 GmbH is Superlift Holding S.à r.l., Luxembourg.

The KION Group is a leading global supplier of industrial trucks (forklift trucks and warehouse trucks). It generated revenue of €4,368,395 thousand in the 2011 financial year from its Linde, Fenwick, STILL, OM, Baoli and Voltas brands (2010: €3,534,474 thousand).

The consolidated financial statements and the group management report were prepared by the Executive Board of KION Holding 1 GmbH on 15 March 2012.

[2] Basis of preparation

The consolidated financial statements of the KION Group for the financial year ended 31 December 2011 have been prepared in accordance with section 315a of the German Commercial Code (HGB) which requires the application of International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council concerning the application of international accounting standards. All of the IFRSs and IFRICs that were issued by the reporting date and that were required to be applied in the 2011 financial year have been applied in preparing the consolidated financial statements.

Financial reporting standards to be adopted for the first time in the financial year under review:

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 relating to the limited exemption from comparative IFRS 7 disclosures
- Revised version of IAS 24 'Related Party Disclosures'
- Amendments to IAS 32 'Financial Instruments: Presentation', classification of rights issues (rights, options and warrants)
- Amendments to IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', prepayment of minimum funding requirements
- 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 consolidated financial statements for the year ended 31 December 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 transfers of financial assets
- Amendments to IFRS 7 'Financial Instruments: Disclosures', offsetting of financial assets and financial liabilities
- IFRS 9 'Financial Instruments'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- Amendments to IAS 1 'Presentation of Financial Statements', amendments relating to the presentation of items of other comprehensive income
- Amendments to IAS 12 'Income Taxes', limited amendment to IAS 12 relating to the recovery of underlying assets
- Amendments to IAS 19 'Employee Benefits', elimination of the use of the 'corridor' approach and amendments relating to the presentation of items of pension expense
- IAS 27R 'Separate Financial Statements'
- IAS 28R 'Investments in Associates and Joint Ventures'
- Amendments to IAS 32 'Financial Instruments: Presentation', offsetting of financial assets and financial liabilities
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'

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.

The various amendments issued in May 2011 as part of the annual improvement project mainly relate to terminology and editorial aspects. They are not expected to have any significant effect on the presentation of the financial position and financial performance.

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 classified into current and non-current items. The 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) unless stated otherwise. The addition of the totals presented may result in rounding differences of +/- €1 thousand. The separate financial statements included in the consolidation were prepared on the same reporting date as the annual financial statements of KION Holding 1 GmbH.

[3] Principles of consolidation

Acquisitions are accounted for using the acquisition method. In accordance with IFRS 3R, the identifiable assets acquired and the liabilities assumed on the acquisition date are recognised separately from goodwill, irrespective of the extent of any non-controlling interests. The identifiable assets acquired and the liabilities assumed are measured at their fair value.

The amount recognised as goodwill is calculated as the amount by which the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and the fair value of all previously held equity interest at the acquisition date exceeds the fair value of the group's interest in the acquiree's net assets. If the cost of acquisition is lower than the fair value of the acquiree's net assets, the difference is recognised in income.

For each acquisition, the group decides on a case-by-case basis whether the non-controlling interest in the acquiree is recognised at fair value or as a proportion of the net assets of the acquiree. The option to recognise non-controlling interests at fair value is not currently exercised. Consequently, non-controlling interests are recognised at the proportionate share of the fair value of the net assets attributable to them excluding goodwill.

For acquisitions achieved in stages, previously held equity interests are recognised at their fair value on the date they were acquired. The difference between their carrying amount and fair value is recognised in the consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to cash-generating units.

Transaction costs are immediately recognised in the income statement. Contingent consideration elements are included at fair value at the date of acquisition when determining the purchase consideration. Contingent consideration elements may consist of equity instruments or financial liabilities. Depending on the classification, changes in their fair value are reflected in subsequent measurements.

The consolidated financial statements include all of the parent company's subsidiaries. Intragroup balances, transactions, income and expenses, and gains and losses on intercompany transactions are eliminated in full. Deferred taxes are recognised on temporary differences resulting from consolidation entries.

Transactions with non-controlling interests are treated as transactions with the Group's equity providers. Differences between the consideration paid for the acquisition of a non-controlling interest and the relevant proportion of the carrying amount of the subsidiary's net assets are recognised in other comprehensive income. Gains and losses arising from the sale of non-controlling interests are also recognised in other comprehensive income, provided there is no change in control.

Associates and joint ventures that are material to the financial position and financial performance of the KION Group are accounted for using the equity method.

[4] Basis of consolidation

KION Holding 1 GmbH's equity investments include subsidiaries, joint ventures, associates and financial investments.

In addition to KION Holding 1 GmbH, the consolidated financial statements of the KION Group include all material subsidiaries in which KION Holding 1 GmbH holds a majority of the voting rights, either directly or indirectly, or in which it exercises control i.e. has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Subsidiaries acquired in the course of the financial year are consolidated from the date at which control is transferred, i.e. the date from which it is possible to determine their financial and operating policies such that benefit is obtained. Companies sold in the course of the financial year are deconsolidated from the date on which control is lost.

A joint venture is an equity interest in which the entity is jointly managed by companies in the KION Group and one or more partners. Joint control differs from significant influence insofar as it is governed by a contractual agreement.

Associates are entities in which companies in the KION Group are able to exercise significant influence, either directly or indirectly, over the financial and operating policies of the entity concerned. Significant influence is assumed when KION Holding 1 GmbH holds between 20 per cent and 50 per cent of the voting rights.

All other equity interests over which KION Holding 1 GmbH is unable to exercise control or significant influence, or that are not jointly controlled by KION Holding 1 GmbH are classified as financial investments and are not consolidated.

The following table shows the number of equity investments broken down by category:

Shareholdings by categories

	1/1/2011	Addtions	Disposals	31/12/2011
Full consolidated subsidiaries	**88**	**6**	**1**	**93**
Domestic	16	1	–	17
Foreign	72	5	1	76
Equity investments in Joint Ventures and Associates	**12**	**–**	**1**	**11**
Domestic	7	–	–	7
Foreign	5	–	1	4
Subsidiaries and financial investments recorded at cost	**68**	**12**	**10**	**70**
Domestic	15	2	1	16
Foreign	53	10	9	54

A total of 17 German and 76 foreign subsidiaries were fully consolidated in addition to KION Holding 1 GmbH as at 31 December 2011. KION Finance S.A., Luxembourg, has been included in the KION Group's consolidated financial statements for the first time since April 2011 as required by IAS 27 in conjunction with SIC-12 ('Consolidation - special-purpose entities'). In addition, Eisenwerk Weilbach GmbH, Wiesbaden, Germany, has been included in the consolidation for the first time since December 2011 because it had become more financially significant.

IBERCARRETILLAS, S.A., El Prat de Llobregat, Spain, was deconsolidated in April 2011 when it merged with STILL, S.A., Barcelona, Spain.

Eleven joint ventures and associates were accounted for under the equity method as at 31 December 2011 (31 December 2010: twelve). In each case, valuation was based on the lastest available annual financial statements.

70 (2010: 68) subsidiaries with minimal business volume or no business operations were not included in the consolidation. The unconsolidated subsidiaries and the associates not accounted for using the equity method are not material to the financial position and financial performance of the KION Group, both individually and in the aggregate.

Due to certain circumstances, the following fully consolidated companies are exempt from the requirement to prepare annual financial statements and management reports in accordance with sections 264 (3) and 264b HGB on account of their inclusion in the consolidated financial statements:

German entities exempted from disclosure requirements

Entities exempted	Head office
KION Holding 2 GmbH	Wiesbaden
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg

A detailed overview of all the direct and indirect shareholdings of KION Holding 1 GmbH is presented in the list of shareholdings in the annex to these notes.

[5] Acquisitions

Voltas Material Handling Private Limited

In April 2011, the KION Group and Voltas Limited, Mumbai, India, together established a company to develop, manufacture, sell and service forklift trucks and warehouse trucks. This company, which trades under the name of Voltas Material Handling Private Limited, Mumbai, India ('VMH'), acquired the forklift truck and warehouse technology business of Voltas Limited on 1 May 2011. KION Holding 1 GmbH indirectly holds 66 per cent of the share capital and voting rights in VMH via Linde Material Handling Asia Pacific Pte. Ltd., Singapore.

As a KION Group brand that manufactures in India, Voltas will focus most of its efforts on this market. Its product range includes warehouse trucks, diesel trucks and electric forklift trucks with load capacities of between 1.5 tonnes and 16 tonnes. VMH has a network of 25 branches and authorised dealers throughout India. Since becoming part of the KION Group, VMH has in eight months generated revenue of €22,027 thousand and earned net income of roughly €19 thousand. It is not possible to calculate the revenue and net income that would have been earned if VMH had been acquired at the beginning of the reporting period because no reliable IFRS figures are available for the period prior to April 2011.

A total of 131 Voltas Limited employees were taken on.

The incidental acquisition costs incurred by this business combination amounted to €780 thousand and have been recognised as an expense for the current period and reported as administrative expenses on the face of the consolidated income statement.

Owing to further contractual arrangements, the newly established company has been fully consolidated and, consequently, a liability of €8,920 thousand was recognised at the acquisition date. This estimated fair value also represents the upper limit for the purchase price. This purchase price obligation may decrease consistent with defined key figures. The table below shows the provisional impact of the acquisition of Voltas Limited's forklift truck and warehouse technology business on the consolidated financial statements of KION Holding 1 GmbH.

Impact of the acquisition of VMH on the financial position of the KION Group

€ thousand	Fair value at the acquisition date
Goodwill	14,700
Other intangible assets	5,102
Property, plant and equipment	974
Deferred taxes (net)	2,306
Inventories	4,312
Trade receivables	3,040
Other assets	32
Total assets	**30,465**
Provisions	1,199
Liabilities	4,205
Total liabilities	**5,404**
Total net assets	**25,061**
Consideration transferred	**25,061**
thereof: paid in cash	16,141

The gross amounts of the receivables acquired as part of this transaction, which largely constitute trade receivables, totalled €3,164 thousand. At the acquisition date it was estimated that €70 thousand of these trade receivables was irrecoverable. The goodwill arising from the acquisition of VMH is expected to be tax deductible.

Other acquisitions

The dealer Cailotto Carrelli S.p.A., Verona, Italy (100 per cent of the company's share capital and voting rights) was acquired on 4 April 2011.

In addition, by acquiring 100 per cent of the share capital and voting rights in Sterling Mechanical Handling Ltd., Heswall, United Kingdom, the remaining share capital and voting rights (51 per cent) in the dealer Linde Sterling Ltd., Basingstoke, United Kingdom, were acquired effective 15 June 2011.

The carrying amount of the equity investment in Linde Sterling Ltd. immediately prior to the acquisition date was €3,238 thousand. As a result of the remeasurement of the equity investment (49 per cent) on the date of acquisition, €4,102 thousand was recognised in the income statement and reported as profit from equity investments.

Furthermore, the newly established company OOO "Linde Material Handling Rus", Moscow, Russian Federation, acquired the business of the dealer Liftec in Russia on 2 December 2011. The consideration paid included trade receivables in the amount of €5,039 thousand that were offset, a cash payment of €4,903 thousand and contingent consideration with a fair value of €2,879 thousand. This estimated fair value at the acquisition date also represents the upper limit for the purchase price. The contingent consideration may be reduced in line with defined revenue targets for 2012 and 2013 and is payable in 2014 if targets are met.

The incidental acquisition costs incurred by these business combinations total €1,720 thousand and have been recognised as an expense for the current period and reported as administrative expenses in the consolidated income statement.

The table below shows the overall impact of these acquisitions on the consolidated financial statements of KION Holding 1 GmbH based on the provisional figures available at the respective acquisition date.

Impact of the other acquisitions on the financial position of the KION Group

€ thousand	Fair value at the acquisition date
Goodwill	16,710
Other intangible assets	8,556
Property, plant and equipment	15,704
Deferred taxes (net)	290
Inventories	5,967
Trade receivables	8,079
Cash and cash equivalents	23
Other assets	1,702
Total assets	**57,030**
Provisions	1,449
Liabilities	25,360
Deferred taxes (net)	525
Total liabilities	**27,334**
Total net assets	**29,696**
Consideration transferred	**29,696**
thereof: paid in cash	16,798

Revenue increased by €35,720 thousand as a result of the remaining acquisitions. The net loss reported for 2011 contains a loss of approximately €70 thousand for the entities acquired. If these business combinations had been completed by 1 January 2011, this would have had no material impact on either the revenue or the net loss reported by the KION Group.

The purchase price allocations for the acquisitions described above were only provisional as at 31 December 2011 because some details had not yet been fully evaluated. Goodwill represents the strategic, technological and geographical synergies that the KION Group is able to derive from the business combinations. None of the goodwill arising from the other acquisitions is currently tax deductible.

[6] Currency translation

The financial statements in foreign currencies are translated in accordance with the functional currency concept (IAS 21 'The Effects of Changes in Foreign Exchange Rates'). The functional currency is the currency of the primary economic environment in which a company operates. The closing-rate method is used for currency translation.

The assets and liabilities of foreign subsidiaries, including goodwill, are translated at the middle spot exchange rate, i.e. at the average of the bid or offer rates on the reporting date. Income and expenses are translated at the average rate for the year. With the exception of income and expenses recognised as other comprehensive income (loss), equity is recognised at historical rates. The resulting translation differences are not recorded in income but are recognised in other comprehensive income (loss) until subsidiaries are disposed of.

Transactions of the consolidated companies in foreign currencies are translated into the relevant company's functional currency at the rate prevailing on the transaction date. On the reporting date, monetary items are translated at the closing rate, and non-monetary items are translated at the rate prevailing on the transaction date. Currency translation differences are recorded in income and included in other income/expenses.
The following translation rates were used for currencies that are material to the financial statements:

Major foreign currency rates in €

	Average rate		Closing rate	
	2011	2010	2011	2010
Australian dollar (AUD)	1.3480	1.4440	1.2683	1.3075
Brazilian real (BRL)	2.3273	2.3348	2.4142	2.2203
Chinese yuan (CNY)	9.0018	8.9863	8.1551	8.8173
Pound sterling (GBP)	0.8680	0.8584	0.8343	0.8575
Polish zloty (PLN)	4.1210	3.9941	4.4675	3.9666
Swiss franc (CHF)	1.2327	1.3815	1.2154	1.2496
Czech koruna (CZK)	24.5807	25.2775	25.5990	25.0415
Hungarian forint (HUF)	279.3808	275.3971	315.5400	278.3900
US dollar (USD)	1.3929	1.3275	1.2957	1.3380

[7] Accounting policies

The consolidated financial statements are prepared based on the financial statements of the parent and the consolidated subsidiaries, which are prepared in accordance with uniform KION Group accounting policies.

Revenue recognition

Revenue is the fair value received for the sale of products and services and lease income (excluding VAT) after deduction of trade discounts and rebates. In accordance with IAS 18, revenue is recognised when it is sufficiently probable that a future economic benefit will flow to the company and that benefit can be reliably measured. Additional criteria also apply, depending on each individual transaction, such as:

<u>Sale of goods</u>
With the exception of items classified as 'sale with risk', revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the goods are accepted by the customer and the flow of benefits to the Group is considered to be probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Appropriate provisions are recognised for risks relating to the sale of goods. In the case of revenue from agreements classified as 'sale with risk', the revenue is deferred over the term of the agreement if the risks and rewards remain substantially with the KION Group. The term 'sale with risk' is discussed in the following section and under 'Leases' below.

<u>Rendering of services</u>
Revenue from services is recognised in the year in which the services are rendered. For services provided over several periods, revenue is recognised in accordance with the proportion of the total services rendered in each period (stage of completion). Unrealised revenue from long-term service agreements is therefore deferred over the average term of the agreements concerned and recognised in line with progressive cost trends.

Revenue from financial service transactions is recognised in the amount of the sales value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. As part of the financial services business, industrial trucks are also sold to finance partners who then enter into leases directly with the end customer (sale with risk). If significant risks and rewards remain with the KION Group as a result of an agreed residual value guarantee that accounts for more than 10 per cent of the asset's value or as a result of an agreed default guarantee, the proceeds from the sale are deferred and recognised as revenue on a straight-line basis over the term until the residual value guarantee or the default guarantee expires.

<u>Interest income and royalties</u>
Interest income is recognised proportionately in accordance with the effective interest method. Income from royalties is deferred in accordance with the substance of the relevant agreements and recognised pro rata.

Information on the deferral of lease income is contained in the disclosures on the accounting treatment of leases.

Cost of sales

The cost of sales comprises the cost of goods and services sold and includes directly attributable material and labour costs as well as directly attributable overhead, including depreciation of production equipment and amortisation of certain intangible assets, as well as write-downs of inventories. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Government grants

Government grants are recognised at fair value provided that the Group has satisfied the necessary conditions for receiving the grant. Grants not related to capital expenditures are recognised in the income statement, under other income, in the period in which the expense intended to be covered by the grant is incurred. Grants for capital expenditures are deducted from the cost of the asset concerned and result in a corresponding reduction in depreciation over the subsequent periods.

Financial income and expenses

Net financial income mainly consists of interest expense on financial liabilities, interest income from financial receivables, gains and losses on financial instruments recognised through profit or loss, exchange rate gains and losses on financial activities and the interest expense on pension provisions. The expected return on plan assets relating to pension provisions is also included in financial income.

Interest income and expense are recognised in profit and loss in accordance with the effective interest method. The effective interest method is used for calculating the amortised cost of a financial asset or financial liability and the allocation of interest income and interest expense over the relevant periods. The effective interest rate is the interest rate at which the estimated future payments (including all fees that are part of the effective interest rate, transaction costs and other premiums and discounts) are discounted to the net carrying amount of the financial asset or liability over the expected term of the financial instrument.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the income statement under other financial income/expenses.

Goodwill

Goodwill has an indefinite useful life and is not amortised. Instead, it is tested for impairment in accordance with IAS 36 ('Impairment of Assets') at least once a year, and more frequently if there are indications that the asset might be impaired.

Impairment testing is performed at the level of the individual cash-generating units (CGUs) or groups of CGUs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. CGUs are generally based on the lowest level of an entity at which – for internal management purposes – the management systematically monitors and controls the contribution to earnings made by the assets concerned, including goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'. In particular, CGUs are considered to be clearly defined and independent if the entity's management has prepared independent forecasts relevant to decision-making for the individual CGUs.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the LMH, STILL and Other segments on the basis of their characteristics and risk profile.

The relevant CGUs for the purpose of goodwill impairment testing are the LMH and STILL segments and the VMH CGU, which is assigned to the Other segment, as the structure of the internal reporting and management system, including the decision-relevant forecasts by the KION Group, is based on these CGUs.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows used in the calculation are the operating cash flows taken from financial forecasts approved by KION's management and also used for internal management purposes. The cash flows forecast for the next five years are included in the calculation for the impairment test in accordance with IAS 36.33 (b). The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. The budget for 2012, the medium-term planning for 2013 to 2014 and the market forecasts for 2015 to 2016 were used to determine the cash flows. Cash flows beyond the five-year planning horizon were extrapolated for the LMH and STILL CGUs using a growth rate of 1 per cent (2010: 1 per cent). A growth rate of 2 per cent for VMH was used for determining cash flows into perpetuity to reflect forecasted trends for the high-growth market of India.

CGU cash flows are discounted using a weighted average cost of capital (WACC) that reflects current market assessments of the specific risks to individual CGUs. The underlying capital structure for the LMH and STILL CGUs is determined by comparing peer group companies in the same sector. The beta factor derived from the peer group was 1.03 (2010: 1.09). Yield curve data from the European Central Bank as at 31 December 2011 was used to determine a risk-free interest rate; this interest rate was 3.40 per cent (2010: 3.45 per cent). The market risk premium taken from empirical studies of the capital markets by the Institute of Public Auditors in Germany (IDW) was set at 5.5 per cent, which was unchanged in 2010 and reflects the increased uncertainty currently to be observed in the capital markets. A country risk premium was not taken into consideration for the LMH and STILL CGUs because the KION Group mainly operates in the European market. The risk-adjusted cost of borrowing before tax was based on an interest rate of 5.3 per cent (2010: 5.5 per cent). A leverage ratio of 25.4 per cent (2010: 32.2 per cent) was calculated based on the capital structure determined for the peer group.

The pre-tax interest rate determined on the basis of these parameters and used to discount the estimated cash flows was 10.5 per cent for LMH and 10.4 per cent for STILL (7.7 per cent after tax for both LMH and STILL). The interest rates determined in 2010 for LMH and STILL were 10.3 per cent before tax and 7.6 per cent after tax. A country-specific discount rate was determined for the VMH CGU of 14.6 per cent before tax and 11.0 per cent after tax.

Goodwill as at 31 December 2011 had been allocated as follows: €971,873 thousand to the LMH CGU (31 December 2010: €954,802 thousand), €552,208 thousand to the STILL CGU (31 December 2010: €552,208 thousand) and €13,915 thousand to the VMH CGU. The impairment test carried out as of 31 December 2011 did not reveal any need to recognise impairment losses for the existing goodwill of the LMH, STILL and VMH CGUs. Sensitivity analysis has enabled us to determine that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at cost less all cumulative amortisation and all cumulative impairment losses. If events or market developments suggest impairment has occurred, impairment tests are carried out on the carrying amount of items classified as other intangible assets with a finite useful life. The carrying amount of an asset is compared with its recoverable amount, which is defined as the higher of its value in use and its fair value net of costs to sell. If the reasons for recognising impairment losses in the past no longer apply, impairment losses not exceeding the amortised cost of the assets are reversed.

Other intangible assets with an indefinite useful life are carried at cost and are mainly capitalised brand names. As of 31 December 2011, the brand names had been allocated as follows: €477,182 thousand to the LMH CGU (31 December 2010: €468,400 thousand) and €115,700 thousand to the STILL CGU (31 December 2010: €115,700 thousand). Brand names are not amortised provided they have been established in the market for a number of years and there is no foreseeable end to their useful life. In accordance with IAS 36, they are tested for impairment at least once a year or whenever there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill. Assessments of indefinite useful life are carried out in each year.

The brand name obtained from the acquisition of VMH amounted to €1,497 thousand as of 31 December 2011 and is reported in the Other segment. The VMH brand name has a limited useful life of five years and is therefore not subject to IAS 36.

Development costs are capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the extent to which the intangible asset is expected to generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Capitalised development costs include all costs and overhead directly attributable to the development process. Once they have been initially capitalised, these costs and internally generated intangible assets – particularly internally generated software – are carried at cost less cumulative amortisation and cumulative impairment losses. Internally generated intangible assets are not qualifying assets so finance costs are not capitalised. All non-qualifying research and development costs are expensed as incurred and reported on the income statement under research and development costs together with the amortisation on capitalised development costs.

The following useful lives are applied in determining the carrying amounts of other intangible assets:

Useful life of other intangible assets

	Years
Customer relationships/client base	10
Technology	10
Development costs	5-7
Patents and licences	3-15
Software	3-8

Leases

As part of the financial services business, companies in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, leases are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased asset are transferred to the lessee. All other leases are classified as operating leases, again in accordance with IAS 17.

Sales leases

KION Group companies lease equipment, mainly various industrial trucks, to their customers in order to promote sales. The leases may be of a short-term or long-term nature.

For long-term leases, industrial trucks are generally sold to leasing companies. The assets are then either leased back by KION Group companies and sub-leased to customers (described below as 'sale and leaseback sub-leases') or the leasing company itself enters into the lease with the customer (described below as 'sales with risk'). Long-term leases generally have a term of four to five years.

Short-term leases are entered into directly with customers, with economic ownership of the leased assets remaining with the KION Group companies. The assets are reported as leased assets as a separate item on the face of the statement of financial position. Short-term leases usually have a term of one day to one year.

If a KION Group company enters into a finance lease as the lessor, the future lease payments to be paid by the lessee are recognised as lease receivables at an amount equal to the net investment in the lease. Interest income is allocated to each reporting period in order to ensure a constant return on the outstanding net investment in the lease.

If the economic ownership of leased assets remains with a KION Group company as the lessor under an operating lease, the assets are reported as leased assets in a separate item on the face of the statement of financial position. The leased assets are carried at cost and depreciated in accordance with the accounting policies for property, plant and equipment. Lease-related income is recognised on a straight-line basis over the terms of the lease.

If the risks and rewards incidental to sale and leaseback sub-leases are substantially borne by KION Group companies, the corresponding assets are reported as non-current leased assets and are depreciated over the term of the underlying leases. If substantially all of the risks and rewards are transferred to the end customer, a corresponding lease receivable is recognised. Long-term customer leases are funded for terms that match those of the leases; funding items are recognised as lease liabilities.

As part of the financial services provided by the Group, industrial trucks are also sold to finance partners who then enter into leases directly with end customers.

If KION Group entities provide material residual value guarantees or a customer default guarantee, these transactions, which are classified as sale agreements under civil law, are recognised in accordance with the provisions on lessors with operating leases in conjunction with the IFRS principles for revenue recognition ('sale with risk'). Accordingly, the vehicles are recognised as assets in the statement of financial position at their cost on the date of the sale and depreciated to their guaranteed residual value, or zero, over the term of the lease between the finance partner and end customer. If the KION Group provides a residual value guarantee, a lease liability equivalent to the residual value obligation is recognised.

Procurement leases

In addition to entering into leases for sales purposes, KION Group companies also lease buildings, machinery, office furniture and operating equipment for their own use, primarily using operating leases. The corresponding lease payments are recognised in the income statement on a straight-line basis over the term of the lease.

KION Group companies also lease assets for their own use using finance leases. In this case, the lesser of the fair value of the leased asset or the present value of future lease payments is recognised at the inception of the lease under leased assets. A corresponding liability to the lessor is recognised as a lease liability in the statement of financial position.
Leased assets are depreciated over the shorter of their useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the leased assets are depreciated and the lease liabilities are reversed over the useful life of the leased assets.

The difference between total lease liabilities and the fair value of leased assets represents the finance charge which is recognised in the income statement over the term of the leases at a constant rate of interest on the outstanding balance in each period.
At the end of the lease term, the leased assets are either returned or purchased, or the contract is extended.

Other property, plant and equipment

Property, plant and equipment are carried at cost less straight-line depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overhead. This includes production-related depreciation and proportionate costs for administration and social insurance / employee benefits.

The cost of property, plant and equipment is reduced by the amount of any government grants received. Expenses for maintenance and repairs are recognised in income to the extent that they are not required to be capitalised. Borrowing costs are capitalised for certain items of property, plant and equipment whose acquisition or production exceeds one year and the definition of a qualifying asset is met. As was the case in the previous year, there were no qualifying assets in 2011.

Depreciation of property, plant and equipment is recognised on a straight-line basis and reported in functional costs. The useful lives and depreciation methods are reviewed annually and adjusted to reflect changes in conditions.

The following useful lives are applied in determining the carrying amounts of items of property, plant and equipment:

Useful life of other property, plant and equipment

	Years
Buildings	10-25
Plant and machinery	6-15
Office furniture and equipment	3-15

If there are certain indications of impairment, property, plant and equipment assets are tested for impairment by comparing the residual carrying amount of the assets with their recoverable amount, which is defined as the higher of value in use and fair value less costs to sell. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for the asset.

The KION Group calculates the recoverable amount primarily on the basis of value in use. In determining value in use, the expected future cash flows are discounted using a risk-adjusted discount rate, taking into account the current and future level of earnings and segment-specific, technological, economic and general trends.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer applies, impairment losses not exceeding the amortised cost of the asset concerned are reversed. This does not apply to goodwill.

Equity investments

In accordance with the equity method, associates and joint ventures are measured as the proportion of the interest in the equity of the investee. They are initially carried at cost. In subsequent periods, the KION Group's interest in the profit or loss generated after acquisition is recognised in income. Other changes in the equity of associates and joint ventures are recognised in other comprehensive income (loss) in the consolidated financial statements in proportion to the Group's interest in the associate or joint venture.

If the Group's interest in the losses made by an associate or joint venture exceeds the carrying amount of the proportionate equity attributable to the Group, no additional losses are recognised. Any goodwill arising from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associate or joint venture. When an associate or joint venture is sold, the Group's interest in its goodwill is taken into account in determining the gain or loss on disposal.

If there is evidence that an associate or joint venture may be impaired, the carrying amount of the investment in question is tested for impairment.

Other financial assets

The investments in non-consolidated affiliated companies and (long-term) equity investments that are reported in other non-current financial assets are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted measurement techniques. At present there is no intention to sell these financial instruments. At each reporting date, financial assets or groups of financial assets are tested for impairment. Impairment losses are recognised in income as appropriate.

Primary financial assets are initially recognised and derecognised in the financial statements on their settlement dates.

Under IAS 39 ('Financial Instruments: Recognition and Measurement'), securities allocated to current or non-current financial assets are classified according to those carried at fair value through profit and loss (FAHfT), available for sale (AfS) and held to maturity (HtM).

The KION Group did not designate any securities as carried at fair value through profit and loss (FAHfT) in the reporting year. The FAHfT category therefore only includes financial derivatives that do not form part of a formally documented hedge.

Available-for-sale financial instruments (AfS) are carried at fair value. Equity investments for which no market price is available, are recorded at cost. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised.

Carrying amounts are tested for impairment on every reporting date and whenever indications of impairment arise. If there is an objective indication of impairment (such as a borrower being in significant financial difficulties), an impairment loss must be recognised directly in the income statement.

If objective facts in favour of reversing impairment losses are present on the reporting date, reversals are recognised in an appropriate amount. Reversals may not exceed the amortised cost that would have been recorded if the impairment loss had not been recognised. In the case of debt instruments, reversals of impairment losses are recognised in the income statement.

Held-to-maturity financial assets are carried at amortised cost less impairment losses in accordance with the effective interest method.

Income taxes

In the consolidated financial statements, current and deferred taxes are recognised on the basis of the tax laws of the jurisdictions involved. Deferred taxes are recognised in other comprehensive income (loss) if they relate to transactions also recognised in other comprehensive income (loss).

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the IFRS carrying amounts and the tax base, as well as for temporary consolidation measures.

Deferred tax assets also include tax refund claims that arise from the expected utilisation of existing tax loss carryforwards and interest carryforwards in subsequent years and whose utilisation is reasonably certain according to current forecasts. On the basis of this estimate, deferred tax assets were recognised on certain interest carryforwards for the first time in 2010.

Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned. In accordance with the provisions in IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are offset against deferred tax liabilities to the extent that they have the same maturity and relate to the same taxation authority.

Inventories

Inventories are carried at the lower of cost and net realisable value.

The acquisition costs of raw materials and merchandise are calculated on the basis of an average.

The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overhead and production-related depreciation directly attributable to the production process. Administrative costs and social insurance / employee benefits are included to the extent that they are attributable to the production process. Borrowing costs as defined by IAS 23 are not a component of cost as inventories are not qualifying assets as defined by IAS 23.4. The amount recognised is an average value or a value determined in accordance with the FIFO method.

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated costs necessary to make the sale.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability, etc. Write-downs are reversed up to a maximum of cost if the reasons for their recognition no longer apply.

Receivables

In the first period they are recognised, receivables and other assets are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Derivative financial instruments

Derivative financial instruments comprise currency forwards and interest-rate swaps and are used for hedging purposes to mitigate exchange-rate and interest-rate risks.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial instruments are measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. Changes in the fair value of derivative financial instruments in a formally documented hedge are reported in the income statement (for fair value hedges) or in other comprehensive income (loss) (for cash flow hedges).

The KION Group currently only uses cash flow hedges for exchange-rate and interest-rate risks.

In the case of cash flow hedges, derivatives are employed to hedge future cash flow risks from existing underlying transactions or planned transactions. The effective portion of changes in the fair value of derivatives is initially recognised in other comprehensive income (loss), and is subsequently reclassified to the income statement when the revenue from the corresponding underlying transaction is realised. The ineffective portion of the changes in fair value is recognised immediately in net financial income/expenses.

If the criteria for hedge accounting are not satisfied, changes in the fair value of derivative financial instruments are recognised in the income statement.

In the case of hedges of net investments in foreign subsidiaries, the translation risks resulting from investments with a different functional currency are hedged. Unrealised gains and losses on hedging instruments are reported in other comprehensive income (loss) until the company is sold. In the past financial year, KION Group companies have not entered into any hedges for net investments in foreign subsidiaries.

Further information on risk management and accounting for derivative financial instruments can be found under note [33].

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the plan assets used to cover the Group's benefit obligations. Plan assets are measured at fair value.

Actuarial gains and losses, including deferred taxes, are recognised in other comprehensive income (loss). The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the expected return on plan assets are reported in net financial income/expenses. Further details can be found in note [26].

Other provisions

Other provisions are recognised when the Group has a legal or constructive obligation to a third party as the result of a past event that is probable to lead to a future outflow of resources and that can be reliably estimated. A provision is recognised in the amount of the mean of the range of probabilities. Measurement includes indirect and direct costs.

Provisions for identifiable risks and contingent liabilities are recognised in the amount that represents the best estimate of the cost required to settle the obligations existing on the reporting date. Recourse claims are not taken into account. The settlement amount also includes estimated future cost increases as of the reporting date. Provisions with a maturity of more than twelve months are discounted using the standard market interest rate. The discount rate is a before-tax rate that reflects current market expectations for the time value of money and the specific risks inherent in the liability. Accrued interest is recognised in interest expense.

Warranty provisions are recognised on the basis of past or estimated future claim statistics. Individual provisions are recognised for claims that are known to the Group. The corresponding expense is recognised in cost of sales at the date on which the revenue is recognised.

Provisions for expected losses from onerous contracts and other business obligations are measured on the basis of the work yet to be performed.

A restructuring provision is recognised when a KION Group company has prepared a detailed, formal restructuring plan and this plan has raised a valid expectation in those affected that the company will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring and not associated with the ongoing activities of the company concerned.

Shareholder loan, financial liabilities, other financial liabilities, trade payables

These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted for all financial liabilities that are not subsequently designated as at fair value through profit or loss.

The shareholder loan, non-current financial liabilities and other financial liabilities are then carried at amortised cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

Assumptions and estimates

The preparation of the IFRS consolidated financial statements requires the use of assumptions and estimates for certain line items that affect recognition and measurement in the statement of financial position and the income statement. The actual amounts recognised may differ from these estimates. Estimates are applied in particular when:

- in assessing the need for and the amount of impairment losses on intangible assets, property, plant and equipment and inventories;
- in determining the useful life of non-current assets;
- in classifying leases;
- recognising and measuring defined benefit pension obligations, provisions for tax and other provisions; and
- in assessing the recoverability of deferred tax assets.

Goodwill is tested for impairment annually at the level of the cash-generating unit to which goodwill is allocated, by considering the Group's three-year planning combined with the growth forecasts for 2015 to 2016 and assuming division-specific growth rates for the period thereafter. Any material changes to these factors might result in the recognition of impairment losses. Further information on goodwill can be found in note [16].

Information on leases can be found in the sections on sales leases and procurement leases in this note.

Defined benefit pension obligations are calculated on the basis of actuarial parameters. As differences due to actuarial gains and losses are recorded in other comprehensive income (loss), any change in these parameters would not affect the net profit for the current period. For further details about sensitivity analysis of the impact of certain assumptions, please refer to the information about provisions in note [26].

Significant estimates are involved in calculating provisions for tax. These estimates may change on the basis of new information and experience. Where necessary, the KION Group's accounting departments receive assistance from external legal advisers and tax consultants when making the estimates required.

The recognition and measurement of other provisions is based on an estimate of the probability of the future outflow of resources, supplemented by past experience and the circumstances known to the Group at the reporting date. Accordingly, the actual outflow of resources for a given event may be different from the amount recognised in other provisions. Further details can be found in note [29].

Deferred tax assets on tax loss carryforwards and interest carryforwards are recognised on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carryforwards can be utilised. The actual amount of taxable income in future periods, and hence the actual utilisation of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognised.

Changes are recognised in profit or loss when they become known and assumptions are adjusted accordingly.

Notes to the consolidated income statement

[8] Revenue

The revenue earned by the KION Group in the year under review broken down by product category is as follows:

Revenue by product category		
€ thousand	2011	2010
New business	2,364,235	1,775,628
Hydraulics	172,662	119,901
Service offering	1,831,498	1,638,945
- After sales	1,065,731	970,668
- Rental business	441,152	402,361
- Used trucks	218,982	187,246
- Other	105,633	78,670
Total revenue	**4,368,395**	**3,534,474**

Further information on revenue can be found in note [36] Segment report.

[9] Other income

The breakdown of other income is as follows:

Other income		
€ thousand	2011	2010
Foreign currency exchange rate gains	22,600	18,554
Remeasurement of purchase price obligations	11,971	0
Profit from release of deferred lease profits	6,886	6,952
Income from reversal of provisions	6,638	5,038
Rental income	2,155	2,231
Gains on disposal of non-current assets	1,381	1,077
Gains from revaluation of non-current assets	0	1,546
Sundry income	29,872	24,187
Total other income	**81,503**	**59,585**

The foreign currency exchange rate gains and losses result from the measurement of financial receivables and liabilities denominated in foreign currency and the measurement of the related derivatives. The year-over-year increase in foreign currency exchange rate gains and losses (see also note [10] Other expenses) is primarily attributable to more volatile exchange rates compared with 2010.

The remeasurement of purchase price obligations relates to shares held for two UK dealers. The gains on the remeasurement of purchase price obligations result from the significantly improved market environment and the resulting increase in the value of the shareholdings.

[10] Other expenses

The breakdown of other expenses is as follows:

Other expenses

€ thousand	2011	2010
Impairment of non-current assets	27,032	8,522
Foreign currency exchange rate losses	19,467	16,949
Losses on disposal of property, plant and equipment	7,963	5,966
Sundry other expenses	15,581	14,442
Total other expenses	**70,043**	**45,879**

The impairment recognised on non-current assets in the reporting year comprised impairment losses of €10,261 thousand on intangible assets (2010: €8,464 thousand) and impairment of €16,771 thousand on other property, plant and equipment (2010: €58 thousand). The loss was largely caused by the planned transfer of production.

Gains and losses on foreign currency exchange rate differences (gains are presented in Other income) include losses of €188 thousand on derivative financial instruments used to hedge exchange-rate risk resulting from our operations (2010: €3,947 thousand). These losses on derivatives are offset by gains on the currency translation of the corresponding underlying transactions.

[11] Share of profit (loss) of equity investments

The share of profit of equity investments amounted to €11,192 thousand in the reporting year (2010: €3,569 thousand). This amount includes income of €4,102 thousand from the remeasurement of an existing equity investment of 49 per cent held in Linde Sterling Ltd., Basingstoke, United Kingdom, for which a controlling influence was obtained following the acquisition of the remaining shares. Further details can be found in note [19].

[12] Financial income

Financial income is comprised of the following:

Financial income		
€ thousand	2011	2010
Interest income from leases	24,414	25,528
Foreign currency exchange rate gains (financing)	23,149	36,141
Return on pension plan assets	22,732	23,247
Other interest and similar income	3,369	3,433
Total financial income	**73,664**	**88,349**

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group companies operate as the lessor (finance leases).

The foreign currency exchange rate gains include gains on hedging transactions amounting to €22,883 thousand (2010: €36,048 thousand).

The return on pension plan assets item shows the expected return on plan assets used to fund pension obligations.

[13] Financial expense

The financial expense is comprised of the following:

Financial expense		
€ thousand	2011	2010
Interest expense from loans	135,737	167,347
Foreign currency exchange rate losses (financing)	52,264	53,877
Interest cost of defined benefit obligation	42,436	41,434
Interest cost of leases	37,738	35,951
Interest cost of shareholder loan	27,882	27,882
Interest expense from corporate bond	25,395	–
Amortisation of finance costs	11,359	8,333
Interest cost of non-current financial liabilities	2,574	3,263
Other interest expense and similar charges	10,324	16,318
Total financial expense	**345,709**	**354,405**

Interest expense include interest cost of €117,273 thousand arising from variable-rate loan liabilities under the senior facilities agreement (2010: €129,260 thousand) and losses of €18,464 thousand on interest-rate swaps (2010: €38,087 thousand).

The foreign currency exchange rate losses include a loss of €19,022 thousand on the translation of a foreign-currency loan denominated in US dollars (2010: €38,219 thousand) and losses of €31,843 thousand on derivative financial instruments (2010: €15,641 thousand).

The interest cost of the defined benefit obligation is the annual interest expense in connection with the change in the non-current pension obligations.

The interest cost of leases relates to the interest portion of lease payments in financial services transactions in which risks and rewards are borne by KION Group companies as the lessee (finance leases). Sale-finance lease-back-operating sub-leases (SALB-FL-OL) incurred interest expense of €19,587 thousand (2010: €16,615 thousand). This interest expense was not directly offset by any interest income. The interest income is a component of the lease payments reported within revenue.

[14] Income taxes

The income tax expense of €34,041 thousand (2010: income of €34,722 thousand) consisted of €49,349 thousand (2010: €14,997 thousand) in current tax expense and €15,308 thousand (2010: €49,719 thousand) in deferred tax income. The current tax expense includes expenses of €2,602 thousand (2010: income of €11,868 thousand) relating to previous financial years.

At the reporting date there were income tax assets of €4,953 thousand receivable from tax authorities (2010: €4,550 thousand) and income tax liabilities of €15,439 thousand (2010: €6,661 thousand).

Deferred taxes are recognised for temporary differences between the tax base and IFRS carrying amounts. Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent. Taking into account the average trade tax rate of 13.9 per cent and the solidarity surcharge (5.5 per cent of corporate income tax), the combined tax rate for companies in Germany was unchanged on 2010 at 29.8 per cent. The income tax rates for foreign companies used in the calculation of deferred taxes are between 10.0 per cent and 38.5 per cent (2010: 10.0 per cent and 37.8 per cent).

No deferred taxes have been recognised on differences of €100,146 thousand between the IFRS carrying amounts and the tax base for equity investments (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to dispose of investments in the foreseeable future.

Deferred tax assets include the following items in the statement of financial position:

Deferred tax assets

€ thousand	2011	2010
Intangible assets and property, plant and equipment	86,789	65,130
Financial assets	1	705
Current assets	34,697	26,485
Deferred charges and prepaid expenses	6,065	2,922
Provisions	101,669	88,501
Liabilities	200,678	163,136
Deferred income	46,386	47,953
Tax loss carryforwards and interest carryforwards	70,230	95,341
Offsetting	-284,552	-248,401
Total deferred tax assets	**261,963**	**241,772**

Deferred tax liabilities include the following items in the statement of financial position:

Deferred tax liabilities

€ thousand	2011	2010
Intangible assets and property, plant and equipment	456,138	444,580
Financial assets	3,139	3,097
Current assets	113,340	97,701
Deferred charges and prepaid expenses	8,588	15
Provisions	29,838	28,837
Liabilities	9,749	8,003
Deferred income	2,814	1,098
Offsetting	-284,552	-248,401
Total deferred tax liabilities	**339,054**	**334,930**

The deferred tax liabilities essentially relate to the purchase price allocation in the acquisition of the KION Group, particularly for intangible assets and property, plant and equipment.

Deferred tax assets amounting to €211,398 thousand (2010: €161,119 thousand) have not been recognised because it is unlikely that the corresponding benefit can be utilised. Unrecognised deferred tax assets relate to tax loss carryforwards of €91,636 thousand (2010: €74,263 thousand), interest carryforwards of €116,060 thousand (2010: €81,844 thousand) and other temporary differences of €3,702 thousand (2010: €5,012 thousand).

Deferred taxes are recognised on tax loss carryforwards and interest carryforwards to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. Of the deferred tax assets amounting to €9,198 thousand recognised on interest carryforwards for the first time in 2010, €2,243 thousand was written down in 2011 because, based on the information available at the reporting date, a lower amount was expected to be used in future. The total amount of unrecognised deferred tax assets relating to loss carryforwards of €91,636 thousand (2010: €74,263 thousand) concerns tax losses that can be carried forward indefinitely.

As of 31 December 2011, the KION Group's tax loss carryforwards in Germany amounted to €381,941 thousand (31 December 2010: €400,286 thousand) for corporate income tax and €263,525 thousand (31 December 2010: €288,910 thousand) for trade tax. There were also foreign tax loss carryforwards totalling €187,438 thousand (31 December 2010: €183,353 thousand).

As of 31 December 2011, the interest carryforwards in Germany that can be carried forward indefinitely amounted to €464,939 thousand (31 December 2010: €342,252 thousand).

The table below shows the reconciliation of expected income tax expense to effective income tax expense. The Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates, taking into account consolidation effects recognised in income. The expected tax rate applied in the reconciliation is unchanged on 2010 at 29.8 per cent.

Income taxes

€ thousand	2011	2010
Earnings before taxes	**-58,885**	**-231,420**
Anticipated income taxes	17,548	68,894
Deviations due to the trade tax base	-3,087	-2,026
Deviations from the anticipated tax rate	13,560	3,289
Change in valuation allowance on deferred taxes	-9,765	-1,999
Losses for which deferred taxes have not been recognised	-17,372	-11,108
Change in tax rates and tax legislation	-1,404	-311
Interest carryforwards without the recognition of deferred taxes	-31,786	-34,073
Non-deductible expenses	-8,556	-14,608
Tax-exempt income	1,903	34
Tax relating to other periods	-2,602	11,868
Deferred taxes prior periods	5,001	16,055
Other	2,519	-1,293
Effective income taxes (current and deferred taxes)	**-34,041**	**34,722**

[15] Other income statement disclosures

The cost of materials rose by €530,162 thousand in the reporting year to €2,244,069 thousand (2010: €1,713,907 thousand).

Personnel expenses increased by €95,516 thousand in 2011 to €1,063,726 thousand (2010: €968,210 thousand). Personnel expenses include wages and salaries of €833,585 thousand (2010: €755,923 thousand) as well as social security contributions and expenses for pensions and other benefits of €230,141 thousand (2010: €212,287 thousand). The accretion of interest cost related to the discount on estimated pension obligations is not recognised under personnel expenses but is instead reported under financial expense as a component of interest cost of the defined benefit obligation. The pension expenses of €29,741 thousand (2010: €25,774 thousand) is essentially comprised of the pension entitlements of €16,242 thousand vested in 2011 (2010: €14,315 thousand) and the unrecognised past service cost of €177 thousand (2010: €79 thousand).

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expense of intangible assets amounted to €356,021 thousand in the reporting year (2010: €347,117 thousand). Inventories were written down by €6,179 thousand (2010: €6,311 thousand).

The breakdown of lease payments expensed in the period and related to operating leases where KION Group companies are the lessee is as follows:

Lessee: Expenses recognised for operating lease payments

€ thousand	2011	2010
Procurement lease contracts	67,043	57,913
Sublease contracts	38,181	43,015
Total recognised expenses for lease payments	**105,224**	**100,928**

The expenses in connection with sub-leases relate to leases in which KION Group companies are both the lessor and lessee. These expenses were offset by income of €51,072 thousand in 2011 (2010: €52,806 thousand).

Notes to the consolidated statement of financial position

[16] Goodwill and other intangible assets

Goodwill is allocated to the segments as follows:

Goodwill broken down by segment

€ thousand	2011	2010
LMH	971,873	954,802
STILL	552,208	552,208
Other	13,915	–
Total goodwill	**1,537,996**	**1,507,010**

The change in goodwill resulted mainly from business combinations amounting to €31,535 thousand in 2011. The goodwill of €13,915 thousand arising from the acquisition of the forklift truck and warehouse technology business of Voltas Limited, Mumbai, India, has been allocated to the 'Other' segment.

Intangible assets

€ thousand	Goodwill	Brand names	Technology & development	Sundry intangible assets	Total
Balance as at 1/1/2010	**1,504,796**	**590,340**	**263,463**	**142,655**	**2,501,254**
Group changes	0	0	0	234	234
Currency translation adjustments	778	678	304	2,744	4,504
Additions	1,511	0	47,538	21,582	70,631
Disposals	-75	0	0	3	-72
Amortisation	0	0	-47,328	-27,360	-74,688
Impairment	0	0	-3,044	-5,420	-8,464
Reversal of impairment	0	0	0	21	21
Reclassification	0	0	261	-261	0
Balance as at 31/12/2010	**1,507,010**	**591,018**	**261,194**	**134,198**	**2,493,420**
Gross carrying amount as at 31/12/2010	1,507,010	591,018	406,879	214,386	2,719,293
Accumulated amortisation	0	0	-145,685	-80,188	-225,873
Balance as at 1/1/2011	**1,507,010**	**591,018**	**261,194**	**134,198**	**2,493,420**
Group changes	24,256	2,982	0	7,634	34,872
Currency translation adjustments	150	524	-14	225	885
Additions	6,580	99	53,363	16,755	76,797
Disposals	0	0	-1	-163	-164
Amortisation	0	-244	-52,544	-27,359	-80,147
Impairment	0	0	-10,236	-25	-10,261
Reclassification	0	0	-39	188	149
Balance as at 31/12/2011	**1,537,996**	**594,379**	**251,723**	**131,453**	**2,515,551**
Gross carrying amount as at 31/12/2011	1,537,996	594,609	449,864	236,275	2,818,744
Accumulated amortisation	0	-230	-198,141	-104,822	-303,193

The Group intends to retain and further strengthen the Linde, STILL, OM and KION brand names on a long-term basis. Brand names worth €473,782 thousand (31 December 2010: €471,918 thousand) are assigned to the LMH segment. The value of brand names allocated to the STILL segment was unchanged year over year at €114,000 thousand. These assets are not amortised as they have an indefinite useful life. A value of €1,830 thousand was attributed to the Voltas brand name in 2011 as part of the purchase price allocation. Unlike the other brand names, the Voltas brand is amortised over its useful life. Brand names worth €6,597 thousand (31 December 2010: €5,100 thousand) have been allocated to the 'Other' segment.

The total carrying amount for technology and development assets as of 31 December 2011 was €251,723 thousand (31 December 2010: €261,194 thousand). Development costs of €53,363 thousand were capitalised in the reporting year (31 December 2010: €47,538 thousand). Total research and development costs of €119,526 thousand (31 December 2010: €103,255 thousand) were expensed. Of this amount, €62,780 thousand (31 December 2010: €50,372 thousand) related to amortisation and impairment losses.

Impairment losses of €10,261 thousand were recognised on these assets in 2011 to reflect the lack of opportunities to use them in future as a result of the planned transfers of production. €10,236 thousand of this amount was attributable to technology and development assets. The impairment losses related to the STILL segment.

Other intangible assets relate primarily to the intangible assets identified through the purchase price allocation for the acquisition of the KION Group, such as the customer base.

The amortisation expense and impairment losses on intangible assets are reported under functional costs.

[17] Leased assets

The changes in leased assets in 2011 and 2010 were as follows:

Leased assets

€ thousand	2011	2010
Balance as at 1/1/	**501,164**	**536,224**
Group changes	10,690	0
Currency translation adjustments	-1,449	16,830
Additions	287,722	188,832
Disposals	-86,623	-65,140
Depreciation	-169,452	-176,558
Reclassification	-2,321	976
Balance as at 31/12/	**539,731**	**501,164**
Gross carrying amount as at 31/12/	1,436,849	1,443,182
Accumulated depreciation	-897,118	-942,018

The segment breakdown of leased assets is as follows:

Leased assets broken down by segment

€ thousand	LMH	STILL	Other	Total
Balance as at 1/1/2010	**312,271**	**220,035**	**3,918**	**536,224**
Currency translation adjustments	14,230	2,600	0	16,830
Additions	103,549	84,240	1,043	188,832
Disposals	-39,660	-25,480	0	-65,140
Depreciation	-103,939	-70,261	-2,358	-176,558
Reclassification	-157	1,133	0	976
Balance as at 31/12/2010	**286,294**	**212,267**	**2,603**	**501,164**
Gross carrying amount as at 31/12/2010	871,633	562,603	8,946	1,443,182
Accumulated depreciation	-585,339	-350,336	-6,343	-942,018
Balance as at 1/1/2011	**286,294**	**212,267**	**2,603**	**501,164**
Group changes	10,690	0	0	10,690
Currency translation adjustments	387	-1,836	0	-1,449
Additions	152,280	133,689	1,753	287,722
Disposals	-51,931	-34,371	-321	-86,623
Depreciation	-102,152	-65,802	-1,498	-169,452
Reclassification	199	-2,520	0	-2,321
Balance as at 31/12/2011	**295,767**	**241,427**	**2,537**	**539,731**
Gross carrying amount as at 31/12/2011	841,619	586,699	8,532	1,436,850
Accumulated depreciation	-545,852	-345,272	-5,995	-897,119

The breakdown of leased assets by contract type is shown in the following table:

Leased assets broken down by contract types

	Operating leases as lessor		Sale with risk		Finance leases as lessee		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Land and buildings	–	–	–	–	6,798	12,426	6,798	12,426
Industrial trucks	455,075	386,971	66,464	86,322	33	25	521,572	473,318
Plant and machinery	–	–	–	–	301	2,671	301	2,671
Office furniture and equipment	2,261	3,375	237	641	8,562	8,733	11,060	12,749
Total leased assets	**457,336**	**390,346**	**66,701**	**86,963**	**15,694**	**23,855**	**539,731**	**501,164**

Assets held under operating leases include leased assets with a residual value of €333,153 thousand (31 December 2010: €274,877 thousand) that are funded by means of sale and leaseback transactions with leasing companies and leased assets with a residual value of €124,183 thousand (31 December 2010: €115,469 thousand) that are largely funded internally or by means of bank loans.

Total operating leases resulted in non-cancellable lease obligations from customers amounting to €162,140 thousand (31 December 2010: €129,946 thousand).

The following table shows the maturity structure of the minimum lease payments:

Minimum lease payments

€ thousand	2011	2010
Cash receipts from minimum lease payments	**162,140**	**129,946**
due within one year	66,613	53,965
due in one to five years	94,768	75,510
due in more than five years	759	471

The buildings, plant and machinery, and office furniture and equipment leased under finance leases are reported in leased assets with a residual value of €15,694 thousand (31 December 2010: €23,855 thousand). The corresponding liabilities are reported as lease liabilities.

[18] Other property, plant and equipment

The changes in the carrying amounts of other property, plant and equipment were as follows:

Other property, plant and equipment				
€ thousand	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
Balance as at 1/1/2010	**348,277**	**233,000**	**9,227**	**590,504**
Group changes	0	1,019	0	1,019
Exchange rate adjustments	9,353	3,176	212	12,741
Additions	7,892	34,045	10,835	52,772
Disposals	-57	-816	-2,813	-3,686
Depreciation	-16,193	-71,156	0	-87,349
Impairment	0	-58	0	-58
Reversal of impairment	203	1,322	0	1,525
Reclassification	4,709	431	-6,116	-976
Balance as at 31/12/2010	**354,184**	**200,963**	**11,345**	**566,492**
Gross carrying amount as at 31/12/2010	619,066	923,997	11,345	1,554,408
Accumulated depreciation	-264,882	-723,034	0	-987,916
Balance as at 1/1/2011	**354,184**	**200,963**	**11,345**	**566,492**
Group changes	4,404	1,061	779	6,244
Exchange rate adjustments	3,722	1,198	-291	4,629
Additions	4,148	46,132	13,627	63,907
Disposals	-6,595	-1,957	-609	-9,161
Depreciation	-15,908	-63,482	0	-79,390
Impairment	-8,796	-7,975	0	-16,771
Reclassification	3,280	3,666	-4,775	2,171
Balance as at 31/12/2011	**338,439**	**179,606**	**20,076**	**538,121**
Gross carrying amount as at 31/12/2011	625,996	983,898	20,076	1,629,970
Accumulated depreciation	-287,557	-804,292	0	-1,091,849

Land and buildings in the amount of €12,168 thousand (31 December 2010: €12,293 thousand) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

The KION Group recognised impairment losses of €16,771 thousand in accordance with IAS 36 in 2011, predominantly in connection with the planned transfers of production. Of this amount, €8,796 thousand related to land and buildings, and €7,975 thousand to plant and machinery as well as office furniture and equipment. The impairment losses related to the STILL segment.

[19] Equity investments

As of 31 December 2011, the Group reported equity investments with a total carrying amount of €36,545 thousand (31 December 2010: €37,841 thousand). These associates and joint ventures can be seen in the list of shareholdings in the annex to these notes. Their key figures are as follows:

Equity investments

€ thousand	2011	2010
Associates (100 percent)		
Revenue	540,068	562,596
Net income	10,960	9,214
Assets	576,103	611,561
Liabilities	494,021	529,526
Joint ventures (100 percent)		
Revenue	107,874	77,086
Net income	5,612	1,321
Assets	51,546	46,410
non-current assets	25,115	28,070
current assets	26,431	18,340
Liabilities	26,223	26,419
non-current liabilities	2,699	2,053
current liabilities	23,524	24,366

The figures presented in the table are based on a 100 per cent investment.

[20] Lease receivables

For leases where KION Group companies lease assets directly to customers as part of the Group's financing activities, the Group's net investment in the lease is reported as a lease receivable.

The amounts recognised as lease receivables are based on the following data:

Lease receivables

€ thousand	2011	2010
Gross investments	**399,726**	**411,116**
due within one year	135,897	140,737
due in one to five years	254,724	260,835
due in more than five years	9,105	9,544
Present value of outstanding minimum lease payments	**361,221**	**367,758**
due within one year	118,381	120,950
due in one to five years	234,043	237,571
due in more than five years	8,797	9,237
Unrealised financial income	**38,505**	**43,358**

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €326,930 thousand (31 December 2010: €336,585 thousand).

Lease receivables include the unguaranteed residual values accruing to the benefit of the KION Group in the amount of €38,714 thousand (31 December 2010: €39,640 thousand).

Lease receivables also include receivables in the amount of €1,684 thousand (31 December 2010: €3,013 thousand) that have been sold but whose significant risks and rewards remain with the KION Group due to default and residual-value guarantees. Corresponding liabilities in the same amounts have been recognised.

[21] Other financial assets

Other financial assets of €132,828 thousand (31 December 2010: €124,264 thousand) comprise the following:

Other financial assets

€ thousand	2011	2010
Pension assets	19,958	10,263
Investments in affiliated companies	1,956	2,224
Other investments	2,253	2,253
Loans receivable	795	1,907
Non-current securities	770	827
Other non-current financial assets	**25,732**	**17,474**
Derivative financial instruments	23,277	23,706
Financial receivables from affiliated companies and related companies	4,277	7,459
Financial receivables from third parties	1,074	658
Deferred charges and prepaid expenses	14,030	16,647
Sundry financial assets	64,438	58,320
Other current financial assets	**107,096**	**106,790**
Total other financial assets	**132,828**	**124,264**

Pension assets relate to asset surpluses from defined benefit plans. As at the reporting date, the present values of defined benefit obligations are netted against the fair value of plan assets. If the plan assets exceed the obligation, this results in an asset.

The sundry financial assets essentially include receivables from value added tax amounting to €21,782 thousand (2001: €20,864 thousand).

Other financial assets include non-derivative financial receivables amounting to €36,237 thousand (31 December 2010: €35,416 thousand) that fall within the scope of IFRS 7.

[22] Inventories

The reported inventories are categorised as follows:

Inventories		
€ thousand	2011	2010
Materials and supplies	150,949	120,019
Work in progress	98,387	72,294
Finished goods and merchandise	370,714	337,249
Advances paid	5,319	5,967
Total inventories	**625,369**	**535,529**

The increase in inventories compared with 2010 largely results from the higher volume of business in 2011.

The KION Group recognised impairment losses of €6,179 thousand in 2011, predominantly in connection with the planned transfers of production. The impairment losses related to the STILL segment.

[23] Trade receivables

The trade receivables consist of the following:

Trade receivables		
€ thousand	2011	2010
Receivables from third parties	651,560	601,214
thereof receivables from third parties before valuation allowances	701,125	648,339
thereof valuation allowances for overdue receivables > 90 days ≤ 180 days	-9,242	-9,213
thereof valuation allowances for overdue receivables > 180 days	-27,988	-28,836
thereof other valuation allowances for receivables	-12,335	-9,076
Trade receivables from affiliated companies	3,150	4,011
Trade receivables from investments in associated companies and joint ventures	21,843	28,040
Total trade receivables	**676,553**	**633,265**

Valuation allowances of €49,565 thousand (31 December 2010: €47,125 thousand) were recognised for trade receivables.

[24] Cash and cash equivalents

Cash and cash equivalents		
€ thousand	2011	2010
Cash held by banks, on hand and cheque	372,957	252,572
Pledged cash	494	–
Current securities	–	312
Total cash and cash equivalents	**373,451**	**252,884**

The change in cash and cash equivalents is shown in the consolidated statement of cash flows. For more detailed information, please also refer to note [32].

[25] Equity

Subscribed capital and capital reserve

As at the reporting date, the Company's subscribed capital was fully contributed and amounted to €500 thousand and was unchanged from prior year. Also, as in the previous year, capital reserve amounted to €348,483 thousand as at the reporting date. The capital reserve resulted from a capital contribution by a shareholder.

Retained earnings

The development of retained earnings is shown in the consolidated statement of changes in equity. The retained earnings comprise the net loss for the financial year and past contributions to earnings by the consolidated companies, provided they have not been distributed.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the currency translation differences arising from the translation of the financial statements of foreign subsidiaries, the effects of the fair value measurement of derivative financial instruments designated in cash flow hedge relationships, the company´s proportionate share of other comprehensive income adjustments related to equity investments, and the actuarial gains and losses in connection with defined benefit pension obligations.

Non-controlling interests

Non-controlling interests in companies in the KION Group amounted to €7,077 thousand (31 December 2010: €7,070 thousand).

[26] Retirement benefit obligation

The retirement benefit obligation is recognised for obligations to provide current and future post-employment benefits. Post-employment benefit plans are classified as either defined benefit plans or defined contribution plans, depending on the substance of the plan as derived from its principal terms and conditions.

Defined contribution plans

In the case of defined-contribution pension plans, the Group pays contributions to government or private pension insurance providers based on statutory or contractual provisions, or on a voluntary basis. The Group does not enter into any obligations above and beyond the payment of contributions to an external pension fund. The amount of future benefits is based solely on the amount of the contributions paid by the employer (and in some cases the beneficiaries themselves) to the external pension fund, including income from the investment of these contributions. The total expense arising from defined contribution plans amounted to €56,118 thousand in 2011 (2010: €48,867 thousand). Of this total, contributions paid by employers into government-run plans amounted to €53,337 thousand (2010: €46,480 thousand). The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

The KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees. These pensions consist of fixed benefit entitlements and are therefore reported as defined benefit plans in accordance with IFRS. For all of the significant defined benefit plans within the Group, the benefits granted to employees are determined on the basis of their individual income, i.e. either directly or by way of intermediate benefit arrangements.

In accordance with IAS 19 ('Employee Benefits'), pension provisions are recognised to cover obligations arising from the current and future pension entitlements of active and former employees of the KION Group and their surviving dependants.

Some of KION Group's pension obligations in Germany are financed by way of contractual trust arrangements (CTAs), which qualify as plan assets within the meaning of IAS 19. In the United Kingdom, Switzerland and the Netherlands, significant plan assets are invested in external pension funds with restricted access.

In the case of defined benefit plans, the beneficiaries are granted a specific benefit by the Group or an external pension fund. Due to future salary increases, the benefit entitlement at the retirement age of the beneficiary is likely to be higher than the amount granted at the reporting date. Pensions are often adjusted after an employee reaches retirement age. The amount of the Group's obligation, which is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary, is expressed as the present value of the defined benefit obligation, which includes adjustments for future salary and pension increases.

Measurement assumptions

The discount rate used to calculate the defined benefit obligation at each reporting date is determined on the basis of current capital market data and long-term assumptions about future salary and pension increases in accordance with the best estimate principle. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations.

Benefit obligations are calculated on the basis of current mortality probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service and about the probability of retirement. The defined benefit obligation is calculated on the basis of the following weighted-average assumptions as at the reporting date:

Assumptions underlying provisions for pensions and other postemployment benefits

	Germany		UK		Other	
	2011	2010	2011	2010	2011	2010
Discount rate	5.65%	5.45%	4.85%	5.45%	4.01%	4.15%
Expected return on plan assets	5.71%	5.54%	4.43%	5.21%	4.51%	4.26%
Rate of remuneration increase	2.75%	2.75%	4.18%	4.17%	2.31%	2.28%
Rate of pension increase	1.75%	1.75%	3.18%	3.65%	0.38%	0.76%

The assumed discount rate is determined on the basis of the yield as at the reporting date on investment-grade, fixed-interest corporate bonds with maturities that match the expected maturities of the pension obligations. Pension obligations in foreign companies are calculated on a comparable basis taking into account any country-specific requirements.

The expected return on plan assets is determined on the basis of the plan's policy regarding the asset classes in which it invests. Expected returns are based on the current yields on government bonds with corresponding maturities, adjusted for specific credit spreads for the different asset classes. The expected return on plan assets is recognised as income in the relevant period. The differences between expected and actual income on plan assets represent experience adjustments and are recognised in other comprehensive income in the year in which they arise.

The rate of remuneration increase relates to expected future increases in salaries, which are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The mortality rates used in the calculation are based on published country-specific statistics and empirical values. Since 31 December 2009, the modified Heubeck 2005 G mortality tables have been used in Germany as the basis; the modified tables include a somewhat higher life expectancy for males than the unmodified tables.

The actuarial assumptions not listed in the table above, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts of the companies concerned.

The assumptions applied in calculating the defined benefit obligation as at 31 December 2010 also apply to the calculation of the interest cost and the current service cost in 2011.

Differences between the forecast and actual change in the defined benefit obligation and changes in related assets (actuarial gains and losses) are recognised immediately in other comprehensive income in accordance with IAS 19. This serves to ensure that the pension liability on the face of the statement of financial position is always the actuarial present value of obligations not funded by plan assets.

In the case of external pension funds, the actuarial present value of the pension obligations, as calculated in accordance with the projected unit credit method, is reduced by the fair value of the assets of the external pension funds. If the assets of the external pension funds exceed the pension obligations, a corresponding asset is recognised in accordance with IAS 19. IAS 19.58 in conjunction with supplementary explanatory guidance in IFRIC 14 states that the recognition of an asset for this excess of pension plan assets over pension obligations is only permitted if the company concerned is entitled to receive a refund of this excess or a reduction in future contributions in its function as the employer responsible for the benefits under the plan. If pension obligations are not covered by the assets of an external pension fund, the net obligation is reported in pension provisions.

Plan assets for the defined benefit plans in the UK exceed the pension obligations. The requirements which limit the asset to be recognised on the statement of financial position do not apply.

Statement of financial position

The change in the present value of the defined benefit obligation is as follows:

Changes in defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Present value of defined benefit as at January 1	**381,913**	**331,745**	**362,716**	**328,057**	**75,681**	**62,977**	**820,310**	**722,779**
Group changes	–	1,890	–	–	284	–	284	1,890
Exchange differences	–	–	10,769	11,005	973	5,135	11,742	16,140
Current service cost	11,894	10,411	1,245	1,514	3,103	2,390	16,242	14,315
Interest cost	20,526	19,733	19,132	18,801	2,778	2,900	42,436	41,434
Employee contributions	–	–	135	174	781	708	916	882
Actuarial gains (-) and losses (+)	-14,150	28,081	12,665	22,471	103	4,617	-1,382	55,169
Acquisitions/Divestments			–	–	–	–	–	–
Pension benefits paid by the Company	-10,697	-9,947	–	–	-1,946	-1,693	-12,643	-11,640
Pension benefits paid from plan assets	–	–	-16,312	-19,306	-1,584	-2,361	-17,896	-21,667
Liability transfer out to third parties	-215	–	–	–	–	–	-215	–
Past service cost (+) and income (-)	–	–	46	–	–	1,442	46	1,442
Gains (-) / losses (+) on the curtailment of a plan	–	–	–	–	-811	-434	-811	-434
Present value of defined benefit as at December 31	**389,271**	**381,913**	**390,396**	**362,716**	**79,362**	**75,681**	**859,029**	**820,310**
thereof unfunded	177,739	173,889	–	–	22,148	22,245	199,887	196,134
thereof funded	211,532	208,024	390,396	362,716	57,214	53,436	659,142	624,176

The reduction in the present value of defined benefit obligations arising from actuarial gains relate to the year-over-year increase in the discount rates applicable to pension plans in Germany (€14,150 thousand) and is almost totally offset by the increase in the present value of defined benefit obligations arising from actuarial losses relating to the year-over-year decrease in the discount rates applicable to pension plans in the United Kingdom (€12,665 thousand).

The effects of the restructuring programme on the defined benefit obligation are reported in the relevant financial year as gains on the curtailment of a plan in accordance with IAS 19.

The following table shows the change in the fair value of plan assets:

Changes in plan assets

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Fair value of plan assets as at 1 January	**34,956**	**25,322**	**369,270**	**336,095**	**50,907**	**40,093**	**455,133**	**401,510**
Exchange differences	–	–	11,309	11,272	842	4,759	12,151	16,031
Expected return on plan assets	1,936	1,443	18,736	19,868	2,060	1,936	22,732	23,247
Actuarial gains (+) and losses (-)	1,325	-809	17,364	14,766	-4,975	3,393	13,714	17,350
Employer contributions	–	9,000	5,902	6,401	2,278	2,379	8,180	17,780
Employee contributions	–	–	135	174	781	708	916	882
Pension benefits paid by funds	–	–	-16,312	-19,306	-1,584	-2,361	-17,896	-21,667
Fair value of plan assets as at 31 December	**38,217**	**34,956**	**406,404**	**369,270**	**50,309**	**50,907**	**494,930**	**455,133**

In 2010, employer contributions included a non-recurring payment of €9,000 thousand into a German CTA. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. For companies outside Germany, decisions also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

The payments expected for the following year amount to €21,845 thousand (2011: €20,571 thousand), which include expected employer contributions of €8,831 thousand to plan assets (2011: €8,156 thousand) and expected direct payments of pension benefits amounting to €13,014 thousand (2011: €12,415 thousand) that are not covered by corresponding reimbursements from plan assets.

The reconciliation of funded status and net defined benefit obligation to the amounts reported on the face of the consolidated statement of financial position as at 31 December is shown in the following table:

Funded status and net defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Present value of the partially or fully funded defined benefit obligation	211,532	208,024	390,396	362,716	57,214	53,436	659,142	624,176
Fair value of plan assets	38,217	34,956	406,404	369,270	50,309	50,907	494,930	455,133
Surplus (-) / deficit (+)	**173,315**	**173,068**	**-16,008**	**-6,554**	**6,905**	**2,529**	**164,212**	**169,043**
Present value of the unfunded defined benefit obligation	177,739	173,889	–	–	22,148	22,245	199,887	196,134
Surplus (-) / deficit (+) total	**351,054**	**346,957**	**-16,008**	**-6,554**	**29,053**	**24,774**	**364,099**	**365,177**
Unrecognised past service cost (+) and income (-)	–	–	–	–	-1,143	-1,377	-1,143	-1,377
Net defined benefit obligation as at 31 December	**351,054**	**346,957**	**-16,008**	**-6,554**	**27,910**	**23,397**	**362,956**	**363,800**
Reported as "retirement benefit obligation"	351,054	346,957	3,950	3,709	27,910	23,397	382,914	374,063
Reported as "Other non-current financial assets"	–	–	-19,958	-10,263	–	–	-19,958	-10,263

In addition, the KION pension plan for employees of the KION Group in Germany holds plan assets of €18,474 thousand (2010: €16,840 thousand) which are wholly offset by corresponding liabilities relating to the direct pension entitlement plan.

Statement of cash flows

In the case of obligations not covered by external assets, payments to beneficiaries are made directly by the Company and therefore have an impact on cash flows from operating activities. If the benefit obligations are backed by external assets, the payments are made from existing plan assets and have no effect on the Company's cash flow. Instead, any contributions made to the external pension fund by the Company result in net cash used for operating activities.

During the reporting year, pension benefits of €30,539 thousand (2010: €33,307 thousand) were paid in connection with the main pension entitlements in the Group, of which €12,643 thousand (2010: €11,640 thousand) was paid directly by the Company and €17,896 thousand (2010: €21,667 thousand) was paid from plan assets. Cash contributions to plan assets in 2011 amounted to €8,180 thousand (2010: €17,780 thousand). Furthermore, pension benefit payments totalling €215 thousand (2010: €0) were transferred to external pension funds.

Income statement

In accordance with IAS 19, actuarial computations are performed for benefit obligations in order to determine the amount to be expensed in each period in a systematic way. The expenses recognised in the income statement for pensions and similar obligations consist of a number of components that are calculated and disclosed separately.

The service cost is the new pension entitlement arising in the financial year and is recognised in the income statement. It is calculated as the actuarial present value of that proportion of the expected defined benefit obligation when the pension is paid attributable to the year under review on the basis of the maximum length of service achievable by each employee.

The interest cost (i.e. the expense arising from increase in the defined benefit obligation since the end of the previous year because the benefits are one period closer to settlement using the discount rate assumed for the year under review) is recognised in the income statement, as is the expected return on plan assets in the case of benefits covered by external plan assets.

An unrecognised past service cost arises if there is a change to the pension entitlement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2011 is as follows:

Cost of defined benefit obligation

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Current service cost	11,894	10,411	1,245	1,514	3,103	2,390	16,242	14,315
Interest cost	20,526	19,733	19,132	18,801	2,778	2,900	42,436	41,434
Expected return on plan assets	-1,936	-1,443	-18,736	-19,868	-2,060	-1,936	-22,732	-23,247
Past service cost (+) and income (-)	–	–	46	–	131	79	177	79
Gains (-) or losses (+) on the curtailment of a plan	–	–	–	–	-708	-434	-708	-434
Total cost of defined benefit obligation	**30,484**	**28,701**	**1,687**	**447**	**3,244**	**2,999**	**35,415**	**32,147**

Overall, the KION Group reported an expense of €19,704 thousand (2010: €18,187 thousand) under net financial income/expenses. This amount comprised the interest cost and the expected return on plan assets. All other components of pension expenses are recognised under functional costs.

The actual total return on plan assets in 2011 was €36,446 thousand (2010: €40,597 thousand).

Other comprehensive income (loss)

The breakdown of actuarial gains and losses on the defined benefit obligation recognised in the statement of comprehensive income in 2011 are as follows:

Accumulated other comprehensive income (loss)

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Accumulated other comprehensive income/loss as at 1 January	**65,983**	**94,873**	**-40,769**	**-31,985**	**-4,925**	**-3,137**	**20,289**	**59,751**
Gains (+) and losses (-) on the measurement of defined benefit obligation	14,150	-28,081	-12,665	-22,471	-103	-4,617	1,382	-55,169
Gains (+) and losses (-) on plan assets	1,325	-809	17,364	14,766	-4,975	3,393	13,714	17,350
Exchange differences	–	–	-944	-1,079	-157	-564	-1,101	-1,643
Accumulated other comprehensive income/loss as at 31 December	**81,458**	**65,983**	**-37,014**	**-40,769**	**-10,160**	**-4,925**	**34,284**	**20,289**
thereof actuarial gains and losses	81,458	65,983	-37,014	-40,769	-10,160	-6,830	34,284	18,384
thereof effect of reduction in future contributions (IFRIC 14)	–	–	–	–	–	1,904	–	1,904

Primarily experience adjustments to plan assets had increased other comprehensive income by a total of €8,394 thousand as at 31 December 2011 (after deferred taxes).

Additional disclosures

The plan assets of the main pension plans consist of the following components:

Fair value of plan assets

	Germany		UK		Other		Total	
€ thousand	2011	2010	2011	2010	2011	2010	2011	2010
Securities	6,862	6,123	73,583	78,395	7,187	7,020	87,632	91,538
Fixed-income securities	12,580	12,754	267,739	258,959	11,499	11,233	291,818	282,946
Real estate	2,859	2,552	331	282	3,593	3,510	6,783	6,344
Insurance policies	–	–	–	–	26,353	27,506	26,353	27,506
Other	15,916	13,527	64,751	31,634	1,677	1,638	82,344	46,799
Total plan assets	**38,217**	**34,956**	**406,404**	**369,270**	**50,309**	**50,907**	**494,930**	**455,133**

The plan assets do not include any real estate or other assets used by the KION Group itself. The increase in the Other category is largely attributable to the change in the portfolio structure of the four large plans in the United Kingdom and concerns inflation-linked UK government bonds.

The expected return in 2012 for the main investment categories of plan assets are as follows:

Expected return on plan assets

	Germany		UK		Other	
	2012	2011	2012	2011	2012	2011
Securities	7.35%	7.45%	5.77%	6.73%	6.80%	7.10%
Fixed-income securities	3.74%	3.50%	4.31%	4.81%	2.40%	2.90%
Real estate	5.10%	5.20%	6.50%	6.50%	4.60%	4.60%
Insurance policies	–	–	–	–	4.69%	3.88%
Other	6.68%	6.68%	3.19%	4.17%	6.00%	6.40%
Weighted average expected return	**5.71%**	**5.54%**	**4.43%**	**5.21%**	**4.51%**	**4.26%**

The total expected return is calculated from the weighted average expected returns from the investment categories in the plan assets.

The present value of the defined benefit obligation is based on the assumptions detailed above. If the discount rate were to increase or decrease by a quarter of one percentage point (rising to 5.9 per cent or falling to 5.4 per cent in the case of Germany as at 31 December 2011), pension entitlements would be €35,632 thousand (2010: €32,312 thousand) lower or €35,747 thousand (2010: €34,559 thousand) higher, respectively. Other comprehensive income, after tax, would be €25,999 thousand (2010: €23,147 thousand) higher or €26,036 thousand (2010: €24,757 thousand) lower.

Five-year overview

The following table shows a five-year overview of experience adjustments arising from the differences between actuarial assumptions and actual circumstances:

History of experience adjustments

€ thousand	2011	2010	2009	2008	2007
Present value of defined benefit obligation as at 31 December	**859,029**	**820,310**	**722,779**	**629,198**	**750,713**
Experience adjustments arising on the plan liabilities	144	-76	4,858	39	4,747
Fair value of plan assets as at 31 December	**494,930**	**455,133**	**401,510**	**320,248**	**495,639**
Experience adjustments arising on the plan assets	13,714	17,350	51,763	-107,388	-4,641
Surplus (-) / deficit (+) in total	**364,099**	**365,177**	**321,269**	**308,950**	**255,074**
Unrecognised past service cost (+) and income (-)	-1,143	-1,377	40	–	–
Cumulative effect of the asset ceiling	–	–	–	–	3,258
Net defined benefit obligation as at 31 December	**362,956**	**363,800**	**321,309**	**308,950**	**258,332**

While the actuarial gains and losses on the present value of the obligation only result in part from experience adjustments, the actuarial gains or losses on the fair value of the plan assets are entirely attributable to experience adjustments.

[27] Financial liabilities and shareholder loan

The financial liabilities reported by the KION Group essentially comprise interest-bearing liabilities to banks and capital market liabilities in connection with the corporate bond that was issued. The liabilities to banks stem largely from a loan agreement. Interest is also payable on the shareholder loan, which is reported as a separate line item.

The table below shows the contractual maturity structure of the financial liabilities and the shareholder loan.

Maturity structure of financial liabilities and shareholder loan

€ thousand	2011	2010
Liabilities to banks	**2,509,889**	**2,871,887**
due within one year	223,979	103,282
due in one to five years	2,285,910	2,464,124
due in more than five years	0	304,481
Capital market liability	**487,508**	**0**
due within one year	0	0
due in one to five years	0	0
due in more than five years	487,508	0
Other financial liabilities	**7,333**	**7,000**
due within one year	3,397	3,188
due in one to five years	0	0
due in more than five years	3,936	3,812
Total current financial liabilities	**227,376**	**106,470**
Total non-current financial liabilities	**2,777,354**	**2,772,417**
Liabilities from shareholder loan	**643,132**	**615,250**
due within one year	0	0
due in one to five years	0	0
due in more than five years	643,132	615,250

Loan agreement

In connection with its acquisition of Linde AG's material-handling business the KION Group signed a loan agreement (a senior facilities agreement and a subordinated facility agreement, referred to below as 'SFA') for a total original amount of €3,300,000 thousand with the lead banks Barclays Bank Plc, Bayerische Hypo- und Vereinsbank AG, Credit Suisse (London branch), Goldman Sachs International Bank, Lehman Commercial Paper Inc. (UK branch) and Mizuho Corporate Bank Ltd. on 23 December 2006. The loans provided under the SFA carry variable interest rates. Transaction costs of €20,175 thousand reduced the carrying amount of the loans as at the reporting date. These costs have been allocated pro rata to each of the tranches and expensed over their respective terms.

The following material amendments were made to the SFA in subsequent years:

- Under amendments made to the SFA on 8 March 2007 the subordinated facility agreement was totally replaced by a senior facilities agreement and unused credit lines totalling €200,000 thousand were returned, thereby reducing the total amount of the SFA to €3,100,000 thousand.
- Under amendments made to the SFA on 23 September 2009 the financial covenants applicable during the term of the loan were modified. At the same time, an additional credit line of €100,000 thousand and an increase in the collateral security provided for this facility were agreed. Furthermore, the interest rates payable on existing credit lines were raised by between 0.25 and 1.50 percentage points. The amounts of these interest-rate increases primarily fall due in the form of bullet payments at maturity (payments in kind, or PIKs). All the interest payable on the new credit line of €100,000 thousand falls due in the form of a bullet payment at maturity. The company making this credit line available is Superlift Funding S.à r.l., Luxembourg, which is a related party to the KION Group.

Corporate bond

The KION Group issued a corporate bond for €500,000 thousand through the consolidated subsidiary KION Finance S.A., Luxembourg, in April 2011. Of the bond's total par value of €500,000 thousand, €325,000 thousand is repayable at a fixed interest rate of 7.875 per cent p.a., while €175,000 thousand carries a floating interest rate based on three-month EURIBOR plus a margin of 4.25 percentage points. The interest on the fixed-rate tranche is paid semi-annually, while interest on the floating-rate tranche is paid once a quarter. The bond's principal is redeemed as a bullet payment on maturity. Borrowing costs of €12,492 thousand reduced the carrying amount of the bond as at the reporting date. These costs have been allocated pro rata to each of the tranches and expensed over their respective terms. The corresponding liability is reported as a capital market liability.

Shareholder loan

KION Holding 1 GmbH and Superlift Holding S.à r.l., Luxembourg, signed an agreement on a shareholder loan for the amount of €500,000 thousand on 27 December 2006. The last maturity date for repayment of the loan was most recently (in April 2011) stipulated as 31 December 2021. The loan principal and the associated interest are both unsecured and are repayable on the due date. The interest rate was fixed at 5.5 per cent p.a. effective 1 September 2007 and is payable on the outstanding loan principal.

Changes in net financial debt

The KION Group uses its financial debt as a key internal figure for analysing the changes in its financial liabilities. Financial liabilities take into account the gross carrying amounts of the liabilities to banks and the capital market liability before borrowing costs. The key figure 'net financial debt' is calculated by deducting cash and cash equivalents.

The table below gives a breakdown of the KION Group's net financial debt as at 31 December 2011:

Net financial debt

€ thousand	2011	2010
Corporate bond - fixed rate (2011/2018) - gross	325,000	–
Corporate bond - floating rate (2011/2018) - gross	175,000	–
Liabilities to banks (gross)	2,530,064	2,893,713
Financial debt	**3,030,064**	**2,893,713**
./. Cash and cash equivalents	373,451	252,884
Net financial debt	**2,656,613**	**2,640,829**
./. Capitalized borrowing costs	32,667	21,826
Net financial debt after borrowing costs	**2,623,946**	**2,619,003**
Financial debt after borrowing costs	**2,997,397**	**2,871,887**

€483,000 thousand of the total corporate bond issue proceeds of €500,000 thousand was used to repay existing SFA liabilities. In addition, loans made available under a SFA credit line (the capex line) were reduced by an additional €54,018 thousand to €71,596 thousand in 2011 in accordance with the contractual repayment agreement. On 7 November 2011, the KION Group reacted to the uncertainty prevailing in financial and banking markets by drawing down €132,691 thousand under a revolving SFA credit line and holding it as cash.

The table below gives details of the changes in financial debt and lists the applicable terms and conditions:

Credit terms

	Interest rate	Notional amount		Maturity
		2011	2010	
Term Loan Facility Term B (EUR)	EURIBOR + MARGIN	690,881	911,162	2014
Term Loan Facility Term B (USD)	LIBOR + MARGIN	310,560	296,873	2014
Term Loan Facility Term C (EUR)	EURIBOR + MARGIN	663,033	869,985	2015
Term Loan Facility Term C (USD)	LIBOR + MARGIN	310,560	296,873	2015
Term Loan Facility Term D	EURIBOR + MARGIN	201,742	201,167	2016
Term Loan Facility Term G	EURIBOR + MARGIN	111,210	105,779	2016
Term Loan Facility H1a (Corporate bond - fixed rate)	Fixed rate	325,000	–	2018
Term Loan Facility H1b (Corporate bond - floating rate)	3-M-EURIBOR+MARGIN	175,000	–	2018
Multicurrency Revolving Credit Facility	EURIBOR + MARGIN	132,691	–	2013
Multicurrency Capex Restructuring and Acquisition Facility	EURIBOR + MARGIN	71,596	162,131	2013
Other liabilities to banks	Various currencies and interest terms	37,791	49,743	
Total financial debt		3,030,064	2,893,713	
./. Capitalized borrowing costs		-32,667	-21,826	
Total financial debt after borrowing costs		2,997,397	2,871,887	

Financial covenants

The SFA and the contractual terms and conditions governing the issuance of the corporate bond require compliance with certain requirements, or undertakings and certain covenants among other things. The SFA also requires compliance with specific financial covenants during the term of the agreement. The financial covenants specify required ratios for the financial position and financial performance of the KION Group. The covenants are expressed in the form of key figures relating to leverage, available liquidity, EBITDA, interest paid and capital expenditures. If these requirements or financial covenants are breached, this may, for example, give lenders the right to terminate the SFA or permit bondholders to call the corporate bond prior to its maturity date.

All the financial covenants were met in the past financial year.

Loan collateral

Under the SFA, the KION Group is under an obligation to provide collateral for its obligations and liabilities. This obligation also includes to the corporate bond (newly added SFA tranches H1a und H1b), under which the funds from the corporate bond accrued to the KION Group. By the reporting date a total of 26 (31 December 2010: 21) KION Group companies (guarantors) in five countries – Germany, the UK, France, Spain and Italy – had provided the necessary collateral. The year-over-year change in the companies participating in the SFAS was largely attributable to the fact that the financial services companies established in 2011 had become a party to the SFA.

The collateral includes guarantees, the assignment of shares in the guarantors (with the exception of shares in KION GROUP GmbH), the assignment of bank accounts and guarantor receivables, the assignment of claims arising from and in connection with the share purchase agreement between Linde Material Handling GmbH and Linde AG dated November 5, 2006, relating to the shares in the former KION GROUP GmbH, the assignment of shares in KION Information Management Services GmbH and assignments and transfers of title to intellectual property rights by guarantors in Germany. The statutory provisions in the United Kingdom and the agreements entered into require that all the assets of the UK guarantor are pledged as security.

The carrying amounts of the financial assets pledged as collateral amounted to €791,985 thousand as at the reporting date (31 December 2010: €709,051 thousand).

No liabilities to banks were secured by pledges of real property at the end of 2011 (31 December 2010: €125 thousand).

[28] Lease liabilities

Lease liabilities primarily relate to finance lease obligations of €669,035 thousand (31 December 2010: €617,547 thousand) arising from sale and leaseback transactions for funding leases with customers.

Lease liabilities also include obligations of €15,765 thousand (31 December 2010: €17,814 thousand) arising from residual-value guarantees that were provided when leased assets were sold to leasing companies.

The KION Group has recognised lease liabilities amounting to €16,712 thousand (31 December 2010: €26,288 thousand) arising from procurement leases, which are classified as finance leases due to their terms and conditions.

The amounts recognised as lease liabilities are based on the following data:

Minimum lease payments

€ thousand	2011	2010
Total minimum lease payments (gross)	**769,603**	**724,220**
due within one year	260,230	278,967
due in one to five years	490,680	427,041
due in more than five years	18,693	18,212
Present value of minimum lease payments	**701,512**	**661,649**
due within one year	230,381	250,552
due in one to five years	452,988	393,335
due in more than five years	18,143	17,762
Interest included in minimum lease payments	**68,091**	**62,571**

[29] Other provisions

Other provisions relate to the following items:

Other provisions

€ thousand	Provisions for product warranties	Provisions for personnel	Other obligations	**Total other provisions**
Balance as at 1/1/2011	**60,455**	**133,893**	**65,853**	**260,201**
thereof non-current	60,455	94,750	9,094	164,299
thereof current	0	39,143	56,759	95,902
Changes in group of consolidated entities	150	134	811	1,095
Additions	34,864	75,844	24,297	135,005
Utilisations	-18,964	-61,592	-23,405	-103,961
Reversals	-2,454	-2,816	-11,255	-16,525
Additions to accrued interest	136	2,630	39	2,805
Exchange differences	419	10	274	703
Other adjustments	343	0	180	523
Balance as at 31/12/2011	**74,949**	**148,103**	**56,794**	**279,846**
thereof non-current	69,729	16,935	9,504	96,168
thereof current	5,220	131,168	47,290	183,678

The provisions for product warranties include contractual and statutory obligations arising from the sale of industrial trucks and spare parts. It is expected that the bulk of the costs will be incurred within the next two years after the reporting date.

The provisions for personnel comprise provisions for partial retirement obligations, long-service awards, annual bonuses and severance pay. The provision for partial retirement obligations is recognised on the basis of individual contractual arrangements. The KION Group recognised restructuring provisions of €74,465 thousand in 2011, predominantly in connection with the planned transfers of production.

Other obligations largely comprise provisions for guarantees and litigation.

[30] Other financial liabilities

Other financial liabilities include the following items:

Other financial liabilities

€ thousand	2011	2010
Deferred income	118,455	124,948
Sundry other liabilities	14,264	2,922
Other non-current financial liabilities	**132,719**	**127,870**
Deferred income	86,551	81,274
Personnel liabilities	128,349	94,573
Derivative financial instruments	17,742	30,030
Social security liabilities	38,894	35,460
Tax liabilities	50,269	35,683
Advances received from third parties	41,981	40,682
Liabilities on bills of exchange	3,799	2,303
Liabilities from accrued interest	10,360	2,049
Sundry current financial liabilities	42,490	69,188
Other current financial liabilities	**420,435**	**391,242**
Total other financial liabilities	**553,154**	**519,112**

Other financial liabilities include non-derivative liabilities of €180,226 thousand (31 December 2010: €156,053 thousand) that fall within the scope of IFRS 7.

[31] Contingent liabilities and other financial obligations

Contingent liabilities

Contingent liabilities		
€ thousand	2011	2010
Liabilities on bills of exchange	3,516	2,303
Liabilities on guarantees	2,129	1,098
Collateral security for third-party liabilities	69	–
Total contingent liabilities	**5,714**	**3,401**

Litigation

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The Company is a party in a number of pending lawsuits in various countries. It cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the Company believes it is remote that these ongoing lawsuits will result in additional provisions.

Other financial commitments

Other financial commitments		
€ thousand	2011	2010
Liabilities under non-cancellable operating leases	205,394	208,874
Capital expenditure commitments in property, plant and equipment	6,109	5,660
Capital expenditure commitments in intangible assets	1,630	1,205
Other financial commitments	16,958	17,290
Total other financial commitments	**230,091**	**233,029**

The maturity structure of the total future minimum lease payments under non-cancellable operating leases is as follows:

Minimum lease payments		
€ thousand	2011	2010
Nominal minimum lease payments (gross)	**205,394**	**208,874**
due within one year	58,856	63,621
due in one to five years	104,634	96,175
due in more than five years	41,904	49,078

The minimum lease payments relate to payments for leased buildings, machinery, office furniture and equipment (procurement leases) as well as payments for industrial trucks refinanced with a sale and leaseback and sub-leased to end customers (sale and leaseback sub-leases).

Minimum lease payments broken down into procurement leases & sale-and-leaseback subleases

	Procurement leases		Sale-and-leaseback subleases	
€ thousand	2011	2010	2011	2010
Minimum lease payments (cash out)	**151,486**	**158,406**	**53,908**	**50,468**
due within one year	38,134	39,844	20,722	23,777
due in one to five years	71,452	69,484	33,182	26,691
due in more than five years	41,900	49,078	4	–
Minimum lease payments (cash in)	**–**	**–**	**11,257**	**16,795**
due within one year	–	–	5,813	8,358
due in one to five years	–	–	5,440	8,437
due in more than five years	–	–	4	–

The future minimum lease payments for sale and leaseback transactions not recognised on the statement of financial position amounting to €53,908 thousand are partially offset by payments received under non-cancellable sub-leases amounting to €11,257 thousand. The future payments also include obligations arising from the refinancing of industrial trucks for which there are no offsetting receipts under short-term sub-leases.

Other disclosures

[32] Consolidated statement of cash flows

The consolidated statement of cash flows shows the changes in cash in the KION Group resulting from cash inflows and outflows in the year under review, broken down into cash flow from operating, investing and financing activities. The effects on cash from changes in exchange rates are shown separately. Cash flow from operating activities is presented using the indirect method in which the profit or loss for the year is adjusted for non-cash operating items.

Cash flow from operating activities increased by 94 per cent to €386,810 thousand in 2011 (2010: €199,289 thousand). The underlying reason for this improvement was that earnings before interest and tax (EBIT) increased to €213,160 thousand in the reporting year (2010: €34,636 thousand).

The net cash used for investing activities in the KION Group increased by 24 per cent to €152,580 thousand in 2011 (2010: €123,248 thousand). Cash payments for capital expenditures on non-current assets and property, plant and equipment came to a total of €133,005 thousand (2010: €123,462 thousand). The net cash used for acquisitions totalled €32,916 thousand (2010: €7,638 thousand) and essentially related to the acquisition of the forklift truck and warehouse technology business of Voltas Limited, Mumbai, India (€16,141 thousand), the purchase of the remaining shares (51 per cent) in Linde Sterling Ltd., Basingstoke, United Kingdom (€9,795 thousand), the investment in Liftec's business in Russia (€4,903 thousand) and a smaller acquisition in Italy. The proceeds from the disposal of assets primarily related to disposals of assets no longer required for the Group's operating activities.

The net cash used for financing activities amounted to €114,715 thousand (2010: €290,210 thousand). Whereas the main factors affecting this cash flow in 2010 were the net repayment of loans (€95,705 thousand) and the repayment of other funding by individual Group companies (€42,133 thousand), the net outflow of cash in 2011 was largely attributable to the net inflows resulting from the issuance of a corporate bond (inflow of €500,000 thousand), the funds drawn down under a revolving SFA credit line (inflow of €132,691 thousand) and the repayment of SFA liabilities (outflow of €537,018 thousand). Interest payments increased by €12,739 thousand to €147,455 thousand as a result of higher interest arising from financial liabilities and capital market liabilities. In 2011, there were also payments of €13,714 thousand for currency hedges (2010: €0).

The KION Group acquired an additional 5.34 per cent of the shares in KION Baoli (Jiangsu) Forklift Co. Ltd., China, for a total of €1,461 thousand in 2011. The cash used for this transaction is reported in cash flow from financing activities as required by IAS 7.

Cash and cash equivalents increased by a total of €120,567 thousand, €1,052 thousand of which was attributable to exchange-rate movements for the year ended 31 December 2011. This sharp increase stemmed largely from the funds drawn down under the revolving SFA credit line. Cash and cash equivalents totalled at €373,451 thousand as at the reporting date.

[33] Information on financial instruments

The KION Group uses both primary and derivative financial instruments.

The following section summarises the relevance of these financial instruments for the KION Group.

The following table shows the measurement categories defined by IAS 39. In line with IFRS 7, the table shows the carrying amounts and fair values of financial assets and liabilities:

Carrying amounts broken down by class and category

Classes	Carrying amount	Categories						Fair value
		FAHfT	AfS	LaR	HtM	FLaC	FLHfT	
€ thousand	2011							
Financial assets								
Loans receivable	795			795				795
Financial receivables	5,351			5,351				5,351
Available-for-sale investments	768		768					768
Lease receivables*	361,221							362,319
Trade receivables	676,553			676,553				676,553
Other receivables	59,514							59,514
thereof non-derivative receivables	36,237			36,237				36,237
thereof derivative financial instrumer	23,277	21,500						23,277
Cash and cash equivalents	373,451							373,451
Financial liabilities								
Liabilities to banks	2,509,889					2,509,889		2,509,889
Capital market liability	487,508					487,508		388,750
Other financial liabilities	7,333					7,333		7,333
Shareholder loan	643,132					643,132		530,045
Lease liabilities*	701,512							700,785
Trade payables	634,092					634,092		634,092
Other liabilities	197,968							197,968
thereof non-derivative liabilities	180,226					180,226		180,226
thereof derivative financial instrumer	17,742						2,471	17,742

* as defined by IAS 17

Carrying amounts broken down by class and category

Classes	Carrying amount	Categories						Fair Value
		FAHfT	AfS	LaR	HtM	FLaC	FLHfT	
€ thousand	2010							
Financial assets								
Loan receivable	1,907			1,907				1,907
Financial receivables	8,117			8,117				8,117
Available-for-sale investments	825		825					825
Lease receivables*	367,758							374,358
Trade receivables	633,265			633,265				633,265
Other receivables	59,122							59,122
thereof non-derivative receivables	35,416			35,416				35,416
thereof derivative financial instrumer	23,706	19,900						23,706
Cash and cash equivalents	252,884							252,884
Financial liabilities								
Liabilities to banks	2,871,887					2,871,887		2,871,887
Capital market liability	0					0		0
Other financial liabilities	7,000					7,000		7,000
Shareholder loan	615,250					615,250		554,358
Lease liabilities*	661,649							666,622
Trade payables	508,108					508,108		508,108
Other liabilities	186,083							186,083
thereof non-derivative liabilities	156,053					156,053		156,053
instruments	30,030						5,029	30,030

* as defined by IAS 17

The change in valuation allowances for lease receivables and trade receivables was as follows:

Change in valuation allowances

€ thousand	2011	2010
Valuation allowances as at 1 January	**47,125**	**48,614**
Group changes	626	–
Additions (cost of valuation allowances)	10,547	13,912
Reversals	-3,092	-9,466
Utilisations	-5,425	-4,212
Currency translation adjustments	-216	-1,723
Valuation allowances as at 31 December	**49,565**	**47,125**

The net gains and losses on financial instruments by IAS 39 category are as follows:

Net gains and losses on financial instruments broken down by category

€ thousand	2011	2010
Loans and receivables (LaR)	2,062	9,223
Available-for-sale investments (AfS)	13	15
Financial assets held for trading (FAHfT)	14,360	39,381
Financial liabilities held for trading (FLHfT)	-10,109	-27,063
Financial liabilities carried at amortised cost (FLaC)	-225,277	-220,979

The above gains and losses do not include losses arising on hedging transactions amounting to €18,464 thousand (2010: €38,087 thousand) because these losses relate to a documented hedge.

Fair value measurement

The majority of the funding, loans, investments, other non-derivative receivables and liabilities, trade receivables and trade payables held by the Group have short remaining terms to maturity. The carrying amounts of these financial instruments approximate their fair values.

The fair value of derivative financial instruments is determined using appropriate valuation methods on the basis of observable market information at the reporting date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of currency forwards is calculated on the basis of the forward rates at the reporting date. In the KION Group, all derivative financial instruments are classified as level 2 measurements as defined by IFRS 7.
In order to minimise default risk to the greatest possible extent, the KION Group only enters into derivatives with counterparties holding a high credit rating.

With the exception of derivative financial instruments and available-for-sale assets, all financial assets and liabilities are measured at amortised cost.

Financial assets measured at fair value

€ thousand	2011	2010
Financial assets	**24,045**	**24,531**
thereof available-for-sale	768	825
thereof derivative instruments	23,277	23,706

Financial liabilities measured at fair value

€ thousand	2011	2010
Financial liabilities	**17,742**	**30,030**
thereof derivative instruments	17,742	30,030

The fair value of available-for-sale assets is determined on the basis of quoted prices in an active market. These assets are classified as level 1 as defined by IFRS 7.

[34] Financial risk reporting

Capital management

One of the prime objectives of capital management is to ensure liquidity at all times. Measures aimed at achieving these objectives include the optimisation of the capital structure, the reduction of liabilities and ongoing Group cash flow planning and management. Besides the supplementary agreement to the SFA in 2009, long-term financing requirements were also covered by the issuance of the corporate bond (see 'Credit terms' table).

Close cooperation between local units and the Group head office ensures that the local legal and regulatory requirements faced by foreign group companies are considered in the capital management process.

Net financial debt before borrowing costs – defined as the difference between financial liabilities and cash and cash equivalents – is the key performance measure used in liquidity planning at Group level. Lease liabilities and other financial liabilities are excluded from this figure, which were €2,656,613 thousand in 2011 (2010: €2,640,829 thousand).

Credit risk

In certain finance and operating activities, the KION Group is subject to credit risk, i.e. the risk that partners will fail to meet their contractual obligations. This risk is limited by diversifying business partners based on certain credit ratings. The Group only enters into transactions with business partners and banks holding a good credit rating and subject to fixed limits. Counterparty risks involving our customers are managed by the individual Group companies.

The following table shows the age structure of receivables as at the reporting date.

Age structure analysis of receivables

	Carrying amount	Thereof: Neither overdue nor impaired at the reporting date	Thereof: Overdue and impaired at the reporting date	Thereof: Not impaired at the reporting date, but up to and including 90 days overdue	Thereof: Not impaired at the reporting date, but more than 90 days overdue
€ thousand 2011					
Financial receivables	5,351	5,351			
Lease receivables	361,221	361,221	–	–	–
Trade receivables	676,553	539,560	4,286	117,666	10,727
Other non-derivative receivables	36,237	35,189	643	–	41
€ thousand 2010					
Financial receivables	8,117	8,117			
Lease receivables	367,758	367,758	–	–	–
Trade receivables	633,265	493,781	10,101	114,472	13,896
Other non-derivative receivables	35,416	35,060	21	–	83

Impairment losses are based on the credit risk associated with the receivables and are assessed primarily using factors such as a customer's credit rating and historical pattern of meeting payment terms.

Some of the receivables that were overdue as at the reporting date, but for which no impairment losses had been reported, were offset by corresponding trade payables or collateral. Apart from this item, the Group did not hold any significant collateral.

Liquidity risk

Based on IFRS 7, a liquidity risk arises if a company is unable to meet its financial liabilities. The KION Group maintains a liquidity reserve in the form of lines of credit and cash in order to ensure financial flexibility and solvency. The age structure of financial liabilities is reviewed continuously and was improved by issuing the corporate bond.

The following table shows all of the contractually agreed payments under recognised financial liabilities as at 31 December 2011, including derivative financial instruments with negative fair values.

Liquidity analysis of financial liabilities and derivatives

€ thousand	2011			
	Carrying amount 2011	Cash flow 2012	Cash flow 2013 - 2016	Cash flow from 2017
Primary financial liabilities				
Gross liabilities to banks	2,530,064	-307,224	-2,643,650	–
Borrowing costs	-20,175			
Net liabilities to banks	2,509,889			
Capital market liability	500,000	-34,864	-143,062	-556,723
Borrowing costs	-12,492			
	487,508			
Other financial liabilities	7,333	-3,397	0	-6,090
Shareholder loan	643,132	–	–	-928,194
Trade payables	634,092	-634,092	0	–
Lease liabilities	701,512	-260,230	-490,680	-18,693
Other financial liabilities	180,225	-180,225	–	–
Derivative financial liabilities				
Derivatives with negative fair value	17,742			
+ Cash in		295,698	32,127	–
- Cash out		-291,278	-36,919	–

Liquidity analysis of financial liabilities and derivatives

€ thousand	2010			
	Carrying amount 2010	Cash flow 2011	Cash flow 2012 - 2015	Cash flow from 2016
Primary financial liabilities				
Gross liabilities to banks	2,893,713	-192,543	-3,132,989	-370,561
Borrowing costs	-21,826			
Net liabilities to banks	2,871,887			
Other financial liabilities	7,000	-3,188	–	-6,059
Shareholder loan	615,250	–	–	-782,618
Trade payables	508,108	-508,108	–	–
Lease liabilities	661,649	-278,967	-427,041	-18,212
Other financial liabilities	156,053	-156,053	–	–
Derivative financial liabilities				
Derivatives with negative fair value	30,033			
+ Cash in		175,364	40,867	–
- Cash out		-203,057	-41,809	–

The calculation of future cash flows for derivative financial liabilities includes all currency forwards and interest-rate swaps that have negative fair values as at the reporting date.

Bank guarantee lines (e.g. sureties, performance bonds) had been issued under the ancillary facility agreements for a total amount in the low double-digit millions as at 31 December 2011. They included guarantees payable 'on first demand'. No guarantees were utilised in 2011.

The volume of business for which factoring was used in 2011 was €17,844 thousand (2010: €19,853 thousand). Because all material risks and rewards are assigned to the purchaser, these assets are derecognised in full.

Default risk

For financial assets, default risk is defined as the risk that a counterparty will default, and therefore is limited to a maximum of the carrying amount of the assets relating to the counterparty involved. The potential default risk attaching to financial assets is mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees.

Specific valuation allowances for defaults are recognised to reflect the risk arising from primary financial instruments. Financial transactions are only entered into with selected partners holding good credit ratings. Investments in interest-bearing securities are limited to investment-grade securities.

Risks from financial services

The KION Group's leasing activities mean that it may be exposed to residual value risks from the marketing of machinery and equipment that is returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecasted.

KION regularly assesses its overall risk position arising from financial services, recognising write-downs, valuation allowances or provisions to cover the risks it identifies. It immediately takes into account any changes in residual values when calculating new leases.
The increased marketing activities for used trucks and the overall increase in demand help to stabilise the residual values of the KION Group's industrial trucks and therefore serve to mitigate risk.

In addition, residual values are mainly based on remarketing agreements that continued to achieve positive outcomes in 2011. Under these agreements, any residual-value risk is transferred to the leasing company concerned. Group-wide standards to ensure that residual values are calculated conservatively reduce risk and provide the basis on which to create the transparency required. KION also has an IT system for residual-value risk management.

The KION Group mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have comparable maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has sufficient liquidity.

In order to eliminate exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Company did not identify any material year-over-year changes in 2011. KION's losses from defaults are also mitigated by its receipt of the proceeds from the sale of repossessed trucks. In addition, it primarily offers financial services indirectly via selected funding partners, and KION bears the counterparty risk in less than 5 per cent of cases. The credit risk management system was refined as part of the work involved in transferring financial services activities to a separate segment. In particular, this involved revising procedures on operational and organisational structure as well as processes for risk management and control.

Exchange-rate risk

In accordance with its treasury risk policy, the KION Group hedges exchange rate risks both locally at the level of the individual companies and centrally via KION GROUP GmbH in order to meet the prescribed minimum hedging ratios.

The main hedging instruments employed are foreign-currency forwards, provided that there are no country-specific restrictions on their use.

At an entity level, hedges are entered into for highly probable future transactions on the basis of rolling 15-month forecasts, as well as for firm obligations not reported in the statement of financial position. In accordance with IAS 39, these hedges are generally classified as cash flow hedges for accounting purposes (see note [35]).

Foreign-currency forwards are also employed to hedge the exchange rate risks resulting from internal financing.

The following table shows an overview of the foreign-currency forwards entered into by the KION Group.

Foreign-currency forwards

		Fair value		Notional amount	
€ thousand		2011	2010	2011	2010
Foreign-currency forwards (assets)	Hedge	1,765	3,762	73,758	109,653
	Trading	21,500	19,824	363,277	639,473
Foreign-currency forwards (liabilities)	Hedge	8,650	4,236	189,351	89,900
	Trading	2,471	3,595	103,018	79,335

The currency options bought and sold in 2008, each with a notional value of US$ 780,000 thousand, were closed in 2011. The income generated by the sale totalled €1,649 thousand. No new options have been entered into.

Significant exchange rate risks from financial instruments are measured on the basis of value at risk (VaR) as part of internal Group management. VaR figures are calculated using historical variance-covariance analyses. Correlations and volatilities are calculated on the basis of the 250 working days prior to the reporting date (unweighted).

Exchange rate risks from financial instruments as defined by IFRS 7, are only included in calculating value at risk if the financial instruments are denominated in a currency other than the functional currency of the reporting entity concerned. This means that exchange rate risks resulting from the translation of the separate financial statements of subsidiaries into the Group reporting currency, i.e. currency translation risk, are not included.

Value-at-Risk

€ thousand	2011	2010
Currency risk	54,676	19,968

The value at risk in respect of currency risk as at 31 December 2011 was €54,676 thousand (31 December 2010: €19,968 thousand). Value at risk is the loss that is not expected to be exceeded over a holding period of one year with a confidence level of 97.7 per cent (2010: 97.7 per cent).

Interest-rate risk

Interest-rate risk within the KION Group is managed centrally. The basis for decision-making includes sensitivity analyses of interest-rate risk positions in key currencies.

The table below shows the cumulative effect of an increase or decrease of 100 basis points (bps) in the relevant interest-rate curves, with a rate of 0 per cent constituting the lower limit of the calculation.

Interest-rate sensitivity

	+100 bps	-100 bps	+100 bps	-100 bps
€ thousand	2011	2011	2010	2010
Other comprehensive income (loss)	28,702	-18,031	34,714	-32,600
Net income	-9,358	9,358	-17,226	18,454

The Group essentially funds itself by drawing down loans under its agreed credit facilities. Interest-rate derivatives - mainly interest-rate swaps - are used to hedge the resulting interest-rate risk.

Interest-rate swaps

		Fair value		Notional amount	
€ thousand		2011	2010	2011	2010
Interest-rate swaps (assets)	Hedge	–	46	–	70,000
	Trading	–	–	–	–
Interest-rate swaps (liabilities)	Hedge	6,621	20,769	2,070,000	2,493,706
	Trading	–	–	–	–

The interest-rate caps purchased in 2009 and with a notional value of €1,250,000 thousand expired in 2011 as planned. No new interest-rate options have been entered into.

[35] Hedge accounting

Hedging currency risk

In accordance with its treasury risk policy, the KION Group applies hedge accounting in hedging the exchange rate risks arising from highly probable future revenues in various currencies. Foreign-currency derivatives with settlement dates in the same month as the expected cash flows from the Group's operating activities are used as hedges.

The effectiveness of the Group's hedging transactions is assessed on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. The effective portion of the changes in the fair value of foreign-currency derivatives is recognised in accumulated other comprehensive income (loss) and only reversed when the corresponding hedged item is recognised in income.

Because of the short-term nature of the Group's payment terms, reclassifications to the income statement and the recognition of the corresponding cash flows generally take place in the same reporting period. A foreign-currency receivable or liability is recognised when goods are dispatched or received. Hedge accounting continues until the corresponding payment is received, with the changes in the fair value of the derivative being recognised in the income statement, thereby largely offsetting the effect of the measurement of the receivable at the reporting date.

The changes in fair value recognised and reclassified in other comprehensive income in 2011 are shown in the consolidated statement of comprehensive income. The ineffective portion of the changes in the fair value of the hedging transactions is recognised directly in the income statement. There were no significant ineffective portions in 2011.

In total, foreign-currency cash flows of €263,109 thousand (2010: €199,554 thousand) were hedged and designated as hedged items, of which €187,298 thousand is expected to be settled by 30 September 2012 (2010: €161,820 thousand expected by 30 September 2011). The remaining cash flows designated as hedged items fall due in the period up to 19 December 2013.

Hedging of interest-rate risk

The KION Group uses hedge accounting in connection with the hedging of interest-rate risk.

The KION Group is essentially financed by the utilisation of loans with variable interest rates and in different currencies. Interest-rate derivatives denominated in various currencies were used to hedge the resulting interest-rate risk in 2011. Because the KION Group used interest-rate swaps to transform 51 per cent of its variable-rate exposure into fixed-rate obligations as at the reporting date, it is not fully benefiting from the low level of market interest rates. The individual hedges were designated at the time the swaps were entered into.

The effective portion of the hedges was recognised in other comprehensive income (loss). As in the previous year, the cumulative effectiveness of the hedging transactions was almost 100 per cent. Again, as in 2010, there were no ineffective portions.

In total, variable portions of future interest payments amounting to €27,196 thousand (2010: €54,999 thousand) were designated as hedged items, of which €8,126 thousand is expected to be paid by 30 September 2012 (2010: €14,196 thousand fell due by 30 September 2011). The remaining cash flows designated as hedged items fall due by 31 December 2014.

[36] Segment report

IFRS 8 specifies the 'management approach' for defining operating segments. Under this approach, the internal reports that are regularly used by the chief operating decision-maker to make decisions on the allocation of resources to a segment and to assess the performance of a segment are used as the basis for determing the operating segments. The chief operating decision-maker in the KION Group is its Executive Board comprising Gordon Riske (CEO), Otmar Hauck (COO), Klaus Hofer (CHRO) and Harald Pinger (CFO).

Since the 2011 financial year, the chief operating decision-makers have divided the KION Group into the Linde Material Handling (LMH) and STILL brands for management purposes. Segment reporting follows the same breakdown, taking into account the relevant organisational structures and corporate strategy of the KION Group.

Linde Material Handling (LMH)

Linde Material Handling manufactures material-handling products under the Linde, Fenwick and Baoli brands and also produces hydraulic components that are used both in its own trucks and in the products of external manufacturers.

Baoli operates in the market as an independent brand focusing on the economy segment in China and other growth markets.

STILL

The STILL brand has positioned itself as a leading provider of intelligent intralogistics management tools. In addition to core products (forklifts, warehouse handling equipment and tow tractors), the product range includes pioneering material flow services.

As a leading Italian manufacturer, OM provides customers in the value segment with reliable, technologically advanced electric and diesel trucks as well as warehouse handling equipment.

In 2010, the STILL and OM brands began to bundle their activities, enabling them to boost their competitiveness by benefiting from each other's product range and distribution capability. OM focuses on its home Italian market and is integrating the STILL Group's activities in Italy into its operations. In the medium-term, STILL will integrate the OM Group's activities outside Italy into its network. STILL is also using attractive products from OM to supplement its own product range. It is therefore significantly expanding its coverage of the market for these products and greatly improving their market penetration via its excellent distribution network. The STILL and OM brands have been merged and managed jointly under the STILL segment since the 2011 financial year.

Other

The 'Other' segment comprises the companies operating under the Voltas brand as well as holding and service companies in the KION Group. Voltas is a KION Group brand company whose manufacturing is based in India and whose business activities focus primarily on this market. The service companies perform cross-segment services for the KION Group. The bulk of the revenue in this segment is generated by internal IT and logistics services rendered by the service companies.

The basis for internal reporting is a presentation of the financial position and financial performance based on data from continuing operations, excluding items relating to the KION Group in December 2006 and excluding non-recurring items. In addition to the above items, other net financial income/expenses and the share of profit (loss) of equity investments are also excluded from the performance indicator known as 'management reporting EBIT'. Segment reporting therefore includes a reconciliation of externally reported consolidated earnings before interest and tax (EBIT) including KION acquisition items and non-recurring items with the adjusted EBIT for the segments ('management reporting EBIT').

Segment reports are prepared in accordance with the same accounting policies as the consolidated financial statements, as described in note [7]. Intra-group transactions are generally conducted on an arm's length basis. The following tables show information for the KION Group's operating segments for 2011 and 2010:

Segment report

€ thousand 2011	LMH	STILL	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,778,835	1,549,616	39,944	–	4,368,395
Intersegment revenue	76,761	116,313	183,365	-376,439	–
Total revenue	2,855,596	1,665,929	223,309	-376,439	4,368,395
Earnings before taxes	250,444	-29,629	-192,493	-87,207	-58,885
Financial income	46,351	13,249	32,371	-18,307	73,664
Financial expense	-57,142	-39,345	-267,529	18,307	-345,709
= Financial result	-10,791	-26,096	-235,158	–	-272,045
EBIT	261,235	-3,533	42,665	-87,207	213,160
+ Non-recurring items	-4,830	97,308	23,005	–	115,483
+ KION acquisition items	26,468	7,960	1,537	–	35,965
= Adjusted EBIT	282,873	101,735	67,207	-87,207	364,608
./. Other financial result	1,027	375	83,885	-83,401	1,886
./. Equity result*	5,533	1,557	–	–	7,090
Management Reported EBIT	276,313	99,803	-16,678	-3,806	355,632
Carrying amount of equity investments	31,898	4,647	–	–	36,545
Capital expenditures**	75,952	43,270	13,783	–	133,005
Depreciation**	98,400	46,315	14,822	–	159,537
Order intake	3,107,037	1,752,394	223,153	-400,728	4,681,856
Number of employees***	13,838	7,328	696	–	21,862

* Already adjusted by non-recurring items
** Excluding leased assets
***Number of employees in full-time equivalents as at 31 December

Segment report

€ thousand 2010	LMH	STILL	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,191,490	1,333,489	9,495	–	3,534,474
Intersegment revenue	62,399	86,899	150,373	-299,671	–
Total revenue	2,253,889	1,420,388	159,868	-299,671	3,534,474
Earnings before taxes	69,831	-44,664	-230,230	-26,357	-231,420
Financial income	42,572	13,045	47,378	-14,646	88,349
Financial expense	-59,227	-38,424	-243,518	-13,236	-354,405
= Financial result	-16,655	-25,379	-196,140	-27,882	-266,056
EBIT	86,486	-19,285	-34,090	1,525	34,636
+ Non-recurring items	26,922	36,794	11,979	–	75,695
+ KION acquisition items	25,712	2,763	556	–	29,031
= Adjusted EBIT	139,120	20,272	-21,555	1,525	139,362
./. Other financial result	1,197	558	-3,305	3,210	1,660
./. Equity result	3,838	-269	–	–	3,569
Management Reported EBIT	134,085	19,983	-18,250	-1,685	134,133
Carrying amount of equity investments	33,433	4,408	–	–	37,841
Capital expenditures*	70,477	34,150	18,835	–	123,462
Depreciation*	103,596	43,844	14,597	–	162,037
Order intake	2,509,672	1,518,378	159,868	-328,238	3,859,680
Number of employees**	12,240	7,235	493	–	19,968

* Excluding leased assets
**Number of employees in full-time equivalents as at 31 December

The breakdown of segment revenue by region is as follows

Segment revenue broken down by customer location

€ thousand	2011	2010
Germany	1,174,777	899,817
EU excl. Germany	2,114,588	1,820,151
Rest of Europe	203,530	151,807
America	280,611	232,673
Asia	434,814	301,879
Rest of world	160,075	128,147
Total segment revenue	**4,368,395**	**3,534,474**

There are no relationships with individual customers that generate revenue deemed to be significant as a proportion of total consolidated revenue.

Financial income and expenses including all interest income and expenses are described in notes [12] and [13].

The non-recurring items mainly comprise severance payments, social plan costs, costs relating to the planned transfers of production and consultancy costs. Also included for 2011 are the remeasurement of purchase price obligations and the remeasurement of an existing equity investment in an entity, over which a controlling influence can be exerted following the acquisition of additional shares. The KION acquisition items comprise a net write-down on the fair value adjustments identified as part of the purchase price allocation (PPA).

Segment capital expenditures include additions to intangible assets and property, plant and equipment, but not additions to leased assets. A separate segment report for leased assets is presented in note [17].

Depreciation/amortisation relates to intangible assets with finite useful lives and property, plant and equipment.

Capital expenditures broken down by company location (excl. leased assets)

€ thousand	2011	2010
Germany	92,340	88,875
EU excl. Germany	27,796	25,688
Rest of Europe	233	187
America	5,849	4,364
Asia	5,378	3,870
Rest of world	1,409	478
Total capital expenditures	**133,005**	**123,462**

The regional breakdown of non-current assets excluding financial assets, financial instruments, deferred tax assets and post-employment benefits is as follows:

Non-current assets broken down by company location

€ thousand	2011	2010
Germany	2,703,550	2,711,755
EU excl. Germany	665,590	661,375
Rest of Europe	24,492	19,992
America	34,672	30,609
Asia	116,428	88,213
Rest of world	48,671	49,132
Total non-current assets	**3,593,403**	**3,561,076**

Supplementary disclosures based on future segment structure

In 2011 the KION Group put in place the organisational structures to manage and report the Group's financial services (FS) activities separately in 2012.

To this end, separate financial services companies have been established in the key markets of France, Germany, Italy, Spain and the United Kingdom. Further companies will be gradually introduced in countries with a high proportion of finance and leasing business. In countries with lower levels of FS activity, sales and service companies will continue to engage in financial services operations as well.

During the course of 2011 the Group also developed a reporting model for the discrete reporting and management of financial services business. Future reporting in the KION Group will be based on this model. The sections below include voluntary additional disclosures based on the new reporting model and the associated revised breakdown of business activities in order to give prominence to the greater importance of financial services activities in the KION Group and to the future segment structure. These voluntary supplementary disclosures for the reporting year follow the principles required by IFRS 8.

Financial services activities will form a separate Financial Services segment alongside the LMH, STILL and Other brand segments described above:

Financial Services (FS)
The purpose of the FS segment is to act as an internal partner for the brand segments, providing finance solutions that promote sales. The FS activities include internal financing of short-term rental fleets, the financing of long-term leasing business for KION Group customers, and risk management. When long-term leasing business is being conducted, FS operates as a contractual partner to external customers and provides the necessary funding in conjunction with external financial partners. When short-term business is being transacted, FS's contractual relationship is with the LMH and STILL brand segments or with the external financial partners. Besides management of residual-value risk, risk management also includes the credit risk management system, which was refined as part of the work involved in transferring financial services activities to a separate segment. The key performance indicator used to manage the FS segment is earnings before tax (EBT).

The underlying business management model into which FS has been integrated views FS as an internal finance partner that operates as the interface between the brand segments and external finance providers or the capital markets. LMH, STILL and FS are therefore reported as independent operating subgroups, and transactions between these segments are presented in the same way as business conducted on an arm's-length basis. The regular (interest) margin income that FS generates from its business activities reflects prevailing market conditions. Surpluses from leasing that exceed this interest rate are reflected in the producer margin within the operating profit generated by the LMH and STILL brand segments.

Segment reports are generally prepared in accordance with the same accounting policies as the consolidated financial statements, as described in note [7]. Contrary to these policies, however, the LMH and STILL brands' intersegment sales to FS are always treated as revenue for the brand segments.

Assets and/or liabilities associated with the long-term leasing business are assigned to the FS segment. The expenses in the FS segment's income statement therefore reflect, in particular, depreciation/amortisation on the assets, interest expense relating to the funding of these assets as well as operating expenses. These expenses are offset under income by the finance instalments paid by the customer (lease payments excluding service portion).

Whereas the main feature of long-term leasing business is the provision of a financial service for the external lessee, the focus in short-term leasing is on the service function. External customers are offered flexible arrangements involving rental trucks from a rental pool – including associated services – for short-term use. Unlike the situation in long-term leasing, financial performance in the short-term business is largely dependent on the achieved level of utilisation of the rental fleet, management of which lies entirely within the responsibility of the brand segments. Given this structure, the assets associated with the short-term business remain on the balance sheets of the brand segments and the related income and expenses remain on the brand segments' income statements.

In an indirect leasing arrangement ('sale with risk'), which forms part of the long-term leasing business, the otherwise typical financing function of the FS segment as a lender for the leasing transaction no longer applies. As a result of the sale of the leased asset to the external finance provider in such transactions, the brand segments view the transactions in the same way as a sale to an end-user. Consequently, these transactions and all the revenue that they generate are recognised in the LMH and STILL brand segments.
The breakdown of segment information for 2011 and 2010 is as follows:

Segment Report - Voluntary Additional Information

€ thousand 2011	LMH	STILL	FS	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,601,587	1,461,968	264,896	39,944	–	4,368,395
Intersegment revenue	251,927	204,836	214,864	183,365	-854,992	–
Total revenue	2,853,514	1,666,804	479,760	223,309	-854,992	4,368,395
Earnings before taxes	246,450	-30,586	6,160	-191,729	-89,180	-58,885
Financial income	29,380	5,804	45,360	32,371	-39,251	73,664
Financial expense	-40,651	-31,302	-41,901	-267,529	35,674	-345,709
= Financial result	-11,271	-25,498	3,459	-235,158	-3,577	-272,045
EBIT	257,721	-5,088	2,701	43,429	-85,603	213,160
+ Non-recurring items	-4,830	97,308	–	23,005	–	115,483
+ KION acquisition items	26,468	7,960	–	1,537	–	35,965
= Adjusted EBIT	279,359	100,180	2,701	67,971	-85,603	364,608
./. Other financial result	1,027	375	–	83,885	-83,401	1,886
./. Equity result	5,533	1,557	–	–	–	7,090
Management Reported EBIT	272,799	98,248	2,701	-15,914	-2,202	355,632
Segment assets	4,425,263	1,983,278	840,005	708,616	-1,890,876	6,066,286
Segment liabilities	1,495,301	1,064,798	798,845	5,043,405	-1,848,476	6,553,873
Carrying amount of equity investments	31,898	4,647	–	–	–	36,545
Capital expenditures*	75,952	43,270	–	13,783	–	133,005
Depreciation**	167,602	95,111	71,020	16,319	-21,060	328,992

* Excluding leased assets
** Including leased assets

Segment Report - Voluntary Additional Information

€ thousand 2010	LMH	STILL	FS	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,042,427	1,256,836	225,716	9,495	–	3,534,474
Intersegment revenue	204,868	151,742	127,874	150,373	-634,857	–
Total revenue	2,247,295	1,408,578	353,590	159,868	-634,857	3,534,474
Earnings before taxes	66,886	-46,823	6,230	-258,567	854	-231,420
Financial income	26,209	3,878	43,657	47,378	-32,773	88,349
Financial expense	-43,485	-29,483	-39,588	-271,400	29,551	-354,405
= Financial result	-17,276	-25,605	4,069	-224,022	-3,222	-266,056
EBIT	84,162	-21,218	2,161	-34,545	4,076	34,636
+ Non-recurring items	26,922	36,794	–	11,979	–	75,695
+ KION acquisition items	25,712	2,763	–	556	–	29,031
= Adjusted EBIT	136,796	18,339	2,161	-22,010	4,076	139,362
./. Other financial result	1,197	558	–	-3,305	3,210	1,660
./. Equity result	3,838	-269	–	–	–	3,569
Management Reported EBIT	131,761	18,050	2,161	-18,705	866	134,133
Segment assets	4,086,051	1,951,953	774,824	632,090	-1,685,979	5,758,939
Segment liabilities	1,404,059	968,884	733,594	4,700,799	-1,648,475	6,158,861
Carrying amount of equity investments	33,433	4,408	–	–	–	37,841
Capital expenditures*	70,477	34,150	–	18,835	–	123,462
Depreciation**	176,363	99,196	64,175	16,956	-18,096	338,594

* Excluding leased assets

** Including leased assets

[37] Employees

The KION Group employed an average of 20,797 people in the reporting year (2010: 19,764). The number of employees (including part-time employees expressed as a proportion of full-time equivalents) is broken down by region as follows:

Employees (average)

	2011	2010
Germany	8,145	7,785
France	3,196	3,172
UK	1,423	1,467
Italy	1,030	1,044
Rest of Europe	3,194	3,073
Asia	2,816	2,319
Rest of world	993	904
Total employees	**20,797**	**19,764**

The first-time consolidations of Cailotto Carrelli S.p.A., Verona, Italy, and Linde Sterling Ltd., Basingstoke, United Kingdom, increased the number of employees by 46 and 282, respectively. In addition, a total of 131 employees were taken on from Voltas Limited in India and 147 members of staff were acquired from Russia-based dealer Liftec.

[38] Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, the KION Group has direct or indirect business relationships with a number of unconsolidated subsidiaries, joint ventures and associates in the course of its ordinary business activities. Transactions with these companies are conducted on an arm's length basis. The related companies that are controlled by the KION Group or that are able to exercise significant influence over the KION Group are included in the list of shareholdings in the annex to these notes and in the following table:

Related parties

Superlift Holding S.à r.l., Luxembourg	Parent company
Kohlberg Kravis Roberts & Co. L.P., New York, USA	Entity with significant influence
Goldman, Sachs & Co., New York, USA	Entity with significant influence
Superlift Funding S.à r.l., Luxembourg	Affiliated company

Superlift Funding S.à r.l., Luxembourg

Under a supplementary loan agreement dated 23 September 2009, investment funds advised by Kohlberg Kravis Roberts & Co. L.P. ('KKR') and Goldman Sachs Capital Partners extended the SFA to include an additional loan of €100,000 thousand to be paid via Superlift Funding S.à r.l., Luxembourg. The purpose of the supplementary loan was to further strengthen the operational and strategic options for the KION Group. Both the loan amount and the associated interest are repayable as a bullet payment on maturity (payment in kind, 'PIK').

Shareholder loan agreement

On 27 December 2006, KION Holding 1 GmbH (then Neggio Holding 1 GmbH) entered into a shareholder loan agreement with Superlift Holding S.à r.l., Luxembourg, for €500,000 thousand of principal. The maturity date for the loan is 31 December 2021. Both the unsecured loan principal and the associated interest are repayable as a bullet payment on maturity (payment in kind, 'PIK'). Since 1 September 2007, the loan has been subject to interest at a rate of 5.5 per cent per annum. The carrying amount of the loan including accrued interest was €643,132 thousand as at 31 December 2011 (31 December 2010: €615,250 thousand).

Advisory agreement

On 8 May 2007, KION Group GmbH, Kohlberg, Kravis Roberts & Co. L.P. ('KKR') and Goldman, Sachs & Co. entered into an advisory agreement under the terms of which KKR and Goldman Sachs are to perform advisory services for the KION Group. These advisory services relate, in particular, to financial and strategic issues. The annual advisory fee payable to KKR and Goldman, Sachs & Co. is €4,624 thousand (2010: €4,609 thousand) and it has been recognised as an expense.

As at the reporting date, the receivables due from related parties were as follows:

Receivables from related parties

€ thousand	2011	2010
Non-consolidated subsidiaries	4,403	7,059
Associates	17,262	22,249
Joint ventures	2,964	2,880
Other related parties	4,825	7,545
Total receivables from related parties	**29,454**	**39,733**

As at the reporting date, liabilities to related parties were as follows:

Liabilities to related parties

€ thousand	2011	2010
Non-consolidated subsidiaries	4,188	3,771
Associates	39,955	41,537
Joint ventures	4,719	3,490
Other related parties	769,255	730,686
Total liabilities to related parties	**818,117**	**779,484**

[39] KION management partnership plan ('MPP')

Arrangements for managers to invest in the Company have been in place since 2007. These arrangements are governed by the 'Shareholders' and co-investment agreement on the implementation of the management partnership plan for the KION Group' (the co-invest agreement) dated 14 June 2007, entered into by Superlift Holding S.à r.l., KION Holding 1 GmbH and KION Management Beteiligungs GmbH & Co. KG. The managers who have joined the management partnership plan are also parties to the co-invest agreement.

KION Management Beteiligungs GmbH & Co. KG holds an equity interest of 14.61 per cent in KION Holding 1 GmbH. In total, the Executive Board holds an interest of €3,400 thousand in the limited partner capital of KION Management Beteiligungs GmbH & Co. KG, which equates to an indirect interest of 3.31 per cent in the share capital of KION Holding 1 GmbH. In addition to the KION Group's Executive Board, around 300 executives around the world have purchased shares in KION Management Beteiligungs GmbH & Co. KG. The shares are sold at their fair value and shareholdings are divided into virtual 'A', 'B', and 'C' shares. Different terms and conditions concerning payment of the purchase price and rights to purchase attach to these virtual shares. The purchase price for 'A' shares became payable when participants joined the programme, while KION Management Beteiligungs GmbH granted participants interest-bearing loans for the purchase price of the 'B' and 'C' shares. The vesting conditions and resulting purchase rights for 'B' shares accrue to participants in equal, annual tranches over a period of five years. By contrast, managers become eligible to purchase 'C' shares if the targets for revenue, EBITA and operating cash flow set in the business plan are achieved over a five-year period or predefined target returns are achieved if the Group is sold or there is a change of control.

In 2010, the performance-related vesting conditions for the 'C' shares relating to the 2009–2012 bonus period were adjusted to take into account the revised long-term KION business plan, which is in turn based on the amended loan terms in the supplementary agreement to the SFA dated 23 September 2009. The change in vesting conditions affects a total of 1,034 shares with an expected exercise price of €16 thousand each. The agreement had one year remaining as at 31 December 2011. The total fair value of this adjustment was €1,044 thousand. The fair value of the individual purchase rights amounted to €1 thousand. The number of purchase options outstanding as at the reporting date remained unchanged at 1,034, of which 584 (31 December 2010: 292) were exercisable.

The fair value of the new vesting conditions was calculated using the Black-Scholes model based on a share price of €11 thousand. The risk-free interest rate on the reference date for the calculation was 1.6 per cent. The expected holding period for the options is three years. The expected volatility is 32 per cent and it was calculated by taking the implied volatility of a peer group. Expected dividends were not taken into account.

Expenses of €295 thousand were incurred by the management partnership plan in 2011 (2010: €590 thousand).

[40] Remuneration of key management

Executive Board

Gordon Riske, Chief Executive Officer (CEO), is responsible, among other things, for the strategic management of the Group, communications, governance and compliance, and the Group's Asian business.

Harald Pinger, Chief Financial Officer (CFO), is responsible, among other things, for finance including financial services, IT activities, business development, mergers & acquisitions, and the Americas region.

Otmar Hauck (member of the Executive Board of KION GROUP GmbH, Wiesbaden), Chief Operating Officer (COO), is responsible for quality and central operations (operational excellence/production control), purchasing, logistics, health & safety and environmental issues in the Group.

Klaus Hofer has been a member of the Executive Board since 1 October 2011 and, as Chief Human Resources Officer (CHRO), is responsible for human resources, legal affairs and internal audit, which previously formed part of the CFO's responsibilities.

The remuneration paid to the Executive Board comprises a fixed salary and non-cash benefits, pension entitlements and performance-related components. The variable performance-related components are paid each year on the basis of the Group's performance. The pension entitlements consist of retirement, invalidity and surviving dependants' benefits.

The total remuneration paid to the members of the Executive Board in 2011 amounted to €5,209 thousand (2010: €5,049 thousand). This consisted of short-term remuneration amounting to €4,755 thousand (2010: €4,550 thousand), post-employment benefits totalling €386 thousand (2010: €366 thousand) and share-based payments of €68 thousand (2010: €133 thousand). The current service cost resulting from pension provisions for the Executive Board is reported under the retirement benefit obligation. No loans or advances were made to members of the Executive Board in 2011 (2010: loans and advances totalling €151 thousand).

The total remuneration paid to former members of the Executive Board in 2011 amounted to €162 thousand (2010: €0). Provisions for pension obligations to former members of the Executive Board or their surviving dependants amounting to €2,819 thousand (2010: €2,953 thousand) were recognised in accordance with IAS 19.

Supervisory Board

The total remuneration paid to the members of the Supervisory Board for the performance of their duties at the parent company and subsidiaries in 2011 amounted to €1,071 thousand including VAT (2010: €822 thousand). There were no loans or advances to members of the Supervisory Board in 2011. Furthermore, the members of the Supervisory Board did not receive any remuneration or benefits for services provided as individuals, such as consulting or brokerage activities.

In addition to their remuneration as members of the Supervisory Board, the employee representatives also receive remuneration as employees of the KION Group that is unrelated to their work on the Supervisory Board. Remuneration paid to employee representatives for their work as employees totalled €514 thousand in 2011 (2010: €539 thousand).

[41] Members of the Executive Board and Supervisory Board

Executive Board

Gordon Riske
CEO

Klaus Hofer
(since 1 October 2011)
CHRO

Harald Pinger
CFO

Supervisory Board

Dr John Feldmann
(Chairman of the Supervisory Board since 28 September 2011)
Member of the Supervisory Board and member of the Presiding Committee of the Supervisory Board of Bilfinger Berger SE, Mannheim

Manfred Wennemer
(Chairman of the Supervisory Board until 28 June 2011)
Former Chief Executive Officer, Continental AG, Hannover

Joachim Hartig[1]
Deputy Chairman of the Supervisory Board
Chairman of the Plant I & II Works Council, Linde Material Handling GmbH, Aschaffenburg

Dr Alexander Dibelius
Chief Executive Officer of Goldman Sachs AG, Frankfurt am Main

Denis Heljic[1]
Deputy Chairman of the Works Council of STILL GmbH, Dortmund plant
Service Technician at STILL, Dortmund plant

Dr Martin Hintze
Managing Director of Goldman Sachs Capital Partners, London

Johannes P. Huth
(Chairman of the Supervisory Board from 29 June to 28 September 2011)
Member of Kohlberg Kravis Roberts & Co. L.P., New York

Thilo Kämmerer[1]
Trade Union Secretary on the Executive Board of IG Metall, Frankfurt am Main

Dr Roland Köstler[1]
Head of Business Law at Hans-Böckler-Stiftung, Düsseldorf

Peter Kolb[1]
Head of Facility Management, Linde Material Handling GmbH, Aschaffenburg

Kay Pietsch[1]
Chairman of the KION Group Works Council and Chairman of the Works Council of STILL GmbH, Hamburg

Silke Scheiber
Director of Kohlberg Kravis Roberts & Co. L.P., New York

Dr Michael Süß
Member of the Managing Board and CEO of the Energy Sector of Siemens AG, Munich

Philip Wack
(from 29 June to 27 September 2011)
Associate of Kohlberg Kravis Roberts & Co. L.P., New York

[1] Employee representatives

[42] Auditors' fees

The fees recognised as an expense and paid to the auditors of the consolidated financial statements in 2011 amounted to €970 thousand (2010: €800 thousand) for the audit of the financial statements, €892 thousand (2010: €88 thousand) for other assurance services, €206 thousand (2010: €32 thousand) for tax consultancy services and €63 thousand (2010: €20 thousand) for other services.

[43] Events after the reporting date

In the period after the end of the 2011 financial year up to 15 March 2012 there were no events or developments that would have led to a material change in the recognition or measurement of the individual assets and liabilities as at 31 December 2011 or that it would be necessary to disclose.

[44] Information on preparation and approval

The Executive Board of KION Holding 1 GmbH prepared the consolidated financial statements on 15 March 2012 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of examining and deciding whether to approve the consolidated financial statements.

Wiesbaden, 15 March 2012

The Executive Board

Gordon Riske Klaus Hofer Harald Pinger

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2011

List of shareholdings as of 31 December 2011

according to section 313 para. 2 No. 1-4 Commercial Code (HGB)

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
1	KION Holding 1 GmbH	Wiesbaden	Germany			200,816	-29,174	
	Consolidated affiliated companies							
	Domestic							
2	BlackForxx GmbH	Stuhr	Germany	17	100.00%	757	0	[B]
3	Eisenwerk Weilbach GmbH	Wiesbaden	Germany	10	100.00%	288	0	[A]
4	Fahrzeugbau GmbH Geisa	Geisa	Germany	17	100.00%	7,329	0	[B]
5	KION GROUP GmbH	Wiesbaden	Germany	6	100.00%	276,413	-56,235	
6	KION Holding 2 GmbH	Wiesbaden	Germany	1	100.00%	848,331	0	[F]
7	KION Information Management Services GmbH	Wiesbaden	Germany	5	100.00%	129	0	[E]
8	KION Warehouse Systems GmbH	Reutlingen	Germany	17	100.00%	22,670	0	[B]
9	Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan	Germany	10	100.00%	9,675	1,715	
10	Linde Material Handling GmbH	Aschaffenburg	Germany	5	100.00%	281,522	-61,438	
11	LMH Immobilien GmbH & Co. KG	Aschaffenburg	Germany	10 & 12	99.64%	29,982	1,013	
12	LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg	Germany	10	94.00%	180	67	
13	LMH Immobilien Holding Verwaltungs-GmbH	Aschaffenburg	Germany	10	100.00%	27	1	
14	LMH Immobilien Verwaltungs-GmbH	Aschaffenburg	Germany	10	100.00%	28	1	
15	OM Deutschland GmbH	Neuhausen a.d. Fildern	Germany	60	100.00%	-1,165	-211	
16	Schrader Industriefahrzeuge GmbH & Co. KG	Essen	Germany	10	100.00%	2,322	1,700	
17	STILL GmbH	Hamburg	Germany	10	100.00%	206,250	0	[A]
18	URBAN-TRANSPORTE GmbH	Unterschleißheim	Germany	10	100.00%	3,181	0	[A]
	Foreign							
19	Linde Material Handling Pty. Ltd.	Huntingwood	Australia	10	100.00%	39,380	3,076	
20	STILL N.V.	Wijnegem	Belgium	17 & 65	100.00%	7,262	1,848	
21	KION South America Fabricação de Equipamentos para Armazenagem Ltda.	Rio de Janeiro	Brazil	17	100.00%	22,790	5,328	
22	Linde (China) Forklift Truck Corporation Ltd.	Xiamen	China	10	100.00%	110,241	35,163	
23	KION Baoli (Jiangsu) Forklift Co., Ltd.	Jiangjiang	China	54	97.34%	26,932	-2,114	
24	STILL DANMARK A/S	Kolding	Denmark	17	100.00%	4,470	38	
25	BARTHELEMY MANUTENTION SAS	Vitrolles	France	28	90.41%	3,186	1,150	
26	Bastide Manutention SAS	Toulouse	France	28	100.00%	2,097	429	
27	Bretagne Manutention S.A.	Pacé	France	28	54.27%	7,389	3,821	
28	FENWICK-LINDE S.A.R.L.	Elancourt	France	36 & 10	100.00%	181,470	29,405	
29	LOIRE OCEAN MANUTENTION SAS	St. Herblain	France	28	88.98%	4,305	1,361	
30	Manuchar S.A.	Gond Pontouvre	France	28	80.00%	3,576	1,774	
31	OM PIMESPO FRANCE S.A.S.	Mitry Mory	France	60	100.00%	-257	31	
32	SAS Société Angoumoisine de Manutention - SAMA	Champniers	France	35	100.00%	13,688	925	
33	MANUSOM SAS	Rivery	France	35	50.13%	482	195	
34	SM Rental SAS	Roissy Charles de Gaulle	France	28	100.00%	1,129	516	
35	STILL SAS	Marne la Vallée	France	36	100.00%	-7,573	-29,396	
36	KION France SERVICES SAS	Elancourt	France	10	100.00%	110,417	88	
37	Lansing Linde Severnside Ltd.	Basingstoke	U.K.	48	100.00%	4,687	0	[R]
38	Linde Castle Ltd.	Basingstoke	U.K.	40 & 108	100.00%	6,191	1,470	
39	Linde Heavy Truck Division Ltd.	Basingstoke	U.K.	44	100.00%	57,216	-19,866	
40	Linde Holdings Ltd.	Basingstoke	U.K.	51	100.00%	237,053	2,225	
41	Linde Hydraulics Ltd.	Abingdon	U.K.	44	100.00%	6,071	-21	
42	Linde Jewsbury's Ltd.	Basingstoke	U.K.	40	100.00%	6,864	2,649	
43	Linde Sterling Ltd.	Basingstoke	U.K.	40 & 129	100.00%	7,307	651	
44	Linde Material Handling (UK) Ltd.	Basingstoke	U.K.	40	100.00%	58,646	8,931	
45	Linde Material Handling East Ltd.	Basingstoke	U.K.	40 & 52	100.00%	-1,410	2,345	
46	Linde Material Handling Scotland Ltd.	Basingstoke	U.K.	44	100.00%	6,608	1,348	
47	Linde Material Handling South East Ltd.	Basingstoke	U.K.	44	100.00%	2,703	1,159	
48	Linde Severnside Ltd.	Basingstoke	U.K.	44	100.00%	7,073	1,143	
49	OM PIMESPO (UK) Ltd.	Basingstoke	U.K.	60	100.00%	-198	1,120	
50	STILL Materials Handling Ltd.	Leyland	U.K.	51	100.00%	9,441	-1,033	
51	Superlift UK Ltd.	Basingstoke	U.K.	10	100.00%	53,936	-14,036	
52	Trifik Services Ltd.	Basingstoke	U.K.	40	100.00%	0	0	
53	Linde Material Handling Hong Kong Ltd.	Kwai Chung	Hong-Kong	10	100.00%	2,426	457	
54	KION ASIA (HONG KONG) Ltd.	Kwai Chung	Hong-Kong	10	100.00%	28,571	-313	
55	Voltas Material Handling Private Limited	Mumbai	India	78	66.00%	1,900	1,048	[3]
56	Linde Material Handling (Ireland) Ltd.	Walkinstown	Ireland	40	100.00%	5,836	-140	
57	COMMERCIALE CARRELLI S.r.l.	Lainate	Italy	61 & 62	100.00%	531	-119	
58	Linde Material Handling Italia S.p.A.	Buguggiate	Italy	10	100.00%	16,537	-271	
59	Cailotto Carrelli S.p.A.	Verona	Italy	58	100.00%	1,647	-541	[3]
60	OM Carrelli Elevatori S.p.A.	Lainate	Italy	10 & 61	100.00%	67,408	-23,481	[1]
61	STILL ITALIA S.p.A.	Lainate	Italy	17	100.00%	8,895	-150	
62	KION Rental Services S.p.A. (formerly: STILL NOLO S.r.l.)	Milan	Italy	61	100.00%	1,127	79	
63	Linde Vilicari Hrvatska d.o.o.	Samobor	Croatia	10	100.00%	168	20	

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2011

Annex to the notes

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
	Consolidated affiliated companies							
	Foreign							
64	KION Finance S.A.	Luxembourg	Luxembourg	-	-	29	-2	[3], [4]
65	STILL Intern Transport B.V.	Hendrik Ido Ambacht	Netherlands	17	100.00%	12,479	3,168	
66	Linde Fördertechnik GmbH	Linz	Austria	10 & 68	100.00%	9,211	775	
67	STILL Ges.m.b.H.	Wiener Neudorf	Austria	17	100.00%	4,553	849	
68	AUSTRO OM PIMESPO Fördertechnik GmbH	Linz	Austria	60	100.00%	9,875	-383	
69	Linde Material Handling Polska Sp. z o.o.	Warschau	Poland	10	100.00%	12,511	3,769	
70	STILL POLSKA Spólka z o.o.	Gadki	Poland	17	100.00%	9,554	1,202	
71	OOO "STILL Forklifttrucks"	Moskau	Russia	10 & 17	100.00%	1,224	90	
72	OOO "Linde Material Handling Rus"	Moskau	Russia	10 & 3	100.00%	-	-	[3]
73	STILL MOTOSTIVUITOARE S.R.L.	Giurgiu County	Romania	10 & 17	100.00%	-549	-42	
74	Linde Material Handling AB	Örebro	Sweden	10	100.00%	30,350	6,542	
75	STILL Sverige AB	Stockamöllan	Sweden	17	100.00%	2,015	-414	
76	Linde Lansing Fördertechnik AG	Dietlikon	Switzerland	10	100.00%	12,030	3,711	
77	STILL AG	Otelfingen	Switzerland	17	100.00%	7,189	2,907	
78	Linde Material Handling Asia Pacific Pte. Ltd.	Singapore	Singapore	10	100.00%	20,571	593	
79	Linde Material Handling Slovenska republika s.r.o.	Trencin	Slovakia	10 & 88	100.00%	2,052	225	
80	STILL SR, spol. s r.o.	Nitra	Slovakia	17 & 90	100.00%	1,775	441	
81	Linde Vilicar d.o.o.	Celje	Slovenia	10	100.00%	1,353	3	[1]
82	IBER-MICAR S.L.	Gava	Spain	10	100.00%	2,559	-21	[1]
83	Islavista Spain S.A.U.	Barcelona	Spain	10	100.00%	19,877	-2,961	
84	Linde Holding de Inversiones, SRL	Pallejá	Spain	83	100.00%	30,999	40	[1]
85	Linde Material Handling Ibérica, S.A.U.	Pallejá	Spain	84	100.00%	1,462	3,054	
86	STILL, S.A.	Barcelona	Spain	83 & 60	100.00%	12,322	-4,003	
87	Linde Material Handling (Pty) Ltd.	Linbro Park	South Africa	10	100.00%	18,845	865	
88	Linde Material Handling Ceská republika s r.o.	Prag	Czech Republic	10 & 17	100.00%	8,407	2,167	
89	Linde Pohony s r.o.	Ceský Krumlov	Czech Republic	10	100.00%	31,956	7,216	
90	STILL CR spol. s r.o.	Prag	Czech Republic	10 & 17	100.00%	4,726	401	
91	Linde Magyarország Anyagmozgatási Kft. (formerly: Linde Fördertechnik Ungarn GmbH)	Dunaharaszti	Hungary	10	100.00%	1,300	429	
92	STILL Kft.	Környe	Hungary	17	100.00%	1,310	36	
93	Linde Hydraulics Corporation	Canfield	United States	10	100.00%	8,047	1,388	
94	Linde Material Handling North America Corporation	Summerville	United States	10	100.00%	-4,554	-1,838	
	Non-consolidated affiliated companies							
	Domestic							
95	KION Financial Services GmbH	Wiesbaden	Germany	10	100.00%	50	0	[3], [A]
96	Klaus Pahlke Betriebsführungs-GmbH	Haan	Germany	10	100.00%	46	1	[1]
97	PAGEMA Miet- und Gebrauchtstapler GmbH	Haan	Germany	9	100.00%	62	0	[1], [L]
98	proplan Transport- und Lagersysteme GmbH	Aschaffenburg	Germany	1	100.00%	573	0	[F]
99	Schrader Industriefahrzeuge Verwaltung GmbH	Essen	Germany	10	100.00%	68	4	[1]
100	STILL Financial Services GmbH	Hamburg	Germany	95	100.00%	24	0	[3], [C]
	Foreign							
101	Lansing Bagnall (Aust.) Pty. Ltd.	Huntingwood	Australia	44 & 10	100.00%	-2,143	0	[1]
102	Urban Transporte spol. s.r.o.	Moravany / Brna	Czech Republic	18	100.00%	1,353	369	[1]
103	Baoli Material Handling Ceská republika s r.o.	Teplice	Czech Republic	88	100.00%	-	-	[3]
104	SCI Champ Lagarde	Elancourt	France	28	100.00%	103	0	[1]
105	FENWICK FINANCIAL SERVICES SAS (formerly: OTHEA SAS)	Elancourt	France	36	100.00%	0	-3	[1]
106	STILL Location Services SAS	Marne la Vallée	France	36	100.00%	-	-	[3]
107	URBAN LOGISTIQUE SAS	Elancourt	France	18	100.00%	1,018	273	[1]
108	Castle Lift Trucks Ltd.	Newton Aycliffe	U.K.	40	100.00%	1,210	481	[2]
109	Claymore Fork Truck Services Ltd.	East Kilbride	U.K.	122	100.00%	0	0	[1], [R]
110	Fork Truck Rentals Ltd.	Basingstoke	U.K.	44	100.00%	347	0	[1], [R]
111	Fork Truck Training Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
112	HFT Lift Trucks (South West) Ltd.	Basingstoke	U.K.	48	100.00%	-5	0	[1], [R]
113	Lansing Bagnall Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
114	Lansing Linde Castle Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
115	Lansing Linde Creighton Ltd.	Basingstoke	U.K.	44	100.00%	1	0	[1], [R]
116	Lansing Linde Jewsbury's Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
117	Lansing Linde Ltd.	Basingstoke	U.K.	44	100.00%	117	0	[1], [R]
118	Lansing Linde Scotland Ltd.	Basingstoke	U.K.	44	100.00%	155	0	[1], [R]
119	Lansing Linde South East Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
120	Lansing Linde Sterling Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
121	Lansing Linde Trifik Ltd.	Basingstoke	U.K.	44	100.00%	0	0	[1], [R]
122	Leader Lift Trucks Ltd.	East Kilbride	U.K.	40	100.00%	62	0	[1], [R]
123	Linde Trifik Limited	Basingstoke	U.K.	45	100.00%	0	0	[1]
124	M.D.A. (GB) Ltd.	Liverpool	U.K.	44 et al.	94.33%	198	32	[1]
125	Regentruck Ltd.	Basingstoke	U.K.	44	100.00%	1	0	[1], [R]
126	Severnside Mechanical Handling Group Ltd.	Basingstoke	U.K.	48	100.00%	2,032	0	[1], [R]
127	Stephensons Lift Trucks Ltd.	Newton Aycliffe	U.K.	38	100.00%	68	3	[1]

KION Holding 1 GmbH

List of shareholdings for the year ended 31 December 2011

Annex to the notes

No.	Name	Registered office	Country	Parent company	Holding in (%)	Equity, Local GAAP, TEUR	Earnings, Local GAAP, TEUR	Note
	Non-consolidated affiliated companies							
	Foreign							
128	Urban Logistics (UK) Ltd.	Basingstoke	U.K.	18	100.00%	95	180	[2]
129	Sterling Mechanical Handling Ltd.	Heswall	U.K.	40	100.00%	-	-	[3]
130	Lancashire (Fork Truck) Services Ltd.	Basingstoke	U.K.	43	100.00%	0	0	[1], [R]
131	KION FINANCIAL SERVICES Ltd.	Basingstoke	U.K.	51	100.00%	-	-	[3]
132	D.B.S. Brand Factors Ltd.	Basingstoke	U.K.	43	100.00%	0	0	[2], [R]
133	Stephensons Enterprise Fork Trucks Ltd.	St. Helens, Merseyside	U.K.	43	100.00%	0	0	[2], [R]
134	Handling & Storage Equipment (Ireland) Ltd.	Walkinstown	Ireland	56	100.00%	0	0	[1], [R]
135	Carest SRL	Lainate	Italy	60	100.00%	11	-1	[1], [R]
136	Milano Carrelli Elevatori S.r.l.	Monza	Italy	60	100.00%	21	-9	[1], [R]
137	URBAN LOGISTIKA S.R.L.	Lainate	Italy	18	100.00%	42	-1	[1], [R]
138	TOO "Linde Material Handling Kazakhstan"	Almaty	Kazakhstan	10 & 3	100.00%	-	-	[3]
139	Linde Viljuskari d.o.o.	Belgrad - Zemun	Serbia	66	100.00%	86	15	
140	STILL viljuškari d.o.o.	Belgrad	Serbia	141	100.00%	99	-173	[1]
141	STILL VILICAR d.o.o.	Ljubljana	Slovenia	17	100.00%	-1,087	-91	
142	KION Rental Services S.A.U.	Barcelona	Spain	83	100.00%	-	-	[3]
143	TOV "Linde Material Handling Ukraine"	Kyiv	Ukraine	10 & 3	100.00%	-	-	[3]
	Associates (equity investments)							
	Domestic							
144	Beutlhauser-Bassewitz GmbH & Co. KG	Hagelstadt	Germany	10	25.00%	5,894	1,527	[1]
145	Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Hamburg	Germany	10	21.00%	4,940	2,840	[1]
146	Linde Leasing GmbH	Wiesbaden	Germany	10	45.00%	29,118	2,021	[1]
147	MV Fördertechnik GmbH	Blankenhain	Germany	10	25.00%	1,026	115	[1]
148	Pelzer Fördertechnik GmbH	Kerpen-Sindorf	Germany	10	24.96%	15,654	-375	[1]
149	Willenbrock Fördertechnik Holding GmbH	Bremen	Germany	10	23.00%	10,138	2,138	[1]
	Foreign							
150	Linde High Lift Chile S.A.	Santiago de Chile	Chile	10	45.00%	12,653	1,353	
151	Linde Creighton Ltd.	Basingstoke	U.K.	40	49.00%	5,117	1,311	[1]
152	Linde High Lift Peru S.A.C.	Lima	Peru	150	45.00%	200	77	
	Joint Ventures (equity investments)							
	Domestic							
153	Eisengießerei Dinklage GmbH	Dinklage	Germany	17	50.00%	3,986	496	[1]
	Foreign							
154	JULI Motorenwerk s.r.o.	Moravany	Czech Republic	10 & 17	50.00%	21,812	4,975	[1]
	Associates (accounted at cost)							
	Domestic							
155	Carl Beutlhauser Verwaltungs GmbH	Hagelstadt	Germany	144	25.00%	33	2	[2]
156	JETSCHKE GmbH	Hamburg	Germany	10	22.00%	67	5	[2]
157	Supralift Beteiligungs- und Kommunikationsgesellschaft mbH	Hofheim am Taunus	Germany	10	50.00%	19	1	
158	Supralift GmbH & Co. KG	Hofheim am Taunus	Germany	10	50.00%	797	39	
159	Trainingscenter für Sicherheit und Transport GmbH	Bremen	Germany	149	23.00%	25	0	[1], [D]
160	Willenbrock Arbeitsbühnen GmbH & Co. KG	Bremen	Germany	149	23.00%	18	-252	[1]
161	Willenbrock Fördertechnik Beteiligungs-GmbH	Bremen	Germany	149	23.00%	29	-4	[1]
162	Willenbrock Fördertechnik Beteiligungs-GmbH	Hannover	Germany	149	23.00%	37	2	[1]
163	Willenbrock Fördertechnik GmbH & Co. KG	Hannover	Germany	149	23.00%	3,600	1,250	[1]
164	Willenbrock Fördertechnik GmbH & Co. KG	Bremen	Germany	149	23.00%	2,400	1,011	[1]
	Foreign							
165	WHO Real Estate OÜ	Tallinn	Estonia	149	23.00%	2	0	[1]
166	Labrosse Equipement S.A.	Saint Peray	France	28	34.00%	4,548	1,105	[2]
167	Normandie Manutention S.A.	Le Grand Quevilly	France	28	34.00%	13,614	3,148	[2]
168	Chadwick Materials Handling Ltd.	Corsham	U.K.	44	48.00%	1,257	15	[1]
169	McLEMAN FORK LIFT SERVICES LTD.	Basingstoke	U.K.	151	49.00%	1,355	115	[1]
170	EUROPA CARRELLI S.R.L.	Bastia Umbra	Italy	61	40.00%	562	-14	[2]
171	WHO Real Estate UAB	Vilnius	Lithuania	149	23.00%	-6	-3	[1]
172	Nordtruck AB	Örnsköldsvik	Sweden	74	25.00%	632	291	[2]
173	Carretillas Elevadoras Sudeste S.A.	Murcia	Spain	85	38.53%	3,626	392	[1]
174	CAYSA MANUTENCION S.L.	Valladolid	Spain	85 & 173	46.71%	162	50	[1]
175	Motorové závody JULI CZ s r.o.	Moravany	Czech Republic	10	50.00%	7	0	[2]

[1] Financial figures as of 31 December 2010
[2] Last provided financial statement
[3] New during 2011
[4] Consolidated as required by IAS 27 in conjunction with SIC-12 ("Consolidation - special purpose entities")

[A] Profit and loss transfer agreement with Linde Material Handling GmbH
[B] Profit and loss transfer agreement with STILL GmbH
[C] Profit and loss transfer agreement with KION Financial Services GmbH
[D] Profit and loss transfer agreement with Willenbrock Fördertechnik Holding GmbH
[E] Profit and loss transfer agreement with KION GROUP GmbH
[F] Profit and loss transfer agreement with KION Holding 1 GmbH

[L] In liquidation
[R] Dormant company

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of KION Holding 1 GmbH as of and for the fiscal year ended December 31, 2011 and the group management report.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the KION Holding 1 GmbH, Wiesbaden, – comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements – and the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („German Commercial Code") are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of the KION Holding 1 GmbH, Wiesbaden, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 15, 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: (Kompenhans)	Signed: (J. Löffler)
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]