KION GROUP AG

FY 2014 Update Call

Conference Call Transcript

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Speakers: Gordon Riske (CEO)
Thomas Toepfer (CFO)

Gordon Riske

Welcome to our Update Call for the full year 2014. In the usual manner, we will be in three parts; the highlights of the year 2014, I will do that, and our CFO, Thomas Toepfer, will give you the financial update, and after that we'll have the outlook and after we are done with our formal presentation, we'll turn it back over to you for Q&A.

I hope everyone has the document in front of you or on the display, I am on page 3 here, full year 2014, and I think the title is very correctly stated "Year on Records and Strategic Milestones in 2014", absolutely in all KPIs we have achieved new records. We have really had an outstanding performance here, a very strong finish for the year, but also strategically with some of the investments and optimisation of our manufacturing set-up, the successes that we had in emerging markets, the KION 2020 Strategy, R&D focus we had a year of new introductions, one of the biggest years in the history of the company, and of course the all-important inclusion in the MDAX with now a free float above 50%.

Some of the concrete numbers behind those highlights on page 4: Order Intake was up 9% compared to previous year. So EUR4.877 billion, Q4 was even up 10% with EUR1.3 billion, so overall our market was driven very heavily by a solid year in Europe and a very, very good year in China. Which brings us a much more comfortable order book at 14% versus previous year, so that gives us a good visibility into the first quarter and second quarter of 2015. Revenue also has increased, especially in fourth quarter with 11% previous years showing, you know, the solid order intake that we had in the quarter before. All new businesses grew, so the new business and services grew and because of that we were able to have a 9.5% margin which was significantly above previous year, so EUR443 million. Even in the fourth quarter we already reached the double digit state of 10.3%, which was a milestone for us and I think cash flow, as we'll get into the details, was also excellent.

And net income, results after everything, with EUR178 million was significantly above the previous year and we are now proposing a dividend up 57% versus the previous year of EUR0.55 per share, so that's, I think, all in all a very solid performance.

The capital markets on page 5 have noticed the performance after the inclusion in the MDAX and our increase in free float which is now 52.6%. We had a very, very good run in the year 2014 and also here in the first weeks of 2015, a very good run, and these positive effects have been seen in the market.

On page 6, some of the operational highlights for the year 2014. As I stated, we had a good growth year in year 2014, especially the fourth quarter, with very strong performance in Western Europe, China, Eastern Europe is a success story all by itself, in a market that has been troubled with conflicts and uncertainty, we had one of the best performance years ever in Eastern Europe.

As we move on through 2015/2016, you know in all of the discussions we've had, we've presented this KION 2020 Strategy, we are in implementation, and that is a multi-year investment programme, whether it's investing in productivity, improving our competitiveness in our German core plants, or extending our footprint into new markets like the construction of the new plant in Pilsen, the technological challenges ahead of us with lithium-ion technology for warehouse. We had also a very big year with launching the new platform in Asia and setting up North America.

Now these are all investments into the KION 2020 Strategy; some of these investments that we've talked to you about will be made in the year 2015 and these are necessary to continue on the path of achieving our goal in 2018 and 2020, not only in terms of profitability but in terms of market share - that's why these investments, as I said, are necessary and 2015/2016 are the years for those investments.

We have also continued our activities in automation; we have a strategic goal here in automation and warehouse technology, or logistics 4.0 as some of you may call it. To extend our capabilities in this area, Linde announced the cooperation of the French robotic specialist called Balyo, STILL has offered new products and even received some prizes for these new innovative products in the area of automated warehousing and that will continue to grow that segment of the market.

On page 6, a picture of the global market order intake and growth. Global orders increased by 6% in Q4, driven by E- and warehouse technology, and Western Europe was last year the very strong driver of performance, and in Western Europe itself, it’s the highest level that we’ve had in the forklift industry since the year 2009. Some slower development in China but at an all-time high, and Eastern Europe, as we know, was negatively impacted by Russia although we have had significant outperformance in this region. South and Central America are still very weak economies and I think you see that very clearly on page 8, where we see the performance in the various quarters. North America solid fourth quarter with 18%, Western Europe 8%, so at a very good level. Eastern Europe, the market down, but that was a very good year for KION, and Asia and South America with a weakness, so that the world market was 6.3% in the last quarter of 2014.

And the core markets we have profited from, on page 9 we've shown the development of the market - we show this graphic at each presentation, how these things have changed - and you see that the positive trend does continue. Replacement activity is supporting that solid demand and further upward potential.  Germany is in great shape; UK is approaching a new peak, and France is still moving sideways, although in the first couple of months of 2015, we have seen some improvements in France; and Italy and Spain continue a sharp recovery, also the highest levels in the year. So our core markets, especially Western Europe at this point, are still in good shape and we have had, as KION, the market-leader, in Western Europe been able to take advantage of the market upside.

On page 10, our momentum in the fourth quarter. The overall growth above the market, a high level of almost 40,000 units in Q4 2014, 7.5% above previous Q4s and with a solid finish for the end of the year 2014.

On page 11, also the graphic picture with the development of the different regions of the world, full year 2014 and Q4 2014; so KION with a solid finish, 9.5% versus the market of 11.5% in Europe. Eastern Europe with 11% versus no growth for the market. China again able to outgrow the market despite some of the declines in the market trends for IC-trucks, we were able to finish very solidly in all of our major segments and even South America, a little bit of a turnaround in Q4 with 1.5% above the market.

I'll come a little bit to the KION 2020 Strategy and we have talked about the strategy in many one-on-ones, in road shows; one year ago we presented this strategy for the first time - I'm on page 12 here of the presentation - and our whole aim is to close the gap towards global market leadership, as between us and the other global market leading companies, and at the same time, to be the most profitable and resilient company in the industry. And we are well on the way to execute this strategy. It involves all parts of the company, and a growth focus in China and America, but while at the same time, focussing also on defending our home markets, defending our castle here in Western Europe.

This strategy has impact on all the brands and there you have seen that at the end of the year 2014 we have streamlined our management structure at the beginning of the year and the purpose is simply to increase a decision-making speed and to really best leverage the synergies that are still embedded in the different companies.

On page 13, in terms of the margin drivers that are under implementation, whether it's the manufacturing set-up, the global platform strategy and operating leverage, here we have also made progress. We have worked on the implementation in the manufacturing set-up with introducing our new plant in the Czech Republic and the efficiency programmes that we have in our main factories, Hamburg and Aschaffenburg. The module strategy, we have launched the first lithium-ion powered trucks with common modules, for all of the brands and the platform strategy we have launched three new trucks types based on a global volume platform, developed in our Chinese R&D centre.

And as we presented in the capital markets day on 2nd December 2014, we will continue to implement this strategy and the strategic measures, and 2015 will be a year of implementation and of course some of the investments to get the job done. And the EBIT effects from these ongoing effects will be seen in 2016 when our Czech Republic factory comes on line. Next larger modules and further platform trucks will be launched, and especially some of the investment that we're undertaking to make progress in our North American set-up, those are investments that are now being done. And looking at some of the recent developments we've already seen good development across the gross margin over the past years but as I said some of the investments in this year will have to be undertaken. Also our IT infrastructure to enable our global R&D platforms, some of the IPO costs, as you know. As I said 2015 is a year of strategy, implementation, very important for our company going forward.

On page 15, just a couple of highlights from the technical side, on the automation, we have introduced a range of new products, automated, enable really our customers to optimise their material flow. We have also increased our consulting and planning activities. And on page 16, Linde and STILL are pushing ahead with automated forklift trucks on the one side, the project that we have now entertained with Balyo, a robotics specialist, that will lead to new applications and new types of forklift applications that are totally driven without people. And on the STILL side, a similar type of project that we have already delivered to customers, fully automated logistics solutions.

And with that, we're going to go into the financial update from Thomas Toepfer, and then we will talk about the outlook for 2015.

Dr Thomas Toepfer

Yes, thank you very much and also a very warm welcome from my side to our call. If you turn please to page 18 where you have the key financial for the financial year 2014 and you can see it's a clear record year with all KPIs above the previous year number. And I would also like to mention at this point that we achieved or over-achieved the forecast for all numbers that we had given one year ago for the year 2014.

So in more detail, if you look at the order intake, we're up 8.6% to EUR4.877 billion, despite a slightly negative FX effect of EUR38 million. So this is clearly above our outlook where we only had envisioned a slight increase.  Revenues are also up by 4.1% to EUR4.678 billion, fully in line with our outlook, and so is our adjusted EBIT, where we have achieved a very nice uplift of 6.3% to a record level of EUR443 million. And also in terms of margin, we have achieved a new record margin for a financial year of 9.5% which is an uplift of 20 basis points relative to 2013.

In terms of our net income number, we have achieved EUR178 million, up almost 29%; I think this reflects both the operational improvement in the company but obviously also the improvements which we have made with respect of the financing structure, and the improvement of our interest rate payment where we have taken some important steps in the last year to improve our position.

If you look on page 19, you have the numbers for the fourth quarter of last year and what they show you is that the momentum has even accelerated, at the end of the year, with an order intake up 9.9% to just a little over EUR1.3 billion. Revenue even a little bit higher uplift with 10.8%, also just above EUR1.3 billion for that figure. And our adjusted EBIT has achieved EUR134 million and for the first time in a quarter we have a double-digit margin of 10.3%, which is a record number for KION.

The net income, it's just slightly above previous years, this is due to the positive tax effect which we had booked in Q4 2013. On an absolute level I think it shows that the net income number despite that special effect has increased also in 2014.

Let's go through the individual items a little bit more in detail. So if you turn to page 20 you have the order intake in euros, you see the EUR1.3 billion that I was mentioning, up 9.9% despite the already quite high base which we had in 2013. I think Gordon Riske mentioned that it is mainly driven by Europe but also China, where we were able to outperform the market, and with that strong order intake we're looking at an order backlog of EUR787 million at the end of the year which is 14% above the 2013 number and that definitely gives us a very good starting point into 2015.

If you look at the revenue development on page 21, you'll recognise the 4.1% on the left hand side with the good news that all businesses have contributed to that growth, including our new truck business which has accelerated significantly its growth in Q4. On the right hand side you can see services business is growing at just a little over 8% as it did for the entire year, but especially the new business has picked up significantly with a growth rate of 12.8% for that single quarter.

In terms of profitability, on page 22, you have the EBIT and EBITDA numbers, as I said we have closed the year with EUR443 million which is a margin of 9.5% and a record number of 10.3% margin in Q4. I think I would like to mention that we were able to expand our gross margin by roughly one percentage point and that is true for the entire year as well as for the fourth quarter, so continuously we're improving in that regard.

On page 23 you have the reconciliation from the adjusted EBIT number all the way down to the net income. I will not go through each and every number, I think just some highlights, the EUR57 million of non-recurring items in 2014, obviously contain almost EUR30 million, EUR28 million to be precise, from the impact of our Linde hydraulics business and they also contain the effect from the dissolution of the contracts with two board members. So those are the main drivers in that number.

Net financial expenses, I think we have been very transparent that we have a positive effect of EUR43 million due to the re-measurement of the option. But I think more specifically if you look at Q4, you'll see the EUR20 million net financial expense number, that is fully in line with our guidance and that does reflect already the positive effect from the refinancing actions which we have undertaken in the last year.

In terms of taxes, you do see the EUR80 million which corresponds to a tax rate of 31%, so we are approaching our guidance which we have given for the long term and in terms of net income, a new record number of EUR178 million with earnings per share of EUR1.79 and a proposed dividend of EUR0.55 which is an uplift of 57% relative to previous year’s number.

In terms of the cash flow, you have the details on page 24. I would just like to highlight and start with the last line item on that page with EUR306 million we have achieved a new record number for the year. And I think the key drivers were obviously that taxes were lower than last year where we had an extraordinary tax payment which was still due to the gain which we realised with the sale of Linde Hydraulics. The trade working capital is slightly up in line with our business expansion and the other item obviously contains the same items which I was referring to with respect to non-recurring items, so the

Linde Hydraulics effect and also the non-cash items from the dissolution of the board contracts.

Leasing cash flow is essentially flat, operating Capex slightly up relative to previous year, fully in line with the guidance that we had given. And the rental Capex is expanding roughly in line with also the expansion rate of that business.

So as I said, in total I think a very, very successful cash generation and very successful year in terms of cash flow for the group and that obviously has also then resulted in an improvement of our financing situation. On page 25 you can see that the net financial debt of the business is down to EUR811 million, that is down EUR169 million from the December 2013 number, so a very good step forward in terms of deleveraging the company. I think the other items are broadly unchanged except for the net pension liabilities which are up to EUR766 million, purely due to the fact that the discount rate has further declined and you have that in more detail on page 26. So obviously a direct inverse relationship between the discount rate, which is down to 2.2%, and the increase in net pension liabilities. I think the key message here is: Our UK plans are fully funded and there's no need to fund those plans in addition to where we stand today. And also, the last bullet on that page, the cash out of the pensions is very stable with roughly EUR20 million a year, so the increase of the balance sheet number has no cash effect on the Group.

And with that, I would like to hand it back to Gordon Riske who will talk about the outlook for the year 2015.

Gordon Riske

Thank you, Thomas. I am on page 28, and looking at page 28, just to extend the starting points; if you look on the Actuals 2013/2014, year-on-year changes, the slight increase compared to 2103, so 8.6%. The revenue is 4.1%, significant growth in EBIT adjusted 6.3% and free cash flow. So clearly 2014, all guidance indicators achieved or over-achieved and that's a very, very solid base which we feel very comfortable in for the year 2015.

On page 29, clear statement on our outlook is further improvements on our record results in 2014. Starting from the market, we do expect the market to have an average growth rate of about 4% over the next few years, so we have not changed our outlook, on that case. We further expect that the stabilisation in the Western European markets will continue, simply due to the necessity of the sustained replacement model, especially in Southern Europe, we're seeing some of that in Italy and in Spain.  We do have at the moment, and we see no reason to back off of that, healthy growth conditions in North America and in the emerging markets a continued growth, maybe on a slightly lower level but still continued growth.

The risks of course related in Eastern Europe to the Russian and Ukraine conflict but the negative effect that could maybe happen to Eastern Europe or for the euro markets, we don't see as that significant. So all in all, no significant changes in the proportion of total revenue generated by each product segment. So to sum that up from the market side, we definitely see all the conditions met to be able to give us confidence in our projections for 2015.

Now coming to KION and our expectation and our outlook, our guidance for the year, we see slightly higher order intake and consolidated revenue than in 2014, always remembering 2014 an absolute record year in all KPIs - the best year that the company has ever had in its history. We see a slight year on year rise in adjusted EBIT reflecting some of the costs for the implementation of the Strategy 2020  leading to a sustained improvement in the years to come, an adjusted EBIT margin which will be approximately at the 2014 record levels, a free cash flow, as Thomas explained, that's slightly below the very, very high level of the previous year due to some of the increased Capex and higher anticipated tax payments and with all that together, reduction of the net debt coming out of the free cash flow.

Now maybe just to expand slightly, because we've had some questions and also, as you know, we had the press conference this morning, you know, what does all that mean in terms of our guidance going forward, have we changed anything - absolutely not. We are exactly where we want to be right now in 2015. Here we can definitely say, and reaffirm in case there are any questions of that, that our target to reach 12% EBIT margin in 2018 has not changed - not by one-tenth of a percent or one-fifth of a percent. But 12% in 2018 we have not backed away from that at all. We are very much on track - always remembering 2014 was an outstanding year.

And 2015 will also be an outstanding year but of course we always have to keep in mind a couple of points. One is that we need to make some of these investments to be able to achieve the 2018 results. Those are things like our US strategy, the implementation of our R&D processes and new products for the US market. The ramp-up of our new factory in the Czech Republic. The IT infrastructure for our global R&D network. And, of course, our Asia effort: We are launching 17, so 17 new products, so that's an SOP every couple of weeks in Asia this year. It's the biggest undertaking for new product launches in all segments, electric trucks - a new generation of electric trucks, engine driven trucks - a new generation of mid-priced IC-trucks, new warehouse technology - for the first time we have developed new warehouse technology in China for the global market, and a couple of new heavy forklift trucks. So it's the biggest SOP launch that we've ever had, so that needs to always be kept in the back of our minds.

The second thing is, and we alluded to that a little bit in our press statement, is that we will continue very hard to work on our self-help efforts that is containing our fixed cost development, especially in Western Europe. Our objective, as many of you know, is to grow without growing our fixed cost and, on the other side, to make sure that we continue to gain the synergy benefits that we have as a multi-brand organisation and leveraging that as much as possible.

So with this we want to make sure that everyone understands that for 2015 we expect a very good year coming out of a record year 2014, knowing that 2015 we need to make some of the investments reflecting our goal to reach 12% EBIT in the year 2018, on the way to our new market leadership targets in 2020.

And with that, we'd like to close the formal part of this presentation and turn it back to the operator so that we can take your questions.

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time.

And the first question is from the line of Juergen Siebrecht of HSBC, please go ahead.

Juergen Siebrecht

Good afternoon, you stated that you had a good start into 2015, could you give a trading update and what the order intake was in January and February? You also said you have a good backlog; what could you say with regards to Q1 order intake for you in value terms, maybe you also there to give a market outlook for Western Europe.

And then a second question: One of your competitors recently stated that it wants to increase sales from EUR2.5 billion to EUR3 billion until 2017. Does this cause headache for you or could there be a positive market assumption as an underlying?

And lastly on your margin target: Is it possible to elaborate how the EBIT margin would be in 2015 if those special costs or preparations costs are stripped out and is it fair to assume that we should see a leap on the margin side in 2016 because you will also then see positive effects and the costs are then, of course dropped out? Thanks.

Dr Thomas Toepfer

Yes, well maybe with respect starting 2015, I think we're very happy to give a trading update on where we stand on May 7th, when we have our Q1 results. I think until then, we can say that the good momentum which you could see in Western Europe has continued into the New Year and therefore I think we're moving with good momentum in the year. I think anything else would be too early because I think we've tried to explain several times that the bulk of the order intake and also the sales is within the last three days of the quarter. So as I said, I think we will give a very detailed update on the quarter then on May 7th.

With respect to the margin target, the way I would look at this question is, I mean we have said that we have a drop-through rate of 20% at least on the first EUR100 million and then it is slowly going down because we then have to add some additional shift and capacity etc., so I would make the statement this is fully intact and is holding true. And the difference that you may observe in your models is then simply the costs that we have to bear for the strategy investments that Gordon Riske was mentioning. So this is essentially the equation how I would look at it for the year 2015 and I think this then broadly answers where would the margin be had we not to make the investments for our strategic initiatives.

Gordon Riske

The other question of headaches, we don't have generally too many headaches, you know we just try to run our business. To grow from EUR2.5 billion to EUR3 billion, maybe at this moment, you know the market is very robust, we have for the second year in a row over one million in forklift trucks, as we said year on year, growth of 4% over all markets around the world. We have some great markets, some good markets and some stable markets, so there are different packets around the world that are growing faster. And so far, if I try to translate those numbers into market share gains or losses, we haven't lost any market shares in areas that we felt were important for us, always keeping in mind that, you know, our biggest goal in markets where we have dominant market shares, is to have a high price assertion and to keep our margins as the market leader at peak levels and we will continue to do that. So, overall, the growth outlook is more market driven than getting headaches from, you know, people stealing market shares.

Juergen Siebrecht — Okay, thanks.

Operator — Next question is from the line of Alok Katre of Societe Generale, please go ahead.

Alok Katre — Hi, Alok Katre from SocGen, maybe a couple of questions please. Firstly on the margin sort of guidance: If I sort of do the maths then it seems that the cost the Strategy 2020 is probably higher than what perhaps we had or the market generally had estimated. What I want to probably try and understand: Is this a case of you know probably having more costs upfront and then having less costs in 2016 and 2017? And therefore should we sort of see that effect on the margins? Or have the costs for execution of Strategy 2020 increased in general? So that's the first one.

Then a little bit on the productivity side of things. If I look at the revenue for employee and the cost for employee changes, then it seems that the cost for employees have increased much more than what the revenue per employee has been. So just trying to understand what's driving that and how should we think about, you know, these trends in 2015 and beyond? And the related question to that is obviously on the wage agreements, what's their tenure and is it sort of an annual process? Thanks.

Gordon Riske

Okay, I'll start with the second one. Here in Germany at least, it's an annual process. Sometimes, the wage agreements go for 16 months, not longer. And this year it was, I think over 3% or so, and we've had that in the last couple of years, so we do have a little bit of a different situation in Germany versus other parts of the world, especially in the last few years. And that's why we made the statement and we decided on this investment programme in our big factories in Germany, so Hamburg and Aschaffenburg, because our productivity rate of improvement must be faster than it has been in the last couple of years, so we are looking at what is our level of value-add depth of production ourselves and what can we outsource and how can we get to a more and more asset light, automated type of environment, because we are in Germany, we're very happy to be in Germany as a machine company.

However, you know, the wage picture is what you have and so you can only do that with productivity and really concentrating on things that we do very, very well, better than other countries which may not be able to do that. And so we of course are looking at that number all the time, revenue per employee versus cost per employee and that's why, in the European markets, especially in Germany, we are focussing on our operating leverage, means reducing our costs here, our fixed costs and trying to grow without adding additional fixed costs and that requires a little bit of investment in automation and in some outsourcing activities.

Dr Thomas Toepfer

Yes, and with respect to the margin guidance, again I think no, there's no surprise at all. I think this is fully in line and please also remember at the capital markets day I think we said it very clearly that the margin expansion is not a straight line exercise but it is somewhat backend loaded simply because we do have to make the investments that Gordon Riske was mentioning, and therefore, yes, it is as you said, the amounts are fully in line with what we have expected, and they are necessary and will be implemented this year so that in 2016 we will

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| | then see a step up in the margin towards the 12% which we have as a target for 2018. |
| Alok Katre | Thank you. |
| Operator | Next question is from the line of Felicitas von Bismarck of Deutsche Bank, please go ahead. |
| Felicitas von Bismarck | Yes, thank you very much. I have another margin question actually. Just apart from the leverage effect as you mentioned, could you give some indication of how much you're expecting, for example, from pricing, from raw material costs, from the service, so all the managers which are not working for you anymore? So what kind of EBIT what you are looking for here?<br><br>And the other question is the FX. So as far as I understand, your guidance is an organic guidance. So when we assumed last year you had EUR35 million negative impact on top line and that already translated into more than EUR10 million negative effect on EBIT, is there any reason not to assume that if that were to turn positive, there would be a comparable positive impact?<br><br>And the last question would be on competitor pressure that you mentioned; so who is that coming from? Is it Germans, is it more the Asians, so where are you seeing the competitive pressure and why do you think that is, because the markets are actually on volume terms quite nicely developing? So that would be it, thanks. |
| Dr Thomas Toepfer | Yes, maybe let me start with the margin question again. I hope I got it completely, otherwise please don't hesitate to ask. I think what I would argue and how I would look at it is our general equation where we say we're able to push through prices by roughly 1% every year in order to balance out cost inflation mainly driven by wage increases, etc. that is also what we're foreseeing for the year 2015, as we have also done in the past very successfully. And therefore the margin uplift is then |

obviously a combination of our self-help measures, which we are continuously implementing, and some operational leverage, and that is then leading to the 20% drop-through rate which we are looking at also for 2015. Plus obviously the additional costs that we have to bear for the strategy implementation measures.

In terms of foreign exchange, just to look back to…

Felicitas von Bismarck: Sorry, just one second. So you don't see any… so how do you see the mix developing then? You don't see any increases any services or you see faster increase in new equipment than services, so no positive effects of that?

Dr Thomas Toepfer: No, we don't see any significant changes in mix, and neither between services and new truck sales. Remember we have never stated that we see it as a target in itself to promote services, but rather to expand the installed base because that is the key driver. Nor would I see a significant shift within our product mix. So I would say that should not have an overall, on a broad level, should not have a big impact on 2015.

Felicitas von Bismarck: Okay.

Gordon Riske: Yes, and on the comment market getting more competitive, that's globally certainly the case; the big players are all like we are, fighting for market shares, bringing new products, investing in their infrastructure, whether it's sales or service in new products, and we are doing that the same. And, you know, we have to just make sure that our competitiveness is a notch higher, we are already the most profitable company in this scope and on the way to 12% there is still quite a bit of work to do and part of that is the implementation of the measures that we just talked about. And even with a market environment right now, where growth is the name of the game, and the markets are growing, we have to be very, very careful that growth doesn't also mean growth in building up fixed costs and we see that

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| | simply internally as one of our biggest tasks is the self-help programme which we've done very well in the past years. But you know when a company has record after record, as we had in the past couple of years, it's a point that, you know, we have to make very clear in our own organisation that competitiveness is the main rule of the game in order to make our targets. |
| Dr Thomas Toepfer | And then I think just to follow up on the FX, just to look back on 2014, I think you have the numbers very clearly for order intake and for sales. In terms of EBIT, our guidance through the year was between EUR10 million and EUR15 million, as the euro has significantly devaluated in Q4, we're rather at the lower end of that spectrum. And with respect to 2015, our view is because we have a very strict hedging policy and we have implemented that in 2014, I do not expect any significant impact on our EBIT and I don't see any significant transaction effect for 2015. However, should the euro stay at the very low level where we currently see it, then there might be some translation effects simply because as we translate the revenues and order intakes from our Chinese operations back into euro, that might lead to a little higher number, so that is maybe not fully reflected in our guidance and that would materialise should the euro stay at the super-low level as we see it today. |
| Felicitas von Bismark | Okay, thank you very much. |
| Operator | The next question is from the line of Gerhard Orgonas of Exane BNP Paribas. |
| Gerhard Orgonas | Yes, good afternoon, I have got two questions please. The first question, if I look at your slide 13 about the Strategy 2020, it looks like 2016 is also a year of ramp-ups, you've got new plants running up in the Czech Republic, in the US new module launches and so on. In the first year when you have these ramp-ups, you know this tends to cost some money, so is it fair to assume that in 2016 we'll probably |

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| | also see a flat margin on 2015 and then probably 100 basis points improvement in 2017/2018? That's my first question. |
| | The second question: Could you please remind us of the non-recurring items and the acquisition items for the next three years please? |
| Dr Thomas Toepfer | Yes, let's start with the non-recurring items, so I think if you have the EUR57 million the main parts of that is close to EUR30 million from LHY, that's EUR28 million to be exact, and close to EUR10 million from the dissolution of the board contracts. But I understood your question probably more towards the PPA effect… |
| Gerhard Orgonas | No, rather 2015. So non-recurring in 2015; do you expect that to…? |
| Dr Thomas Toepfer | Ah 2015, sorry. I think our guidance was that, I mean and if you adjust for those, we are at previous year level and our guidance for 2015 would be that they should further go down so that, maybe not in 2015, but probably a year later they will be close to zero. |
| Gordon Riske | Okay and on the question of guidance for 2016, that's an interesting question in March when we're giving guidance for 2015. I would do that too if I were you but you know I just want to reiterate, if there's questions in the room or on the lines, you know we have a clear target 2018, therefore we have, you know, set up a very granular 2020 Strategy with some very specific actions which we are implementing quarter for quarter, year for year, and all I can say is we are on target to meet our objectives in 2018 and part of that of course is the investments that we have going on this year and next year and to give guidance on 2016 at this point would be a little bit early. |
| Operator | Mr Orgonas, this was answering your question? |
| Gerhard Orgonas | Yes, thank you. |

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| Operator | Thank you. We go to the next question, and the next question is from the line of Sebastian Growe of Commerzbank, please go ahead. |
| Sebastian Growe | Good afternoon gentlemen, this is Sebastian Growe from Commerzbank. Four questions from my side, actually. The first one is on competition and on which areas and products like the IC-Trucks, E-Trucks, or warehouse trucks, or the regions do you see the greatest step-up in overall of competitive pressures?<br><br>And the second question then is on the clean EBIT guidance that you gave. Obviously there is quite a substantial headwind coming from implementation of the 2020 Strategy and also for the ramp-up of the production site in Pilsen. So would it be possible for you to just break down the headwinds into these two parts, so in million euros, how much really can be allocated to the ramp-up of production in Pilsen, and also to the 2020 Strategy implementation?<br><br>Third question then on operating leverage more in general; what do you see in terms of operating leverage for KION on each incremental euro of revenue these days?<br><br>And then finally, you have in the slide deck, and also you said it Dr Toepfer, the expectation that Capex is going to increase, and you also mentioned the fact that you are ramping-up this plant in Pilsen, can you just give us really the Capex budget for 2015? Should we think about EUR10 million or so higher level, ie, towards EUR140 million or where would you think Capex will end at the end of 2015?<br><br>And related to that, potentially also on M&A; you made a bigger acquisition on the services side with the Willenbrock acquisition at the end of 2013, can you just talk us a bit through your ideas on M&A and how your potential pipeline might look like? Thank you. |
| Gordon Riske | Competitive pressures, first question, certainly more on the engine-driven trucks, some people call them IC-trucks, internal combustion |

engine, that's certainly the most pressure in the market for a lot of reasons. That market is being driven by big changes in emission standards, so the products per se from a cost standpoint are ever-increasing every year, as new emission levels come out. Which means structurally the market in Western Europe, I think in the last 7/8 years, the total market for IC-trucks is probably down 38% to 40%. Approximately, we have not of course fallen that far but the market as general is changing more towards electric trucks where we are, you know, the undoubted market leader. But some companies that were not able to make the changes quick enough with new products, electric trucks, are trying to fill capacities that they may have for these types of basic simple trucks - that's not so much the big players, but smaller players that don't have the kind of R&D strength that we do. So that's the area or the segment of business, it's more the IC-truck.

The regions, that's all over the world, also Western Europe. The least effects are happening of course in Germany and France where we have dominant market positions but outside of Western Europe, that's happening in Asia in any case, it's happening in Southern Europe a little bit where people are trying to sell trucks at prices which we would not go along with due to the changes in the market trends. So that's all over the world, not so much in Germany and France.

Now on the question six, and we'll get to the other ones in just a minute, Willenbrock, yes we did that last year. You know to publicly state what our M&A pipeline is at the moment, I think would be a little difficult question to answer, to say the least. But trust us, the M&A pipeline, M&A activities we are constantly scanning the markets. This Balyo cooperation is a small thing in terms of euros but I think a very significant step into the step of automation, automated processes in logistics and we will continue to do that, we have a good set-up for our company in terms of our M&A outlook at the moment and we will, if there should be anything, inform the market at the right time.

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| Dr Thomas Toepfer | Well, and then with respect to the clean EBIT guidance, you were asking what are exactly the headwinds and can that be broken down? So I think the overall number for 2015 is some roughly EUR20 million, and included in that is obviously our plant in Pilsen and the other measures that Gordon Riske was referring to. And one additional effect that I would like to mention is additional P&L effect on pensions, not payment, sorry, simply due to the lower interest rate. But the bigger chunk of that, so I would say two-thirds of that, is the Pilsen plant plus the strategy measures that we have to implement. And then I think if you adjust for that, and I think your question was on operating leverage, it holds true that we have a drop-through rate of roughly 20% on our additional first hundred million revenues and then slowly declining because we have to add some capacity on top of that.<br><br>I think with respect to Capex, coming from the EUR133 million, we always made very clear that we don't expect any big spikes due to the programmes that we're running. So my guidance for the next year will be that we will have an increase but that it will stay most probably below the EUR150 million for 2015. |
| Sebastian Growe | Okay, very clear. Thank you very much. |
| Operator | Next question is from the line of Stefan Augustin of Kepler Cheuvreux, please go ahead. |
| Stefan Augustin | Yes, hello gentlemen, one question again on the outlook. If I would summarise that, somehow you have for the top line in 2015 not a largely deviating outlook than for 2014 although you started with a lot higher momentum into this year. Do you have any, let's say, expectations that… is that simply cautiousness for the second half of 2014 or how should I view that? |
| Dr Thomas Toepfer | I think the view that we have is we had in 2014 an exceptionally strong market in Western Europe which grew double digits and to be quite frankly, that was above our expectations. I think looking forward it |

would be, from our view, over-optimistic to assume that this will continue all the way through to 2015 and therefore, yes, you're absolutely right, we have a very good base in terms of our order backlog, we have good momentum in the market, but we are simply not so bullish as to assume that the Western European market in 2015 will perform as strong as it did in 2014.

SA — Okay, thank you very much.

OP — And the next question is from the line of Patrick Speck of Montega AG, please go ahead.

Patrick Speck — Yes, hello gentlemen. One quick question from my side regarding the market in Eastern Europe: Last year you were able to outperform the market with a strong growth of 11% versus the market going down by 0.7%. Do you think you will be able to continue with this outstanding run in Eastern Europe or do you think you will see heavier impacts from the crisis there? Thanks.

Gordon Riske — Hard to say at this moment how the crisis will continue. You know we see in Russia it's getting tougher, that is true, but in the rest of Eastern Europe, Poland, Czech Republic, the other markets we performed exceptionally well. We also did, in the past couple of years - you know, we've worked on our sales and service structure and created our organisation and those effects we're seeing now, two years after doing that. So I think from an organisational standpoint we're in a very good position to take advantage of the market. We should be able to outperform the market but the market right now, at least, you know, going towards Russia, is so volatile, it's very difficult to predict.

Patrick Speck — All right, thanks.

Operator — Ladies and gentlemen, if you would like to ask a question, please press the star followed by one. We are waiting for further questions.

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| | The next question is from Juergen Siebrecht of HSBC, please go ahead. |
| Juergen Siebrecht | Yes, please, I would have a follow-up question on the regions. China grew only 3.7% market-wise in Q4, as you outlined you were able to grow 9%? What is your view for Q1 and for 2015? Do you have any concerns and do you think you can still outgrow the market in 2015? Thanks. |
| Gordon Riske | Yes for 2015, we know that, you know, Q1 is always a little bit slower because of the big effects of Chinese New Year, of course the Chinese New Year is every year, so it's nothing new, but I'm sure that the first half of this year will probably be slower than the second half. That's our expectations, also according to all the people we've talked to and some of the things that we see in construction and on highway heavy truck industry which is down slightly… not down slightly, is down in the first quarter of 2015. But overall, with our set-up that we have now, the premium products of Linde are doing very well. Secondly, a pretty large installed base, our service revenue's higher than, you know, any type of company, whether a Chinese company or other company in the market, and Balyo growing double digits every quarter, we think we have everything that's required to grow double digit. I do believe with our product launch this year of 17 new products that will also underline our growth in China for this year. So we should definitely be able to out-perform the market. |
| Juergen Siebrecht | Thank you. |
| Operator | Excuse me Mr Riske, there are no further questions at this time, so please continue with any other points you wish to raise. |
| Gordon Riske | No, thank you very much everyone for participating and for your questions and we look forward to the next update call. |