KION GROUP

ANNUAL REPORT 2017

RESPONSE & RESPONSIBILITY

Shaping tomorrow today.
kiongroup.com/responsibility

PRODUCTS ENVIRONMENT EMPLOYEES SOCIETY SAFETY

KION Group
Key figures for 2017

KION Group overview

in € million	2017	2016	2015	Change 2017/2016
Order intake	7,979.1	5,833.1	5,215.6	36.8%
Revenue	7,653.6	5,587.2	5,097.9	37.0%
Order book [1,2]	2,614.6	2,396.6	864.0	9.1%
Financial performance				
EBITDA	1,185.7	889.5	824.2	33.3%
Adjusted EBITDA [3]	1,223.9	931.6	850.0	31.4%
Adjusted EBITDA margin [3]	16.0%	16.7%	16.7%	–
EBIT	549.4	434.8	422.8	26.3%
Adjusted EBIT [3]	765.6	537.3	482.9	42.5%
Adjusted EBIT margin [3]	10.0%	9.6%	9.5%	–
Net income	426.4	246.1	221.1	73.3%
Financial position [1]				
Total assets	11,228.4	11,297.0	6,440.2	–0.6%
Equity	3,148.8	2,495.7	1,848.7	26.2%
Net financial debt	2,095.5	2,903.4	573.5	–27.8%
ROCE [4]	9.9%	6.9%	11.9%	–
Cash flow				
Free cash flow [5]	378.3	–1,850.0	332.7	>100%
Capital expenditures [6]	218.3	166.7	142.6	31.0%
Employees [7]	**31,608**	**30,544**	**23,506**	**3.5%**

1 Figures as at balance sheet date 31/12/ (adjusted due to the final purchase price allocation Dematic)
2 Order backlog 2016 adjusted to reflect specific customer orders from long-term construction contracts in the segment SCS
3 Adjusted for PPA items and non-recurring items
4 ROCE is defined as the proportion of EBIT adjusted to capital employed
5 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities
6 Capital expenditure including capitalised development costs, excluding leased and rental assets
7 Number of employees (full-time equivalents) as at balance sheet date 31/12/

All amounts in this annual report are disclosed in millions of euros (€ million) unless stated otherwise. The addition of the totals presented may result in minor rounding differences. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros.

ENVIRONMENT

SOCIETY

PRODUCTS

In what respects is sustainability a driving force in our success?

EMPLOYEES

SAFETY

RESPONSE & RESPON-SIBILITY

We think and act sustainably throughout the KION Group. This is reflected in our products, in our commitment to society and the environment, in our approach to safety and in our highly skilled employees – in every part of the Company, and to the benefit or our customers.

We keep the world moving.

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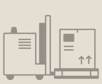
Industry 4.0 The KION Group adds value in production and logistics

INTELLIGENT TRUCKS

- Smart trucks with electronic control units
- Driver assistance systems for greater efficiency

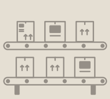
FLEET DATA MANAGEMENT

- Fleet data services for centralised control and tracking
- Fleet optimisation
- Financial benefits and improved safety



AUTOMATED TRUCKS

- Full range of automated trucks
- Enables automation of material handling processes



AUTOMATION SYSTEMS

- Customised and integrated intralogistics solutions
- Automated trucks in combination with additional hardware and software

The KION Group is a global leader in industrial trucks, related services and supply chain solutions. Across more than 100 countries worldwide, the KION Group's logistics solutions optimise the flow of material and information within factories, warehouses and distribution centres. The Group is the largest manufacturer of industrial trucks in Europe, the second-largest producer of forklifts globally and a leading provider of warehouse automation.

The KION Group's world-renowned brands are among the best in the industry. Dematic is a global leader in automated material handling, providing a comprehensive range of intelligent supply chain and automation solutions. The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks in the economy segment. Among the regional KION brand companies, Fenwick is the largest supplier of material handling products in France, while OM STILL is a market leader in Italy. OM Voltas is a leading provider of industrial trucks in India.

More than 1.3 million industrial trucks and over 6,000 installed systems from the KION Group are deployed by customers in all industries and of all sizes on six continents.

We keep the world moving.

INDUSTRIAL TRUCKS & SERVICES

The Industrial Trucks & Services segment encompasses forklift trucks, warehouse technology and related services, including complementary financial services. It pursues a multi-brand strategy involving the three international brands Linde, STILL and Baoli plus the three regional brands Fenwick, OM STILL and OM Voltas.

Industrial Trucks & Services is made up of four operating units that cover the KION Group's existing industrial truck business: Linde Material Handling EMEA and STILL EMEA, which each concentrate on Europe, the Middle East and Africa, plus KION APAC and KION Americas, which hold cross-brand responsibility for the Asia-Pacific region, and for North and South America, respectively.

OPERATING UNITS

BRANDS

Linde
FENWICK
STILL
OM STILL
Baoli
OM VOLTAS

PRODUCTS

- Counterbalance trucks with electric drive
- Counterbalance trucks with IC engine
- Warehouse technology: ride-on industrial trucks
- Warehouse technology: hand-operated industrial trucks
- Towing vehicles
- Automated trucks and autonomous trucks

SUPPLY CHAIN SOLUTIONS

The Supply Chain Solutions segment encompasses integrated technology and software solutions that are used to optimise supply chains. Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking and value-added packing. The Supply Chain Solutions segment comprises the Dematic brand.

OPERATING UNIT

BRAND

DEMATIC

PRODUCTS

- Conveyors
- Sorters
- Storage and retrieval systems
- Picking equipment
- Palletisers

CORPORATE SERVICES

The Corporate Services segment comprises holding companies and other service companies that provide services such as IT and logistics across all segments.

INTERNAL SERVICES

HOLDING COMPANY FUNCTIONS

KION GROUP

How is it possible to collect plastic bottles and karma at the same time?

SOCIETY

X I A M E N
C H I N A

What is boosting green agriculture?

PRODUCTS

M O D E S T O , C A
U S A

Who is giving opportunities to young women from India's rural areas?

EMPLOYEES

P U N E
I N D I A

VELKÉ BÍLOVICE
CZECH REPUBLIC

What can you do when your truck needs more than just a new coat of paint?

ENVIRONMENT

What's that protecting man and machine?

SAFETY

HOYA
GERMANY

RESPONSE & RESPONSIBILITY

When it comes to finding the right answers, the KION Group is ahead of the pack. Whether it's with tailor-made intralogistics solutions – or in terms of sustainability.

To find out how we are meeting our responsibilities, visit: kiongroup.com/responsibility

A

TO OUR SHAREHOLDERS

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The past year has been another momentous one.

Gordon Riske
CEO

Dear shareholders, customers, partners, employees and friends of the KION Group,

Rarely has there been such an exciting time to be fulfilling our customers' needs in connection with material handling and intralogistics solutions. As well as becoming an increasingly prevalent part of our day-to-day lives, digitalisation has been firmly established in our industry for some time, too. E-commerce continues to boom. Automation is crucial to getting ahead of the competition. Constantly changing requirements regarding the speed and efficiency of material handling are turbocharging the innovativeness, creativity and dedication of the KION Group's employees worldwide, who work day in, day out to find solutions for our customers.

The past year has been another exciting and momentous one for us, and we maintained our path of profitable growth. Our revenue and the value of our order intake increased significantly, due to both organic growth and the acquisition of Dematic. The rise in orders received by the Industrial Trucks & Services segment – our traditional business of forklift trucks, warehouse technology and related services – was particularly impressive. 2017 was the first time that more than 200,000 trucks were ordered within the space of one year – a figure that represented a 13 per cent increase on 2016.

+13%

For the first time, the KION brand companies received orders for more than 200,000 industrial trucks in a single year – up 13 per cent.

The year began on a positive note when, in January, rating agency Fitch gave the KION Group an investment-grade credit rating for the first time in recognition of our excellent financial profile. Just a few weeks later, we issued a promissory note for more than €1 billion with great success, utilising the favourable interest-rate environment to refinance a large part of the Dematic acquisition. In May, a capital increase generated gross proceeds of around €603 million that were also used to refinance the acquisition. We began to significantly expand our plant in Stříbro, Czech Republic, so that Dematic conveyor systems can be produced there. In North America, we launched a broad portfolio of new trucks. Moreover, we now offer our European customers trucks that have a lifting capacity of two to three tonnes and are fitted with lithium-ion batteries.

'Response and responsibility' as the title of the annual report

We have given this year's annual report the title 'response and responsibility'. One of the main reasons for including 'responsibility' is that, a few months ago, we produced a groupwide sustainability report for the first time, documenting how everything that we do is underpinned by a forward-looking and values-based approach to our business.

We also chose to include 'response' in the title.

We are proud that the integration of Dematic is now at a very advanced stage.

Gordon Riske
CEO

Our acquisition of Dematic in 2016 was a very important response to the opportunities and challenges that we face in our industry. Since then, we have been able to offer everything that our customers need in terms of intralogistics, from hand pallet trucks to highly complex, automated supply chain solutions. We firmly believed at the time, and remain convinced, that this was exactly the step we needed to take to position ourselves for further profitable growth. We are just as confident of our entire Group's prospects for the medium to long term as we were when Dematic became the youngest member of the KION family. And we can proudly report, following the great progress made over the past year, that the integration of Dematic is now at a very advanced stage.

Another hugely important response is our "KION 2027" strategy, which we are presenting to you for the first time in this report. Since we unveiled our Strategy 2020 four years ago, a lot of other things besides the purchase of Dematic have happened. The acquisition made it necessary to introduce a new structure for managing the Company. The KION Group now comprises the Industrial Trucks & Services segment, our traditional business involving forklift trucks and warehouse technology, the Supply Chain Solutions segment – which now only comprises Dematic – and Corporate Services. We have also created a new internal organisational structure. The Group is now run as five Operating Units, each with responsibility for their own business success. And, under the leadership of our Chief Technology Officer Eike Böhm, we have pooled our research and development capabilities from across all brands and regions to create a highly effective centralised R&D unit.

”KION 2027“ strategy

The KION Group strategy for further profitable growth over the next decade.

The "KION 2027" strategy reflects these major developments and focuses on profitable growth. This of course benefits you, our shareholders. Our other objectives are similar to those in the Strategy 2020: to grow at a faster rate than the market, to be the most profitable supplier in the industry, to generate a profit at every stage of the business cycle and to always offer our shareholders an attractive return on their investment.

Action areas point the way

The clearly defined action areas in the KION 2027 strategy show the route that we need to take to achieve these objectives, namely through innovation, digitalisation, automation, efficient energy use, and products and processes that deliver an even better performance. We foster innovation by creating a suitable, effective environment and putting cutting-edge processes in place. Not only are we developing digital solutions for our customers, we are also digitalising our own operations. Our products enable our customers to achieve the maximum benefit from automation. We strive to lead the way in using energy as efficiently as possible; at the same time, we are focusing on new energy sources. And if we can improve the performance of our trucks, we will also boost our own efficiency as a Group.

Fantastic opportunities lie ahead of us.

Gordon Riske
CEO

Fantastic opportunities lie ahead of us. The material handling market is expected to double in size over the next ten years. In the same period, the market for supply chain solutions is likely to grow to such an extent that it will overtake global forklift truck and warehouse technology business. While the EMEA market will probably remain the biggest region worldwide in absolute terms, the fastest growth is predicted for the Americas and the Asia-Pacific region. In all these markets, we are excellently placed to achieve sustained business success in both segments.

Sustainability and shared values that are here to stay

The KION Group is not only firmly focused on the future. Being a good corporate citizen is also a cornerstone of our success. Sustainability is becoming a guiding principle for everything that we do, and we genuinely mean this. We are aligning our processes accordingly, raising awareness among employees and managers and calling on them to play their part in the KION Group becoming a little bit more sustainable every day. Our suppliers and business partners are also in our sights. We are encouraging and requiring them to show their commitment, because corporate citizenship does not start and finish at the factory gate. Instead, we want our entire value chain to live up to our high standards. We want to be a leader in our industry in terms of our sustainability efforts, too.

Part of being an organisation with a healthy corporate culture is having clear values. The process with which we developed our shared KION Group values – integrity, collaboration, courage and excellence – involved giving a voice to hundreds of people across the Group. These values represent the convictions of the entire KION Group and are enshrined in our daily work. By integrity, we mean doing the right thing. Collaboration shows that we trust each other. We demonstrate courage in our approach to innovation and change. And we deliver outstanding benefits for our customers through our excellent work.

The results for the period under review, which are the first to include a full year of the contribution from Dematic, provide further evidence of how these values are now very much embedded in our organisation and are being translated into commercial success. The KION Group ended 2017 by recording strong growth and achieved its KPI targets, as adjusted in October. Driven by organic growth and the acquisition of Dematic, the Group achieved new records in order intake, revenue, adjusted EBIT, adjusted margin and net income. The profit margin rose to 10.0 per cent. In 2018, the KION Group aims to build on its successful performance in 2017 and, based on the outlook for market growth, achieve further increases in order intake, revenue and adjusted EBIT.

Market set to double in size

According to forecasts, the material handling market will double in size over the next ten years.

We have set ourselves clear new targets with the "KION 2027" strategy.

Gordon Riske
CEO

32,000
Almost 32,000 committed and highly qualified employees

We have once again delivered an excellent set of results thanks to the approximately 32,000 committed and highly qualified employees who now make up our global workforce. My fellow Executive Board members and I would like to offer our heartfelt gratitude to them for their outstanding efforts.

The KION Group – your KION Group – has evolved a great deal over the past twelve months. We have set ourselves clear new targets with the “KION 2027” strategy and further strengthened our internal structures. Rather than simply reacting to the intralogistics opportunities and challenges of tomorrow, we have honed our ability to anticipate key developments that will benefit our customers, supported by the best technology, excellent employees and very robust business and financial foundations. This means we can continue to do what we do best: come up with the right response.

With best wishes,

G. Riske

Gordon Riske
Chief Executive Officer
KION GROUP AG

Executive Board

01 GORDON RISKE

- Chief Executive Officer (CEO) of KION GROUP AG
- born in 1957 in Detroit (USA)

02 DR EIKE BÖHM

- Chief Technology Officer (CTO) of KION GROUP AG
- born in 1962 in Pforzheim (Germany)

03 CHING PONG QUEK

- Chief Asia Pacific Officer of KION GROUP AG
- born in 1967 in Batu Pahat/Johor (Malaysia)

04 DR THOMAS TOEPFER

- Chief Financial Officer (CFO) and Labour Relations Director of KION GROUP AG
- born in 1972 in Hamburg (Germany)


03
02

Report of the Supervisory Board of KION GROUP AG

Dear shareholders,

2017 was another successful year for KION GROUP AG. It was dominated by the integration of automation and supply chain optimisation specialist Dematic, which had been acquired the previous year. The Supervisory Board of KION GROUP AG provided extensive advice and support on this process. The acquisition is bringing about sustained and significant changes to the business model of KION GROUP AG and its market positioning, transforming the Company into a provider of end-to-end solutions for automated intralogistics. Of particular importance in this context are innovations for tackling the future challenges of Industry 4.0 and for integrating industrial trucks into existing intralogistics solutions in order to increase the efficiency of customers' processes, particularly with regard to warehouse system logistics, warehouse technology and order picking. Today, the KION Group is one of only a few companies able to supply all intralogistics products, from hand-operated warehouse trucks to fully automated warehouses, from a single source. The first integrated customer projects incorporating products both from the traditional material handling business and from the Supply Chain Solutions segment were initiated over the course of 2017.

Alongside the integration of the business, the refinancing of the Dematic acquisition was successfully completed in May of last year when a second capital increase was carried out. The Company was able to secure highly attractive refinancing terms by utilising the currently favourable environment for borrowing and by capitalising on the strong interest in KION GROUP AG among equity investors.

Another focus of the Supervisory Board's work was its involvement in refining the strategy for the KION Group following the acquisition of Dematic. The Company produced scenarios for the changes that will occur in relation to its markets, technologies, customers and competitors over the next ten years. These provided the foundations for developing the "KION 2027" strategy. Particular attention is given to the requirements in the various customer segments arising from the automation of intralogistics and related services, which are based on unlocking the full potential of the data that is collected. The aspects summarised under the heading 'Industry 4.0' – automation of processes in order to provide greater benefits for customers as well as brand-new digital services and solutions to problems – will be extremely important to the markets that will be relevant to the Company in the future. On this basis, the Executive Board and Supervisory Board met on several occasions to discuss and reach agreement on guidelines and principles for updating the Group's strategy, the Group's business

DR JOHN FELDMANN
Chairman

aspirations and future positioning and the resulting action plans and objectives. Having deliberated on the “KION 2027” strategy extensively, the Supervisory Board gave its approval at its meeting on 27 November 2017.

In this context, the Supervisory Board examined developments in the industrial truck business on the basis of strategic parameters such as customer satisfaction, market trends and new technologies. It also held in-depth discussions on innovation and operational excellence in this area of the Company’s business. The Supervisory Board talked at length with the Executive Board about the strategic direction of this business and about operational matters, including further capital expenditure. The Supervisory Board is supporting the Executive Board in broadening the basis for the Company’s future through capital expenditure in these areas.

Last but not least, the Company needs to use the market’s current strong growth to further optimise internal processes and strengthen its resilience in periods of economic weakness.

Monitoring and advisory role in dialogue with the Executive Board

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

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

Corporate governance matters

Besides the regular corporate governance matters, the issues dealt with by the Supervisory Board during the reporting year included the evolution of the corporate culture and new statutory requirements, as well as recommendations and suggestions in the German Corporate Governance Code.

In the first half of 2017, the Company conducted another survey of managers on the leadership culture. Building on the data collected in 2015, the Organizational Health Index (OHI) was ascertained. This time, the managers at Dematic were also included in the study. A comparison of the results from the previous survey shows where the

Company currently stands in terms of its leadership culture, what progress has been made and which individual topics require more work. Overall, the data showed an encouraging trend with regard to how the surveyed employees identify with the Company's goals and their positive perception of the leadership culture. In the latest updates to the remuneration system for the Executive Board, the Supervisory Board defined further improvements to the OHI as one of the parameters for setting the long-term variable remuneration.

The Executive Board and Supervisory Board believe that clearly and unambiguously formulated principles and values that are communicated and put into practice in the Company at all management levels are vital for the Company's sustained success. The Supervisory Board is taking a keen interest in the related measures and processes.

Another focus of corporate governance work was the report on non-financial key performance indicators, which was produced voluntarily for the first time in the year under review. In this sustainability report, the Company provided information on the processes that have been put in place in the area of sustainability management as well as those currently being implemented. This is the first time that the Company has combined all of this information in one document. In the opinion of the Supervisory Board, business management focused on sustainability provides a 'licence to operate', i.e. society's acceptance of a company and its business model. The Supervisory Board received information on the preparations for this report during several meetings, at which it also discussed the matter with the Executive Board and the relevant managers within the Company. In 2018, the Company will again produce such a report for 2017, which will have to be audited by the Supervisory Board. Consulting an external auditor, the Supervisory Board therefore went through, and discussed, the necessary processes last year on the basis of the voluntary report.

The Supervisory Board also scrutinised the new requirements in the German Corporate Governance Code regarding skills profiles for supervisory boards. Led by the chairman of the Supervisory Board and supported by external advisors and a manager from the legal department, the Supervisory Board created a profile containing 17 skills areas in the second half of the year and also decided on the content and format of the related reporting. The Executive Committee provided advice and support during the preparations and submitted a recommendation. The draft and the final proposal for the skills model were deliberated upon extensively by the Supervisory Board during several meetings. The Supervisory Board was fully aware that, with 17 skills areas, the KION skills profile is very comprehensive and at the upper end of the scale compared with profiles produced by other companies. Nevertheless, the Supervisory Board firmly believes that the combination of knowledge and experience in the various skills areas that are important to the Company should be, as they have been in the past, an important criterion when selecting new Supervisory Board members in future. The Supervisory Board's skills profile has been incorporated into the Company's diversity concept.

In compliance with the statutory requirements, the updated remuneration system for the Executive Board, which has applied since 1 January 2017, was presented to the Annual General Meeting for approval in May 2017, where it was confirmed by a large majority. Similarly, the revised remuneration system for the Supervisory Board was approved with an overwhelming majority at the Annual General Meeting.

The topics on which the Executive Board and individual managers in the Company regularly gave reports during the meetings of the Supervisory Board and its committees were the internal control system, risk management, internal audit and compliance in the Group. The focus was on the processes in place as well as on the content of the individual reports. As a result of these reports, the Supervisory Board was able to gain an impression of the existing processes and to examine and comment on proposed developments in these areas. It concluded that the systems and mechanisms at KION GROUP AG are adequate, suitable and effective.

The Supervisory Board and Audit Committee received information on a number of occasions from those responsible within the Company and from the independent auditors about changes to the auditors' opinion on the audit of the financial statements.

At its meeting on 13 December 2017, the Supervisory Board held its final discussion on the KION Group's compliance with the new recommendations of the German Corporate Governance Code, which was updated in 2017. The Supervisory Board issued an unchanged comply-or-explain statement pursuant to section 161 of the German Stock Corporation Act (AktG). It has been made permanently available to the public on the KION GROUP AG website. KION GROUP AG complies with all but one of the recommendations in the German Corporate Governance Code (version dated 7 February 2017) and intends to continue to do so in future. As in the previous year, the only recommendation of the Code with which KION GROUP AG does not comply is the recommendation in section 3.8 (3) of the Code for an excess in the D&O insurance policies for members of the Supervisory Board. KION GROUP AG's articles of incorporation do not provide for this type of excess. The Company believes that such an excess is not typical at international level and would therefore make it considerably more difficult to find independent candidates, in particular candidates from outside Germany.

In accordance with section 3.10 of the German Corporate Governance Code, the Executive Board and the Supervisory Board provide a detailed report on corporate governance at KION GROUP AG in the corporate governance report. This is combined with the declaration on corporate governance pursuant to sections 289f and 315d of the German Commercial Code (HGB) and can be found on pages 34 to 42 of this annual report and on the KION GROUP AG website at kiongroup.com/GovernanceReport.

Work of the committees

In the run-up to the capital increase carried out in May, the Supervisory Board of KION GROUP AG established an ad-hoc committee to ensure the Company was able to act and the Supervisory Board was able to adopt the necessary resolutions at short notice. To the extent permitted by law, the Supervisory Board's decision-making powers were delegated to the committee. The committee was made up of four employee representatives and four shareholder representatives. The Executive Board of KION GROUP AG kept the committee updated on the progress of the capital increase. The committee was dissolved on 31 December 2017. Since the last report, there have not been any other material changes to the established committees.

KION GROUP AG's Supervisory Board had four standing committees last year: the Mediation Committee pursuant to section 27 (3) of the German Codetermination Act (MitbestG), the Executive Committee, the Audit Committee and the Nomination Committee. These committees, but primarily the Executive Committee, prepare the matters to be discussed at the meetings of the full Supervisory Board. In individual cases, the Supervisory Board's decision-making powers were delegated to committees within the scope permitted by law. The chairman of the Supervisory Board is also chairman of all committees except the Audit Committee. The chairmen of the committees each report regularly to the full Supervisory Board on their committee's deliberations. In addition, the minutes of the committee meetings are distributed to the other members of the Supervisory Board for information purposes once the committee members have approved them. This ensures that the Supervisory Board as a whole is always fully informed about the committees' deliberations.

In 2017, the Supervisory Board and its committees dealt with the matters at hand and made the necessary decisions at a total of 20 meetings. These consisted of nine meetings of the full Supervisory Board, five of the Audit Committee, four of the Executive Committee and two of the ad-hoc committee. The Nomination Committee and Mediation Committee did not meet in the reporting period. There were also several informal conference calls for the purpose of providing the members of the Supervisory Board or the relevant committees with advance information. In 2017, all members of the

Supervisory Board attended all Supervisory Board meetings and the meetings of the respective committees of which they were members apart from in the following cases:

There were six Supervisory Board meetings at each of which one member sent apologies and two committee meetings at each of which one member sent apologies. Supervisory Board member Tan Xuguang participated in fewer than half of all Supervisory Board meetings.

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

The Company's independent auditors, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), Munich, Frankfurt am Main branch office, audited the separate financial statements, the consolidated financial statements and the combined management report for KION GROUP AG and the Group for the year ended 31 December 2017 following their engagement by the Annual General Meeting on 11 May 2017. The corresponding proposal to the Annual General Meeting had been prepared in meetings held between the chairman of the Audit Committee and the auditors. They concerned the suitability and independence of the auditors and the fees. The proposal was discussed at the Audit Committee's meeting on 22 February 2017 and committee members were given the opportunity to speak to the auditors in person.

The key audit issues were discussed and set out accordingly at the Audit Committee's meeting on 25 July 2017. The auditors were appointed by the chairman of the Supervisory Board on 27 November 2017.

The auditors submitted their report and the documents relating to the 2017 financial statements to the members of the Audit Committee on 12 February 2018 and to the members of the Supervisory Board on 21 February 2018.

The report was discussed in depth at the Audit Committee meeting on 21 February 2018 and at the full Supervisory Board meeting on 28 February 2018, both of which were attended by the auditors. At both of those meetings, the auditors reported in detail on the main findings of the audit and provided comprehensive answers to all questions asked by members of the Audit Committee and Supervisory Board.

The auditors issued an unqualified opinion for the separate financial statements for the year ended 31 December 2017, the consolidated financial statements and the group management report, which was combined with the Company's management report, for the year ended 31 December 2017 on 21 February 2018. Having itself scrutinised the Company's separate financial statements, consolidated financial statements and combined management report for the year ended 31 December 2017, the Audit Committee then made a recommendation to the full Supervisory Board, which the chairman of the Audit Committee explained in more detail in his report to the meeting of the full Supervisory Board. On this basis and taking the auditors' opinion into consideration, the Supervisory Board held a further discussion of its own and then approved the results of the Audit Committee's review at its meeting on 28 February 2018.

Based on the final outcome of its own review, the Supervisory Board did not raise any objections. The Supervisory Board approved the Company's separate financial statements and consolidated financial statements for the year ended 31 December 2017 prepared by the Executive Board, thereby adopting the annual financial statements.

At its meeting on 28 February 2018, the Supervisory Board also discussed and approved the proposal made by the Executive Board that the distributable profit of KION GROUP AG be appropriated for the payment of a dividend of €0.99 per no-par-value share. In doing so, the Supervisory Board took account of the Company's financial situation and performance, its medium-term financial and capital-expenditure planning and the interests of the shareholders. The Supervisory Board believes the proposed dividend is appropriate.

Non-financial declaration

After consulting the Supervisory Board, the Company commissioned an auditor to carry out an external review of the content of the non-financial Group declaration pursuant to section 315b HGB. The Supervisory Board will take account of the auditor's assessment in its own review of the non-financial Group declaration and in the resolution that it adopts. The sustainability report and the non-financial declaration will be published on the Company's website by 30 April 2018.

Relationships with affiliated entities (dependency)

The Supervisory Board also examined the report concerning relationships with affiliated entities (dependency report), which the Executive Board signed off on 21 February 2018. The auditors reviewed this report, prepared an auditors' report on it and issued the following opinion based on their audit, which they completed without identifying any deficiencies on 21 February 2018:

Based on our audit and assessment in accordance with professional standards, we confirm that
1. the facts in the report are stated accurately,
2. the consideration given by the entity for the transactions specified in the report was not unreasonably high,
3. there are no circumstances in respect of the measures specified in the report that would justify an opinion materially different from the opinion of the Executive Board.

The dependency report and the auditors' report about it were submitted to all the members of the Supervisory Board in good time and were discussed in detail in the presence of the auditors at the Supervisory Board meeting on 28 February 2018. The auditors reported on the main findings of their audit. The Supervisory Board agreed with the findings of the audit. Based on the final outcome of its own review, the Supervisory Board did not raise any objections to the Executive Board's declaration at the end of the report concerning relationships with affiliated entities.

Personnel changes on the Executive Board and Supervisory Board

There were no changes on the Executive Board of KION GROUP AG last year. However, at the request of the Chief Financial Officer, Dr Toepfer, the Supervisory Board reached a mutual agreement on 27 November 2017 on the termination of his appointment as a member of the Executive Board with effect from the end of 31 March 2018.

There were several changes on the Supervisory Board in 2017:

The employee representatives Mr Brandt and Mr Hartig did not stand for re-election when the employees voted for their representatives on the Supervisory Board in spring 2017. At this election of employee representatives, all of the other employee representatives were re-elected to the Supervisory Board. Dr Frank Schepp was elected to the Supervisory Board to replace Mr Brandt as an executive representative and Mr Stefan Casper to replace Mr Hartig as an employee representative, in both cases with effect from 11 May 2017. The Supervisory Board would like to thank Mr Brandt and Mr Hartig for the great dedication with which they always carried out their work in the interests of the Company.

The details of this report were discussed thoroughly at the Supervisory Board meeting on 28 February 2018 when it was adopted.

My colleagues on the Supervisory Board and I would like to thank the members of the Executive Board and the employees of KION GROUP AG and its Group companies in Germany and abroad for their commitment and outstanding achievements in 2017.

Dr John Feldmann
Chairman

KION shares

Robust upward trend in the equity markets

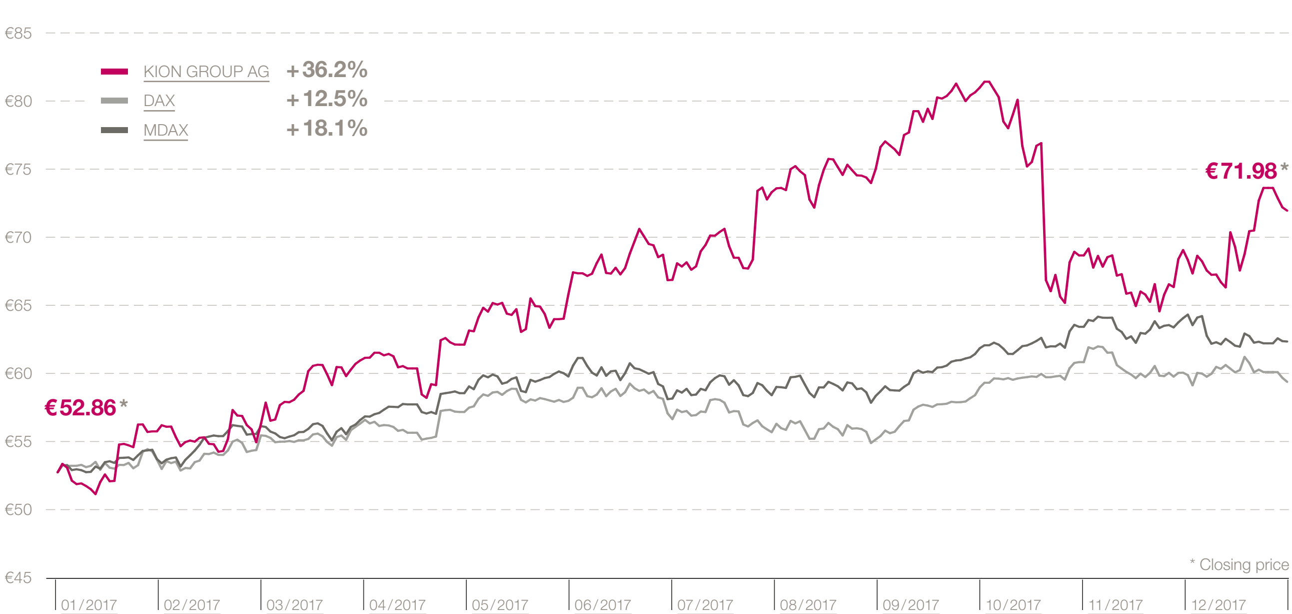
With volatility at a low level, stock market prices soared and indices reached record heights in 2017. The DAX closed the year at 12,918 points – not far off its high for the year – and gained 12.5 per cent, while the MDAX added 18.1 per cent. This uptrend was supported, firstly, by expansionary central bank policy in the eurozone, which kept deposit rates and bond yields at rock-bottom levels and thus made equities more attractive. Secondly, stock market prices were driven up by the healthy economy, companies' rising profits and positive sentiment indicators. Despite political uncertainties created by the United Kingdom's approaching exit from the European Union, the elections in France and the Netherlands, the quest for Catalonian independence and the dispute with North Korea, the stock markets proved robust. The failure of the exploratory talks on the formation of a coalition following Germany's general election also only halted their upward progress temporarily.

KION shares outperform benchmark despite correction

The price of KION shares rose sharply and steadily in the first three quarters of 2017 and reached an all-time high of €81.40 on 2 October 2017. After the outlook for the year was adjusted in October 2017 due to the Supply Chain Solutions segment not performing as expected, there was a marked price correction. The share price subsequently remained flat. Despite some of the previous gains being negated, the KION share price rose by 36.2 per cent to €71.98 over the course of the year, thereby outperforming its benchmark DAX and MDAX indices considerable.

On 11 May 2017, the Annual General Meeting voted in favour of distributing a dividend of €0.80 per share for 2016. As in the previous year, when a dividend of €0.77 was paid, the dividend payout ratio was 35 per cent. The total dividend payout, however, increased by 14.3 per cent to €86.9 million mainly owing to the capital increase carried out the year before.

Share price performance between 30 December 2016 and 29 December 2017 DIAGRAM 001



KION GROUP AG's market capitalisation was €8.5 billion at the end of 2017. Of this total, 56.6 per cent or €4.8 billion was attributable to shares in free float. The average daily Xetra trading volume in 2017 was 332 thousand shares or €22.0 million, which was again up considerably on the prior year. > TABLE 001

Basic information on KION shares TABLE 001

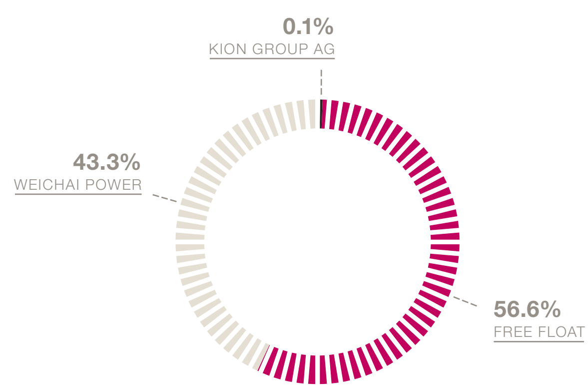
ISIN	DE000KGX8881
WKN	KGX888
Bloomberg	KGX:GR
Reuters	KGX.DE
Share type	No-par-value shares
Index	MDAX, MSCI World, STOXX Europe 600, FTSE EuroMid

Annual General Meeting approves further financing for growth

KION GROUP AG's Annual General Meeting on 11 May 2017, at which 82.2 per cent of the voting share capital was represented, approved the creation of new authorised capital of up to €10,879,000.00 or 10 per cent of the share capital. The Executive Board has thus been authorised, subject to the consent of the Supervisory Board, to issue additional shares on this basis up to and including 10 May 2022, excluding shareholders' subscription rights.

Most of this authorised capital was used on 22 May 2017 to refinance a large part of the remaining bridge loan (AFA) that had been granted for the purchase of Dematic. By issuing 9.3 million new shares – equating to 8.55 per cent of the share capital – at a placement price of €64.83, the KION Group generated gross proceeds of €602.9 million. Between 10 and 30 October 2017, KION GROUP AG repurchased a total of 60,000 shares (around 0.05 per cent of the share capital) for use in the KION Employee Equity Programme (KEEP). In October 2017, the KION Group employees entitled to participate in KEEP were given the opportunity to buy more KION shares. By 31 December 2017, a total of 36,294 shares had been purchased by staff (31 December 2016: 45,564 shares). The number of shares held in treasury stood at 160,829 as at the reporting date. > DIAGRAM 002

Shareholder structure as at 31 December 2017 DIAGRAM 002



Shareholder structure remains stable

Weichai Power Co. Ltd. purchased 4,023,275 new shares in the context of the capital increase, maintaining its stake in KION GROUP AG at the unchanged level of 43.3 per cent and remaining the biggest single shareholder. At the end of 2017, 56.6 per cent of the Company's shares were in free float, while KION GROUP AG held 0.1 per cent. The standstill agreement, which remains in force until 28 June 2018, prevents Weichai Power from holding more than 49.9 per cent of the Company's shares.

KION shares predominantly recommended as a buy

As at 31 December 2017, 21 brokerage houses published reports on the KION Group (31 December 2016: 19). Of this total, twelve analysts recommended KION shares as a buy, eight rated them as neutral and one analyst recommended to sell them. The median target price specified for the shares was €75.00 (31 December 2016: €61.00).

Dividend of €0.99 per share planned

The Executive Board and Supervisory Board of KION GROUP AG will propose a dividend of €0.99 per share to the Annual General Meeting on 9 May 2018. This equates to a dividend payout ratio of around 35 per cent with earnings per share (pro forma) for the year 2017 of 2.91 €. This results in an increase of the dividend per share of 23.8 per cent and an increase in total dividend payout of 34.3 per cent year on year due to the capital increase. The earnings per share of 3.72 € based on the net income was adjusted due to the revaluation of deferred tax liabilities (net) in connection with the corporate income tax rate reduction approved in the US. > TABLE 002

Sound borrowing situation, improved credit ratings

To refinance the AFA, a promissory note with an extended maturity profile and a volume of €1,010.0 million was issued in February 2017. The three tranches have maturity periods of five, seven and ten years.

In January 2017, the KION Group received an investment-grade rating for the first time. Fitch Ratings gave the Group a long-term issuer rating of BBB– with a stable outlook, reflecting its improved financial profile, high level of profitability and stable free cash flow. In April 2017, rating agency Standard & Poor's initially raised its credit rating for the KION Group from BB+ with a negative outlook to BB+ with a stable outlook before upgrading it again, to BB+ with a positive outlook, in September 2017.

Share data

TABLE 002

Closing price at the end of 2016	€52.86
High for 2017	€81.40
Low for 2017	€51.27
Closing price at the end of 2017	€71.98
Market capitalisation at the end of 2017	€8,500.1 million
Performance in 2017	36.2%
Average daily trading volume in 2017 (no. of shares)	332.0 thousand
Average daily trading volume in 2017 (€)	€22.0 million
Share capital	€118,090,000
Number of shares	118,090,000
Earnings per share for 2017	€3.72
Earnings per share for 2017 (pro forma)[1]	€2.91
Dividend per share for 2017	€0.99
Dividend payout rate[1,2]	35%
Total dividend payout[2]	€116.7 million
Equity ratio as at 31/12/2017	28.0%

[1] Adjusted due to the remeasurement of deferred taxes in connection with the corporate income tax rate reduction approved in the US; see also 'income taxes'
[2] Proposed dividend for the fiscal year 2017

Services for shareholders

Active investor relations work

The objective of investor relations is to ensure, through continuous dialogue, that the capital markets value the Company appropriately. The Executive Board and the KION Group's investor relations team continued their active dialogue with investors and analysts last year. The KION Group participated in many investor conferences in Germany and abroad and held numerous roadshows and one-on-one meetings.

Around 85 shareholders participated in the Annual General Meeting of KION GROUP AG on 11 May 2017. All the draft resolutions put forward by the Company's management were approved with a substantial majority.

The speeches of the Chief Executive Officer and the chairman of the Supervisory Board were broadcast live at kiongroup.com/agm. A webcast of the Chief Executive Officer's speech is also available on the Company's website.

When the 2016 annual report was published on 2 March 2017, the Executive Board of KION GROUP AG held a financial statements press conference, conference call and analyst conference at which it presented the KION Group as a more broadly based and more powerful group of companies following the acquisition of automation and supply chain optimisation specialist Dematic. In addition, the Executive Board held conference calls to report on each set of quarterly results. Recordings from the financial statements press conference and the transcripts from the annual and quarterly conference calls, along with the associated presentations, form part of the extensive information for investors that is available on the Company's website.

Information on the website

Detailed information on KION shares as well as press releases, reports, presentations and information about the Annual General Meeting and corporate governance in the Group can be found at kiongroup.com/ir. The KION Group's annual report is also available here, both as a PDF file and as an interactive online version. The contact details of the investor relations team can be found under IR Contact & Services.

kiongroup.com/ir

B

CORPORATE GOVERNANCE

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Corporate governance report

Also constitutes the declaration on corporate governance pursuant to section 289f and section 315d HGB

Corporate governance covers the whole system of managing and monitoring an enterprise, the principles and guidelines that shape its business policy and the system of internal and external control and monitoring mechanisms. The Executive Board and Supervisory Board of KION GROUP AG believe that a commitment, born from responsibility for the Company, to rigorous corporate governance in accordance with the accepted standards is essential to the Company's long-term success. Compliance with these principles also promotes the trust that our investors, employees, business partners and the public have in the management and monitoring of the Company.

There is a close correlation between the corporate governance report required by the German Corporate Governance Code (the Code) as amended on 7 February 2017 and the content of the declaration on corporate governance required by section 289f and section 315d of the German Commercial Code (HGB). For this reason, the Executive Board and the Supervisory Board of KION GROUP AG have combined the two statements below in accordance with section 3.10 of the Code. The declaration on corporate governance pursuant to section 289f and section 315d HGB is part of the management report. According to section 317 (2) sentence 6 HGB, the accuracy of the information provided in accordance with section 289f and section 315d HGB is not part of the audit of the financial statements.

1. Comply-or-explain statement pursuant to section 161 (1) AktG

Section 161 (1) of the German Stock Corporation Act (AktG) requires the management board and supervisory board of a publicly listed company to issue an annual declaration stating that the company has complied with, and intends to comply with, the recommendations of the Code or stating the recommendations with which it has not complied or does not intend to comply, and the reasons why.

The Executive Board and Supervisory Board submitted the Company's previous comply-or-explain statement on 14 December 2016.

Both decision-making bodies again considered the recommendations of the amended Code in detail and, on 13/18 December 2017, issued the following comply-or-explain statement of KION GROUP AG as required by section 161 (1) AktG:

1. Since issuing the last comply-or-explain statement in December 2016, KION GROUP AG has complied with all but one of the recommendations of the German Corporate Governance Code (the ‚Code') as amended on 7 February 2017 and intends to do so in the future.

   In derogation of section 3.8 (3) of the Code, the articles of association of KION GROUP AG do not provide for a deductable for members of the Supervisory Board under a D&O insurance. The Company believes that such deductable is not customary on an international level and would therefore make it considerably more difficult to find independent candidates, in particular candidates from outside Germany.

Frankfurt am Main, 13/18 December 2017

For the Executive Board:

Gordon Riske Dr Thomas Toepfer

For the Supervisory Board:

Dr John Feldmann

The comply-or-explain statement is permanently available to the public on the website of KION GROUP AG at kiongroup.com/comply_statement.

2. Corporate governance practices

The corporate governance of KION GROUP AG is essentially, but not exclusively, determined by the provisions of the German Stock Corporation Act and the German Codetermination Act (MitbestG) and also follows the recommendations of the German Corporate Governance Code. KION GROUP AG complies with all the Code's recommendations, with one exception. These fundamental principles are combined with a commitment to sustainable business, taking account of society's expectations in the markets in which the Company operates.

In 2017, the Executive Board and the Supervisory Board (or its committees) regularly discussed corporate governance issues in accordance with a rolling schedule of topics. This ensured that the key elements of corporate governance within the KION Group were always on the agenda at meetings of the Company's main decision-making bodies. The Supervisory Board in particular complied with the supervisory duties incumbent upon it under the German Stock Corporation Act. For example, the Supervisory Board's Audit Committee, which was set up partly for this purpose, received regular reports on the standard accounting processes, changes to the regulatory environment and the effectiveness of the internal control and risk management systems and of the audit of financial statements, and then reported back to the full Supervisory Board on these matters.

2.1 Internal control system

KION GROUP AG has an internal control system designed to meet the specific needs of the Company. Its processes are intended to ensure the correctness of the internal and external accounting processes, the efficiency of the Company's business operations and compliance with key legal provisions and internal policies. These control processes also include the Company's strategic planning, where the underlying assumptions and plans are reviewed on an ongoing basis and refined as necessary.

2.2 Accounting-related internal control system

For its accounting process, the KION Group has defined suitable structures and processes as part of its internal control and risk management system and implemented them throughout the Group. Besides defined control mechanisms, it includes, for example, system-based and manual reconciliation processes, clear separation of functions, strict compliance with the double-checking principle and written policies and procedures. The overarching aim is for the separate financial statements, consolidated financial statements and combined management report to be fully compliant with the relevant statutory and regulatory requirements and, in particular, the applicable financial reporting standards. Changes to these requirements and standards are analysed on an ongoing basis and taken into account as appropriate. Details can be found in the risk report, which is part of the combined management report.

2.3 Risk management system

For the Company to be managed professionally and responsibly, the Executive Board must use the risk management system established in the Company to regularly gather information about current risks and how they are evolving, and then report on this to the Supervisory Board's Audit Committee. The KION Group's risk management system is documented in a Group risk policy that defines tasks, processes and responsibilities and sets out the rules for identifying, assessing, reporting and managing risk. Specific individual risks are then reported by each Group entity using an online reporting tool. Reporting on cross-segment risks and groupwide risks is carried out by Controlling and the relevant departments. The risks that have been reported are reviewed on a quarterly basis and re-assessed until the reason for reporting a risk no longer exists.

2.4 Compliance management system

The Executive Board and Supervisory Board of KION GROUP AG consider that adhering rigorously to broad-ranging compliance standards is essential to sustained financial success. That is why a suitable compliance programme, centring around the KION Group Code of Compliance, has been set up for KION GROUP AG and its Group companies worldwide.

The KION Group Code of Compliance, which is available in all of the main languages relevant to the Group companies of KION GROUP AG, provides every employee with clear guidance on how to conduct their business in accordance with sound values and ethics and in compliance with the law. The aim is for all employees to receive regular training on the most important compliance subjects (e.g. competition law, data protection, communication and anti-corruption).

Compliance activities focus on anti-corruption, liability of senior management / directors' and officers' liability, data protection, IT security and foreign trade / export controls.

The Executive Board of KION GROUP AG bears collective responsibility for the functioning of compliance management within the Group; the compliance department reports to the Chief Executive Officer of KION GROUP AG. He has delegated the performance of compliance duties to the Chief Compliance Officer. The presidents of the Operating Units are responsible for compliance within the operating business, while the functional managers are responsible for core administrative processes in the departments at the Group's headquarters. Ultimate responsibility for the compliance management system of course remains with the CEO of the Group. The KION compliance department, the KION compliance team and the KION compliance committee provide operational support to the aforementioned functions. The KION compliance department focuses mainly on preventing compliance violations by providing guidance, information, advice and training. It manages the KION compliance team, in which local and regional compliance officers of the Group are represented.

Actual or suspected incidents of non-compliance can be reported by post, email or fax. All employees can also report any cases of non-compliance via a 24/7 compliance hotline, choosing to remain anonymous if they wish.

As part of its work, the compliance department at KION GROUP AG cooperates closely with the legal, internal audit and human resources departments. The KION compliance committee is staffed by the heads of these departments, operating as a cross-functional committee that primarily advises on, examines and, if appropriate, punishes incidents of non-compliance that are reported.

2.5 Audit of the financial statements

The Company's independent auditors, which are appointed by means of a resolution of the Annual General Meeting, audit the separate financial statements prepared by the Executive Board of KION GROUP AG, the consolidated financial statements and the combined management report. Since the audit of the 2014 separate and consolidated financial statements, Ms Kirsten Gräbner-Vogel has been the global lead service partner at the appointed independent auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte). The separate financial statements, the consolidated financial statements and the combined management report are discussed by the Audit Committee and then approved by the Supervisory Board.

The independent auditors review the condensed consolidated interim financial statements and the condensed interim group management report for the first half of the year. The Executive Board discusses the two quarterly statements and the half-year interim report with the Audit Committee before they are published.

2.6 Avoiding conflicts of interest

Conflicts of interest between the governing bodies and other decision-makers in the Company or significant shareholders go against the principles of good corporate governance and may be harmful to the Company. KION GROUP AG and its governing bodies therefore adhere strictly to the Code's recommendations on this subject. The employees of KION GROUP AG and its investees are made aware of the problem of conflicts of interest as part of compliance training and are bound by rules on how to behave in the event of actual or potential conflicts of interest.

The Company attaches high priority to preventing possible conflicts of interest from occurring in the first place and to dispelling any impression that they might exist. This is especially important given the involvement of Weichai Power, whose stake has risen to 43.3 per cent. The Company achieves these aims by avoiding business scenarios or personnel structures that could give the impression of a conflict of interest and by taking transparent steps that effectively prevent concerns about conflicts of interest.

The Company's Chief Executive Officer, Mr Gordon Riske, was appointed a non-executive director of Weichai Power with effect from 24 June 2013, for which the Supervisory Board had previously given its consent. Appropriate precautions have been taken to ensure that this role at a parent company of the Company does not create a conflict of interest relating personally to Mr Riske. Formal processes have been put in place to ensure that Mr Riske, in his role as a non-executive director of Weichai Power, is not involved in transactions that could give rise to a conflict with the interests of the KION Group. Nor is Mr Riske involved in transactions relating to the exercise of voting rights by Weichai Power or its subsidiaries at the Annual General Meeting of KION GROUP AG. It has been ensured that Mr Riske maintains a strict separation between his duties as a non-executive director of Weichai Power and his duties as Chief Executive Officer of KION GROUP AG and that he fulfils all of his legal obligations in the interests of the Company.

3. Working methods of the Executive Board and Supervisory Board and composition of the committees of the Supervisory Board

The Executive Board and Supervisory Board of KION GROUP AG have a close and trusting working relationship. It focuses on ensuring the sustained success of the Company. The members of the Executive Board regularly attend Supervisory Board meetings, unless the Supervisory Board decides to meet without the Executive Board.

The Executive Board promptly, comprehensively and regularly reports to the Supervisory Board on the performance of the KION Group. Besides the reporting obligations defined by law, the rules of procedure for the Executive Board of KION GROUP AG set out further reporting requirements and reservations of approval in favour of the Supervisory Board.

3.1 Working methods of the Executive Board

The Executive Board of KION GROUP AG comprises four members. It is responsible for managing the Company in the Company's interest, i.e. taking account of shareholders, customers, employees and other stakeholders with the aim of creating sustainable added value. The Executive Board develops the Company's strategy, discusses it with the Supervisory Board and ensures that it is implemented. Every Executive Board member is responsible for his own area of responsibility and keeps his fellow board members informed of developments on an ongoing basis. > TABLE 003

Responsibilities of Executive Board members TABLE 003

Member	Responsibilities
Gordon Riske	**CEO of KION GROUP AG** LMH EMEA STILL EMEA Dematic Digitalization@KION Corporate Strategy Corporate Communications Corporate Office Internal Audit Corporate Compliance
Dr Thomas Toepfer	**CFO of KION GROUP AG** KION Americas Corporate Accounting & Tax Financial Services Corporate Finance Corporate Controlling Corporate HR / Labour Relations Director Legal KION Group IT Data Protection Logistics / Urban Health, Safety & Environment
Dr Eike Böhm	**CTO of KION GROUP AG** Product & Technology Strategy Product Development Industrial Trucks Software Development Product Development Supply Chain Solutions Module & Component Development Procurement Quality Production System
Ching Pong Quek	**Chief Asia Pacific Officer of KION GROUP AG** KION APAC

Every Executive Board member must disclose potential conflicts of interest to the Supervisory Board immediately and must also inform the other Executive Board members. All transactions between KION GROUP AG and Executive Board members or related parties must be concluded on an arm's-length basis.

Rules of procedure laid down by the Supervisory Board define the areas of responsibility of the Executive Board members and the way in which they work together. The full Executive Board normally meets every 14 days and meetings are chaired by the CEO. Individual Executive Board members sometimes take part via video conference. At the meetings, the board members discuss measures and business that, under the Executive Board's rules of procedure, require the approval of the full Executive Board. Resolutions of the full Executive Board are passed by simple majority unless a greater majority is required by law. The CEO has a casting vote in the event of a tied vote. Resolutions of the Executive Board may also be adopted between meetings. Taking account of the requirements of section 90 AktG, the Executive Board provides the Supervisory Board with regular, timely and comprehensive information on all matters of relevance to the business as a whole relating to the intended operating policy, strategic planning, business performance, financial position, financial performance and business risks. The Chief Executive Officer discusses these matters regularly with the chairman of the Supervisory Board.

The Executive Board's rules of procedure specify that important transactions are subject to approval by the Supervisory Board. Budget planning, major acquisitions or capital expenditure, for example, require the consent of the Supervisory Board.

In accordance with its articles of association, the Company is represented by two members of the Executive Board or by one member of the Executive Board acting conjointly with a Prokurist (person with full commercial power of representation).

3.2 Working methods of the Supervisory Board

The Supervisory Board of KION GROUP AG appoints the members of the Executive Board, advises and monitors the Executive Board in its management of the Company and reviews its work. The Supervisory Board is fully involved from an early stage in all decisions that are fundamental to KION GROUP AG.

The Supervisory Board of KION GROUP AG consists of 16 members, eight of whom are employee representatives and eight are shareholder representatives. The shareholder representatives are elected by the Annual General Meeting by simple majority.

The Supervisory Board has drawn up rules of procedure for its work. These apply in addition to the requirements of the articles of association and also define the Supervisory Board committees. According to these rules, the chairman of the Supervisory Board coordinates its work and the cooperation with the Executive Board, chairs its meetings and represents it externally. The Supervisory Board meets in person at least twice in each half of a calendar year, and adopts its resolutions at these meetings. In 2017, there were nine Supervisory Board meetings in total. Between these meetings, resolutions may also be adopted in writing, by telephone or by other similar forms of voting, provided that the chairman of the Supervisory Board or, in his absence, his deputy, decides on this procedure for the individual case concerned. The Supervisory Board adopts resolutions by a simple majority of the votes cast unless a different procedure is prescribed by law. If a vote is tied, the matter will only be renegotiated if the majority of the Supervisory Board vote in favour of this option. Otherwise the Board must vote again without delay. If this new vote on the same matter also results in an equal number of votes for and against, the chairman of the Supervisory Board has a casting vote. The Supervisory Board has the efficiency of its work and processes reviewed by an external party at regular intervals.

3.3 Working methods and composition of the committees of the Supervisory Board

KION GROUP AG's Supervisory Board had four standing committees plus an ad-hoc transaction committee in the year under review. Their tasks, responsibilities and work processes comply with the provisions of the German Stock Corporation Act and the German Corporate Governance Code. The chairman of each committee reports regularly to the full Supervisory Board on the committee's work. The minutes of the committee meetings are made available to all Supervisory Board members. The permanent committees have each drawn up rules of procedure that define their tasks and working methods.

Executive Committee

The Executive Committee consists of four shareholder representatives and four employee representatives. Its chairman is always the chairman of the Supervisory Board. It prepares the meetings of the Supervisory Board and is responsible for ongoing matters between Supervisory Board meetings. The Executive Committee also prepares the Supervisory Board's decisions relating to corporate governance, particularly amendments to the comply-or-explain statement pursuant to section 161 AktG reflecting changed circumstances and the checking of adherence to the comply-or-explain statement. It also prepares documents for the Supervisory Board when Executive Board members are to be appointed or removed and, if applicable, when a new Chief Executive Officer is to be appointed. Documents relating to any matters in connection with Executive Board remuneration are also compiled by the Executive Committee. In addition, the Executive Committee is responsible for resolutions concerning the conclusion, amendment and termination of Executive Board employment contracts and agreements with Executive Board members governing pensions, severance packages, consultancy and other matters and for resolutions on any matters arising as a result of such contracts and agreements, unless they relate to remuneration. The responsibilities of the Executive Committee also include resolutions about the extension of loans to Executive Board members, Supervisory Board members and parties related to them within the meaning of sections 89 and 115 AktG, as well as resolutions to approve contracts with Supervisory Board members outside their Supervisory Board remit. The Executive Committee should – in consultation with the Executive Board – regularly deliberate on long-term succession planning for the Executive Board.

The Executive Committee met four times in 2017. The main topics discussed and deliberated upon by the Executive Committee in 2017 concerned the new KION 2027 strategy, the profile of skills and expertise for the Supervisory Board and matters relating to the Annual General Meeting and governance.

In 2017, the members of the Executive Committee were:

Dr John Feldmann (chairman)
Özcan Pancarci (deputy chairman)
Dr Alexander Dibelius
Joachim Hartig (until 11 May 2017)
Denis Heljic
Jiang Kui
Olaf Kunz
Hans Peter Ring
Claudia Wenzel (from 11 May 2017)

Mediation Committee

The Mediation Committee comprises the chairman of the Supervisory Board, his deputy, an employee representative and a shareholder representative. It only convenes in exceptional cases. If the two-thirds-of-votes majority required by section 27 (3) and section 31 (3) MitbestG is not reached in a vote by the Supervisory Board on the appointment of an Executive Board member, the Mediation Committee must propose candidates for the post to the Supervisory Board within one month. The chairman of the Supervisory Board does not have a casting vote on the candidates proposed. The Mediation Committee did not need to be convened in 2017.

In 2017, the members of the Mediation Committee were:

Dr John Feldmann (chairman)
Özcan Pancarci (deputy chairman)
Jörg Milla
Hans Peter Ring

Audit Committee

The Audit Committee comprises four members. Its primary purpose is to monitor financial reporting (including non-financial reporting), the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the auditing of the financial statements and compliance, thereby supporting the Supervisory Board in its task of monitoring the Company's management. The Audit Committee also reviews the work carried out by the independent auditors and checks that the independent auditors are qualified and independent. It is also responsible for engaging the independent auditors, determining the focus of the audit and agreeing the fee. In addition, the Audit Committee exercises the rights in investee companies set forth in section 32 (1) MitbestG.

The Audit Committee met five times in 2017. The main topics discussed by the Audit Committee in 2017 were the 2016 annual financial statements, the quarterly statements, the interim report, the budget, the Company's first sustainability report and the regular subject of the key elements of corporate governance within the Company.

In 2017, the members of the Audit Committee were:
Hans Peter Ring (chairman)
Alexandra Schädler (deputy chairwoman)
Dr John Feldmann
Jörg Milla

The chairman of the Audit Committee, Hans Peter Ring, is an independent member of the Supervisory Board and has the required expertise in the areas of accountancy and auditing specified in sections 100 (5) and 107 (4) AktG.

Nomination Committee
The Nomination Committee has four members, all of whom are shareholder representatives and are elected by the shareholder representatives on the Supervisory Board. The Nomination Committee's only task is to propose new candidates for the Supervisory Board to the Company's Annual General Meeting. At its meeting on 30 November 2016, the Nomination Committee resolved to recommend that the Supervisory Board propose all eight shareholder representatives on the Supervisory Board for re-election at the end of their term of office at the Annual General Meeting on 11 May 2017. The Supervisory Board followed this recommendation. All eight shareholder representatives were then re-elected at the Annual General Meeting. The Nomination Committee did not meet in 2017.

In 2017, the members of the Nomination Committee were:
Dr John Feldmann (chairman)
Dr Alexander Dibelius (deputy chairman)
Birgit A. Behrendt
Jiang Kui

Ad-hoc transaction committee
In addition to the committees that existed throughout the year, the Supervisory Board decided at its meeting on 11 May 2017 to establish an ad-hoc transaction committee in connection with a possible capital increase from authorised capital. The purpose of this ad-hoc transaction committee was to ensure that the Supervisory Board was adequately involved in the transaction and had the necessary flexibility. To this end, the committee was authorised to give final approvals and make decisions about the capital increase from authorised capital. It met twice. The committee was then dissolved on 31 December 2017 following the successful completion of the capital increase on 22 May 2017.

The members of the ad-hoc transaction committee were:
Dr John Feldmann (chairman)
Dr Alexander Dibelius
Denis Heljic
Jiang Kui
Jörg Milla
Özcan Pancarci
Hans Peter Ring
Alexandra Schädler

4. Diversity

One of the main concerns of good corporate governance is to ensure that appointments to the Executive Board and Supervisory Board are appropriate to the specific needs of the business. Key criteria in this regard include the professional and personal skills and qualifications of the members of the Executive Board and Supervisory Board as well as diversity in the composition of both boards, an appropriate degree of female representation and the independence of the Supervisory Board.

Composition of the Supervisory Board
The Supervisory Board has laid down specific requirements and objectives for its composition in recognition of its responsibilities and obligations and taking into account the business needs of KION GROUP AG. Besides having the minimum professional skills required to be a Supervisory Board member, as specified by law and the highest courts, all members of the Supervisory Board of KION GROUP AG should meet the following criteria:

- Identification with the fundamental values and beliefs of KION GROUP AG
- Positive attitude towards the basic principles of responsible corporate governance
- Personal integrity and a responsible approach to dealing with potential conflicts of interest

- Ability to devote the expected amount of time required and compliance with the limit on the number of mandates that may be held at any one time

Other targets set by the Supervisory Board with regard to its composition are a standard age limit of no more than 70 at the time of appointment/election and a maximum limit for length of membership of four terms of office. All of the current Supervisory Board members meet these requirements.

In addition, the Supervisory Board has defined what it considers to be an adequate number of independent Supervisory Board members. Accordingly, five shareholder representatives on the Supervisory Board should be independent within the meaning of section 5.4.2 of the Code. These five members are currently Ms Behrendt, Dr Reuter, Dr Dibelius, Dr Feldmann and Mr Ring. As regards the employee representatives, the Supervisory Board believes their role as representatives of the employees does not, per se, compromise their independence.

The Supervisory Board is of the opinion that the priority in aiming for a board composition based on diversity is the expertise of the individual members and a balanced mix of personal qualities, experience, skills, qualifications and knowledge in line with the requirements of the business. This is the basis on which the Supervisory Board has drawn up its profile of skills and expertise. The following profile of skills and expertise defines the knowledge acquired through professional practice (experience) and theoretical/academic knowledge (expertise) that should be represented on the Supervisory Board:

- Experience
  - Automotive industry, components and drive technologies
  - Intralogistics
  - Automation, particularly automation in intralogistics
  - Service/aftersales business, particularly in intralogistics
  - Development of international marketing strategies and product portfolio strategies
- Expertise
  - Development and assessment of technology
  - Service/aftersales business models and technological developments in this area
  - Digitalisation and automation
- In-depth understanding of the markets in EMEA, the Americas and Asia
- Experience
  - Management of companies with international presence, including the development of corporate cultures and organisational structures
  - Supervisory board membership in companies with international presence
  - Acquisitions and strategic alliances
- Experience and expertise
  - Corporate governance and compliance principles as well as their implementation in at least two of the regions relevant to the Company
  - Accounting and auditing
  - Capital markets and international financing

Each of these fields of competence is currently covered by at least five members of the Supervisory Board.

As 31.25 per cent of its members are female (five of 16), the Supervisory Board meets the statutory requirements regarding gender representation on supervisory boards pursuant to section 96 (2) AktG. The shareholder representatives and the employee representatives are agreed that attaining the objectives in relation to diversity, in particular the objectives relating to the involvement of women and people from different cultural backgrounds, is considered to be in the interests of KION GROUP AG and a task that forms part of the collective responsibility of the entire Supervisory Board. The Supervisory Board therefore supports the inclusion of additional female members and members from different cultural backgrounds who meet the above criteria insofar as the skills requirements are met.

When proposing candidates to the Annual General Meeting in future, the Nomination Committee and Supervisory Board will take all of the aforementioned targets into account and strive to ensure that the profile of skills and expertise is (still) achieved. The Nomination Committee and Supervisory Board have no influence on the composition of the group of employee representatives on the Supervisory Board because the employees in Germany are free to choose whom they elect.

Composition of the Executive Board

Against the background of the aforementioned diversity considerations as well as demographic requirements and strategic operating challenges, the Supervisory Board strives to give due consideration to female candidates for the Executive Board but is guided exclusively by the skills and qualifications of the persons concerned when making appointments to the Executive Board. When implementing these objectives during the process of appointing successors or recruiting for a new position, the Supervisory Board draws up a shortlist of candidates who appear to be suitable for the Company as a result of their strategic management experience, expertise, skills and qualifications. Demographic criteria (including the standard retirement age of 65 for Executive Board members) and diversity criteria are then also taken into account, depending on the existing composition of the Executive Board. However, these criteria are of a subordinate nature when making a final decision on the person to appoint.

In line with this, the Supervisory Board therefore set the first target for the proportion of women on the Executive Board of KION GROUP AG at 0 per cent, to be achieved by 30 June 2017. The specification of this type of target is required by Germany's 'Act for the equal participation of women and men in managerial positions in the private and public sectors'. The target was achieved by this date. The new target for the proportion of women on the Executive Board of KION GROUP AG was again set at 0 per cent for the defined follow-on period up to 31 December 2021. When this percentage was chosen midway through 2017, no changes to the composition of the Executive Board were planned or foreseeable.

Appointments to management positions below the level of the Executive Board of KION GROUP AG

When selecting candidates for senior management levels, the Executive Board generally considers that it is under an obligation to make such selections on the basis of diversity, capability, character and experience. As regards the number of women appointed to senior management positions in the Company, the Executive Board is striving in its implementation of the new "KION 2027" strategy to increase the current proportion of women in management positions. The HR initiative under the "KION 2027" strategy, for example, will include a dedicated diversity program whose activity areas are currently being defined during workshops with participants drawn from various Operating Units and sites.

In this context, the Executive Board set the first target at 10 per cent for the first management level below the Executive Board of KION GROUP AG and at 30 per cent for the second management level, to be achieved by 30 June 2017. The specification of this type of target is required by Germany's 'Act for the equal participation of women and men in managerial positions in the private and public sectors'. The target for the first management level below the Executive Board of KION GROUP AG was achieved by this date. The target for the second management level was not achieved. However, this was solely because of restructuring in the CTO Organisation. Otherwise, this target would also have been met. The new targets for the proportion of women at the two management levels below the Executive Board of KION GROUP AG were set at 10 per cent and 30 per cent respectively for the defined follow-on period up to 31 December 2021.

Disclosures relevant to acquisitions, section 315a and 289a HGB

The disclosures relevant to acquisitions pursuant to section 315a and 289a HGB together with the explanatory report form an integral part of the combined management report.

1. Composition of subscribed capital

The subscribed capital (share capital) of KION GROUP AG amounted to €118.09 million as at 31 December 2017. It is divided into 118.09 million no-par-value bearer shares. The share capital is fully paid up. All of the shares in the Company give rise to the same rights and obligations. Each share confers one vote and entitlement to an equal share of the profits. The rights and obligations arising out of the shares are defined by legal provisions. As at 31 December 2017, the Company held 160,829 shares in treasury. The primary intention is to offer these treasury shares to staff as part of the KION Employee Equity Programme (KEEP).

2. Restrictions on voting rights or the transfer of shares

The Company is not aware of any agreements entered into by shareholders of KION GROUP AG that restrict voting rights or the transfer of shares.

KION GROUP AG has no rights arising from the treasury shares that it holds (section 71b AktG).

3. Direct or indirect shareholdings in the Company that represent more than 10 per cent of the voting rights

As far as the Company is aware, only Weichai Power (Luxembourg) Holding S.àr.l., Luxembourg ("Weichai Power") directly or indirectly held more than 10 per cent of the voting rights in KION GROUP AG as at 31 December 2017 and its shareholding was 43.26 per cent.

- Pursuant to the German Securities Trading Act (WpHG), the shareholding held by Weichai Power is deemed to belong to the following other companies: > TABLE 004

Companies and countries to which Weichai Power is deemed to belong TABLE 004

Company	Registered office
Shandong Heavy Industry Group Co., Ltd.	Jinan, People's Republic of China
Weichai Group Holdings Limited	Weifang, People's Republic of China
Weichai Power Co., Ltd.	Weifang, People's Republic of China
Weichai Power Hong Kong International Development Co., Ltd.	Hong Kong, People's Republic of China

Other	Registered office
People's Republic of China	Beijing, People's Republic of China

Since the reporting date, there may have been further changes to the aforementioned shareholdings of which the Company is unaware. As the shares in the Company are bearer shares, the Company only learns about changes to the size of shareholdings if these changes are notifiable pursuant to the WpHG or other regulations.

4. Shares with special rights that confer authority to exert control over the Company

There are no shares with special rights that confer the authority to exert control over the Company.

5. Type of voting right controls in cases where employees hold some of the Company's capital and do not exercise their control rights directly

There are no cases where employees hold some of the Company's capital and do not exercise their control rights directly themselves.

6. Appointment and removal of members of the Executive Board; amendments to the articles of association

Members of the Company's Executive Board are appointed and removed in accordance with the provisions of sections 84 and 85 AktG and section 31 MitbestG. Pursuant to article 6 (1) of the articles of association of the Company, the Executive Board must have a minimum of two members. The Supervisory Board determines the number of Executive Board members. Pursuant to section 84 AktG and section 6 (3) of the Company's articles of association, the Supervisory Board may appoint a Chief Executive Officer and a deputy.

Section 179 (1) sentence 1 AktG requires that amendments to the articles of association be passed by resolution of the Annual General Meeting. In accordance with article 23 of the articles of association in conjunction with section 179 (2) sentence 2 AktG, resolutions at the Annual General Meeting on amendments to the articles of association are passed by simple majority of the votes cast and by simple majority of the share capital represented in the voting unless a greater majority is specified as a mandatory requirement under statutory provisions. The option to stipulate a larger majority than a simple majority in any other cases has not been exercised in the articles of association.

The Supervisory Board is authorised in article 10 (3) of the articles of association to amend the articles of association provided that such amendments relate solely to the wording.

7. Authority of the Executive Board to issue or buy back shares

The Annual General Meeting on 12 May 2016 authorised the Company, in the period up to 11 May 2021, to acquire for treasury up to 10 per cent of all the shares in issue at the time of the resolution or in issue on the date the authorisation is exercised, whichever is the lower. Together with other treasury shares in the possession of the Company or deemed to be in its possession pursuant to section 71a et seq. AktG, the treasury shares bought as a result of this authorisation must not exceed 10 per cent of the Company's share capital at any time. The Company may sell the purchased treasury shares through a stock exchange or by means of an offer to all shareholders. It may also sell the shares in return for a non-cash consideration, in particular in connection with the acquisition of a business, parts of a business or equity investments. In addition, the treasury shares may be offered to employees of the Company or of an affiliated company as part of an employee share ownership program. The treasury shares can also be retired. Share buyback for trading purposes is prohibited. The authorisation may be exercised on one or more occasions, for the entire amount or for partial amounts, in pursuit of one or more aims, by the Company, by a Group company or by third parties for the account of the Company or the account of a Group company. At the discretion of the Executive Board, the shares may be purchased through the stock exchange, by way of a public purchase offer made to all shareholders or by way of a public invitation to shareholders to tender their shares.

In 2017, the Company again made use of this authorisation, purchasing 60,000 shares in the period 10 to 30 October 2017. During the reporting year, 63,657 of the shares acquired that were still in treasury were used as part of the KEEP Employee Equity Programme for the employees of the Company and certain Group companies.

- On the basis of a resolution of the Company's Annual General Meeting on 11 May 2017, the Executive Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by up to €10.88 million by issuing up to 10.88 million new no-par-value ordinary bearer shares for cash and/or non-cash contributions up to and including 10 May 2022 (2017 Authorised Capital). The 2017 Authorised Capital became effective when the corresponding change to the articles of association was entered in the commercial register at the Wiesbaden local court (HRB 27060) on 12 May 2017.

With the consent of the Supervisory Board's ad-hoc transaction committee set up for this purpose, the Executive Board resolved on 22 May 2017 to use part of the 2017 Authorised Capital and, disapplying shareholders' pre-emption rights, to increase the Company's share capital by a nominal €9.3 million to €118.090 million by issuing 9.3 million new no-par-value bearer shares in the Company. This increase equates to an 8.55 per cent rise in the Company's share capital in existence on the effective date and at the time of use of the 2017 Authorised Capital. The capital increase took effect when its implementation was entered in the commercial register at the Wiesbaden local court under HRB 27060 on 23 May 2017. Consequently, the Executive Board is currently authorised by the Annual General Meeting to increase the Company's share capital by up to €1.579 million by issuing up to 1.579 million new no-par-value bearer shares for cash and/or non-cash contributions.

- On the basis of a resolution of the Annual General Meeting on 11 May 2017, the Executive Board was also authorised, in the period up to and including 10 May 2022, to issue convertible bonds, warrant-linked bonds, profit-sharing rights and/or income bonds with or without conversion rights, warrants, mandatory conversion requirements or option obligations, or any combinations of these instruments (referred to jointly as 'debt instruments') for a total par value of up to €1 billion, and to grant conversion rights and/or warrants to – and/or to impose mandatory conversion requirements or option obligations on – the holders/beneficial owners of debt instruments to acquire up to 10.88 million new shares of KION GROUP AG with a pro-rata amount of the share capital of up to €10.88 million ('2017 Authorisation'). The 2017 Conditional Capital of €10.88 million was created to service the debt instruments. The 2017 Authorisation has not been used so far.

The 2017 Conditional Capital will be reduced by, among other things, the portion of the share capital attributable to shares issued on the basis of the 2017 Authorised Capital. As part of the capital increase in May 2017, 9.3 million new shares were issued on the basis of the 2017 Authorised Capital. Consequently, conditional capital of up to €1.579 million is available on the basis of which the Executive Board would be able to issue shares.

8. Material agreements that the Company has signed and that are conditional upon a change of control resulting from a takeover bid, and the consequent effects

In the event of a change of control resulting from a takeover bid, certain consequences are set out in the following significant contracts (still in force on 31 December 2017) concluded between Group companies of KION GROUP AG and third parties.

- Senior facilities agreement dated 28 October 2015, concluded between KION GROUP AG and, among others, the London branch of UniCredit Bank AG

In the event that a person, companies affiliated with this person, or persons acting in concert within the meaning of section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG) acquire(s) control over more than 50 per cent of the Company's voting shares, the lenders may demand that the loans drawn down be repaid and may cancel the loan facilities under the senior facilities agreement.

- Acquisition facilities agreement dated 4 July 2016, concluded between KION GROUP AG and, among others, the London branch of UniCredit Bank AG

The provisions in this agreement that apply in the event of a change of control are identical to those in the senior facilities agreement dated 28 October 2015.

- Promissory note agreements (seven tranches with different coupons and maturities) dated 13 February 2017 / 29 March 2017, concluded between KION GROUP AG and Landesbank Baden-Württemberg; the latter subsequently passed them on to its investors

The provisions in these agreements that apply in the event of a change of control are largely identical to those in the senior facilities agreement dated 28 October 2015.

- Agreement between KION GROUP AG and Volkswagen AG for the supply of internal combustion engines that has since been ordinarily terminated

9. Compensation agreements that the Company has signed with the Executive Board members or employees that will be triggered in the event of a takeover bid

No such agreements have been concluded between the Company and its current Executive Board members or employees.

Remuneration report

This remuneration report forms an integral part of the combined management report for KION GROUP AG. In accordance with statutory requirements and the recommendations of the German Corporate Governance Code (DCGK) as amended on 7 February 2017, the report explains the main features and structure of the remuneration system used for the Executive Board and Supervisory Board of KION GROUP AG and also discloses the remuneration of the individual members of the Executive Board and Supervisory Board for the work that they carried out on behalf of the Company and its subsidiaries in 2017. The report also reflects the requirements of German accounting standard (GAS) 17 and the HGB.

KION GROUP AG considers that transparency and clarity surrounding both the remuneration system itself and the remuneration of the individual members of the Executive Board and Supervisory Board are fundamental to good corporate governance.

EXECUTIVE BOARD REMUNERATION

Remuneration system

The Supervisory Board of KION GROUP AG is responsible for setting and regularly reviewing the total pay of the individual members of the Executive Board. According to the rules of procedure for the Supervisory Board, the Executive Committee prepares all Supervisory Board resolutions pertaining to remuneration.

The remuneration system described below has applied to the members of the KION GROUP AG Executive Board since 1 January 2017, replacing the previous remuneration system that had applied from the day after KION GROUP AG's successful IPO and listing on the Frankfurt Stock Exchange. The remuneration system applicable since 1 January 2017 was approved by the Annual General Meeting of KION GROUP AG on 11 May 2017 with a majority of 71.68 per cent. The Supervisory Board has acknowledged these voting results and will continue to review this subject going forward.

As recommended by the Executive Committee, the Supervisory Board approved the remuneration system by adopting resolutions at its meetings on 29 June 2016 and 28 September 2016, taking account of the requirements of stock company law and the DCGK.

Essential features of the Executive Board remuneration system

The remuneration of the Executive Board of KION GROUP AG is determined in accordance with the requirements of the German Stock Corporation Act and the DCGK and is focused on the Company's long-term growth. It is determined so as to reflect the size and complexity of the KION Group, its business and financial situation, its performance and future prospects, the normal amount and structure of executive board remuneration in comparable companies and the internal salary structure. The Supervisory Board also takes into account the relationship between the Executive Board remuneration and the remuneration paid to senior managers and the German workforce of the Company as a whole, including changes over the course of time. To this end, the Supervisory Board has decided how the relevant benchmarks are to be defined. Other criteria used to determine remuneration are the individual responsibilities and personal performance of each member of the Executive Board. To review the Executive Board's remuneration, the Supervisory Board draws on remuneration comparisons, particularly comparisons with MDAX companies, and on recommendations from an external remuneration consultant who is independent both of the Executive Board and of the KION Group. The Supervisory Board regularly reviews the structure and appropriateness of Executive Board remuneration.

The total remuneration of the Executive Board comprises a non-performance-related salary and non-performance-related non-cash benefits, performance-related (variable) remuneration and pension entitlements. When setting the variable remuneration, the emphasis is on creating a measurement basis covering a number of years, thus providing the members of the Executive Board with an incentive to contribute to the sustained and long-term growth of the Company. The system specifically allows for possible positive and negative developments.

The regular cash remuneration for a particular year, consisting of a non-performance-related fixed annual salary and performance-related (variable) remuneration, has a heavy emphasis on performance. If the targets set by the Supervisory Board are completely missed, only the fixed salary is paid. Taking account of the cap on one-year and multiple-year remuneration, the cash remuneration consists of the following components in the event that the targets are significantly exceeded and the share price goes up sufficiently:

- 17 to 19 per cent fixed annual salary
- 24 to 27 per cent one-year variable remuneration
- 54 to 59 per cent multiple-year variable remuneration

The variable components of the cash remuneration make up no more than 81 to 83 per cent, of which approximately two-thirds are multiple-year components. Both the one-year and the multiple-year components are linked to key performance indicators used by the KION Group to measure its success. The remuneration system is thus closely tied to the success of the Company and, with a high proportion of multiple-year variable remuneration, has a long-term focus aimed at promoting the KION Group's growth.

The pension entitlements consist of entitlements in respect of retirement, invalidity and surviving dependants' benefits.

Non-performance-related remuneration

The Executive Board members of KION GROUP AG receive non-performance-related remuneration in the form of a fixed annual salary (basic remuneration) and additional benefits. The fixed annual salary is paid at the end of each month in twelve equal instalments, the last payment being made for the full month in which the Executive Board service contract ends. The Supervisory Board reviews the basic remuneration at regular intervals and makes adjustments if appropriate.

The additional benefits essentially comprise use of a company car and the payment of premiums for accident insurance with benefits at a typical market level.

Performance-related remuneration

The performance-related remuneration components consist of a variable remuneration component measured over one year (short-term incentive) and a variable remuneration component measured over several years in the form of a rolling performance share plan with a three-year term (long-term incentive).

Additional special benefits

Additional special benefits have been agreed for Mr Quek because he has been sent from Singapore to China on foreign assignment.

Under this arrangement, Mr Quek's remuneration is structured as if he were liable for taxes and social security contributions in Singapore. KION GROUP AG pays the taxes and social security contributions that Mr Quek incurs in China and Germany over and above the taxes that would theoretically apply in Singapore. In 2017, this additional amount totalled €1,225 thousand (2016: €1,278 thousand). The additional benefits also agreed with Mr Quek include the cost of trips home to Singapore for him and his family, a company car, rental payments in Xiamen, China, and private health insurance. In 2017, the additional benefits for Mr Quek amounted to a total of €118 thousand (2016: €135 thousand). These additional benefits will be granted for as long as Mr Quek's designated place of work is Xiamen or until his service contract with KION GROUP AG ends.

One-year variable remuneration

The one-year variable remuneration is a remuneration component linked to the business profitability and productivity of the KION Group in the relevant financial year. Its amount is determined by the achievement of the following targets:

- Adjusted earnings before interest and taxes (EBIT), weighting of 50 per cent
- Free cash flow, weighting of 50 per cent

The target values for the financial components are derived from the annual budget and specified by the Supervisory Board.

No bonus is paid if target achievement is 70 per cent or less (lower target limit). In cases where the targets are significantly exceeded (upper target limit of 130 per cent), the bonus can be doubled at most (capped at 200 per cent). If the targets derived from the annual budget are achieved in full, target achievement is 100 per cent. The target achievement levels for the weighted targets (adjusted EBIT and free cash flow) are added together to give the total target achievement.

The individual performance of the Executive Board members is assessed by the Supervisory Board, which applies a discretionary performance multiple with a factor of between 0.7 and 1.3. For 2017, the main criteria used to assess individual performance are growth of market share, successful innovations, the Organizational Health Index (OHI) and the integration of Dematic into the KION Group. The discretionary performance multiple enables the Supervisory Board to increase or reduce the bonus, calculated on the basis of the total target achievement for the financial targets derived from the budget, by a maximum of 30 per cent depending on the assessment of individual performance. The one-year variable remuneration is capped at 200 per cent of the contractual target bonus and is paid subsequent to the adoption of the annual financial statements relating to the year in question.

In the event that an Executive Board member is not entitled to remuneration for the entire year on which the calculation is based, the remuneration is reduced pro rata temporis.

Multiple-year variable remuneration

For the members of the Executive Board, multiple-year variable remuneration has been agreed in the form of a performance share plan. A very similar plan is offered to the Group's senior managers. The basis of measurement has been defined as the total shareholder return (TSR) for KION shares compared with the MDAX and return on capital employed (ROCE). Each has a weighting of 50 per cent. The annual tranches promised under the plan have a term (performance period) of three years and are paid at the end of the term, provided the defined targets have been achieved.

At the start of a performance period, a conditional entitlement to a certain target number of performance shares is granted. This preliminary number is calculated by dividing the allocation value set out (in euros) in the service contract for the particular Executive Board member by the share price on the relevant date at the start of the performance period. This share price, which is calculated to two decimal places, is determined from the average Xetra closing price of KION shares (closing auction prices) on the Frankfurt Stock Exchange (or a successor system that replaces it) over the last 60 trading days prior to the start of the performance period.

At the end of the performance period, the preliminary number of performance shares is adjusted depending on achievement of the two targets (relative TSR and ROCE) to give the final number of performance shares.

In respect of the ROCE target, there is no entitlement if target achievement is 70 per cent or less. If the target is significantly exceeded (target achievement of 130 per cent or more), the entitlement is capped at 200 per cent. Regarding the relative TSR target, there is no entitlement if KION shares do not outperform the MDAX. If the KION shares outperform this index by 20 per cent or more, the entitlement is capped at 200 per cent. If KION shares outperform the MDAX by 6.67 per cent and the ROCE targets defined each year on the basis of the budget are achieved, total target achievement will be 100 per cent.

The amount paid for each tranche is determined by the final number of performance shares multiplied by the price of KION shares (average price over the preceding 60 trading days) at the end of the performance period.

Executive Board members' individual performance is also taken into account in the multiple-year variable remuneration. At the start of the performance period, the Supervisory Board defines targets for the three-year period. For the 2017 to 2019 performance period, the main criteria used to assess individual performance are – as for the one-year variable remuneration – growth of market share, successful innovations, the Organizational Health Index (OHI) and the integration of Dematic into the KION Group. Depending on achievement of these targets, the Supervisory Board can apply a discretionary factor to make a final adjustment to the calculation of the amount to be paid out at the end of the performance period by plus or minus 30 per cent, although the maximum payment may not exceed 200 per cent of the allocation value.

The plan is a cash-settled long-term incentive plan that does not include the right to receive any actual shares. Under the requirements of GAS 17, IFRS 2 and the HGB, the total expense arising from share-based payments and the fair value of the performance share plan on the date of granting must be disclosed. > TABLE 005

Performance Share Plan 2015

TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted[1]	Fair value per performance share on date of grant[2] (in €)	Expense for share-based remuneration in 2016[3] (in thousand €)	Expense for share-based remuneration in 2017[3] (in thousand €)
Gordon Riske	1,500	53,210	28.19	1,180	1,124
Dr Eike Böhm	806	28,576	28.19	693	725
Bert-Jan Knoef[4]	83	2,956	28.19	40	10
Theodor Maurer[4]	83	2,956	28.19	40	10
Ching Pong Quek	830	29,443	28.19	1,052	943
Dr Thomas Toepfer	1,000	35,474	28.19	787	749
Total	**4,302**	**152,615**		**3,792**	**3,562**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary
2 The fair value was calculated using the Monte Carlo method
3 The amount shown for Mr Quek includes a flat-rate allowance of 55 per cent in 2017 (2016: 57 per cent) as part of a tax equalisation agreement
4 Resigned from office on 14/01/2015; Executive Board service contract ended on 31/03/2015. The fair value of the performance share plan on the date of grant was recognised pro rata temporis up to 31/03/2015

Performance Share Plan 2016

TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted[1]	Fair value per performance share on date of grant[2] (in €)	Expense for share-based remuneration in 2016[3] (in thousand €)	Expense for share-based remuneration in 2017[3] (in thousand €)
Gordon Riske	1,500	36,179	41.46	509	1,062
Dr Eike Böhm	1,000	24,120	41.46	339	708
Ching Pong Quek	830	20,019	41.46	442	905
Dr Thomas Toepfer[4]	1,000	24,120	41.46	339	–339
Total	**4,330**	**104,438**		**1,629**	**2,336**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary
2 The fair value was calculated using the Monte Carlo method
3 The amount shown for Mr Quek includes a flat-rate allowance of 55 per cent in 2017 (2016: 57 per cent) as part of a tax equalisation agreement
4 All of Dr Toepfer’s entitlements under the performance share plan have expired because he is leaving the Company on 31/03/2018

Performance Share Plan 2017 TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted[1]	Fair value per performance share on date of grant (in €)	Expense for share-based remuneration in 2017[2] (in thousand €)
Gordon Riske	1,600	29,712	53.85	650
Dr Eike Böhm	1,000	18,570	53.85	406
Ching Pong Quek	830	15,413	53.85	522
Dr Thomas Toepfer[3]	1,000	18,570	53.85	0
Total	**4,430**	**82,265**		**1,578**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary
2 The amount shown for Mr Quek includes a flat-rate allowance of 55 per cent as part of a tax equalisation agreement
3 All of Dr Toepfer's entitlements under the performance share plan have expired because he is leaving the Company on 31/03/2018

The total expense in 2017 amounted to €7,476 thousand (2016: €9,429 thousand).

Upper limits on remuneration

In accordance with the DCGK, remuneration is subject to upper limits on the amounts payable, both overall and also in terms of the variable components. The upper limit on the total cash remuneration to be paid, consisting of the fixed annual salary plus the one-year and multiple-year variable remuneration, equals roughly 1.7 times the target remuneration (2016: 1.7 times) – excluding the non-performance-related non-cash remuneration and other benefits paid in that financial year. Both the one-year and the multiple-year variable remuneration are capped at 200 per cent of the target value.

Pension entitlements

KION GROUP AG grants its Executive Board members direct entitlement to a company pension plan consisting of retirement, invalidity and surviving dependants' benefits.

The Chief Executive Officer has a defined benefit entitlement that was granted in his original service contract and was transferred to his Executive Board service contract when the Company changed its legal form. The amount of the entitlement is dependent on the number of years of service and amounts to a maximum of 50 per cent of the most recent fixed annual salary awarded in the original service contract after the end of the tenth year of service.

The present value of the previous defined benefit plan for the ordinary members of the Executive Board was transferred as a starting contribution for a new defined contribution pension plan when the Company changed its legal form. The new plan is structured as a cash balance plan and is also applied to new Executive Board members.

Fixed annual contributions of €250 thousand for Dr Toepfer, €150 thousand for Dr Böhm and €124.5 thousand for Mr Quek are paid into their pension accounts for the duration of the member's period of service on the Executive Board. Interest is paid on the pension account at the prevailing statutory guaranteed return rate for the life insurance industry (applicable maximum interest rate for the calculation of the actuarial reserves of life insurers pursuant to section 2 (1) of the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV)) until an insured event occurs. If higher interest is generated by investing the pension account, it will be credited to the pension account when an insured event occurs (surplus). The standard retirement age for the statutory pension applies. Executive Board members are entitled to early payment of the pension no earlier than their 62nd birthday. In the event of invalidity or death while the Executive Board member has an active service contract, the contributions that would have been made until the age of 60 are added to the pension account, although only a maximum of ten annual contributions will be added. When an insured event occurs, the pension is paid as a lump sum or, following a written request, in ten annual instalments.

Termination benefits

In line with the DCGK, all Executive Board service contracts provide for a severance payment equivalent to no more than two years' annual remuneration payable in the event of the contract being terminated prematurely without good cause. The amount of annual remuneration is defined as fixed salary plus the variable remuneration elements, assuming 100 per cent target achievement and excluding non-cash benefits and other additional benefits, for the last full financial year before the end of the Executive Board service contract. If the Executive Board service contract was due to end within two years, the severance payment is calculated pro rata temporis. If a service contract is terminated for good cause for which the Executive Board member concerned is responsible, no payments are made to the Executive Board member in question. The Company does not have any commitments for the payment of benefits in the event of a premature termination of Executive Board contracts following a change of control.

Executive Board members are subject to a post-contractual non-compete agreement of one year. In return, the Company pays the Executive Board member compensation for the duration of the non-compete agreement amounting to 100 per cent of his final fixed salary. Other income of the Executive Board member is offset against the compensation.

In the event that Mr Riske's appointment is not extended for reasons for which he is not responsible and he has not reached the standard retirement age for the statutory pension or in the event that Mr Riske resigns for good cause before the end of his appointment or suffers permanent incapacity after his period of service as a result of sickness, he will receive transitional benefits of €300 thousand per annum on the basis of previous contracts. Severance payments in the event of early termination of his appointment without good cause, compensation for the post-contractual non-compete agreement, pension benefits that Mr Riske receives due to his previous work for other employers and income from other use of his working capacity (with the exception of remuneration for work as a member of a supervisory or advisory board or a board of directors) will be offset against these transitional benefits.

If an Executive Board member suffers temporary incapacity, he will receive his full fixed salary for a maximum period of six months plus the one-year variable remuneration. In the event of temporary incapacity for a further six months, the Executive Board member will receive 80 per cent of his fixed salary, but only up to a point at which the service contract is terminated.

If an Executive Board member ceases to be employed by the Company as a result of death, the Executive Board member's family will be entitled to the fixed monthly remuneration for the month in which the service contract ends and for the three subsequent months, but only up to the point at which the service contract would otherwise have come to an end.

Share ownership guidelines

In connection with the updated remuneration system for Executive Board members that has been in force since 1 January 2017, the Supervisory Board decided to introduce share ownership guidelines, under which all Executive Board members are required to hold shares worth 100 per cent of their basic remuneration. They have to build up their shareholding to this percentage and hold the shares for as long as they remain on the Executive Board. The obligation to hold the full number of shares begins no later than four years after the start of the obligation to hold shares. In the first four years, they are permitted to increase their shareholding incrementally: they must hold 25 per cent of the full number of shares no later than twelve months after the start of the obligation, 50 per cent by the end of the second year and 75 per cent by the end of the third year. The Executive Board members held the required number of shares as at 31 December 2017 and thus fulfilled this obligation.

The relevant number of shares is determined on the basis of the arithmetic mean (rounded to two decimal places) of the Xetra closing prices (closing auction prices) of the Company's shares on the Frankfurt Stock Exchange (or a successor system that replaces it) over the last 60 trading days prior to the start of the obligation to hold the shares and then rounded to the nearest whole number.

It is not necessary to acquire further shares once the full number of shares has been reached, nor will there be an obligation to purchase additional shares if the share price falls. There is only an obligation to purchase additional shares if there is a change to the fixed annual remuneration in the member's Executive Board service contract or if a capital reduction, capital increase or stock split takes place.

Remuneration for members of the Executive Board in 2017

In accordance with the recommendations of the DCGK, as amended on 7 February 2017, the remuneration of Executive Board members is presented in two separate tables. Firstly, the benefits granted for the year under review, including the additional benefits and – in the case of variable remuneration components – the maximum and minimum remuneration achievable are shown. > TABLE 006

Secondly, > TABLE 007 shows the total remuneration allocated/earned, comprising fixed remuneration, short-term variable remuneration and long-term variable remuneration, broken down by reference year.

Benefits granted pursuant to the DCGK

The total remuneration granted to Executive Board members for 2017 was €10,279 thousand (minimum: €4,228 thousand, maximum: €16,331 thousand) (2016: €10,442 thousand). Of this amount, €2,958 thousand (2016: €2,372 thousand) was attributable to fixed non-performance-related remuneration components, €6,051 thousand (minimum: €0 thousand, maximum: €12,102 thousand) (2016: €6,824 thousand) to variable one-year and multiple-year performance-related remuneration components, €186 thousand (2016: €199 thousand) to non-performance-related non-cash remuneration and other non-performance-related benefits and €1,084 thousand (2016: €1,047 thousand) to the pension expense in accordance with IFRS. The figure shown for one-year variable remuneration is based on a target achievement rate of 100 per cent (minimum: 0 per cent for target achievement of 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more). The figure shown for multiple-year variable remuneration is the fair value of the performance share plans at the date of grant, representing full target achievement (minimum: zero payment, maximum: 200 per cent of the contractual allocation value).

The additional benefits were measured at the value calculated for tax purposes. > TABLE 006

Benefits granted in 2017

in thousand €			Gordon Riske CEO of KION GROUP AG 2016	2017	2017 (Min)	2017 (Max)
Non-performance-related components		Fixed remuneration	800	1,100	1,100	1,100
		Non-cash remuneration and other benefits [1]	20	21	21	21
		Total	**820**	**1,121**	**1,121**	**1,121**
Performance-related components	Short-term incentive	**One-year variable remuneration [2,3]**	**700**	**800**	**0**	**1,600**
	Share-based long-term incentive	**Multiple-year variable remuneration [2,4]**	**1,500**	**1,600**	**0**	**3,200**
		Performance share plan [5] (01/01/2016–31/12/2018)	1,500			
		Performance share plan [5] (01/01/2017–31/12/2019)		1,600	0	3,200
		Total	**3,020**	**3,521**	**1,121**	**5,921**
		Pension expense [6]	633	664	664	664
		Total remuneration	**3,653**	**4,185**	**1,785**	**6,585**
Reconciliation to total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17						
		Minus the one-year variable remuneration granted	–700	–800		
		Plus the expected one-year variable remuneration (allocation)	756	664		
		Minus the pension expense	–633	–664		
		Plus the adjustment of the one-year variable remuneration for the previous year	80	77		
		Total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17	**3,156**	**3,462**		

1 Non-performance related, non-cash remuneration and other benefits include expenses and/or benefits in kind, such as the use of a company car and housing costs
2 The amount shown for Mr Quek includes a flat-rate allowance of 55 per cent (2016: 57 per cent) as part of a tax equalisation agreement
3 The figure shown for one-year variable remuneration is based on a target achievement rate of 100 per cent (minimum: 0 per cent for target achievement of 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more)
4 Fair value on the date of grant
5 All of Dr Toepfer's entitlements under the performance share plan have expired because he is leaving the Company on 31/03/2018
6 Service cost (IAS); the service cost in accordance with the HGB is shown in TABLE 009

TABLE 006

	Dr Eike Böhm				Ching Pong Quek				Dr Thomas Toepfer			
	CTO of KION GROUP AG				Member of KION GROUP AG Executive Board / Chief Asia Pacific Officer				CFO of KION GROUP AG			
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
	500	575	575	575	572	633	633	633	500	650	650	650
	21	20	20	20	135	118	118	118	23	27	27	27
	521	**595**	**595**	**595**	**707**	**751**	**751**	**751**	**523**	**677**	**677**	**677**
	400	**400**	**0**	**800**	**521**	**515**	**0**	**1,029**	**400**	**450**	**0**	**900**
	1,000	**1,000**	**0**	**2,000**	**1,303**	**1,287**	**0**	**2,573**	**1,000**	**0**	**0**	**0**
	1,000				1,303				1,000			
		1,000	0	2,000		1,287	0	2,573				
	1,921	**1,995**	**595**	**3,395**	**2,532**	**2,552**	**751**	**4,353**	**1,923**	**1,127**	**677**	**1,577**
	155	152	152	152	122	124	124	124	137	145	145	145
	2,076	**2,147**	**747**	**3,547**	**2,654**	**2,675**	**874**	**4,477**	**2,060**	**1,272**	**822**	**1,722**
	−400	−400			−521	−515			−400	−450		
	432	332			563	427			432	374		
	−155	−152			−122	−124			−137	−145		
	19	1			80	−9			45	44		
	1,972	**1,928**			**2,654**	**2,456**			**2,000**	**1,095**		

Allocation pursuant to the DCGK

The total remuneration allocated to / earned by Executive Board members for 2017 was €15,209 thousand (2016: €13,501 thousand). Of this amount, €2,958 thousand (2016: €2,372 thousand) was attributable to fixed non-performance-related remuneration components, €10,981 thousand (2016: €9,883 thousand) to variable one-year and multiple-year performance-related remuneration components, €186 thousand (2016: €199 thousand) to non-performance-related non-cash remuneration and other non-performance-related benefits and €1,084 thousand (2016: €1,047 thousand) to the pension expense in accordance with IFRS. The figure shown for one-year variable remuneration is derived from a preliminary total target achievement rate of about 95 per cent based on the budgeted figure. This target achievement rate was calculated using preliminary earnings figures at the beginning of 2018 and equates to a payout of around 83 per cent of the target value for one-year variable remuneration.

Allocation in 2017

			Gordon Riske CEO of KION GROUP AG	
in thousand €			**2016**	**2017**
Non-performance-related components		Fixed remuneration	800	1,100
		Non-cash remuneration and other benefits [1]	20	21
		Total	**820**	**1,121**
Performance-related components	Short-term incentive	**One-year variable remuneration [2]**	**833**	**664**
	Share-based long-term incentive	**Multiple-year variable remuneration**	**3,000**	**3,000**
		Performance share plan [3] (01/01/2014–31/12/2016)	3,000	
		Performance share plan (01/01/2015–31/12/2017)		3,000
		Total	**4,653**	**4,785**
		Pension expense [4]	633	664
		Total remuneration	**5,286**	**5,449**

1 Non-performance related, non-cash remuneration and other benefits include expenses and / or benefits in kind, such as the use of a company car and housing costs
2 The figure shown for one-year variable remuneration for 2016 is the actual amount paid out, which differs from the estimated value listed in the 2016 consolidated financial statements.
3 The figure shown for multiple-year variable remuneration is the actual amount paid out, which, in Mr Quek's case, differs from the estimated value listed in the 2016 consolidated financial statements.
4 Service cost (IAS); the service cost in accordance with the HGB is shown in TABLE 009

This preliminary variable remuneration for each Executive Board member is also subject to adjustment by the Supervisory Board in line with the individual performance of the Executive Board member. This adjustment may vary by plus or minus 30 per cent of the variable remuneration.

For the multiple-year variable remuneration, a payment from the 2015 tranche of the performance share plan will be made in spring 2018 on the basis of the achievement of the long-term targets that were defined in 2015 at the start of the performance period. The value shown for 2017 is also calculated on the basis of a preliminary total target achievement rate of about 126 per cent and is subject to the performance-based adjustment made by the Supervisory Board (using a discretionary performance multiple) for individual Executive Board members. Based on the conditions of the plan at the grant date, this performance-based adjustment may vary by plus or minus 20 per cent.

The additional benefits were measured at the value calculated for tax purposes. > TABLE 007

TABLE 007

Dr Eike Böhm		Ching Pong Quek		Dr Thomas Toepfer	
CTO of KION GROUP AG		Member of KION GROUP AG Executive Board / Chief Asia Pacific Officer		CFO of KION GROUP AG	
2016	**2017**	**2016**	**2017**	**2016**	**2017**
500	575	572	633	500	650
21	20	135	118	23	27
521	**595**	**707**	**751**	**523**	**677**
433	**332**	**554**	**427**	**476**	**374**
0	**1,611**	**2,586**	**2,573**	**2,000**	**2,000**
		2,586		2,000	
	1,611		2,573		2,000
954	**2,538**	**3,848**	**3,751**	**2,999**	**3,051**
155	152	122	124	137	145
1,109	**2,690**	**3,970**	**3,874**	**3,136**	**3,196**

The payments to be made in spring 2018 to two former members of the Executive Board from the 2015 tranche of the performance share plan were also calculated on the basis of a preliminary total target achievement rate of about 126 per cent and amount to €333 thousand. Of this total, €167 thousand is attributable to Mr Knoef and €167 thousand to Mr Maurer.

The table below shows the pension contributions (additions to the plan) attributable to each individual Executive Board member and their separate present values in accordance with IFRS and in accordance with HGB > TABLE 008 – 009.

In addition to the remuneration described above for Mr Knoef and Mr Maurer, the total remuneration paid to former members of the Executive Board amounted to €254 thousand in 2017 (2016: €249 thousand). Provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants amounting to €9,765 thousand (2016: €9,791 thousand) were recognised in accordance with IAS 19.

In the year under review, no advances were made to members of the Executive Board, and there were no loans.

Pension entitlements under IFRS — TABLE 008

in thousand €	Service cost 2017	Service cost 2016	Present value (DBO) 31/12/2017	Present value (DBO) 31/12/2016
Gordon Riske	664	633	6.491	6.168
Dr Eike Böhm	152	155	364	222
Ching Pong Quek	124	122	557	446
Dr Thomas Toepfer	145	137	864	615

Pension entitlements under HGB — TABLE 009

in thousand €	Service cost 2017	Service cost 2016	Present value (DBO) 31/12/2017	Present value (DBO) 31/12/2016
Gordon Riske	460	481	4,872	4,176
Dr Eike Böhm	133	139	326	191
Ching Pong Quek	98	102	505	347
Dr Thomas Toepfer	156	107	738	527

SUPERVISORY BOARD REMUNERATION

Remuneration system

The Supervisory Board's remuneration is defined in article 18 of KION GROUP AG's articles of incorporation. Members of the Supervisory Board receive fixed remuneration plus reimbursement of out-of-pocket expenses. Additional remuneration is paid for being a member or chairman of a committee, although this does not apply in the case of the Nomination Committee or the Mediation Committee pursuant to section 27 (3) of the German Codetermination Act (MitbestG). If a member of the Supervisory Board or one of its committees does not hold their position for a full financial year, remuneration is reduced pro rata temporis. The members of the Supervisory Board receive an attendance fee per day for meetings of the Supervisory Board and its committees, although they only receive this amount once if they attend more than one meeting on the same day.

As the general parameters had not changed significantly since the remuneration arrangements applicable to the Supervisory Board until 31 May 2017 which had been decided upon immediately prior to the IPO of KION GROUP AG in June 2013, the Supervisory Board decided it would be appropriate to also review its own remuneration in 2016, in addition to that of the Executive Board. To this end, a remuneration consultant who was independent of the Supervisory Board and the KION Group was commissioned to examine the appropriateness and market conformity of Supervisory Board remuneration at KION GROUP AG.

Based on the consultant's findings, some aspects of the remuneration system for the Supervisory Board of KION GROUP AG were amended. Based on a resolution adopted by the Annual General Meeting on 11 May 2017, the fixed annual remuneration of ordinary members was increased from €45,000 to €55,000 as at 1 June 2017. The chairman of the Supervisory Board receives three times the amount of an ordinary member, i.e. €165,000, and his deputy receives two times the amount of an ordinary member, i.e. €110,000.

In view of the increased responsibility attaching to Audit Committee membership and thus the greater amount of time that members are required to dedicate, the remuneration of ordinary Audit Committee members was raised from €8,000 to €15,000 and that of the Audit Committee chairman from €16,000 to €45,000; his deputy receives two times the amount of an ordinary member, i.e. €30,000.

Furthermore, the attendance fee for meetings of the Supervisory Board and its committees was increased from €1,250 to €1,500.

The Company reimburses each member for any VAT incurred in connection with his or her remuneration.

A D&O insurance policy without an excess has been taken out for the members of the Supervisory Board.

Remuneration paid to members of the Supervisory Board in 2017

The total remuneration paid to the Supervisory Board in 2017 was €1,386,416.67. Of this amount, €954,583.33 was attributable to remuneration for activities carried out by the Supervisory Board. The remuneration paid for committee work (including attendance fees) totalled € 431,833.33. The following table shows the breakdown of remuneration paid to each Supervisory Board member for 2017: > TABLE 010

In 2017, no company in the KION Group paid or granted any remuneration or other benefits to members of the Supervisory Board for services provided as individuals, such as consulting or brokerage activities. Nor were any advances or loans granted to members of the Supervisory Board.

Supervisory Board remuneration

TABLE 010

	Fixed remuneration	Committee remuneration	Attendance fee	Total remuneration
Dr John Feldmann (chairman)	€140,000.00	€28,083.33	€21,000.00	€189,083.33
Joachim Hartig (until 11/05)	€18,750.00	€3,333.33	€5,000.00	€27,083.33
Behrendt, Birgit	€50,833.33	–	€9,750.00	€60,583.33
Holger Brandt (until 11/05)	€18,750.00	–	€3,750.00	€22,500.00
Dr Alexander Dibelius	€50,833.33	€8,000.00	€16,750.00	€75,583.33
Stefan Casper (from 11/05)	€35,833.33	–	€14,750.00	€50,583.33
Denis Heljic	€50,833.33	€8,000.00	€24,250.00	€83,083.33
Jiang Kui *	€50,833.33	€8,000.00	€15,500.00	€74,333.33
Olaf Kunz	€50,833.33	€8,000.00	€20,000.00	€78,833.33
Milla, Jörg	€50,833.33	€12,083.33	€24,000.00	€86,916.67
Özcan Pancarci	€95,416.67	€8,000.00	€24,250.00	€127,666.67
Dr Frank Schepp (from 11/05)	€35,833.33	–	€13,250.00	€49,083.33
Hans Peter Ring	€50,833.33	€40,916.67	€21,000.00	€112,750.00
Dr Christina Reuter	€50,833.33	–	€9,750.00	€60,583.33
Alexandra Schädler	€50,833.33	€20,833.33	€24,000.00	€95,666.67
Tan Xuguang *	€50,833.33	–	€2,750.00	€53,583.33
Claudia Wenzel (committee from 11/05)	€50,833.33	€5,333.33	€21,750.00	€77,916.67
Xu, Ping *	€50,833.33	–	€9,750.00	€60,583.33
Total	**€954,583.33**	**€150,583.33**	**€281,250.00**	**€1,386,416.67**
* Withholding tax (pursuant to section 50a of the German Income Tax Act (EStG)) incl. the reunification surcharge was also paid over in the following amounts:	€70,616.31	€3,704.46	€12,965.62	€87,286.39

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COMBINED MANAGEMENT REPORT

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Preliminary remarks

COMBINED MANAGEMENT REPORT

The management report published in the 2017 annual report combines the group management report and the management report of KION GROUP AG. Unless stated otherwise, the description of the course of business (including business performance), position and expected development refers both to the Group and to KION GROUP AG. Sections that only contain information on KION GROUP AG are indicated as such. The report on the economic position includes a separate section containing disclosures for KION GROUP AG in accordance with the German Commercial Code (HGB).

Fundamentals of the KION Group

PROFILE OF THE KION GROUP

Organisational structure

The KION Group is one of the world's leading suppliers of integrated supply chain solutions. Its portfolio encompasses forklift trucks, warehouse technology and supply chain solutions, including the related services. Across more than 100 countries worldwide, the KION Group designs, builds and supports logistics solutions that optimise material and information flow within factories, warehouses and distribution centres. The Group is the largest manufacturer of industrial trucks in Europe, the second-largest producer of forklifts globally and a leading provider of automation technology.

The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks at the lower end of the volume segment and in the economy segment. Among KION's regional industrial truck brand companies, Fenwick is the largest supplier of material handling products in France, OM STILL is a market leader in Italy and OM Voltas is a leading provider of industrial trucks in India. Dematic is a leading global supplier of integrated automation technology, software and services for optimising supply chains. More than 1.3 million industrial trucks and over 6,000 installed systems are deployed by customers in all industries and of all sizes on six continents.

The KION Group comprises the parent company KION GROUP AG, which is a public limited company under German law, and its subsidiaries. The KION Group's strategic management holding company, KION GROUP AG, is listed on the Frankfurt Stock Exchange and is part of the MDAX, the STOXX Europe 600 and the FTSE Euro Mid Cap. Details of treasury shares (pursuant to section 160 (1) no. 2 of the German Stock Corporation Act (AktG)) are provided in note [28] 'Equity' in the notes to the consolidated financial statements.

The parent company of KION GROUP AG is Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg, a subsidiary of Weichai Power Co. Ltd., Weifang, China, which held 43.3 per cent of the shares at the end of 2017 as far as the Company is aware. The free float accounted for 56.6 per cent of the shares, while the remaining 0.1 per cent were treasury shares.

Management and control

Corporate governance

The KION Group follows generally accepted standards of sound, responsible corporate governance. The German Corporate Governance Code (DCGK) provides the framework for management and control. As required by section 289f and section 315d of the German Commercial Code (HGB), the corporate governance standards that the Group applies are set out in the declaration on corporate governance. This declaration also contains the comply-or-explain statement pursuant to section 161 AktG, which was issued by the Executive Board and Supervisory Board of KION GROUP AG on 13/18 December 2017, and the corporate governance report pursuant to section 3.10 of the German Corporate Governance Code, which also provides information about the compliance standards in the Group. The declaration on corporate governance can be viewed and downloaded on the Company's website. It also forms part of this annual report and is a component of the combined management report.

The essential features of the remuneration system are described in the remuneration report, which is part of the 2017 combined management report and can be found in the 'Remuneration report' section of this annual report. The total amounts for Executive Board remuneration and Supervisory Board remuneration are reported in the notes to the consolidated financial statements (note [45]).

Disclosures relevant to acquisitions

The disclosures relevant to acquisitions (pursuant to section 315a and section 289a HGB) together with the explanatory report form an integral part of the combined management report and can be found in the 'Disclosures relevant to acquisitions' section of this annual report.

Non-financial declaration

A separately published sustainability report provides detailed information on the sustainable management of the KION Group. The report for the year under review contains, for the first time, the KION Group's non-financial declaration as required under the

German law to implement the corporate social responsibility (CSR) directive. The declaration focuses on targets, action steps and due diligence processes relating to the key environmental, social and employee-related aspects of the KION Group's business model, the observation of human rights and the fight against corruption and bribery.

In accordance with the statutory disclosure deadlines defined in section 325 HGB, the KION Group publishes its annual sustainability report (including the non-financial report) by no later than the end of April each year on its website, where it will remain available for at least ten years.

Executive Board

The Executive Board of KION GROUP AG is responsible for the operational management of the KION Group. As before, it had four members at the end of 2017. As at 31 December 2017, the responsibilities of the Executive Board members were as follows:

- Gordon Riske, Chief Executive Officer (CEO), was responsible for the LMH EMEA and STILL EMEA Operating Units in the Industrial Trucks & Services segment and the Dematic Operating Unit. He also remained in charge of the following group functions: corporate strategy, corporate communications, corporate office, internal audit and corporate compliance. In addition, he took on responsibility for the Digitalization@KION initiative.
- Dr Eike Böhm, in his role as Chief Technology Officer (CTO), had groupwide responsibility for research and development (R&D) in the areas of industrial trucks and supply chain solutions including modules & components, for software development, procurement and quality.
- Ching Pong Quek, Chief Asia Pacific Officer, headed up the KION APAC Operating Unit and thus the entire Asia business within the Industrial Trucks & Services segment.
- Dr Thomas Toepfer was Chief Financial Officer (CFO) and his responsibilities included corporate accounting & tax, financial services, corporate finance, corporate controlling, corporate HR/Labour Relations Director, legal affairs, KION Group IT, data protection, health, safety & environment and logistics/Urban. He also took over responsibility from Mr Riske for the KION Americas Operating Unit in the Industrial Trucks & Services segment.

In November 2017, KION GROUP AG announced that Dr Thomas Toepfer would be leaving the Company on 31 March 2018 in order to take on a new role outside the KION Group.

The Group Executive Committee (GEC) advises the Executive Board of KION GROUP AG and provides input from the Operating Units. The committee comprises the Executive Board members as well as the presidents of the Operating Units.

The Executive Board maintains a relationship of trust with, and is monitored by, the Company's Supervisory Board.

Supervisory Board

The Supervisory Board, which was formed in accordance with the German Codetermination Act (MitbestG), comprises 16 people. It advises the Executive Board in its handling of significant matters and business transactions. To increase the efficiency of its work, the Supervisory Board is supported by four standing committees: the Nomination Committee, the Executive Committee, the Audit Committee and the Mediation Committee.

The term of office of the members of the Supervisory Board ended at the Annual General Meeting on 11 May 2017. All of the existing shareholder representatives were re-elected by the Annual General Meeting for a further five years. Dr Frank Schepp and Stefan Casper were elected as employee representatives, replacing Holger Brandt and Joachim Hartig. At the constitutive meeting held after the Annual General Meeting, the Supervisory Board re-elected Dr John Feldmann as chairman.

Business model and organisational structure

The KION Group's business model is designed so that customers of all sizes and from all kinds of industries can obtain the full spectrum of material handling products and services from a single source. Thanks to its broad technology base, diversified product portfolio and worldwide service network, the KION Group has the most comprehensive portfolio of such products and services in the market.

The KION Group's market activities are divided into five Operating Units: LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic. LMH EMEA and STILL EMEA each concentrate on Europe, the Middle East and Africa. KION APAC and KION Americas hold cross-brand responsibility for industrial truck business in the Asia-Pacific region and the Americas respectively. Dematic is the global supply chain solutions business. While the Operating Units have full operational and commercial responsibility within their markets, KION GROUP AG is the strategic management holding company and is responsible for the groupwide strategy and groupwide business standards.

For internal management purposes, the KION Group has divided its operating business into two segments that correspond to the segments as required by international financial reporting standards (IFRS 8). The industrial truck business, including the supporting financial services, is shown in the Industrial Trucks & Services segment, while activities focusing on end-to-end solutions make up the Supply Chain Solutions segment. The two operating segments complement each other because they both have a strong market position and regional presence. The Corporate Services segment comprises the other activities and holding functions of the KION Group. These include service companies that provide services such as IT and logistics across all segments. > TABLE 011

Industrial Trucks & Services segment

The Industrial Trucks & Services segment encompasses the activities of the international brand companies Linde, STILL and Baoli, the local brand companies Fenwick, OM STILL and OM Voltas plus the financial services business.

Linde is an international premium brand and technology leader that meets customers' most sophisticated requirements regarding technology, efficiency, functionality and design. In France, Linde products are sold under the Fenwick brand.

STILL is predominantly an international premium provider of trucks with electric and diesel-electric drives. It mainly focuses on the European and Latin American markets, with the national brand OM STILL serving the Italian market.

Baoli is the international brand for the lower end of the volume segment and the economy segment.

OM Voltas is the national brand company for the Indian market, through which the KION India Pvt. Ltd. subsidiary manufactures and sells electric and IC forklift trucks and warehouse trucks.

Segment overview

TABLE 011

	Revenue		Adjusted EBIT [1]		Employees [2]	
in € million	2017	2016	2017	2016	2017	2016
Industrial Trucks & Services	5,630.9	5,202.6	640.1	586.9	24,090	23,064
Supply Chain Solutions	2,006.3	366.0	181.4	6.0	6,820	6,810
Corporate Services	266.6	242.0	530.7	305.9	698	670
Consolidation / reconciliation	–250.3	–223.4	–586.5	–361.5	–	–
Total	**7,653.6**	**5,587.2**	**765.6**	**537.3**	**31,608**	**30,544**

1 Adjusted for PPA items and non-recurring items
2 Number of employees (full-time equivalents) as at balance sheet date 31/12/

KION Financial Services (FS) is an internal funding partner for the Industrial Trucks & Services segment, providing finance solutions to support sales. Its activities comprise the financing of long-term leasing business for external customers, the internal financing of the short-term rental business and the related risk management. In the large sales markets with a high volume of financing and leasing, legally independent FS companies handle this business. So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers key steps of the value chain: product development, manufacturing, sales and logistics, spare parts business, truck rental and used truck businesses, fleet management and financial services that support the core industrial truck business.

The segment earns just over half of its revenue by selling industrial trucks. The product portfolio includes counterbalance trucks powered by an electric drive or internal combustion engine, warehouse trucks (ride-on and hand-operated) and towing vehicles for industrial applications. It covers all load capacities, from one to 18 tonnes. Worldwide research and development activities enable the Industrial Trucks & Services segment to consolidate its technology leadership, which it is extending in the areas of innovative, energy-efficient and low-emission drive technologies and hydrostatic and diesel-electric drive systems. In this field, the KION Group operates a total of 16 production facilities for industrial trucks and components in eight countries. So that it can ensure security of supply and the availability of spare parts for important components in order to meet customers' specific requirements, the segment manufactures major components itself – notably lift masts, axles, counterweights and safety equipment. Other components – such as hydraulic components, electronic components, rechargeable batteries, engine components and industrial tyres – are purchased through the global procurement organisation.

As a rule, industrial trucks are built according to the customer's individual specifications. Advantages for customers in terms of total cost of ownership (TCO) underpin the international Linde and STILL brands' premium positioning. The trucks' hallmarks are cost-efficiency, high productivity and high residual values. The international Baoli brand serves the lower end of the volume segment and the economy segment.

The segment is underpinned by an extensive sales and service network comprising around 1,400 outlets in over 100 countries and staffed by approximately 17,800 service employees. Just under half of them are employed by the KION Group. In other cases, the Operating Units rely on external dealers.

The worldwide vehicle fleet, which comprised more than 1.3 million industrial trucks at the end of 2017, provides a stable basis for the spare parts, maintenance and repair business. The service business, which includes financial services, helps to smooth out fluctuations in the segment's revenue and reduces dependency on market cycles. This business also strengthens customer relationships, thereby helping to generate sales of new trucks. Extensive supplementary services are offered, mainly for premium products. However, the proportion of service business is continually increasing in the other price segments too.

There are also individual orders for repairs and maintenance work as well as for spare parts. In addition, the segment looks after entire customer fleets, using special software to monitor the trucks in the fleets and to enable customers to efficiently manage their fleets.

The Operating Units also have extensive rental truck and used truck businesses, allowing peaks in capacity requirements to be met and customers to be supported after their leases have expired.

Financial services support new truck business in many markets, forming another pillar of the service business. About half of all new trucks are financed via the KION Group itself or via external banks and financing partners. Offering financial services is therefore part of the truck sales process. End customer finance is generally linked to a service contract throughout the term of the finance agreement. In the main sales markets with a high volume of financing and leasing, financial activities are handled by legally independent financial services companies. These activities include long-term leasing to customers and internal financing of the Operating Units' short-term rental fleets.

Supply Chain Solutions segment

The Supply Chain Solutions segment is a leading global supplier of integrated automation technology, software and services for optimising supply chains. Since the start of 2018, all solutions have been marketed under the central Dematic brand, including those previously sold under the Egemin Automation and NDC Automation product brands.

Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking, automated palletising and automated guided vehicle systems. Picking equipment controlled by radio, voice or light is available for nearly all goods and packaging types, whether it is used for case, individual item, split-case or pallet picking. Automated storage and retrieval systems (ASRS) such as RapidStore and high-performance picking stations (RapidPick) can be used to achieve very fast throughput times and picking rates. In 2017, an ultracompact order picking system was added under a global partnership with AutoStore® that enables significantly more inventory to be stored within the same floor space. At the same time, cross-docking solutions increase the efficiency of the system as a whole by eliminating the unnecessary handling and storage of goods.

Real-time management of the supply chain solutions is based on the proprietary, software platform Dematic iQ, which can be easily integrated into customers' existing application landscape. Dematic iQ offers much more than traditional warehouse management systems, helping with the data-based optimisation of all processes to ensure seamless order processing. It also supports performance management functions for measuring and controlling performance.

The segment is primarily involved in customer-specific, longer-term project business. With global resources, ten production facilities worldwide and regional teams of experts, Dematic is able to plan and implement logistics solutions with varying degrees of complexity anywhere in the world.

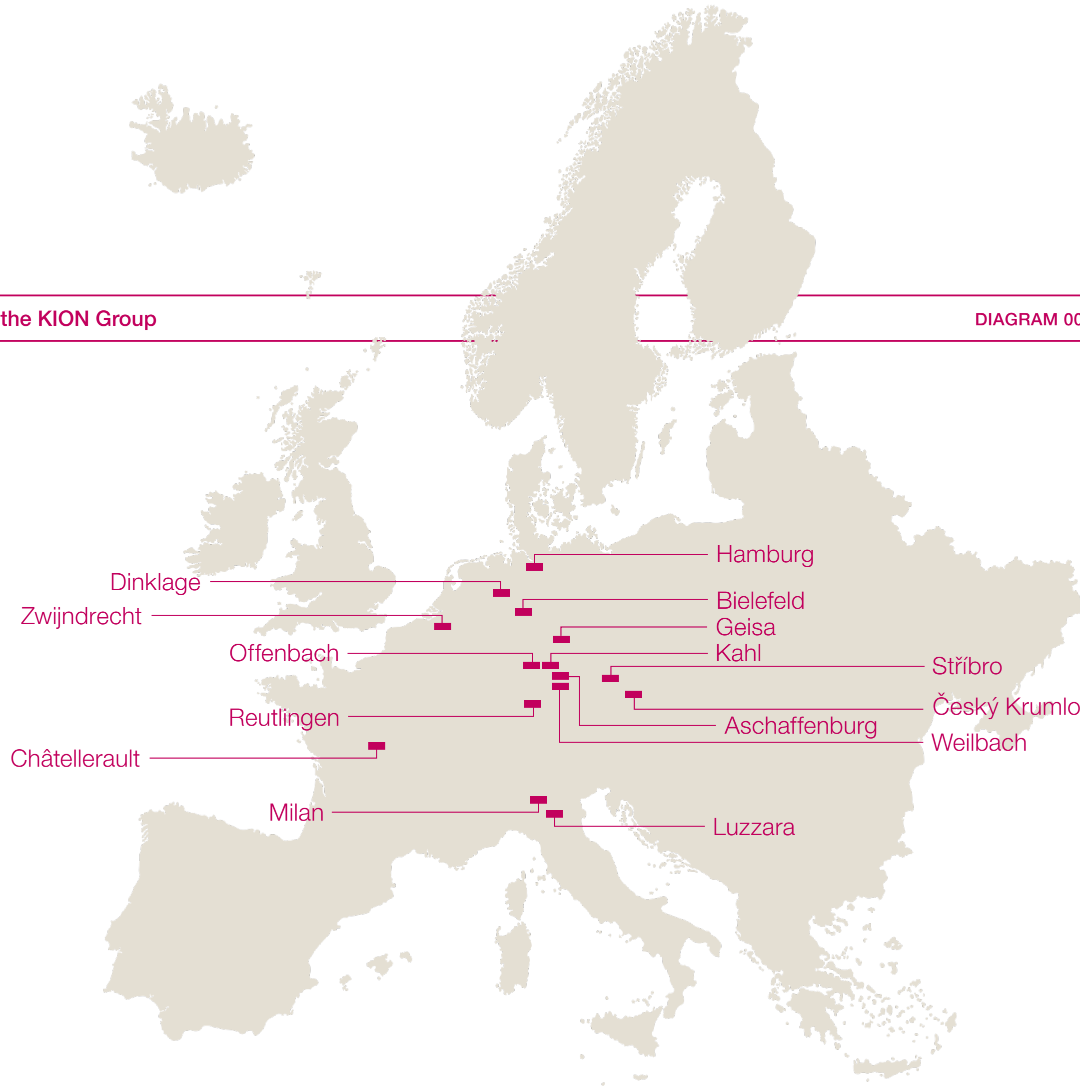
The (new) project business (business solutions) covers every phase of a new installation: analysis of the customer's needs and the general parameters, provision of appropriate advice, computer simulation of bespoke intralogistics solutions in the customer's individual environment, technical planning and design of the system, implementation of the control technology and its integration into the customer's existing IT infrastructure, site and project management, plant monitoring and support for the customer during implementation of the system, including training for the workforce.

The system components, which are specified in detail for each customer project, such as automatic guided vehicles, palletisers, storage and picking equipment including automated storage and retrieval systems, sorters and conveyors, are manufactured inhouse at ten production facilities or, in some cases, by quality-assured third parties.

The breadth of this offering allows the segment to offer a one-stop shop for modernisation work and services (customer services), which usually cover the entire lifetime of an installation. The installed base of more than 6,000 systems provides significant potential for this business, including on-site support provided by approximately 1,300 employees (not including back-office staff) in over 20 countries. > DIAGRAM 003

Production sites of the KION Group

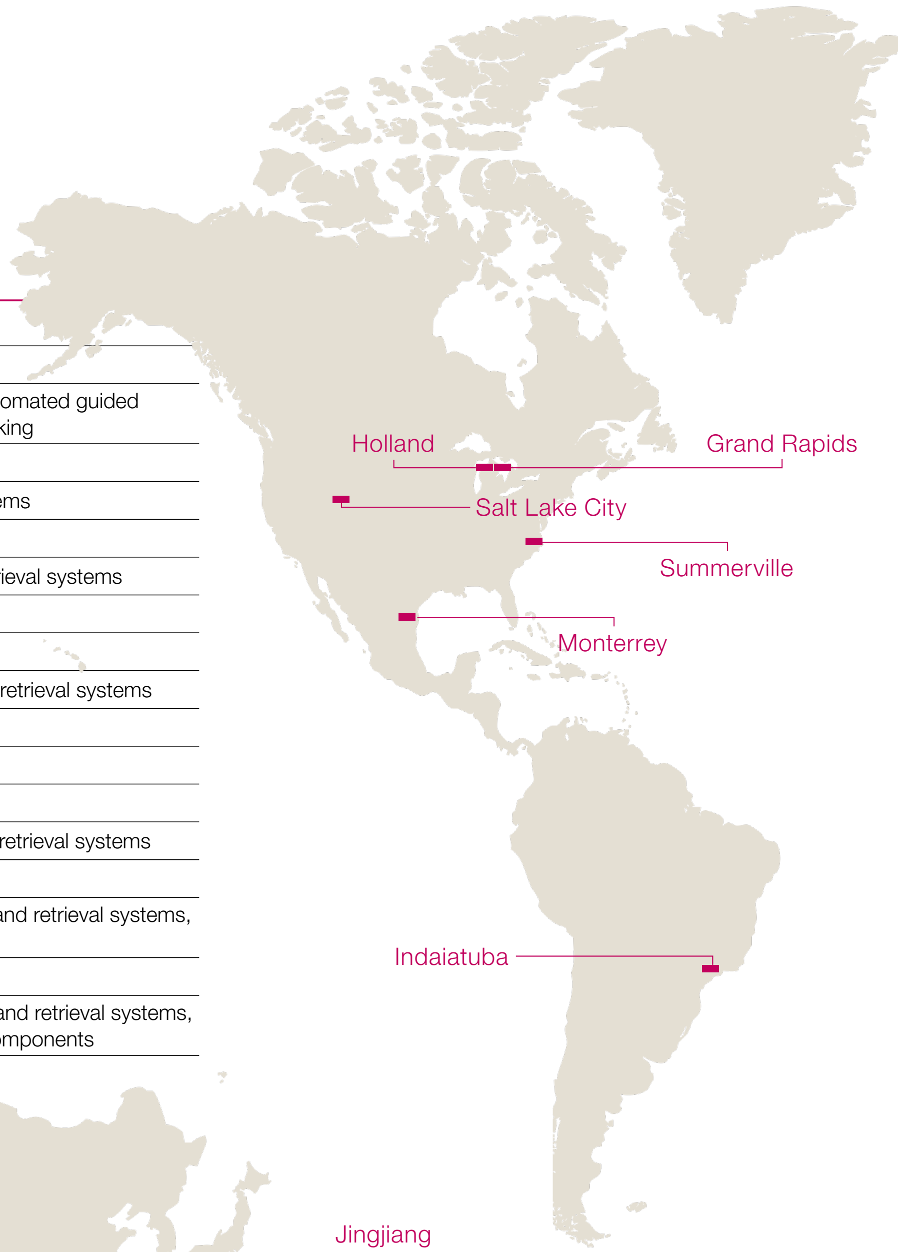
DIAGRAM 003



Industrial Trucks & Services

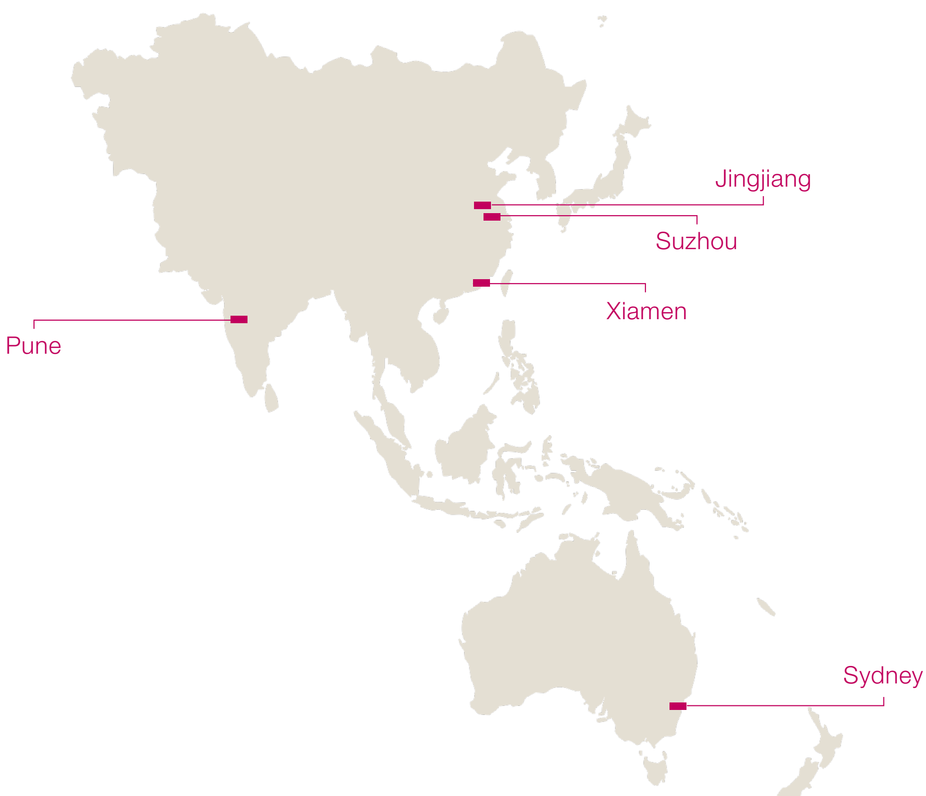
Brazil	
Indaiatuba / São Paulo: Counterbalance trucks with electric drive or IC engine, warehouse technology	
China	
Jingjiang: Counterbalance trucks with electric drive or IC engine, warehouse technology	
Xiamen: Counterbalance trucks with electric drive or IC engine, heavy trucks, warehouse technology	
Germany	
Aschaffenburg: Counterbalance trucks with electric drive or IC engine	
Dinklage: Counterweights for forklift trucks, construction equipment and cranes, component production	
Geisa: Component production	
Hamburg: Counterbalance trucks with electric drive or IC engine, warehouse technology, components	
Kahl: Spare parts center, component production	
Reutlingen: Very narrow aisle trucks	
Weilbach: Component production	

France	
Châtellerault: Warehouse technology	
India	
Pune: Counterbalance trucks with electric drive or IC engine, warehouse technology	
Italy	
Luzzara: Warehouse technology	
Czech Republic	
Český Krumlov: Component production	
Stříbro: Warehouse technology	
United States	
Summerville: Counterbalance trucks with electric drive or IC engine, warehouse technology	



Supply Chain Solutions

Australia	
Sydney: Conveyor and sortation systems, automated guided vehicle systems, system components and racking	
Belgium	
Zwijndrecht: Automated guided vehicle systems	
China	
Suzhou: Conveyor, sortation, storage and retrieval systems	
Germany	
Bielefeld: Sortation systems	
Offenbach: Conveyor, sortation, storage and retrieval systems	
Italy	
Milan: Sortation systems	
Mexico	
Monterrey: Conveyor, sortation, storage and retrieval systems	
United States	
Grand Rapids: Conveyor, sortation, storage and retrieval systems, system components	
Holland: Automated guided vehicle systems	
Salt Lake City: Conveyor, sortation, storage and retrieval systems, automated guided vehicle systems, system components	



Market and influencing factors

According to the KION Group's estimates, the material handling market – comprising forklift trucks, warehouse technology and supply chain solutions – has expanded at a faster rate than global economic growth over the past five years. The value of the market has increased at an average annual rate of more than 6 per cent.

Of the relevant market volume, almost 60 per cent is estimated to be attributable to industrial trucks and related services, which are essential elements in the production and logistics processes of many manufacturers as well as in the wholesale and retail sectors. The remaining market volume is accounted for by supply chain solutions, the growth of which is fuelled in no small part by the increasing automation and digitalisation of production and logistics processes in various industries. The main overarching growth drivers are the advancing interconnectivity of the global economy and additional transport services between ever-more fragmented value chains and supply chains, which necessitate decentralised warehouse and logistics capacity. The strong growth of e-commerce and the increasing prevalence of multi-channel approaches in all kinds of industries are boosting capital expenditure on the reconfiguration of supply chains. Stimulus also comes from the growing use of electric industrial trucks and new drive solutions, such as lithium-ion technology.

The market as a whole is exposed to cyclical fluctuations. Economic conditions in the different regions and the rates of growth in global trade therefore have a major influence on customers' willingness to invest. Nevertheless, there are cyclical differences between the segments. Historically, new business in the ITS segment has shown a very strong correlation with the performance of broad economic indicators, such as industrial output. By contrast, the SCS segment tends to be less cyclical owing to longer projects that often last several years. In both segments, the service business is generally more stable as it is linked to the installed base of trucks and systems. The economic situation is also affected by competition levels, exchange rates and changes in commodity prices. Economic trends within individual customer segments are another important factor. The most significant of these are manufacturing, the food industry, general merchandise and grocery wholesale and retail, logistics services and e-commerce, which has the highest growth rates.

Regulatory frameworks have a major impact on the business model, both in the Industrial Trucks & Services segment and in the Supply Chain Solutions segment. The products and services of companies in the KION Group have to comply with the specific legal requirements in their respective markets. Compliance with the different requirements has to be verified or certified. Many of the legal requirements are enshrined in product-specific standards and other norms (e.g. EN, ISO and DIN).

Legal requirements also apply to the construction and operation of production facilities, including in relation to air pollution avoidance, noise reduction, waste production & disposal and health & safety. The KION Group fulfils all of these requirements as well as all the legal provisions pertaining to exports and financing business.

Influencing factors in the Industrial Trucks & Services segment

In recent years, the value of the global market for industrial trucks has increased by around 4 to 5 per cent per year. This is due in equal measure to the growth in the volume of new truck business and the overall rise in the contribution from the service business.

Measured in terms of units ordered, 38 per cent of the global market was attributable to IC counterbalance trucks in 2017, while electric forklift trucks accounted for 17 per cent and warehouse trucks for 45 per cent. IC trucks continue to make up a comparatively high proportion of the total volume in growth regions. However, the most dynamic growth in the new truck business in recent years has been for forklift trucks and warehouse trucks powered by an electric motor. Much of the additional volume is attributable to the electrification of manual hand pallet trucks, which have been replaced by entry-level trucks in the lower weight categories. The use of new drive technologies, such as lithium-ion drive systems, is also rising steadily. Moreover, driverless transport solutions developed by automating standard warehouse trucks are becoming more and more appealing to customers.

The upper price segment continues to benefit from customers' growing requirements regarding the quality, efficiency and eco-friendliness of industrial trucks and from higher expectations in terms of service, availability of spare parts and flexible rental solutions. In this segment, customers are much more focused than before on optimising total cost of ownership and, increasingly, on the ability to integrate the trucks into fully automated intralogistics solutions. At the same time, there is mounting competitive pressure worldwide as some manufacturers in the economy segment based in emerging markets are pursuing an international expansion strategy. In mature markets and, increasingly, in growth regions, the large number of trucks in use also provides a strong base for replacement business and rising demand for services.

Influencing factors in the Supply Chain Solutions segment

According to the KION Group's estimates, the market for supply chain solutions has expanded at twice the rate of the market for industrial trucks and services over the past five years owing to growing demand in the main customer industries. Both the project business (business solutions) and downstream services (customer services) contributed to this expansion. The service business benefits from the ever-larger installed base and the trend towards the outsourcing of logistics processes.

The growth of e-commerce has a major influence on demand for supply chain solutions, including warehouse automation and solutions for sorting and for automated goods transport. According to market analysis by the Ecommerce Foundation, global online trading (B2C) expanded at an average rate of around 15 per cent between 2013 and 2017. Increasing complexity, cost pressures and shifting customer expectations require shorter lead times, a more efficient flow of goods, a wider product range and process reliability. This is pushing up demand for decentralised warehouse and logistics capacity that enables faster deliveries and, due to automated processes, keeps down personnel expenses and required space. The digitalisation and automation of industrial production and supply chains and the multichannel strategies being adopted in traditional industries – e.g. supermarket chains, grocery wholesale and retail, fashion, food and beverage manufacturing, and parcel and courier services – are also contributing to this. At the same time, the focus of technological progress is increasingly shifting towards software and robotics solutions.

Market position

In 2017, the Industrial Trucks & Services segment achieved a 14.4 per cent share of the global market based on unit sales (2016: 15.0 per cent) and is thus the second-largest manufacturer of industrial trucks. At the same time, the KION Group is the world's leading producer of electric forklift trucks. It remained the market leader in Europe. In China, it is still the leading foreign manufacturer and number three overall. The KION Group is also among the leading providers in Brazil and India.

In a ranking compiled by Modern Materials Handling, the Supply Chain Solutions segment (Dematic) is among the three largest suppliers. Dematic has a global presence and is a leading provider of automated technology for supply chains, automated warehouse systems and automated guided vehicle systems.

STRATEGY OF THE KION GROUP

Strategic activities in 2017

The focus in the 2017 reporting year was on implementing strategic measures under the Strategy 2020.

In the context of its overarching growth initiatives, the KION Group made improvements to its production operations and its sales and brand strategies in order to support joint business development. As part of this process, the Stříbro site in the Czech Republic is being expanded to include a new plant for Dematic's automated conveyor systems. This capital expenditure project, which began in March 2017, will enable multishuttles and modular conveyor systems to be built at the plant from 2018 to support the SCS segment's strategy for growth in Europe. Baoli raised its profile as an international brand for the lower end of the volume segment and the economy segment by founding KION Baoli EMEA. This business is being expanded in central and eastern Europe, and elsewhere, using the infrastructure of Baoli's sister brand STILL. This will also improve the opportunities for joint business development by ITS and SCS. Business was stepped up significantly in North America by introducing five new trucks, the development of which was decided upon under the Strategy 2020. KION North America, along with its truck brands, is now listed as an official supplier for numerous customers of Dematic. This collaboration also included joint appearances at trade fairs (see the ‘Customers’ section). Once the product launch of warehouse trucks scheduled for 2018 has taken place, KION will have a complete product portfolio tailored to the American market. Electric forklift trucks and warehouse trucks are an extremely important element in the implementation of integrated supply chain solutions. In 2017, the SCS segment laid the foundations for a one-brand strategy. Bringing together the full SCS range – including the automated guided vehicle systems – under the global Dematic brand and dropping the existing Egemin Automation and NDC Automation brands will make it easier to position the range in a customer-focused way in all markets. As part of this, Egemin was integrated into Dematic, thereby creating benefits both for innovation management and customer management.

Both segments have also made further improvements to their product range. In the ITS segment, Linde Material Handling began selling electric forklift trucks with more powerful lithium-ion batteries in the fast-growing two to three tonne load capacity range. A new solution for pallet handling and order picking in narrow aisles was also brought to the market. Virtually all warehouse logistics activities can now be carried out with a lithium-ion variant. STILL expanded its product range with new ride-on pallet trucks and pallet stackers that will increase handling capacities. In addition, it launched new picking trucks on the market and now also offers a broad portfolio of products featuring lithium-ion technology. In September, Dematic signed a global agreement with the Norwegian warehouse systems provider AutoStore®, thereby expanding its range of integrated omnichannel solutions with an ultracompact goods-to-person warehouse order picking system. Around the world, Dematic will be offering a system solution as well as extensive services. Version 2.5, introduced in July 2017, of the Dematic iQ software platform includes a new system solution for material flow analysis.

The steps taken to increase efficiency included, in particular, the redesign of the plant structure at LMH in Aschaffenburg and the elimination of ramp-up problems at Dematic’s site in Monterrey, Mexico. Following the transfer of warehouse truck production to the Stříbro plant and the relocation of Linde Hydraulics, the focus in Aschaffenburg is now on electric forklift trucks and diesel trucks. This means production processes can be structured more efficiently in future. Moreover, Dematic realised its first cost synergies through the shared use of corporate services at the level of the KION Group.

Refinement of the strategy: “KION 2027”

In the year under review, the KION Group further developed its Strategy 2020 to create “KION 2027”, which it began implementing at the start of 2018 once the Supervisory Board had given its approval. “KION 2027” builds on the success of the Strategy 2020 (formulated before the acquisition of Dematic), under which profitable growth, efficient use of capital and a high level of resilience to economic fluctuation have been achieved over the past five years. The strong position achieved with the Strategy 2020, particularly in the ITS segment, is to be consolidated. Another objective of “KION 2027” is to unlock the potential of all the companies in the Group and to focus even more on a joint customer-centric strategy for innovation, sales and branding. The main emphasis in this regard will be the overarching development and marketing of integrated, automated supply chain solutions and mobile automation solutions. Overall, the KION Group is striving to steadily increase its share of the global material handling market and to continue to have the highest profitability in the industry. The other aims are to ensure the Group remains crisis-resistant and maintains an adequate return on capital employed.

Strategic fields of action in the “KION 2027” strategy

“KION 2027” provides guidance on the strategic direction to be taken by the KION Group over the next decade. The strategy is aligned with the KION Group’s vision: “We are the best company in the world at understanding our customers’ material handling needs and providing the right solutions.” The KION Group is much more than the sum of its brands and regions.

At the core of the strategy lies the range of material handling solutions offered to customers. The KION Group wants to evolve more towards being a solution provider in both segments. In the

ITS segment, consultancy and project work are increasingly being added to the traditional portfolio of products and services. And in the SCS segment, the range of solutions for customers is being expanded through partnerships, such as with AutoStore®.

Five strategic fields of action have been defined for the "KION 2027" strategy:

- Energy: In the material handling market, the KION Group wants to lead the way in terms of efficient energy use by its products and solutions. Thanks in no small part to the high energy-efficiency of its premium brands' products, the KION Group is a global market leader for electric forklift trucks and warehouse trucks. A focus of the strategy will be to develop and commercialise new energy sources for industrial trucks and related services, such as the provision of advice on energy matters.
- Digital: The KION Group will transform its business in an increasingly digital world. The digitalisation of customer solutions, which will even include fully automated warehouses incorporating robotics solutions, will be accompanied by the digitalisation of internal processes. Digital solutions will be developed for customers to improve the efficiency of their intralogistics. The KION Group will digitalise its inhouse processes so that they are more effective. It will not only integrate software into solutions but also increasingly market it to customers as a separate product. New internal organisational structures will enable the KION Group to cater to the high expectations regarding the speed at which solutions are created and adapted. This will pave the way for agile development and embed it across the KION Group.
- Automation: The KION Group's solutions will enable customers to use automated technologies effectively and will help them on their journey to a 'lights-out' warehouse. Today, the KION Group and its two segments cover the complete spectrum, from customers with just one forklift truck to those with fully automated large-scale warehouses. It will develop different solutions so that it can offer all customers a scalable automation solution that is suited to their particular requirements and to which extra components can be added.
- Innovation: The KION Group is driving innovation in the material handling market with an effective innovation ecosystem and cutting-edge, rapid development processes. It is developing new technologies into innovative products for use in both segments. To this end, it enters into strategic partnerships with research institutes, universities and innovative companies so that it can go to market quickly with new products and solutions.
- Performance: The KION Group is continually improving its internal efficiency and the performance of its products from a customer perspective. It is continuing to fully leverage its synergies as a strategic management holding company.

MANAGEMENT SYSTEM

Core key performance indicators

The KION Group's strategy, which centres on value and growth, is reflected in how the Company is managed. It uses five core key performance indicators (KPIs), which remained unchanged in the reporting year, to continuously monitor market success, profitability, financial strength and liquidity. The performance targets of the Group and the segments are based on selected financial KPIs, as is the performance-based remuneration paid to managers. As a rule, the KPIs are measured and made available to the Executive Board in a comprehensive report each month. This enables the management team to take prompt corrective action in the event of variances compared with target figures. > TABLE 012

KPIs related to business volume

Order intake and revenue

Order intake and revenue are broken down by segment, region and product category in the KION Group's management reporting so that growth drivers and pertinent trends can be identified and analysed at an early stage. 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.

Earnings-related KPI

Adjusted EBIT

The key figure used for operational management and analysis of the KION Group's financial performance is adjusted earnings before interest and tax (EBIT). It is calculated in the same way as EBIT, except that it does not take account of purchase price allocation effects or any non-recurring items.

Liquidity-related KPI

Free cash flow

Free cash flow is the main KPI for managing leverage and liquidity. It is determined by the KION Group's operating activities and investing activities. Free cash flow does not include interest arising from financing activities. Carefully targeted management of working capital and detailed planning of capital expenditure are used to help in controlling the level of free cash flow.

Profitability-related KPI

ROCE

Return on capital employed (ROCE) is another core KPI. It is the ratio of adjusted EBIT to capital employed. ROCE is measured annually. > TABLE 013

Key performance indicators TABLE 012

in € million	Order intake	Revenue	Adjusted EBIT*	Free cash flow	ROCE
2017	**7,979.1**	**7,653.6**	**765.6**	**378.3**	**9.9%**
2016	5,833.1	5,587.2	537.3	–1,850.0	6.9%
2015	5,215.6	5,097.9	482.9	332.7	11.9%

* Adjusted for PPA items and non-recurring items

Return on capital employed (ROCE) TABLE 013

in € million	2017	2016
Total assets	11,228.4	11,297.0
– less selected assets [1]	−1,443.3	−1,460.5
– less selected liabilities [2]	−2,086.3	−2,003.5
Capital employed	**7,698.8**	**7,833.1**
Adjusted EBIT	**765.6**	**537.3**
ROCE	**9.9%**	**6.9%**

1 Lease receivables, income tax receivables, cash and cash equivalents, PPA items and several items of other financial assets respectively other assets
2 Sundry other provisions, trade payables, a major part of other liabilities as well as several items of other financial liabilities

Other key performance indicators

Besides the aforementioned core KPIs, the KION Group uses a wealth of additional financial KPIs. The main ones are net debt, which is used to manage the capital structure, and the EBIT margin, which together with ROCE is relevant as a component of remuneration and as a target in the Strategy 2020. There are also non-financial KPIs, which primarily relate to customers, employees, sustainability and technology. Some of them are used operationally as leading indicators for the financial KPIs.

The KPIs used to manage the segments are order intake, revenue and adjusted EBIT.

Report on the economic position

MACROECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Macroeconomic conditions

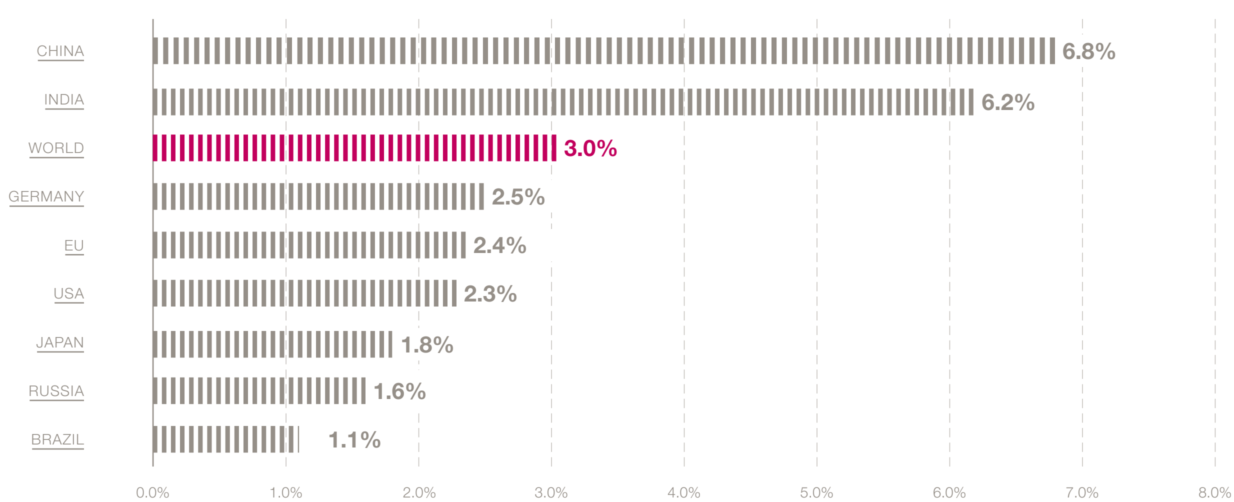
The global economy is experiencing an upturn and, in 2017, expanded at a much stronger rate than in previous years. Significant stimulus came from the economic recovery in the European Union (EU), robust growth in the United States and generally resurgent expansion in emerging markets. The world's economy was also boosted by increasing investment activity and the growth of foreign trade in Asia. This in turn benefited global trade, which boomed. Demand from consumers remained robust, which also had a positive effect.

Overall, the growth of economies in the EU was markedly higher than in the previous year but also broader and stronger. Receding political risks – despite the UK's approaching departure from the EU – provided support for domestic demand. The EU countries also benefited from the revival of global trade and the related increase in export business.

In the United States, economic growth was much faster than in 2016. This expansion was driven by a robust job market, rising consumer spending, corporate capital expenditure and foreign trade.

China's growth held steady at the prior-year level, supported by an increase in public-sector investment. The inhibiting effect on growth of the continued sharp rise in debt levels was more than offset by the country's expansionary economic policy. > DIAGRAM 004

Gross domestic product in 2017 – real year-on-year change DIAGRAM 004



Source: Oxford Economics (as at 16/01/2018)

Sectoral conditions

The global material handling market, which comprises industrial trucks and supply chain solutions, again grew at a faster rate than the global economy in 2017. The main driving forces, besides the worldwide rise in the trade of goods, were growing demand for industrial trucks in China and the automation of warehousing and logistics combined with an increasing volume of warehouse capacity.

Industrial Trucks & Services

Measured in terms of the number of new trucks ordered, the global market for industrial trucks expanded at the exceptionally strong rate of 17.9 per cent in 2017, compared with 7.5 per cent in the previous year. Orders were up across all product categories and sales regions, reaching a total of 1.4 million trucks. IC trucks made a particularly strong gain (up by 20.8 per cent), primarily driven by significant growth of over 30 per cent in the Chinese market. The rates of increase for electric forklift trucks (up by 14.3 per cent) and warehouse trucks (up by 16.8 per cent) were also into double digits.

At 9.7 per cent, the rate of growth in western Europe was down slightly on the previous year, although this remains a fast-moving and by far the biggest market for warehouse trucks. In eastern Europe, orders were up by 21.6 per cent, which was roughly the same as the growth rate in 2016. Overall, the EMEA region (western Europe, eastern Europe, Middle East and Africa) generated growth of 11.1 per cent. The Americas region (North, Central and South America) recovered in the year under review, having been subdued in the previous year, and saw a rise of 12.3 per cent; while North America recorded generally good growth of 10.2 per cent, catch-up effects meant that Central and South America generated a disproportionately strong increase of 29.8 per cent. Brazil, the largest individual market in South America, expanded by 45.4 per cent. Boosted by the marked rise in China, Asia-Pacific as a whole (APAC region) was the fastest-growing region worldwide with an increase in orders of 28.5 per cent. The share of the overall market accounted for by this region rose from 37.5 per cent to 40.9 per cent. > TABLE 014

Global industrial truck market (order intake) TABLE 014

in thousand units	2017	2016	Change
Western Europe	395.5	360.6	9.7%
Eastern Europe	78.4	64.5	21.6%
Middle East and Africa	36.4	34.3	6.1%
North America	277.7	251.9	10.2%
Central and South America	37.7	29.0	29.8%
Asia-Pacific	571.4	444.8	28.5%
World	**1,397.2**	**1,185.2**	**17.9%**

Source: WITS/FEM

Supply Chain Solutions

The market for supply chain solutions also sustained its growth trend in 2017 thanks again to customers reconfiguring their logistics processes and supply chains. According to a survey by the Peerless Research Group, multichannel approaches and e-commerce continued to gain ground in all kinds of industries, resulting in higher requirements regarding the speed and precision with which warehouses and distribution centres can be managed. The survey found that capital expenditure on enlarging and modernising warehouses and on the related technologies was expected to increase by around 9 per cent in 2017. There was also greater use of warehouse management systems than in 2016.

The Ecommerce Foundation's outlook for the global e-commerce market (B2C) anticipated growth of 17 per cent in 2017. Improved internet access and increased use of social media for buying goods are contributing to this trend. Of the total market volume, around 50 per cent is attributable to the APAC region. This region includes China, which is the world's largest individual market and also leads the way in terms of mobile e-commerce.

The Logistics and Real Estate series of studies published by bulwiengesa AG shows that demand for logistics premises in Germany remained high last year, with construction activity and capital expenditure reaching record levels. According to the study, there was 12 per cent more logistics space in 2017 than in the previous year. Demand for space rose at a similar rate in China and the United States, driven mainly by the steady increase in e-commerce.

Procurement markets

On the whole, prices for the commodities used by the KION Group rose sharply over the course of 2017. The average price of steel, the most important commodity, was far higher in the reporting year than in 2016. Copper became more expensive too. The oil price rallied significantly, also rising a long way above the average for 2016. Following a sharp price increase in the first half of the year, the amount spent on rubber in 2017 was higher than in the previous year.

Financial markets

The KION Group bills a large part of its revenue in euros. However, the consolidation of Dematic – which generates a high volume of revenue in North America – for the whole of the year meant that the proportion of revenue billed in euros fell significantly, from 60.8 per cent to 52.0 per cent. The remaining 48.0 per cent of revenue was billed in foreign currencies, the most important of which for the KION Group were the US dollar, China's renminbi and pound sterling.

Overall, currency effects had a negative impact on the KION Group's business situation in 2017. Compared with 2016, the euro was approximately 4 per cent higher on average against the Chinese renminbi and around 7 per cent higher against pound sterling. Against the US dollar, the euro appreciated by roughly 2 per cent. > TABLE 015

Currencies TABLE 015

Average rate per Euro	2017	2016
Australia (AUD)	1.47	1.49
Brazil (BRL)	3.61	3.86
China (CNY)	7.63	7.35
United Kingdom (GBP)	0.88	0.82
USA (USD)	1.13	1.11

Source: Reuters/Bloomberg

Business performance

In 2017, the main focus was on integrating the Dematic subsidiaries acquired and on utilising shared potential for increasing revenue and efficiency. The SCS segment optimised its organisational structure by merging Egemin Automation into Dematic. This will predominantly result in cost benefits for administration and customer management going forward. Retrotech Inc. was also integrated into Dematic North America's customer service organisation, thereby expanding the aftersales business. An action plan to pool procurement activities was also initiated, and this should have an impact on costs in 2018. Originating from the period before the acquisition, the inefficiencies at the plant in Monterrey, Mexico, were completely eliminated in 2017. Work has been taking place since March of last year to extend the Stříbro site to include a factory for automated conveyor systems. The new factory is due to start manufacturing modules for Dematic's automated storage and retrieval systems for the European market in 2018.

The bridge loan (acquisition facilities agreement, AFA) agreed between the KION Group and its core group of banks for the acquisition of Dematic originally had a volume of €3,000.0 million and was drawn down in an amount of €2,543.2 million. In the first quarter of 2017, it was then partly refinanced by successfully placing a promissory note with a total volume of €1,010.0 million. This note, which has a significantly extended maturity profile, is divided into several tranches that have maturity periods of five, seven and ten years and have fixed or floating-rate coupons. The capital increase in the second quarter of 2017 was another important refinancing measure. This involved KION GROUP AG issuing a total of 9,300,000 new shares at a placement price of €64.83 per share on 22 May 2017. All of the new shares were placed with institutional investors against cash contributions in an accelerated bookbuilding process; shareholders' pre-emption rights were disapplied. KION GROUP AG's share capital rose by 8.55 per cent in total. The gross proceeds from the capital increase came to €602.9 million. The Company's new no-par-value bearer shares are dividend-bearing from the 2017 financial year.

By the end of 2017, tranche A2 (€343.2 million) and tranche B (€1,200.0 million) of the bridge loan and the fixed-term tranche (€350.0 million) of the senior facilities agreement (SFA) had been repaid in full. The long-term tranche (€1,000.0 million) of the bridge loan is still outstanding and is due to mature in October 2021.

At the end of 2017, the lowering of the corporate income tax rate that was approved in the United States led to the non-cash remeasurement of the KION Group's deferred tax assets and liabilities. As a result, the KION Group's income tax position and thus its net income unexpectedly improved by a total of €92.2 million.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Overall assessment of the economic situation

The KION Group finished 2017 with strong growth, achieving the targets set in October for its KPIs. The figures for 2016 in the income statement include the contributions from Dematic in November and December, the period in which it was consolidated for the first time. The comparability between the full-year figures for 2016 and 2017 is therefore limited.

Following a strong fourth quarter, order intake for the KION Group as a whole amounted to €7,979.1 million (2016: €5,833.1 million) despite negative currency effects and was predominantly attributable to encouraging growth in the new truck business. Moreover, Dematic's customer orders were included for the full financial year for the first time. The order book expanded by 9.1 per cent year on year to reach €2,614.6 million at the end of the year (31 December 2016: €2,396.6 million). Despite negative currency effects, the KION Group generated consolidated revenue of €7,653.6 million. This was due not only to higher unit sales but also to the growth of the service business in Industrial Trucks & Services.

Total revenue in the Industrial Trucks & Services segment went up by 8.2 per cent to €5,630.9 million, with order intake rising by 8.8 per cent.

While the year-on-year increase in the value of order intake and revenue in the Industrial Trucks & Services segment was stronger than anticipated, order intake and revenue in the Supply Chain Solutions segment were less than originally expected. The reasons for this were the reluctance to invest observed in the US retail sector and delays by customers in awarding projects. The segment's total revenue amounted to €2,006.3 million. Adjusted for non-recurring items and purchase price allocation effects, the KION Group's EBIT came to €765.6 million. This improvement of €228.3 million was due, in particular, to the inclusion of Dematic for the full year. Significantly higher prices for materials adversely affected the KION Group's adjusted EBIT and could not be passed on to customers entirely. Despite the higher cost of materials and negative currency effects, the KION Group's adjusted EBIT margin improved substantially, by 0.4 percentage points, to 10.0 per cent. After taking into account purchase price allocation (PPA) effects and further non-recurring items, EBIT amounted to €549.4 million.

In total, the KION Group generated net income of €426.4 million (2016: €246.1 million). This included positive overall effects on taxes resulting from the remeasurement of deferred taxes in connection with the lowering of corporate income tax in the United States that was approved just before the end of the year. The basic earnings per share attributable to the shareholders of the KION Group amounted to €3.72, compared with €2.38 in 2016. KION GROUP AG will propose a dividend of €0.99 per share to the Annual General Meeting (2016: €0.80 per share).

Comparison between actual and forecast growth

The targets for the KION Group's core KPIs set out in the 2016 outlook were revised downward overall in October 2017 because the Supply Chain Solutions segment was not performing as well as expected. At the same time, all of the targets of the Industrial Trucks & Services segment except adjusted EBIT were revised upward because the actual results were expected to be higher than the targets set in 2016. The revised target ranges were achieved or slightly exceeded.

The KION Group's order intake of €7,979.1 million was slightly above the upper end of the range of €7,550 million to €7,900 million (2016 outlook: €7,800 million to €8,250 million). Consolidated revenue came to €7,653.6 million, compared with the expected target range of €7,400 million to €7,700 million (2016 outlook: €7,500 million to €7,950 million). At €765.6 million, adjusted EBIT was also in line with the revised expectation of between €715 million and €765 million (2016 outlook: €740 million to €800 million). Free cash flow, which stood at €378.3 million, came in at the upper end of the range of €320 million to €380 million (2016 outlook: €370 million to €430 million), while ROCE at 9.9 per cent was within the target range of 9.0 per cent to 10.0 per cent (2016 outlook: 9.5 per cent to 10.5 per cent).

The Industrial Trucks & Services segment slightly exceeded the raised targets for order intake and revenue and the target for adjusted EBIT, while the results of the Supply Chain Solutions segment were within the new target ranges. > TABLES 016 – 017

Business situation and financial performance of the KION Group

Level of orders

Despite the depreciation of currencies such as the renminbi, US dollar and pound sterling against the euro, the KION Group's order intake rose by 36.8 per cent to €7,979.1 million. Whereas the performance of the Industrial Trucks & Services segment exceeded expectations, Dematic's project business was more subdued. The order book expanded by 9.1 per cent year on year to €2,614.6 million (31 December 2016: €2,396.6 million). By the end of the year, substantial customer orders had been placed, especially in the long-term project business.

Comparison between actual and forecast growth – KION Group TABLE 016

	KION Group		
in € million	2017 Outlook	2017 Outlook adjusted	2017 Actual
Order intake	7,800 – 8,250	7,550 – 7,900	7,979.1
Revenue	7,500 – 7,950	7,400 – 7,700	7,653.6
Adjusted EBIT	740 – 800	715 – 765	765.6
Free cash flow	370 – 430	320 – 380	378.3
ROCE	9.5% – 10.5%	9.0% – 10.0%	9.9%

Comparison between actual and forecast growth – segments TABLE 017

	Industrial Trucks & Services			Supply Chain Solutions		
in € million	2017 Outlook	2017 Outlook adjusted	2017 Actual	2017 Outlook	2017 Outlook adjusted	2017 Actual
Order intake*	5,450 – 5,600	5,650 – 5,800	5,859.5	2,350 – 2,650	1,900 – 2,100	2,099.2
Revenue*	5,300 – 5,450	5,450 – 5,600	5,630.9	2,200 – 2,500	1,950 – 2,100	2,006.3
Adjusted EBIT	605 – 630	605 – 630	640.1	195 – 230	170 – 195	181.4

* Disclosures for the segments Industrial Trucks & Services and Supply Chain Solutions include also intra-group cross-segment order intake and revenue (Total revenue)

The consolidated revenue of the KION Group increased by 37.0 per cent to €7,653.6 million (2016: €5,587.2 million). This significant rise in revenue was attributable to organic revenue growth in the Industrial Trucks & Services segment and to the inclusion of Dematic in the Supply Chain Solutions segment for the full reporting period. The proportion of consolidated revenue accounted for by services fell from 43.7 per cent in 2016 to 39.1 per cent in 2017 because customer orders in the project business routinely have a high value while the value of the service business is significantly lower. > TABLE 018

Revenue with third parties by product category TABLE 018

in € million	2017	2016	Change
Industrial Trucks & Services	**5,626.9**	**5,200.5**	**8.2%**
New business	3,126.0	2,860.2	9.3%
Service business	2,500.9	2,340.2	6.9%
– Aftersales	1,429.5	1,363.8	4.8%
– Rental business	619.3	558.3	10.9%
– Used trucks	306.6	285.8	7.3%
– Other	145.5	132.4	9.9%
Supply Chain Solutions	**2,001.8**	**364.7**	**>100%**
Business Solutions	1,509.1	263.9	>100%
Service business	492.7	100.7	>100%
Corporate Services	**24.8**	**22.1**	**12.5%**
Total revenue	**7,653.6**	**5,587.2**	**37.0%**

Revenue by customer location

In EMEA, an important sales region for the Industrial Trucks & Services segment, the KION Group's revenue went up by around 17 per cent. The rise in western Europe was 16.2 per cent, with Germany, France, Italy and Spain seeing particularly large increases. On the whole, the KION Group kept pace with the growth of the industrial truck market and consolidated its leading position in this region. The significant double-digit revenue growth in the Asia-Pacific (APAC) region was primarily attributable to the strong expansion of the Chinese market, which particularly benefited the Industrial Trucks & Services segment. In the Americas region (North, Central and South America), market share in the new truck business increased – especially in North America. The sharp year-on-year rise in revenue in the Asia-Pacific and Americas sales regions was influenced by the inclusion of Dematic for the whole of 2017. Overall, 20.6 per cent of consolidated revenue was accounted for by growth markets in the reporting period (2016: 23.3 per cent). The majority of revenue – 81.4 per cent – was generated outside Germany (2016: 76.4 per cent). > TABLE 019

Earnings and profitability

EBIT, EBITDA and ROCE

Earnings before interest and tax (EBIT) amounted to €549.4 million, up by 26.3 per cent on the 2016 figure of €434.8 million. EBIT included negative effects from purchase price allocations of €176.2 million (2016: €60.4 million). In 2017, EBIT was also adversely affected by non-recurring items of €40.1 million (2016: €42.2 million) that arose mainly in connection with the integration of Dematic and the start-up costs for the new plant in Monterrey, Mexico. The non-recurring items in 2016 had included transaction costs relating to the acquisition of Dematic. EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) rose to €765.6 million (2016: €537.3 million). The adjusted EBIT margin improved to 10.0 per cent (2016: 9.6 per cent). > TABLE 020

Revenue with third parties by customer location TABLE 019

in € million	2017	2016	Change
Western Europe	4,627.8	3,982.7	16.2%
Eastern Europe	537.9	459.6	17.0%
Middle East and Africa	152.9	100.3	52.4%
North America	1,266.5	295.9	> 100%
Central and South America	163.1	148.6	9.8%
Asia-Pacific	905.5	600.1	50.9%
Total revenue	**7,653.6**	**5,587.2**	**37.0%**

EBIT TABLE 020

in € million	2017	2016	Change
EBIT	**549.4**	**434.8**	**26.3%**
+ Non-recurring items	40.1	42.2	–4.9%
+ PPA items	176.2	60.4	> 100%
Adjusted EBIT	**765.6**	**537.3**	**42.5%**

Return on capital employed (ROCE) increased by 3 percentage points year on year to 9.9 per cent in 2017. This improvement was due to the fact that Dematic's earnings contributions had only been included for the months of November and December in 2016. While adjusted EBIT went up sharply, there was only a small countervailing change in capital employed.

EBITDA rose to €1,185.7 million (2016: €889.5 million). Adjusted EBITDA came to €1,223.9 million (2016: €931.6 million). The adjusted EBITDA margin decreased from 16.7 per cent in 2016 to 16.0 per cent in 2017. > TABLE 021

EBITDA TABLE 021

in € million	2017	2016	Change
EBITDA	**1,185.7**	**889.5**	**33.3%**
+ Non-recurring items	36.4	42.2	–13.7%
+ PPA items	1.8	–	–
Adjusted EBITDA	**1,223.9**	**931.6**	**31.4%**

Key influencing factors for earnings

The cost of sales rose by 41.3 per cent to €5,699.1 million (2016: €4,034.6 million), a disproportionately strong increase compared with that of revenue. Higher prices for materials, particularly steel and lead, pushed up the cost of sales in the new truck business significantly. Negative currency effects – especially relating to pound sterling, the renminbi and the US dollar – also squeezed the gross margin. The gross margin for the Group as a whole contracted from 27.8 per cent in 2016 to 25.5 per cent in the year under review. Selling expenses and administrative expenses totalled €1,286.3 million (2016: €1,073.6 million). This increase of 19.8 per cent was disproportionately small compared with that of revenue. The prior-year figure had been influenced by various factors, including consultancy expenses in connection with the Dematic acquisition. Research and development costs went up by 41.9 per cent to €137.0 million (2016: €96.5 million). The 'other' item came to €18.2 million (2016: €52.3 million). This included the share of profit (loss) of equity-accounted investments, which amounted to a profit of €13.6 million (2016: profit of €6.5 million), as well as gains and losses from exchange differences. The figure for the 'other' item also comprised impairment losses on assets of €14.8 million (2016: €0.0 million), of which €8.6 million related to the Egemin brand name. > TABLE 022

(Condensed) income statement TABLE 022

in € million	2017	2016	Change
Revenue	7,653.6	5,587.2	37.0%
Cost of sales	–5,699.1	–4,034.6	–41.3%
Gross profit	**1,954.5**	**1,552.6**	**25.9%**
Selling expenses and administrative expenses	–1,286.3	–1,073.6	–19.8%
Research and development costs	–137.0	–96.5	–41.9%
Other	18.2	52.3	–65.2%
Earnings before interest and taxes (EBIT)	**549.4**	**434.8**	**26.3%**
Net financial expenses	–81.1	–95.7	15.3%
Earnings before taxes	**468.3**	**339.2**	**38.1%**
Income taxes	–41.9	–93.1	55.0%
Net income	**426.4**	**246.1**	**73.3%**

Net financial income / expenses

The net financial expenses representing the balance of financial income and financial expenses decreased to €81.1 million year on year (2016: net financial expenses of €95.7 million). The prior-year figure had included one-off financial expenses of €25.7 million incurred in connection with optimisation of the financing structure in February 2016. Overall, current interest expense on borrowing increased year on year due to the acquisition of Dematic, but exchange differences had a countervailing positive impact on net financial income/expenses. As a result of the early repayment of financial liabilities, transaction costs of €3.5 million were recognised as expenses in 2017.

Income taxes

Income tax expenses fell sharply to €41.9 million (2016: €93.1 million). The low tax rate of 8.9 per cent is attributable to the reduction of the corporate income tax rate from 35.0 per cent to 21.0 per cent that was approved in the United States. The remeasurement of deferred tax liabilities, which relate mainly to the purchase price allocation for Dematic, led to deferred tax income of €92.2 million in the Group. Adjusted for this non-recurring tax item, the tax rate was comparable with the previous year at 28.6 per cent (2016: 27.4 per cent).

Net income and appropriation of profit

Net income increased by €180.4 million to €426.4 million (2016: €246.1 million). The net income attributable to the shareholders of KION GROUP AG was €424.8 million (2016: €245.5 million). Basic earnings per share came to €3.72 based on 114.3 million (2016: 103.2 million) no-par-value shares; this was the weighted average number of shares outstanding during the reporting year. Adjusted for the non-recurring tax item of €92.2 million included in net income, basic earnings per share (pro forma) on a comparable basis with the previous year stood at €2.91 (2016: €2.38). Diluted earnings per share, which is calculated by adding the potential dilutive no-par-value shares under the employee share option programme, amounted to €3.71 based on a weighted average number of shares of 114.4 million (2016: 103.3 million) and €2.91 on a pro-forma basis (2016: €2.38). These calculations did not include around 160.8 thousand no-par-value treasury shares that were repurchased by KION GROUP AG as part of a buy-back to support employee equity programmes.

The Executive Board and the Supervisory Board will propose to the Annual General Meeting to be held on 9 May 2018 that, of the distributable profit of KION GROUP AG for the 2017 financial year amounting to €168.1 million, a dividend totalling €116.7 million be distributed. This equates to €0.99 per dividend-bearing share. It is also proposed that a sum of €51.2 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. This would give a dividend payout rate of approximately 35 per cent of adjusted net income.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

The Industrial Trucks & Services segment expanded its new truck business in all sales regions. Across all the brand companies, the number of orders for forklift trucks and warehouse trucks rose by 13.0 per cent to 201.4 thousand. The Linde brand (including Fenwick) registered a slightly higher increase and accounted for 61.6 per cent of the new truck business. STILL (including OM STILL) generated 31.7 per cent of new orders; the remaining 6.7 per cent was attributable to the Baoli and OM Voltas brands. All product categories saw their orders go up significantly, with IC trucks more than making up for their decline in the previous year. Electric forklift trucks and warehouse trucks, which are particularly important elements in integrated supply chain solutions, together accounted for 82.1 per cent of the order volume.

All the brand companies saw particularly strong increases in the APAC and EMEA regions. Eastern Europe stood out within the EMEA region, with Poland, Russia and the Czech Republic being the main contributors. In western Europe, the biggest rises in order numbers were registered in France and Italy. The KION Group returned to a path of growth in South and Central America, having reported decreases in 2016. The largest percentage increase was in North America, although the region remained at a moderate level in absolute terms.

The total value of order intake rose by 8.8 per cent to €5,859.5 million (2016: €5,383.2 million) despite negative currency effects. This included an increase in order intake in the service business.

Revenue

Total segment revenue went up by 8.2 per cent to €5,630.9 million (2016: €5,202.6 million). Revenue from new truck business with external customers rose by 9.3 per cent or €265.8 million to €3,126.0 million, while the growth in the service business was also encouraging at 6.9 per cent. Aftersales and rental business generated 81.9 per cent of the total revenue from the service business of €2,500.9 million. The proportion of the segment's external revenue accounted for by the service business came to 44.4 per cent overall and was thus virtually the same as the prior-year figure of 45.0 per cent.

Earnings

Despite the significantly higher prices for materials, particularly steel and lead, and negative exchange rate effects, especially in connection with pound sterling, the positive revenue trend pushed up adjusted EBIT by 9.1 per cent to €640.1 million (2016: €586.9 million). At 11.4 per cent, the adjusted EBIT margin was moderately above its 2016 level of 11.3 per cent. After taking into account non-recurring items and purchase price allocation effects, EBIT amounted to €637.6 million (2016: €553.0 million).

Adjusted EBITDA stood at €1,054.1 million (2016: €958.8 million). This equated to an adjusted EBITDA margin of 18.7 per cent (2016: 18.4 per cent). > TABLE 023

Supply Chain Solutions segment

Business performance and order intake

In 2017, the Supply Chain Solutions segment received orders from customers with a total volume of €2,099.2 million (2016: €431.2 million, including Dematic for two months). Around 75 per cent of order intake was accounted for by project business (business solutions) and around 25 per cent by the service business (customer services). Following muted intake in the first three quarters of the year, a number of delayed customer projects were eventually officially placed with Dematic at the end of the year. Approximately a third of order intake was received in the fourth quarter of 2017.

Key figures – Industrial Trucks & Services – TABLE 023

in € million	2017	2016	Change
Order intake	5,859.5	5,383.2	8.8%
Total revenue	5,630.9	5,202.6	8.2%
EBITDA	1,052.5	953.4	10.4%
Adjusted EBITDA	1,054.1	958.8	9.9%
EBIT	637.6	553.0	15.3%
Adjusted EBIT	640.1	586.9	9.1%
Adjusted EBITDA margin	18.7%	18.4%	–
Adjusted EBIT margin	11.4%	11.3%	–

Key figures – Supply Chain Solutions – TABLE 024

in € million	2017	2016	Change
Order intake	2,099.2	431.2	> 100%
Total revenue	2,006.3	366.0	> 100%
EBITDA	182.3	5.1	> 100%
Adjusted EBITDA	210.3	10.8	> 100%
EBIT	–23.8	–31.7	24.7%
Adjusted EBIT	181.4	6.0	> 100%
Adjusted EBITDA margin	10.5%	3.0%	–
Adjusted EBIT margin	9.0%	1.6%	–

Revenue
Total segment revenue amounted to €2,006.3 million (2016: €366.0 million, including Dematic for two months). Project business accounted for 75.4 per cent of external revenue and the service business for 24.6 per cent. Improved efficiency at the plant in Monterrey, Mexico, resulted in a year-on-year increase in output, leading to a higher level of revenue from business solutions. The segment generated 56.9 per cent of its revenue in North America.

Earnings
The segment's adjusted EBIT amounted to €181.4 million (2016: €6.0 million, including Dematic for two months), giving an adjusted EBIT margin of 9.0 per cent (2016: 1.6 per cent). Currency effects and higher cost prices for materials had an adverse impact. After taking into account non-recurring items and purchase price allocation effects, EBIT came to minus €23.8 million (2016: minus €31.7 million).

Adjusted EBITDA amounted to €210.3 million with an adjusted EBITDA margin of 10.5 per cent (2016: 3.0 per cent). > TABLE 024

Corporate Services segment

Business performance
The Corporate Services segment comprises holding companies and other service companies that provide services such as IT and logistics across all segments.

Revenue and earnings
Total segment revenue came to €266.6 million (2016: €242.0 million) and was predominantly derived from internal IT and logistics services.

The segment reported adjusted EBIT of €530.7 million (2016: €305.9 million). This significant increase was attributable to the strong financial performance of the subsidiaries, which resulted in higher intra-group dividend income (including profit and loss transfers) than in the previous year. Adjusted EBITDA amounted to €546.0 million (2016: €323.5 million). > TABLE 025

Key figures – Corporate Services – TABLE 025

in € million	2017	2016	Change
Order intake	266.6	242.0	10.2%
Total revenue	266.6	242.0	10.2%
EBITDA	537.5	292.5	83.8%
Adjusted EBITDA	546.0	323.5	68.8%
EBIT	522.2	274.9	90.0%
Adjusted EBIT	530.7	305.9	73.5%

Consolidation / reconciliation

Besides the intra-group supply relationships between the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments, the main factor in the adjusted EBIT effect of minus €586.5 million (2016: minus €361.5 million) across all segments was the intra-group dividend income.

Net assets

The purchase price allocation (PPA) for the acquisition of Dematic was finalised in the reporting year, leading to the retrospective restatement of the carrying amounts as at 31 December 2016. Currency translation effects as at the end of 2016 fell by a total of €39.4 million because goodwill and other intangible assets had been allocated to individual companies for the purposes of foreign currency translation. The finalisation of the PPA in 2017 resulted in a reduction of deferred tax assets and liabilities and a corresponding decline of €13.1 million in goodwill retrospectively in the prior year.

Non-current assets

Non-current assets decreased to €8,746.9 million as at the reporting date (31 December 2016: €8,942.4 million). Intangible assets accounted for €5,716.4 million (31 December 2016: €6,175.6 million). The depreciation of the US dollar against the euro particularly impacted on goodwill, which fell by €190.4 million to €3,382.5 million. The sharp drop in other intangible assets to €2,333.9 million (31 December 2016: €2,602.7 million) was largely attributable to current write-downs in connection with the purchase price allocations, especially in the Supply Chain Solutions segment.

Rental assets increased to €651.4 million, reflecting the continued expansion of the rental fleet in the Industrial Trucks & Services segment (31 December 2016: €575.3 million). Leased assets for leases with end customers that are classified as operating leases also increased owing to the higher volume of business, rising from €429.7 million to €522.3 million as at 31 December 2017. Long-term lease receivables arising from leases with end customers that are classified as finance leases swelled to €647.8 million (31 December 2016: €531.3 million).

At €370.5 million, the amount of deferred tax assets recognised in the statement of financial position as at the reporting date was lower than the figure recognised at the end of 2016 of €419.8 million. Further details regarding the change in deferred tax assets are provided in note [14] in the notes to the consolidated financial statements.

Current assets

Overall, current assets rose by 5.4 per cent to €2,481.5 million (31 December 2016: €2,354.6 million). The €96.2 million increase in inventories to €768.6 million (31 December 2016: €672.4 million) was largely attributable to the growth of the Industrial Trucks & Services segment.

Trade receivables were also up, rising by 9.5 per cent to €1,094.1 million as at 31 December 2017. Construction contracts in the project business with a net credit balance due from customers amounted to €94.7 million as at the reporting date, which was virtually unchanged on the amount as at 31 December 2016.

The KION Group's net working capital, which comprises inventories, trade receivables and unbilled construction contracts (net) less trade payables and advances received, increased to €606.2 million as at the reporting date (31 December 2016: €495.9 million). > TABLE 026

Inventories TABLE 026

in € million	2017	2016	Change
Materials and supplies	185.2	158.0	17.2%
Work in progress	109.0	105.3	3.5%
Finished goods and merchandise	459.0	396.5	15.8%
Advances paid	15.4	12.6	21.9%
Total inventories	**768.6**	**672.4**	**14.3%**

The groupwide optimisation of cash management (cash pooling) enabled cash and cash equivalents to be reduced to €173.2 million as at 31 December 2017 (31 December 2016: €279.6 million).

Current lease receivables from end customers increased by €27.7 million year on year to €228.0 million (31 December 2016: €200.3 million).

The condensed consolidated statement of financial position as at 31 December 2017 showing current and non-current assets and liabilities together with equity is presented in > TABLE 027.

(Condensed) statement of financial position TABLE 027

in € million	2017	in %	2016	in %	Change
Non-current assets*	8,746.9	77.9%	8,942.4	79.2%	–2.2%
Current assets	2,481.5	22.1%	2,354.6	20.8%	5.4%
Total assets*	**11,228.4**	**–**	**11,297.0**	**–**	**–0.6%**
Equity*	3,148.8	28.0%	2,495.7	22.1%	26.2%
Non-current liabilities*	5,230.0	46.6%	6,128.9	54.3%	–14.7%
Current liabilities	2,849.6	25.4%	2,672.5	23.7%	6.6%
Total equity and liabilities*	**11,228.4**	**–**	**11,297.0**	**–**	**–0.6%**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

Financial position

Principles and objectives of financial management

The KION Group pursues a conservative financial policy of maintaining a strong credit profile with reliable access to debt capital markets. By pursuing an appropriate financial management strategy, the KION Group makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. In addition, the KION Group optimises its financial relationships with customers and suppliers and mitigates the financial risk to its enterprise value and profitability, notably currency risk, interest-rate risk, price risk, counterparty risk and country risk. In this way, the KION Group creates a stable funding position from which to maintain profitable growth.

The financial resources within the KION Group are provided on the basis of an internal funding approach. 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 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 KION Group is a publicly listed corporate group and therefore ensures that its financial management takes into account the interests of shareholders, promissory note investors and the banks providing its funding. For the sake of all stakeholders, the KION Group makes sure that it maintains an appropriate ratio of internal funding to borrowing. The KION Group's borrowing is based on a long-term approach. The individual tranches of this borrowing will become due for repayment in the years 2021 to 2027.

Depending on requirements and the market situation, the KION Group will also avail itself of the funding facilities offered by the public capital markets in future. The KION Group therefore seeks to maintain an investment-grade credit rating in the capital and funding markets by rigorously pursuing a value-based strategy, implementing proactive risk management and ensuring a solid funding structure. Since September 2017, rating agency Standard & Poor's has classified the KION Group as BB+ with a positive outlook, while the rating from Fitch Ratings has been BBB– with a stable outlook since January 2017. The KION Group thus has an investment-grade credit rating, helping it to secure more advantageous funding conditions in the capital markets.

The KION Group maintains a liquidity reserve in the form of unrestricted, agreed and confirmed credit lines and cash in order to ensure long-term financial flexibility and solvency. In addition, it uses derivatives to hedge currency risk. It also entered into interest-rate swaps in 2017 in order to hedge interest-rate risk arising on floating-rate financial liabilities.

Among other stipulations, the contractual terms of the senior facilities agreement (SFA), bridge loan (AFA) and promissory note set out certain covenants. In addition, there is a financial covenant that involves ongoing testing of adherence to a defined maximum level of leverage (the ratio of financial liabilities to EBITDA). Non-compliance with the covenants or with the defined maximum level of leverage as at a particular reporting date may potentially give lenders a right of termination or lead to an increase in interest payments.

All covenants were complied with in the past financial year, as had been the case in 2016.

Main corporate actions in the reporting period

The bridge loan (AFA) agreed for the acquisition of Dematic, which was still drawn down in an amount of €2,543.2 million at the end of 2016, was significantly reduced in 2017 as a result of the successful placement of a promissory note with a nominal amount of €1,010.0 million in the first quarter of 2017. The promissory note is divided into several tranches that mature in May 2022, April 2024 and April 2027 and have floating-rate or fixed coupons. The interest-rate risk resulting from the floating-rate tranches is hedged using a number of interest-rate derivatives (cash flow hedges). Another important funding activity was the capital increase in May 2017, which generated gross proceeds of €602.9 million. By the end of 2017, tranche A2 (€343.2 million) and tranche B (€1,200.0 million) of the bridge loan and the fixed-term tranche (€350.0 million) of the senior facilities agreement (SFA) had been repaid in full.

In November 2017, the KION Group employees entitled to participate in KEEP were given the opportunity to buy more KION shares. By 31 December 2017, a total of 36,294 shares had been purchased by staff (31 December 2016: 45,564 shares). The number of shares held in treasury therefore stood at 160,829 as at the reporting date (31 December 2016: 164,486).

Analysis of capital structure

Current and non-current liabilities fell by €721.7 million to €8,079.6 million as at the reporting date (31 December 2016: €8,801.3 million). The main reason was the repayment of non-current liabilities following the corporate actions carried out in the year under review. Non-current liabilities also included deferred tax liabilities of €665.2 million, which were down significantly compared with the end of the previous year (31 December 2016: €882.5 million) owing to the lowering of the corporate income tax rate that was approved in the United States. This, combined with the netting of deferred tax assets, reduced the deferred tax liabilities by €92.2 million. Deferred tax assets and liabilities also decreased by €13.1 million owing to the Dematic purchase price allocation being finalised. > TABLE 027

Financial debt

By using the proceeds from the capital increase carried out in May 2017 and making other repayments, the KION Group reduced its current and non-current financial liabilities to €2,268.7 million (31 December 2016: €3,183.0 million). After deduction of cash and cash equivalents, net financial debt amounted to €2,095.5 million (31 December 2016: €2,903.4 million). This equated to 1.7 times the adjusted EBITDA on an annualised basis.

Long-term borrowing (net of borrowing costs) was reduced by €864.2 million to €2,024.8 million as at the reporting date. This sum includes the promissory note with a volume of €1,010.0 million that was issued in the first quarter of 2017. Tranche A2 of the AFA (€343.2 million), tranche B of the AFA (€1,200.0 million) and the fixed-term tranche of the SFA (€350.0 million) were repaid in full in the year under review. The long-dated tranche (€1,000.0 million) of the bridge loan is still outstanding and is due to mature in October 2021. The €50.1 million decrease in current financial liabilities compared with the end of 2016 was mainly due to the reduction in the drawdowns under the revolving credit facility. > TABLE 028

Net financial debt TABLE 028

in € million	2017	2016	Change
Liabilities to banks (gross)	1,259.6	3,188.6	–60.5%
Promissory note (gross)	1,010.0	–	–
Other financial liabilities to non-banks	7.7	7.2	6.6%
./. Capitalised borrowing costs	–8.6	–12.9	33.1%
Financial liabilities	**2,268.7**	**3,183.0**	**–28.7%**
./. Cash and cash equivalents	–173.2	–279.6	38.1%
Net financial debt	**2,095.5**	**2,903.4**	**–27.8%**

Retirement benefit obligation

The KION Group supports pension plans in many countries. These plans comply with legal requirements, standard local practice and thus the situation in the country in question. They are either defined benefit pension plans, defined contribution pension plans or multi-employer benefit plans. As at 31 December 2017, the retirement benefit obligation under defined benefit pension plans amounted to a total of €1,002.7 million, which was only slightly higher than the figure at the end of 2016 of €991.0 million.

The net obligation under defined benefit pension plans was almost unchanged year on year at €978.5 million (31 December 2016: €978.7 million). Changes in estimates relating to defined benefit pension entitlements resulted in an €18.7 million increase in equity (after deferred taxes).

Contributions to pension plans that are entirely or partly funded via funds 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 factors such as the funded status, legal and tax considerations, and local practice. The payments made by the KION Group in 2017 in connection with the main pension plans totalled €28.2 million, comprising €17.9 million for direct pension payments and €10.0 million for employer contributions to plan assets. This included contributions of €8.9 million that had to be paid under existing minimum funding provisions for defined benefit pension plans in the United Kingdom and US. Transfers to external pension funds resulted in payments of €0.3 million.

The total carrying amount for liabilities in connection with share-based remuneration was €38.1 million as at 31 December 2017 (31 December 2016: €37.4 million).

Lease liabilities

Further expansion of the long-term leasing business with end customers in 2017 led to a correspondingly higher funding requirement. Lease liabilities arising from sale and leaseback transactions to fund the long-term leasing business with end customers increased to €1,131.1 million (31 December 2016: €1,007.2 million). Of this total, €798.2 million related to non-current and €332.9 million to current lease liabilities.

The liabilities from the short-term rental fleet and from procurement leases are reported under other financial liabilities (see note [34] in the notes to the consolidated financial statements). As at the reporting date, other financial liabilities included liabilities of €493.8 million (31 December 2016: €440.0 million) arising from sale-and-leaseback transactions used to finance the short-term rental fleet. This item also included liabilities from residual value guarantees amounting to €18.2 million (31 December 2016: €16.7 million). The residual-value liabilities relate to residual-value guarantees provided in connection with the sale of assets to leasing companies, where the guaranteed amount is more than 10.0 per cent of the fair value of the asset in question.

Equity

Consolidated equity was higher than at the end of 2016, rising by €653.1 million to €3,148.8 million as at 31 December 2017 (31 December 2016: €2,495.7 million). The capital increase caused a net increase of €599.9 million. Net income (€426.4 million) and actuarial effects on pensions also boosted the Group's equity. However, there was a negative impact of €315.2 million resulting from exchange differences at the reporting date, which meant that negative effects of €282.8 million were recognised overall in other comprehensive income. Finalisation of the purchase price allocation led to equity as at 31 December 2016 being retrospectively lowered by €39.4 million. The equity ratio increased from 22.1 per cent at the end of 2016 to 28.0 per cent as at 31 December 2017.

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (including capitalised development costs and excluding leased and rental assets) came to €218.3 million in the reporting year. The main areas of spending were capitalised development costs (see the 'Research and development' section) and the expansion and modernisation of production and technology sites in the Industrial Trucks & Services segment. This included a large-scale project to update Linde Material Handling's Aschaffenburg site, where a total of €60 million is being spent on optimising the material flow in production and logistics and will result in more cost-effective production processes by 2021. Capital expenditure in the Supply Chain Solutions segment related to capitalised development costs and, above all, software, licences and the new production facility in the Czech Republic.

Analysis of liquidity

Liquidity management is an important aspect of central financial management in the KION Group. The sources of liquidity are cash and cash equivalents, cash flow from operating activities and amounts available under credit facilities. Using cash pools, liquidity is managed in such a way that the Group companies can always access the cash that they need. The optimisation of cash management caused cash and cash equivalents to fall to €173.2 million at the end of 2017 (31 December 2016: €279.6 million). Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group as at the reporting date amounted to €1,138.0 million (31 December 2016: €1,200.8 million).

Net cash provided by operating activities totalled €615.8 million, which was significantly above the prior-year figure of €414.3 million because Dematic had only made a contribution to operations for the months of November and December in 2016. Furthermore, expenses of €63.1 million in connection with the Dematic transaction had been recognised and negatively impacted cash flow from operating activities at the end of 2016. The rise in earnings and margins in 2017 was offset by a growth-related increase in net working capital and the volume of leasing, which meant cash flow was down by a total of €181.9 million year on year. The net change of minus €205.8 million arising from the expansion of the rental business (including liabilities from finance leases) was bigger than the prior-year net change of minus €158.2 million. Higher tax payments of €136.3 million resulting from improved earnings at the KION companies (2016: €108.7 million) reduced the level of cash flow from operating activities.

The net cash used for investing activities amounted to €237.6 million. This was significantly less than the prior-year figure of €2,264.3 million, which had been heavily influenced by the net cash outflow of around €2.1 billion for the acquisition of Dematic. Smaller acquisitions were carried out in 2017, the total cash payments for which came to €13.3 million net. By contrast, cash payments for development (R&D) and for property, plant and equipment were up significantly year on year at €218.3 million (2016: €166.7 million), mainly due to the inclusion of Dematic for the full year.

Free cash flow – the sum of cash flow from operating activities and investing activities – amounted to €378.3 million (2016: minus €1,850.0 million).

The net cash used for financing activities of €472.5 million was primarily due to the net repayment of financial debt in an amount of €914.7 million, which outweighed the inflows from the capital increase of €598.6 million. The gross repayment amount of €3,340.0 million included the repayment in full of tranches A2 (€343.2 million) and B (€1,200.0 million) of the bridge loan and the fixed-term tranche of the SFA (€350.0 million). The additional gross borrowings in 2017 amounted to €2,425.3 million and included the issuance of the promissory note with a volume of €1,010.0 million in the first quarter of 2017. The net cash used for current interest payments rose to a total of €58.1 million in 2017 due to higher average net debt during the year (2016: €46.7 million excluding early repayment charges paid of €29.6 million). The non-recurring interest payments in 2016 had related to the charges for early redemption of the KION Group's corporate bond and early repayment of a bond of Dematic. The dividend paid in May 2017 of €0.80 per share resulted in an outflow of funds of €86.9 million. The acquisition of employee shares caused a cash outflow of €4.3 million (2016: €2.8 million). > TABLE 029

Long-term leasing business

The sales activities of the KION Group are supported by financial services in connection with direct long-term leasing business. In this business, trucks leased directly to the end customer are refinanced by the KION Group. The portfolio of the long-term leasing business, which supports the KION Group's sales activities, continued to be focused predominantly in western Europe at the end of 2017. The long-term leasing business had a positive impact on the KION Group's financial performance in 2017 (> TABLE 030) and also influenced its financial position (> TABLE 031). This information is taken from the internal reporting system and is determined using the assumption of a minimum rate of return on the capital employed. Net financial debt relating to the long-term leasing business increased to €133.9 million (31 December 2016: €106.3 million). > TABLE 032

(Condensed) statement of cash flows TABLE 029

in € million	2017	2016	Change
EBIT	549.4	434.8	26.3%
Cash flow from operating activities	615.8	414.3	48.6%
Cash flow from investing activities	–237.6	–2,264.3	89.5%
Free cash flow	**378.3**	**–1,850.0**	**>100%**
Cash flow from financing activities	–472.5	2,026.3	<–100%
Effect of foreign exchange rate changes on cash	–12.2	0.2	<–100%
Change in cash and cash equivalents	**–106.4**	**176.5**	**<–100%**

Profitability of long-term leasing business

TABLE 030

in € million	2017	2016	Change
Revenue	574.3	480.5	19.5%
Adjusted EBITDA	121.0	99.7	21.3%
Adjusted EBIT	3.6	4.0	–10.5%
Earnings before taxes (EBT)	5.5	4.5	20.4%

Financial position of long-term leasing business

TABLE 031

in € million	2017	2016	Change
Liabilities to banks (gross)	133.9	106.3	25.9%
Liabilities from financial services	85.7	8.3	> 100%
Lease liabilities	1,131.1	1,007.2	12.3%
Calculatory equity	47.4	39.4	20.4%
Total	**1,398.1**	**1,161.2**	**20.4%**
Leased assets	522.3	429.7	21.6%
Lease receivables	875.8	731.5	19.7%
Total	**1,398.1**	**1,161.2**	**20.4%**

Refinancing of long-term leasing business TABLE 032

in € million	2017 KION Group	2017 thereof non-current leasing business	2016 KION Group	2016 thereof non-current leasing business
Liabilities to banks (gross)	1,259.6	133.9	3,188.6	106.3
Promissory note – gross	1,010.0	–	–	–
Other financial liabilities to non-banks	7.7	–	7.2	–
./. Capitalised borrowing costs	–8.6	–	–12.9	–
Financial liabilities	**2,268.7**	**133.9**	**3,183.0**	**106.3**
./. Cash and cash equivalents	–173.2	–	–279.6	–
Net financial liabilities	**2,095.5**	**133.9**	**2,903.4**	**106.3**
Lease liabilities	1,131.1	1,131.1	1,007.2	1,007.2
Liabilities from financial services	85.7	85.7	8.3	8.3
Interest-bearing net liabilities	**3,312.3**	**1,350.7**	**3,918.9**	**1,121.8**
Liabilities from short-term rental financing	512.1	–	456.7	–
Liabilities from procurement leases	29.4	–	21.0	–
Liabilities from finance leases	**541.4**	**–**	**477.7**	**–**
Net operating debt	**3,853.8**	**1,350.7**	**4,396.6**	**1,121.8**

KION GROUP AG

Business activities

KION GROUP AG is the strategic management holding company in the KION Group. KION GROUP AG holds all the shares in DH Services Luxembourg Holding S.à r.l. and thus all the shares in the subsidiaries in the Supply Chain Solutions segment. Furthermore, KION GROUP AG is the sole shareholder of Linde Material Handling GmbH, Aschaffenburg, which holds almost all the shares of the companies in the Industrial Trucks & Services segment.

The annual financial statements of KION GROUP AG have been prepared in accordance with the provisions in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report has been combined with the group management report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the additional provisions in section 315e HGB. Differences between the accounting policies in accordance with HGB and those in accordance with IFRSs arise primarily in connection with the accounting treatment of financial instruments, provisions and deferred taxes.

Management system, future development and risk position

As a holding company without any operating activities of its own, KION GROUP AG is indirectly dependent on the earnings and economic performance of its subsidiaries. The management system, expected development and the opportunities and risks of the KION Group are described in detail in the ‘Management system’ and ‘Outlook, risk report and opportunity report’ sections of this combined management report.

Business performance in 2017

The business performance and position of KION GROUP AG are largely determined by the business performance and success of the Group. Detailed reports in this regard are set out in the ‘Business performance’ and ‘Financial position and financial performance of the KION Group’ sections.

By contract dated 13 March 2017, KION Holding 2 GmbH was merged into KION GROUP AG; the merger cut-off date was defined as 1 January 2017. The merger took effect when it was entered in the commercial register on 22 June 2017. As the impact on the financial performance and financial position of KION GROUP AG is not material, no further disclosures are provided.

Financial performance

KION GROUP AG does not have any operating activities itself. The reported revenue largely arises from the performance of services for affiliated companies.

Other operating income went up by €2.5 million to €22.4 million and includes, in particular, gains on the measurement of bank accounts and cash pools in foreign currencies.

The cost of materials is related to the revenue from the provision of services and mostly consists of expenses for consultancy services.

Personnel expenses fell to €42.4 million (2016: €43.9 million) due to a smaller addition to the provisions for performance share plans and bonuses. There was a countervailing effect from the increase in the number of employees, resulting in a rise in salaries.

Other operating expenses rose by €16.8 million to €68.3 million owing to losses on the measurement of bank accounts and cash pools in foreign currencies. Costs for external services and consultancy are another substantial component of other operating expenses.

The main changes in net financial income/expenses were as follows:

- Of the total income from profit-transfer agreements, €500.6 million related to Linde Material Handling GmbH. In 2016, KION Holding 2 GmbH (now merged into KION GROUP AG) had transferred its profit of €361.3 million to KION GROUP AG; this figure included the amount for Linde Material Handling GmbH.
- Interest expenses and similar charges, which amounted to €48.8 million (2016: €27.0 million), arose mainly from the

external financing of the KION Group via the promissory note and the loan facilities as well as, to a smaller extent, from interest charged on intercompany liabilities and the unwinding of the discount on pension provisions (2016: from the provision of credit facilities).

- Other interest and similar income in the amount of €28.6 million (2016: €4.6 million) consisted for the most part of interest income on intercompany receivables. This rise is attributable to KION GROUP AG taking over the management of the cash pool in 2017, resulting in an increase in intercompany receivables.
- KION GROUP AG incurred tax expenses of €79.4 million as a result of its role as the parent company of the tax group in 2017 (2016: €23.1 million). The use of tax loss and interest carryforwards had reduced tax expenses in 2016.

A total net income of €335.5 million was generated in the year under review (2016: €258.3 million). > TABLE 033

Net assets

At the end of 2017, the total assets of KION GROUP AG had increased by approximately 38.8 per cent year on year to €7,643.9 million. This was attributable, in particular, to KION GROUP AG having taken over the management of the cash pool for all KION Group companies in 2017. All consolidated companies use the cash pool to make their liquidity available to KION GROUP AG.

The financial assets largely comprise the carrying amounts of the equity investments in DH Services Luxembourg Holding S.à r.l. (€2,862.2 million) and Linde Material Handling GmbH (€1,368.4 million).

The receivables mainly consist of loans and cash pool receivables due from other Group companies and the Company's entitlement to the transfer of profits from Linde Material Handling GmbH of €500.6 million (2016: transfer of profits from KION Holding 2 GmbH of €361.3 million). There are long-term loans of €224.5 million.

Financial performance TABLE 033

in € million	2017	2016	Change
Revenue	24.3	17.6	38.3%
Other operating income	22.4	19.9	12.4%
Material expenses	–0.5	–0.7	25.0%
Personnel expenses	–42.4	–43.9	3.3%
Other operating expenses	–68.3	–51.5	–32.7%
Depreciation expense	–0.2	–0.1	<–100%
Operating loss	**–64.8**	**–58.7**	**–10.5%**
Net financial income	479.7	340.0	41.1%
Income taxes	–79.4	–23.1	<–100%
Net income	**335.5**	**258.3**	**29.9%**

Net assets

TABLE 034

in € million	2017	2016	Change
Assets			
Property, plant and equipment	2.9	0.1	> 100%
Financial assets	4,231.2	4,474.4	–5.4%
Receivables and other assets	3,389.3	974.0	> 100%
Cash and cash equivalents	20.5	56.7	–63.8%
Total assets	**7,643.9**	**5,505.3**	**38.8%**
Equity and liabilities			
Equity	3,692.9	2,842.5	29.9%
Retirement benefit obligation	32.1	20.3	58.2%
Tax provisions	27.6	4.1	> 100%
Other provisions	35.7	38.4	–7.0%
Liabilities	3,855.6	2,599.9	48.3%
Deferred income	–	0.1	–100.0%
Total equity and liabilities	**7,643.9**	**5,505.3**	**38.8%**

As a result of the capital increase of €602.9 million implemented in May 2017, the €1.1 million increase in the volume of treasury shares and the higher net income (€335.5 million), and after taking into account the payment of the dividend of €86.9 million, equity rose to €3,692.9 million (31 December 2016: €2,842.5 million). The equity ratio was 48.3 per cent as at the reporting date (31 December 2016: 51.6 per cent).

Provisions increased by €32.6 million to €95.4 million; this was mainly attributable to changes in pension provisions and tax provisions. Pension provisions include provisions of €3.3 million (31 December 2016: €3.1 million) for former members of the Executive Board. KION GROUP AG recognised tax provisions of €27.6 million in connection with its role as the parent company of the tax group.

Liabilities mainly consist of liabilities to banks of €2,214.8 million (31 December 2016: €2,546.3 million) as well as loan liabilities and cash pool liabilities to other Group companies. The liabilities to banks comprise the financing via the promissory note, the bridge loan (acquisition facilities agreement, AFA) and the syndicated loan agreement (senior facilities agreement, SFA). > TABLE 034

Financial position

By pursuing an appropriate financial management strategy, the KION Group – through KION GROUP AG – makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. KION GROUP AG is a publicly listed company and therefore ensures that its financial management takes into account the interests of shareholders and banks. For the sake of these stakeholders, KION GROUP AG makes sure that it maintains an appropriate ratio of internal funding to borrowing.

On 4 July 2016, KION GROUP AG entered into an agreement for a bridge loan of originally €3.0 billion to finance the acquisition of Dematic. This bridge loan has been refinanced in several ways, which means that the liabilities under the AFA as at 31 December 2017 consisted solely of a floating-rate loan of €1.0 billion that is due to mature in 2021. The funds for repaying the AFA were essentially generated by two financing measures. In the first quarter of 2017, a promissory note with a nominal value totalling €1,010.0 million was issued. The promissory note is divided into several tranches that mature between 2022 and 2027 and have floating-rate or fixed coupons. KION GROUP AG entered into a number of interest-rate derivatives in order to hedge the interest-rate risk resulting from the floating-rate tranches. In May 2017, it implemented a capital increase that generated gross proceeds of €602.9 million.

On 28 October 2015, KION GROUP AG signed a syndicated loan agreement totalling €1.5 billion with a syndicate of international banks. Following early repayment of the fixed-term tranche of €350 million, the SFA consisted solely of the revolving credit facility of €1,150.0 million as at 31 December 2017. It has a variable interest rate and is due to mature in 2022. As at 31 December 2017, an amount of €184.7 million had been drawn down from the revolving credit facility.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the AFA and SFA. Neither loan is collateralised.

As at 31 December 2017, liabilities to banks amounted to €2,214.8 million (31 December 2016: €2,546.3 million). After deduction of cash and cash equivalents, net debt amounted to €2,194.3 million (31 December 2016: €2,489.6 million).

Employees

The average number of employees at KION GROUP AG was 190 in 2017 (2016: 172). KION GROUP AG employed 195 people as at 31 December 2017 (31 December 2016: 185).

Final declaration to the report on relationships with affiliated entities (‚Abhängigkeitsbericht') pursuant to section 312 (3) sentence 3 of the German Stock Corporation Act (AktG)

With respect to the legal transactions and other measures mentioned in the report on relationships with affiliated entities, we hereby declare that in each case the Company received appropriate consideration in accordance with the circumstances of which we were aware at the time when the legal transactions were concluded or the measures were taken or omitted and that it did not suffer any disadvantages as a result of such measures having been taken or omitted.

Frankfurt am Main, 21 February 2018

The Executive Board

Gordon Riske　　Dr Eike Böhm

Ching Pong Quek　　Dr Thomas Toepfer

NON-FINANCIAL PERFORMANCE INDICATORS

The KION Group's enterprise value is determined not only by financial KPIs but also by non-financial factors. They are based on the Company's relations with its customers and employees, on its technological position and on environmental considerations. The KION Group can only achieve the targets that it has formulated for itself in the Strategy 2027 if it is an attractive and responsible employer that can retain competent and committed employees at all sites, if it develops products and solutions that are closely tailored to customers' needs and environmental requirements now and in future, if it continually increases the customer benefits provided by its products and services and if it designs production processes in such a way that resources are conserved and emissions are avoided as far as possible.

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

Employees

HR strategy

The KION Group's success is founded on the capabilities and commitment of its employees. The ultimate objective of the KION Group's HR strategy is to provide the best possible support for the targeted implementation of the KION 2027 strategy. To this end, the KION Group draws on a wide range of measures to ensure that there is always a sufficient number of highly qualified, hard-working employees at all levels of its operations. Attractive working conditions and the opportunities for career progression afforded by working for an international group of companies play an important role in this and provide a solid basis for meeting the manifold challenges presented by demographic change.

The KION Group has maintained and continued to strengthen the high value of its employer brands, particularly those of Linde, STILL and Dematic. In 2017, STILL was recognised as a top employer for the sixth year in succession by the Top Employers Institute, an certification organisation.

Our shared KION Group values

In 2017, we defined our shared values as part of an international multi-stage process involving employees from across all units, countries and hierarchy levels. Eleven global workshops with a total of around 1,000 participants were held on all continents, ensuring that the entire workforce was represented. The values – integrity, collaboration, courage and excellence – provide a common basis for our work together.

Headcount

The average number of employees (full-time equivalents (FTEs), including trainees and apprentices) in the KION Group was 31,064 in 2017 (2016: 24,957 FTEs).

As at 31 December 2017, the KION Group companies employed 31,608 FTEs, 1,064 more than a year earlier. The increase mainly took place in western and eastern Europe and was due, among other reasons, to the consolidation of Eisengiesserei Dinklage GmbH and the purchase of Nordtruck AB. > TABLE 035

Employees (full-time equivalents)* TABLE 035

31/12/2017	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
Western Europe	16,634	2,098	698	19,430
Eastern Europe	2,349	84	0	2,433
Middle East and Africa	237	11	0	248
North America	219	2,808	0	3,027
Central and South America	459	839	0	1,298
Asia-Pacific	4,192	980	0	5,172
Total	**24,090**	**6,820**	**698**	**31,608**
31/12/2016				
Western Europe	16,005	1,931	670	18,606
Eastern Europe	2,103	52	0	2,155
Middle East and Africa	241	0	0	241
North America	187	2,910	0	3,097
Central and South America	442	944	0	1,386
Asia-Pacific	4,086	973	0	5,059
Total	**23,064**	**6,810**	**670**	**30,544**

* Number of employees (full-time equivalents) as at balance sheet date; allocation according to the contractual relationship

Personnel expenses amounted to €1,989.7 million. The main reason for this increase of 30.9 per cent compared with 2016 was the rise in average headcount for 2017 and changes to collective bargaining agreements. > TABLE 036

Personnel expenses TABLE 036

in € million	2017	2016	Change
Wages and salaries	1,590.4	1,198.3	32.7%
Social security contributions	320.8	258.4	24.2%
Post-employment benefit costs and other benefits	78.5	63.6	23.4%
Total	**1,989.7**	**1,520.3**	**30.9%**

Diversity

The KION Group sees itself as a global manufacturer with strong intercultural awareness: as at 31 December 2017, people from 86 different countries were employed across the KION Group.

One of the ways in which the Company promotes international collaboration between employees is the KION expat programme, which gives employees the opportunity to transfer to different countries where the KION Group is represented.

The KION Group is tackling the challenges of demographic change in a variety of ways, for example by providing working conditions that are suited to employees' age-related requirements and organising healthy-living programmes so that it can continue to benefit from older employees' experience. As at 31 December 2017, 27.0 per cent of employees were over the age of 50 (31 December 2016: 26.5 per cent).

Compared with the previous year, the proportion of the KION Group's total workforce made up of women was virtually unchanged in 2017, at 16.0 per cent (2016: 16.3 per cent). To help increase the proportion of management positions occupied by women, the Executive Board set targets that are published in the corporate governance report. Going forward, the KION Group intends to fill more management positions internationally in order to better fulfil the continually growing requirements placed on the Company.

The KION Group offers flexible working-time models that promote a good work-life balance. In addition, Linde Material Handling has implemented a company agreement about 'teleworking/home office', which stipulates the terms on which employees can work at home on a mutually agreed and voluntary basis.

Development of specialist workers and executives

In 2016, the longer-term HR strategy was revised in order to ensure even better and more targeted development for employees with high potential.

In addition to the development activities geared specifically to high-potential employees, greater priority will be given to succession planning for key positions in the KION Group in future and a long-term process will be implemented for this purpose.

Finding highly qualified people to fill specialist and executive positions is very important to the KION Group. As a result, one of the focuses of HR work across the Group in 2017 was, as in the previous years, the recruitment and development of suitable young talent.

The KION Group endeavours to offer its employees interesting career opportunities and flexible, family-friendly working-time models. The Group companies also collaborate closely on areas such as talent management and training & development programmes. This helps to systematically identify and support staff with potential, high performers and experts in key functions. The STILL Academy offers subject-specific and interdisciplinary training courses. There is also an academy at Linde Material Handling and Dematic that develops employees' skills, particularly in sales and service.

Training and professional development

The companies in the KION Group currently offer training for 19 professions in Germany. Besides providing dual vocational training schemes, KION Group companies offer work placements for students combining vocational training with a degree course in cooperation with various universities. They employed a total of 579 trainees and apprentices as at 31 December 2017 (31 December 2016: 580).

Sharing in the Company's success

The KION Group launched the KION Employee Equity Programme (KEEP) in 2014. Initially limited to Germany, the programme was then rolled out to more countries. Around 1,100 employees participated in this share matching programme in 2017, roughly 5 per cent of the total number who are eligible to do so.

The plan for 2018 is to give employees in other countries the opportunity to share in the company's success by participating in KEEP.

In 2017, the remuneration of the approximately 450 top executives was updated by continuing the long-term remuneration components that had been introduced in 2014. Another allocation under the long-term incentive plan (LTI) was made in the year under review.

Employee commitment

The KION Group's products and services destined for its customers are produced by committed and motivated employees. That is why all KION companies aim to ensure a high level of employee commitment.

Based on the manager survey conducted in 2015 and the action plan derived from it, a package of measures was defined and implemented in 2016 as part of the new 'Lift up' corporate initiative, in particular to ensure the new organisational structure is firmly embedded and to communicate the KION Group's strategy more widely.

Alongside this objective, collaboration was further improved by holding a number of team workshops.

A new manager survey was carried out in 2017 which revealed that the action plan derived from the earlier survey had been successfully implemented and we were therefore able to improve on the results of the 2015 survey.

Health and safety in the workplace

The KION Group has a corporate policy setting out its obligations in respect of health, safety and the environment (HSE). These include taking comprehensive precautions to create a safe working environment and ensuring employees know how to avoid risks and accidents. The policy was updated in 2017.

HSE activities centre on an internal audit programme, which covers all of the KION Group's production facilities as well as sales and service. The aim is to systematically document existing HSE measures and processes and to provide specific ideas for how they can be developed further. Last year, nine central HSE audits were carried out within the KION Group. Having started in 2016, the evaluation of possible HSE risks at sales and service sites was completed in 2017.

The KION Safety Championship, which was introduced in 2014, offers additional motivation for employees to continually engage with HSE matters. Based on regular reporting from the individual units and a set of four defined evaluation criteria, a panel of judges awards prizes to those units that have shown special dedication or considerable progress in an area of HSE. In 2017, Linde China's tools and cutting team in Xiamen was crowned champion.

HSE managers at the KION Group's production facilities and in its sales and service units have the opportunity to meet and talk with one another at annual conferences.

The health rate for 2017 stood at the high level of 96.7 per cent (2016: 96.2 per cent). Details of the other HSE key performance indicators and of the measures initiated and implemented in 2017 will be included in the KION Group's separate sustainability report, which will be published in April 2018 on the following website: http://reports.kiongroup.com/2017/sr.

Research and development

Strategic focus of research and development

The KION Group's innovation strategy is an integral element of KION 2027. Research and development is set up so as to provide the best possible support for the KION Group's objective of becoming the world's leading supplier of integrated, automated supply chain solutions and mobile automation solutions. The innovativeness of the portfolio is being significantly increased by concentrating even more heavily on automation and robotics solutions that are based on an overarching software platform and enable fully automated warehouses to become a reality. The focus areas selected for product development will push forward the integration of autonomous trucks and automated guided vehicle systems into end-to-end solutions for warehouses. This means an even stronger emphasis on new drive technologies and automation/robotics solutions. Another area of focus is the refinement of the warehouse management system.

Given that the digitalisation of solutions and processes is of the utmost importance for the KION Group's future portfolio, research and development form part of an overarching digitalisation strategy. The KION Digital Campus is helping to significantly accelerate projects to digitalise the existing core business and ensure that they are fully aligned with the requirements of the Operating Units and their customers.

At the same time, R&D will continue to be structured cost-effectively. The complexity and diversity of products will be further reduced and development times for new products will be shortened, despite the wider range available to customers. R&D essentially works on a cross-brand and cross-region basis, which ensures that research findings and technological know-how are shared across the Group. Building on this, local product development teams working for the individual brand companies and regions develop customer-specific solutions.

Key R&D figures

Total spending on research and development came to €212.3 million in 2017 (2016: €147.1 million), which equates to 2.8 per cent of revenue (2016: 2.6 per cent). The increase was predominantly attributable to Dematic being consolidated for the whole of the year. Total R&D expenditure included €75.4 million in capitalised development costs (2016: €50.6 million). Alongside this addition to capitalised development costs, there were amortisation and impairment charges of €69.0 million (2016: €57.0 million) (see note [17] in the notes to the consolidated financial statements).

At 1,533, the number of full-time jobs in R&D teams was up by 3.8 per cent compared with the end of 2016. > TABLE 037

The KION Group takes comprehensive measures to protect the products it develops against imitations and pursues a dedicated patent strategy. In 2017, the KION companies applied for a total of 101 new patents (2016: 93). As at 31 December 2017, the companies of the KION Group held a total of 2,808 patent applications and issued patents (31 December 2016: 2,689 patent applications and issued patents).

Research and development (R&D) TABLE 037

in € million	2017	2016	Change
Research and development costs (P&L)	137.0	96.5	41.9%
Capitalised development costs	75.4	50.6	49.0%
Total R&D spending	**212.3**	**147.1**	**44.4%**
R&D spending as percentage of revenue	2.8%	2.6%	–

Focus of R&D in 2017

Automation and connectivity

The two segments have developed numerous products aimed at further improving the automation and connectivity of warehouse and logistics solutions. This enables customers to speed up their processes even more, seamlessly integrate all stages of production and logistics and use the same floor space more efficiently.

One of the products launched by Linde is the new Linde R-MATIC reach truck, which autonomously fills shelves with goods and replenishes them with a high level of process reliability. The development and production of automated trucks is also the objective of the alliance with French robotics developer Balyo, which was extended in May 2017. The new Linde K-MATIC order-picker truck and other products have been introduced under this partnership. Automated versions can now be supplied for virtually all of the main warehouse trucks and very narrow aisle (VNA) trucks. Also available is the new Truck Call app for digital order management, which enables transport tasks to be managed more effectively. Digitalisation extends to safety features, too. Linde Safety Guard, an assistance system for alerting pedestrians and avoiding collisions, and Linde Safety Scan contribute to the safety-conscious management of the entire material handling process.

STILL has added an automated tugger train solution to its portfolio of automation solutions as a new member of the iGO product family. The iGo neo CX 20, a self-driving order picker launched in 2016, has been integrated with solutions from Dematic (e.g. the Pick-to-Voice system) and added to the portfolio. The product range for efficient and rapid warehouse processes and picking is rounded off by the innovative horizontal and vertical order pickers and the very narrow aisle trucks with swivel traverse or telescopic forks that were introduced on the market in 2017. Another efficient piece of equipment for the warehouse is the new ECU 15 C electric pallet truck while, for the medium to long-distance transport of goods, sit-on low-lift and high-lift pallet trucks along with double-decker pallet trucks are now available with powerful lithium-ion technology. STILL also teamed up with Audi and Dematic on an innovative project to create a smart factory incorporating the automated transport of bulk carriers – from the high rack warehouse to the packing line.

One of the new developments from Dematic is an automated, low-energy solution for fulfilling orders of refrigerated and frozen foods, the Multishuttle 2 Freezer. This means that a complete line of products for the cold chain market can now be offered. Dematic has also unveiled a new automated truck configuration that forms part of the compact range. This product range is based on a modular system that offers particularly fast delivery times and low up-front costs.

Warehouse management system

The Supply Chain Solutions segment also focused on refining the central software solution, Dematic iQ. In the second quarter of 2017, Dematic published an update for its Dematic IQ software (version 2.4). Among other benefits, the update enables stock to be replenished more quickly on the shop floor, reduces product damage and allows more products to be stored in the same space. The iQ 2.5 version released in the third quarter also offers innovative material flow analysis that makes it much easier to manage complex systems on a day-to-day basis thanks, in part, to the clear presentation of data.

Drive technology

In 2017, Linde and STILL equipped significantly more trucks with lithium-ion technology. Customers of Linde, for example, now have a choice of more than 30 warehouse truck models fitted with a lithium-ion battery, including pallet stackers, double stackers, order pickers and reach trucks – thereby encompassing virtually all logistics tasks in the warehouse.

Customers

The KION Group's industrial trucks and supply chain solutions are deployed in all kinds of industries.

The Industrial Trucks & Services segment has a very broadly diversified customer base, ranging from large key accounts with global operations to small and medium-sized enterprises that typically order just a few trucks each year.

The Supply Chain Solutions segment benefits from long-standing customer relationships with major players in the e-commerce and logistics sectors. They influence the success of the segment's new business and service business. The Dematic Operating Unit's focus industries also include general merchandise, grocery wholesale and retail, fashion, food and beverages, and parcel and courier services. The KION Group including Dematic already ranks among the global market leaders in most of these sectors and enjoys excellent relationships with its customers. It has been able to strengthen these relationships through joint development projects and other initiatives.

The KION brand companies again exhibited at the sector's leading trade fairs in various regions in 2017 in order to intensify their collaboration with customers and partners.

The KION Group's full range of products in the Industrial Trucks & Services and Supply Chain Solutions segments was represented for the first time at ProMat, which was held in Chicago in April 2017. Numerous new products were unveiled. For example, the market launch of new Linde and Baoli counterbalance trucks in North America was announced. Dematic demonstrated its Dematic iQ warehouse execution system, robotics order picking and other products. The KION brands also showcased the full spectrum of solutions at Movimat in São Paulo in October 2017. At the Hannover Messe trade fair (CeMat preview), STILL highlighted the latest topics and solutions. The KION Group also participated in various other trade fairs, including Logistica in Utrecht, where Dematic exhibited innovative technologies for the storage and retrieval of small parts, and Logimat in Stuttgart, at which not only Linde and STILL but also Baoli presented their portfolios for the EMEA region. In addition, numerous customer and dealer events as well as training courses were held.

Once again, the KION brand companies attracted attention by collecting a number of accolades in 2017. STILL, for example, was again among the winners at the International Forklift Truck of the Year (IFOY) awards.

Sustainability

Acting responsibly is one of the principles by which the KION Group and its brand companies operate. They strive for a balance between environmental, economic and social considerations in their business activities. This focus on sustainability is reflected in the Group's eco-friendly and safe products that help customers to conserve energy, reduce emissions and comply with strict workplace safety standards (see the 'Research and development' section). Furthermore, the KION Group ensures that its production processes have as minimal an impact on the environment as possible and that it offers safe and discrimination-free working conditions.

The first groupwide sustainability report was published in the year under review. As well as comprehensive information on strategy, the management approach and structures for sustainability, the report contains data on relevant key performance indicators. The report to be published in 2018 (see: http://reports.kiongroup.com/2017/sr) will also include the KION Group's non-financial declaration as required under the German law to implement the CSR directive. For this reason, the KION Group has not provided detailed information in the 2017 combined management report.

Outlook, risk report and opportunity report

OUTLOOK

Forward-looking statements

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 as well as the earnings of KION GROUP AG. Any unexpected developments in the global economy would result in the KION Group's and KION GROUP AG'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.

Actual business performance may deviate from our forecasts due, among other factors, to the opportunities and risks described here. Performance particularly depends on macroeconomic and industry-specific conditions and may be negatively affected by increasing uncertainty or a worsening of the economic and political situation.

Outlook for 2017

The overall assessment of the financial situation of the KION Group compares the outlook included in the 2016 combined management report and the adjusted outlook in the Q3 2017 quarterly statement with actual performance in 2017.

Assumptions

The forecasts in this section are derived from the KION Group's multiple-year market, business and financial plan, which is based on certain assumptions. Market planning takes into account macroeconomic and industry-specific performance, which is described below. Business planning and financial planning are based on expected market performance, but also draw on other assumptions, such as those relating to changes in the cost of materials, the KION Group's ability to command higher prices from customers and movements in exchange rates.

Expected macroeconomic conditions

In its outlook for 2018 published in January, the International Monetary Fund (IMF) predicts global output growth of 3.9 per cent, which is slightly higher than the rate for the past year. Besides the sustained upturn in Europe and Asia, stimulus from the US tax reforms approved in late 2017 is having a positive effect. At 4.6 per cent, the worldwide volume of trade is expected to be close to its 2017 level.

The outlook for macroeconomic conditions is based, in particular, on the assumption that conditions in financial markets will continue to be favourable and that market sentiment will remain upbeat. These factors will support further growth of demand, particularly in terms of capital expenditure. Furthermore, it is expected that trading partners of the United States will also benefit from the US tax reforms.

Expected sectoral conditions

Going forward, the overall market for industrial trucks and warehouse systems will continue to depend heavily on the strength of the economy in the main sales markets. In past years, the market's growth – measured by the number of new trucks sold and the revenue of the largest system manufacturers – has consistently exceeded the growth rates for global gross domestic product (GDP). In view of the generally positive macroeconomic prospects, the KION Group anticipates that the worldwide market for industrial trucks and warehouse systems will continue to expand in 2018.

Following very strong growth in the global market for new industrial trucks in 2017, growth rates are predicted to normalise, returning closer to the long-term trend of around 4 per cent. Europe and North America are expected to register further moderate increases in orders. The KION Group anticipates continued growth in demand in China, with a rise in the proportion of electric forklift trucks and warehouse trucks. The constantly increasing number of trucks in operation worldwide provides a sustainable customer base for the service business.

Demand for supply chain solutions is likely to be underpinned by the strong inclination to invest seen in the main customer industries in connection with multichannel and e-commerce strategies. In the years ahead, market growth of around 10 per cent per year is predicted.

Expected business situation and financial performance of the KION Group

In 2018, the KION Group aims to build on its successful performance in 2017 and, based on the forecasts for market growth, achieve further increases in order intake, revenue and adjusted EBIT.

The order intake of the KION Group is expected to be between €8,050 million and €8,550 million. The target figure for consolidated revenue is in the range of €7,700 million to €8,200 million. The target range for adjusted EBIT is €770 million to €835 million. Free cash flow is expected to be in a range between €410 million and €475 million; the cash payment for the planned acquisition of a non-controlling interest in the Chinese company EP Equipment has already been factored in. The target figure for ROCE is in the range of 8.7 per cent to 9.7 per cent. The outlook for free cash flow and ROCE reflects the impact of applying the new IFRS accounting standards for the first time. Further details can be found in the 'Basis of preparation' section of the notes to the consolidated financial statements.

Order intake in the Industrial Trucks & Services segment is expected to be between €5,950 million and €6,150 million. The target figure for revenue is in the range of €5,700 million to €5,900 million. The target range for adjusted EBIT is €650 million to €685 million.

Order intake in the Supply Chain Solutions segment is expected to be between €2,100 million and €2,400 million. The target figure for revenue is in the range of €2,000 million to €2,300 million. The target range for adjusted EBIT is €180 million to €215 million.

The outlook is based on the current exchange rate environment and the assumption that material prices will hold steady. > TABLE 038

Outlook TABLE 038

	KION Group		Industrial Trucks & Services		Supply Chain Solutions	
in € million	2017 Actual	2018 Outlook	2017 Actual	2018 Outlook	2017 Actual	2018 Outlook
Order intake*	7,979.1	8,050–8,550	5,859.5	5,950–6,150	2,099.2	2,100–2,400
Revenue*	7,653.6	7,700–8,200	5,630.9	5,700–5,900	2,006.3	2,000–2,300
Adjusted EBIT	765.6	770–835	640.1	650–685	181.4	180–215
Free cash flow	378.3	410–475	–	–	–	–
ROCE	9.9%	8.7%–9.7%	–	–	–	–

* Disclosures for the segments Industrial Trucks & Services and Supply Chain Solutions include also intra-group cross-segment order intake and revenue (Total revenue)

Expected financial position of the KION Group

Having significantly reduced its borrowing in the reporting year, the KION Group intends to use free cash flow to achieve a further moderate decrease in net debt.

Overall statement on expected performance

The KION Group believes it will continue along its path of profitable growth and aims to further improve its market position worldwide in 2018.

RISK REPORT

Risk strategy

The business activities of the KION Group necessarily involve risk. Dealing responsibly with risk and managing it in a comprehensive manner is an important element of corporate management. The overarching aim is to fully harness business opportunities while ensuring that risk always remains under control. Using its groupwide risk management system, the KION Group contains all identified risks by implementing suitable measures and takes appropriate precautions. This ensures that the losses expected if these risks arise will be largely covered and therefore will not jeopardise the Company's continuation as a going concern.

Risk management is embedded in the corporate controlling function and plays an active and wide-ranging role due to the strategic focus of corporate controlling. The Operating Units' business models, strategic perspectives and specific plans of action are examined systematically. This ensures that risk management is fully integrated into the KION Group's overall planning and reporting process.

Principles of risk management

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 captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a groupwide 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 corporate controlling function are notified immediately. Each risk is documented in an internet-based reporting system designed specifically for the requirements of risk management. Risks affecting more than one Group company, such as market risks, competition risks, financial risks and risks arising from financial services, are not recorded individually but are instead evaluated at Group level. Consequently, such risks are not quantified.

The scope of consolidation for risk management purposes is the same as the scope of consolidation for the consolidated financial statements. 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 with the segments at the business review meetings. The divisional risk reports are then used to compile an aggregate risk portfolio for the KION Group as a whole. To support this, the relevant departments of the holding company are consulted each quarter in order to identify and assess risk – particularly Company-wide, cross-brand risk affecting areas such as treasury, purchasing, tax, human resources and financial services. The Executive Board of KION GROUP AG and the Supervisory

Board's Audit Committee are informed of the Group's risk position once a quarter. The Internal Audit department audits the risk management system at regular intervals.

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

Principles

The main objectives of the 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 and internal instructions. This includes verifying that the consolidated financial statements and combined management report comply with the relevant accounting standards.

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 and group management report; the relevant changes are then incorporated into the Group's internal policies and systems.

All consolidated entities must follow the KION GROUP IFRS Accounting Manual when preparing their IFRS reporting packages. This manual contains the recognition, measurement and disclosure rules to be applied in the KION Group's accounting in accordance with IFRS. The accounting guidelines primarily explain the financial reporting principles specific to the KION Group's business. In addition, all companies must adhere to the schedule defined by head office for preparing the consolidated financial statements and group management report.

The accounting-based internal control and risk management system encompasses defined control mechanisms, automated and manual reconciliation processes, separation of functions, the double-checking principle and adherence to policies and instructions.

The employees involved in the (Group) 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. Monthly checklists have been drawn up for the consolidation process and are worked through in a standardised manner. All postings are managed centrally and documented. This team also monitors the system-based controls and supplements them with manual checks. The entire accounting process contains a number of specific approval stages, for which extensive plausibility checks have been set up. Employees with the relevant expertise provide support on specialist questions and complex issues.

Internal control mechanisms and ongoing analysis of the regulatory framework enable any risks that might jeopardise the compliance of the consolidated financial statements and group management report with accounting standards to be identified as soon as possible so that appropriate countermeasures can be taken. Such risks form part of the KION Group's aggregate risk profile and are classified as operational risk.

The Internal Audit department evaluates governance, risk management and the control processes by following a systematic and structured process, thus helping to bring about improvements. It focuses primarily on the following aspects:

- appropriateness and effectiveness of the internal control systems for avoiding financial losses
- compliance with legal requirements, directives from the Executive Board, other policies and internal instructions
- correct performance of tasks and compliance with business principles

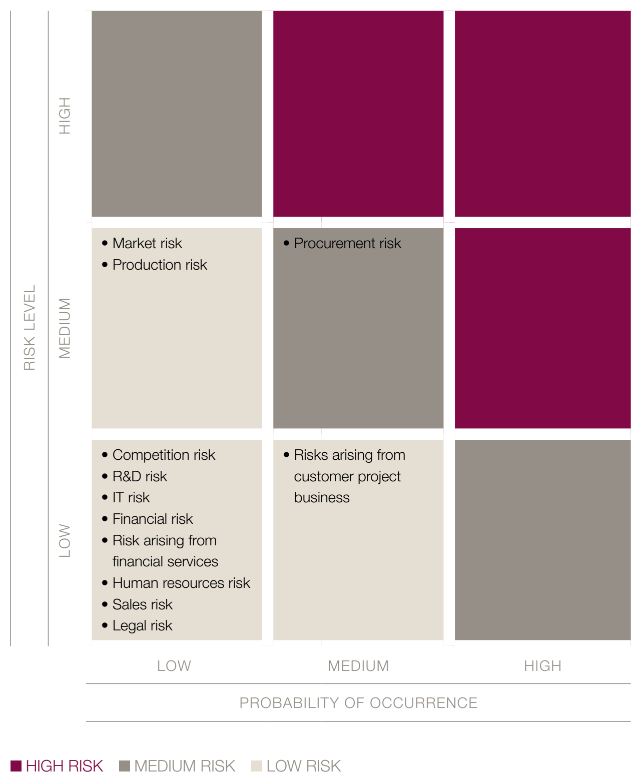
Risk

Aggregate risk

The aggregate risk position was largely unchanged compared with the end of 2016. With regard to 2018, the risks in the risk matrix below will be continually observed and evaluated in terms of their extent and probability of occurrence. For example, the KION Group considers the probability of market risk materialising as low because of the generally positive market expectations. However, the possible impact of market risk continues to be rated at a medium risk level because of the importance of the market for the KION Group's business situation and financial performance. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern. > DIAGRAM 005

The market risks and competition risks described, the risks along the value chain, the human resources risks and the legal risks largely relate to the Industrial Trucks & Services and Supply Chain Solutions segments. Risks arising from financial services mainly affect the Industrial Trucks & Services segment, while financial risks would predominantly impact on the Corporate Services segment.

Risk matrix DIAGRAM 005



Market risks and competition risks

Market risks

Market risk can arise when the economy as a whole or a particular sector does not perform as well as had been anticipated in the outlook. Cyclical fluctuations in macroeconomic activity affect both the market for industrial trucks and the market for automated supply chain solutions. Customers' decisions on whether to invest depend to a large degree on the macroeconomic situation and conditions in their particular sector. During an economic downturn, or even just periods of heightened economic uncertainty, customers tend to postpone their capital expenditure plans. Although demand for services is less cyclical, it correlates with the degree of utilisation of the trucks and systems – which usually declines during difficult economic periods. As the KION Group can only adjust its fixed costs to fluctuations in demand to a limited extent, reductions in revenue impact on earnings.

Despite the increase in the proportion of revenue generated outside the eurozone (due in part to the strong North American business of the Supply Chain Solutions segment), the bulk of revenue continues to be billed in euros. As a result, the market conditions that prevail in the eurozone impact significantly on the KION Group's financial performance. In view of the continued stabilisation of economic growth, even – and especially – in countries that were hit hard by the financial and economic crisis, the direct market risk arising from a downturn in the economy has further reduced for the eurozone. However, any weakening of economic growth affecting major trading partners, e.g. China, might reduce eurozone customers' willingness to invest and consequently the demand for the KION Group's products.

Any loss of momentum in the emerging markets could also have a negative effect on global trade volumes and thus on growth in the material handling market. The market risks referred to could be heightened by geopolitical risk, including protectionist measures and possible currency crises. However, it is not currently foreseeable whether these risks will become relevant and then have a material effect on the business situation and financial performance. The geopolitical situation is monitored closely.

Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities, leveraging of cost synergies and the platform strategy – 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, the KION Group 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. Besides global economic growth and other data, the KION Group also analyses exchange rates, price stability, the consumer and investment climate, foreign trade activity and political stability in its key sales markets, constantly monitoring the possible impact on its financial performance and financial position. Other 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, changes to customs rules, capital controls and expropriations. The KION Group mitigates such strategic risks by, for example, carrying out in-depth market research, conducting thorough evaluation procedures to assess political and economic conditions and drafting contracts appropriately.

Competition risks

Competition risk describes the risk that growing competitive pressure will prevent the KION Group from achieving its predicted margins and market share. The markets in which the KION Group operates are characterised by strong competition, often price-driven. Price competition is compounded by some manufacturers having cost advantages in production, sometimes due to the currency situation and sometimes because local labour costs are lower. This mainly affects the Industrial Trucks & Services segment, where competition is fierce, particularly in the economy and volume price segments, and the impact is especially strong in emerging markets. Building on their local competitive strength, manufacturers in emerging markets are also looking for opportunities to expand. Although the high quality expectations and service needs of customers in developed markets present a barrier to growth for many of these manufacturers, this situation is likely to intensify competitive pressures in future.

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

Although the excellent customer benefits provided by its products have enabled the KION Group to charge appropriate prices until now, it is taking a variety of steps to contain competition risk. Alliances, partnerships, acquisitions and other measures are increasingly playing a role in improving the KION Group's competitiveness in terms of resources, market access and product range. The steps that the KION Group is taking to mitigate its competition risk also include making its plants more efficient and securing low-cost sources of supply.

The KION Group also continually evaluates its options for strengthening and consolidating its position in emerging markets, in particular through proactive cross-selling by the two operating segments, strategic partnerships, the creation of joint ventures or acquisition of local manufacturers. 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. It is also possible that a partner will collaborate with competitors if exclusivity agreements are not in place.

Risks along the value chain

Research and development risks

The KION Group's market position and business performance depend to a large extent on its ability to build on its leading technological position in respect of individual products and system solutions in order to become the leading supplier of automated supply chain solutions and mobile automation solutions. This requires the Group to continually develop products that meet customer expectations and comply with changing regulatory and technological requirements. To this end, the KION Group must anticipate customers' needs and changing market conditions –

including the growing use of digital technologies in value chains – and has to 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.

The innovations developed by the KION Group 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. The KION Group mitigates research and development risk by focusing firmly on customer benefit in its development of products and solutions. Customer needs are incorporated into the development process on an ongoing basis by ensuring close collaboration between sales and development units and taking account of all region-specific requirements.

Procurement risks

Procurement activities constitute a potential risk for the KION Group in terms of the general lack of availability of parts and components and the rising cost of raw materials, energy, inputs and intermediate products. In particular, restricted capacity in a tight supplier market could result in the KION Group facing backlogs in the supply of individual raw materials and components. The KION Group obtains some of its key components from a limited number of core suppliers. Key components in the Industrial Trucks & Services segment include internal combustion engines, tyres and high-performance forged and electronic parts.

The risk of supply bottlenecks – for example in the event of a shortage of raw materials or financial difficulties at core suppliers – cannot be ruled out in future. The KION Group 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 improving suppliers' production processes, helps suppliers to ensure that their processes are cost-efficient and offer excellent quality.

Price changes present another procurement-related risk. In 2017, around 25 per cent of the cost of materials for new trucks was directly influenced by changes in commodity prices (2016: around 25 per cent). Moreover, conditions in the commodity markets typically affect component prices after a delay of three to six months. The KION Group endeavours to pass on price increases to customers but cannot always do so entirely due to market pressures.

Production risks

Production risks are largely caused by quality problems, possible disruptions to operational procedures or production downtime at individual sites. In such cases, the KION Group's closely integrated manufacturing network presents a heightened risk to its ability to deliver goods on time. There is also a risk that structural measures and reorganisation projects will not be implemented owing to disruption of production or strikes. Delays in delivery or a rise in the number of complaints could harm the KION Group's positioning in the price segments and sales markets that it serves and, as a result, could harm its financial situation.

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.

Risks arising from customer project business

In the customer project business, risks can arise from deviations from the schedule originally agreed with the customer, potentially leading to revenue and profit being recognised in subsequent years or, in isolated cases, contractual penalties having to be paid. Another possible risk is that the technology deviates from the promised specifications, which may result in additional completion costs. The long-term nature of individual projects can lead to cost increases over the term of the project that were not anticipated in the project costing and cannot be passed onto the customer.

To mitigate these risks in the Supply Chain Solutions segment, project management includes a comprehensive process of risk management. This involves detailed evaluation of the risks when defining the technical aspects of quotations plus financial risk provisioning based on the individual project specifications when preparing quotations. A multistage approval process based on an extensive list of criteria ensures that financial, country-specific, currency-specific and contractual risks are largely avoided.

The potential risks that may arise in the project realisation phase are analysed in every individual project using detailed continuous reviews based on the individual items of work that make up the project. This keeps potential risks to a minimum.

Sales risks

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. There have not been any significant cancellations in previous 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. Because of its customer project business, the Supply Chain Solutions segment generally has a greater dependence on individual sectors and individual customers than the Industrial Trucks & Services segment. Nevertheless, the concentration risk for the KION Group overall is still considered to be low. The business is highly diversified from a regional perspective. In addition, the KION Group supplies companies of all sizes. Experience has shown that the KION Group's exposure to the risk of possible payment defaults is low, but this risk can be further mitigated by recovering any collateral.

IT risks

A high degree of interconnectedness between sites and with customers and other companies means that the KION Group also relies on its IT systems working flawlessly. The KION Group undertakes ongoing further development of a reliable, extendable and flexible IT system environment with the aim of countering any IT-related risks that may arise from the failure of IT systems and IT infrastructure. Internal IT resources are pooled in the cross-segment KION IT function, which has well-established processes for portfolio management and project planning and control. Independent external audits are conducted to provide additional quality assurance. Various technical and organisational measures protect the data of the KION Group and the Group companies against unauthorised access, misuse and loss. These measures include procedures to validate and log access to the Group's infrastructure.

Financial risks

Group Treasury is responsible for ensuring that sufficient financial resources are always available for the KION Group's international growth. The main types of financial risk managed by Group Treasury, including risks arising from funding instruments, are liquidity risk, currency risk, interest-rate risk and counterparty risk. Counterparty risk consists solely of credit risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks.

Non-current financial liabilities fell by €864.3 million from their level at 31 December 2016 to reach €2,024.8 million at the end of 2017. As at 31 December 2017, the main financial liabilities classified as non-current were a promissory note with a volume of €1,010.0 million plus the amount of €1,000.0 million still outstanding under the bridge loan (AFA) following substantial repayments. The unused, unrestricted SFA loan facility stood at €965.3 million as at 31 December 2017. Risk arising out of the lending and promissory note conditions that have been agreed was not regarded as material as at 31 December 2017. It relates in particular to the restrictions in respect of compliance with financial covenants and upper limits for certain transactions and in respect of the obligation to submit special regular reports. The KION Group complied with all the obligations in this regard in the reporting year. Some of the Group's financing takes the form of floating-rate financial liabilities. Interest-rate swaps were entered into in 2017 in order to hedge the resultant interest-rate risk.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. The KION Group only uses derivatives to hedge underlying operational and financial transactions; they are not used for speculative purposes. It is exposed to currency risk because of the high proportion of its business conducted in currencies other than the euro. Normally, at least 75 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. 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.

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.

Goodwill and brand names represented 38.5 per cent of total assets as at 31 December 2017 (31 December 2016: 40.1 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.

The individual Group companies directly manage counterparty risks involving customers. These counterparty risks did not change significantly in 2017. Each individual Group company has established a credit management system for identifying customer-related counterparty risks at an early stage and initiating the necessary countermeasures. Analysis of the maturity structure of receivables is an integral element of monthly reporting.

Risks arising from financial services

The leasing activities of the Industrial Trucks & Services segment mean that the KION Group 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. The KION Group regularly assesses its aggregate 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 the KION Group's industrial trucks. In many cases, the residual values are based on remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the financial results in 2017. Groupwide 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 attaching to financial services by ensuring that most of its transactions and funding loans have matching maturities and by constantly updating its liquidity planning. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

In order to exclude currency risk, the KION Group 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 Group. The KION Group has not identified any material changes between 2016 and 2017. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. Furthermore, receivables management and credit risk management are refined on an ongoing basis. Besides the design of the business processes, these refinements also encompass the risk management and risk control processes.

Moreover, the KION Group mostly offers financial services indirectly via selected financing partners that bear the risks of the finance transaction. As far as these financial services are concerned, the KION Group bore the counterparty risk in under 3 per cent of cases (2016: 3 per cent).

Human resources risks and legal risks

The KION Group 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 the KION Group 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. The KION Group 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.

Any 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.

The legal risks arising from the KION Group'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 they 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. Further legal risk may arise as a result of the environmental restoration of sites that have been shut down in recent years, for example work required due to contamination. Any damage to the environment may lead to legal disputes and give rise to reputational risk.

The Company 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. In addition, interdisciplinary teams work on the avoidance of 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.

Owing to the KION Group's export focus, legal risk and reputational risk arise due to the numerous international and local export controls that apply. The Company mitigates these risks with a variety of measures. Consequently, export controls are an important part of the compliance activities carried out by the Group companies.

OPPORTUNITY REPORT

Principles of opportunity management

Opportunity management, like risk management, forms a central part of the Company's day-to-day management. In 2017, the aggregate opportunity position was largely unchanged compared with the previous year. Individual areas of opportunity are identified within the framework of the strategy process. Opportunities are determined and managed on a decentralised basis in line with the Group strategy.

There are monthly reports on the opportunity situation as part of the regular Group reporting process. As a result, the KION Group is in a position to ascertain at an early stage whether market trends, competitive trends or events within the Group require individual areas of opportunity to be re-evaluated. This may lead to reallocation of the budgets earmarked for the realisation of opportunities. Such decisions are made on the basis of the potential of the opportunity, drawing on empirical values. There is no management system for the evaluation of opportunities comparable to the system for risk management.

Categorisation of opportunities

'Opportunities' are understood as positive deviations from the expectations set out in the outlook relating to the economic situation and the KION Group's position. Opportunities are divided into three categories:

- Market opportunities describe the potential resulting from trends in the market and competitive environment and from the regulatory situation.
- Strategic opportunities are based on implementation of the Group's strategy. They may lead to positive effects that exceed planning assumptions.
- Business-performance opportunities arise in connection with operational activities along the value chain, such as restructuring or cost-cutting measures.

Opportunity situation

Market opportunities

The economy as a whole may perform better than expected in 2018. In addition, circumstances may occur in the wider market at any time – such as quality problems at competitors or the effects of consolidation – that increase demand for products from the KION Group brands. New, unforeseen regulatory initiatives could be launched, for example the tightening of health and safety regulations or emissions standards, that would push up demand for products offered by the KION Group brands. Average prices for procuring commodities over the year may be cheaper than anticipated. Medium- to long-term market opportunities are presented, in particular, by:

- growing demand for intralogistics products, solutions and services as a consequence of globalisation, industrialisation and fragmentation of supply chains as well as efficiency increases that are needed due to limited warehouse space and changing consumer requirements
- high demand for replacement investments, especially in developed markets
- the trend towards outsourcing service functions, particularly in the market for industrial trucks, and growth in demand for finance solutions
- increased use of industrial and warehouse trucks powered by electric motors – one of the KION Group's particular strengths
- growing demand for automation solutions and fleet management solutions in connection with the rapidly expanding e-commerce sector and the implementation of Industry 4.0 projects

Strategic opportunities

The positive impact of the strategic activities under the KION strategy is already largely reflected in the expectations regarding the KION Group's financial performance in 2018. Nevertheless, the individual activities could create positive effects that exceed expectations. There is also a possibility that new strategic opportunities that were not part of the planning may arise over the course of the year, for example in the form of acquisitions and strategic partnerships.

The KION Group's medium- to long-term strategic opportunities in the Industrial Trucks & Services segment arise, in particular, from:

- achievement of a leading global market and technology position with regard to truck automation and innovative drive technologies as an integral element of automated warehouse solutions
- a greater presence in the economy and volume price segments, particularly as a result of the systematic implementation of the segment-wide platform strategy
- further strengthening of its market-leading position in the EMEA region and achievement of a significant position in the Americas region, in particular by boosting its technological expertise, making greater use of shared modules and harnessing potential for cross-selling
- expansion of the service portfolio, including financial services, at every stage of the product lifecycle, taking advantage of the high number of trucks in use and the installed base of supply chain solutions

The KION Group's medium- to long-term strategic opportunities in the Supply Chain Solutions segment arise, in particular, from

- further consolidation of its position in the market for intralogistics solutions based on the growing acceptance of automation concepts,
- the advancing digitalisation and automation of production and supply chains, and
- strengthening of the market position in the EMEA region – above all, central and eastern Europe – by using the sales structures of Industrial Trucks & Services.

Business-performance opportunities

Business-performance opportunities arise firstly from ongoing activities to modernise and streamline the KION Group's production facilities and from the worldwide integration of the production network. By investing in new locations and expanding existing ones, products can be assembled nearer to the markets in which they are to be sold, economies of scale can be achieved across the Group and synergies can be leveraged. Secondly, activities are carried out under the KION strategy aimed at improving operational excellence in logistics, technology & product development and production and at lowering material and quality costs, for example by reducing the complexity of the product range.

The following may lead to an increase in profitability in the medium term:

- Ongoing efficiency increases at production sites may boost sales and improve the gross margin.
- Effective use of global development capacities may create synergies and economies of scale.
- Activities to improve operational excellence and lower costs may help the KION Group to achieve future growth with a disproportionately small rise in costs.

D

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Consolidated income statement

Consolidated income statement TABLE 039

in € million	Note	2017	2016
Revenue	[8]	7,653.6	5,587.2
Cost of sales		–5,699.1	–4,034.6
Gross profit		**1,954.5**	**1,552.6**
Selling expenses		–829.6	–662.4
Research and development costs		–137.0	–96.5
Administrative expenses		–456.8	–411.2
Other income	[9]	75.7	87.7
Other expenses	[10]	–71.1	–41.9
Profit (loss) from equity-accounted investments	[11]	13.6	6.5
Earnings before interest and taxes		**549.4**	**434.8**
Financial income	[12]	132.2	88.9
Financial expenses	[13]	–213.3	–184.5
Net financial expenses		**–81.1**	**–95.7**
Earnings before taxes		**468.3**	**339.2**
Income taxes	[14]	**–41.9**	**–93.1**
Current taxes		–184.9	–86.2
Deferred taxes		143.0	–6.9
Net income		**426.4**	**246.1**
Attributable to shareholders of KION GROUP AG		424.8	245.5
Attributable to non-controlling interests		1.6	0.5
Earnings per share according to IAS 33 (in €)	[16]		
Basic earnings per share		3.72	2.38
Diluted earnings per share		3.71	2.38

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income TABLE 040

in € million	Note	2017	2016
Net income		**426.4**	**246.1**
Items that will not be reclassified subsequently to profit or loss		**19.7**	**–50.4**
Gains / losses on defined benefit obligation	[29]	18.7	–50.1
thereof changes in unrealised gains and losses		26.7	–66.9
thereof tax effect		–8.0	16.7
Changes in unrealised gains and losses from equity-accounted investments		1.0	–0.2
Items that may be reclassified subsequently to profit or loss		**–302.5**	**68.9**
Impact of exchange differences*		–315.2	70.5
thereof changes in unrealised gains and losses		–315.2	70.5
Gains / losses on hedge reserves	[40]	3.7	–1.7
thereof changes in unrealised gains and losses		11.6	21.8
thereof realised gains (–) and losses (+)		–5.5	–24.0
thereof tax effect		–2.4	0.4
Gains/losses on available-for-sale financial instruments		8.4	–
thereof changes in unrealised gains and losses		8.5	–
thereof tax effect		–0.1	–
Gains / losses from equity-accounted investments		0.6	0.1
thereof changes in unrealised gains and losses		0.6	0.1
Other comprehensive loss (income)		**–282.8**	**18.5**
Total comprehensive income		**143.6**	**264.6**
Attributable to shareholders of KION GROUP AG		142.5	264.6
Attributable to non-controlling interests		1.1	–0.1

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated statement of financial position

Consolidated statement of financial position – Assets TABLE 041

in € million	Note	2017	2016
Goodwill*	[17]	3,382.5	3,572.9
Other intangible assets*	[17]	2,333.9	2,602.7
Leased assets	[18]	522.3	429.7
Rental assets	[19]	651.4	575.3
Other property, plant and equipment*	[20]	676.9	678.3
Equity-accounted investments	[21]	80.3	72.7
Lease receivables	[22]	647.8	531.3
Other financial assets	[23]	57.1	47.5
Other assets	[24]	24.2	12.3
Deferred taxes*	[14]	370.5	419.8
Non-current assets*		**8,746.9**	**8,942.4**
Inventories	[25]	768.6	672.4
Trade receivables	[26]	1,094.1	998.9
Lease receivables	[22]	228.0	200.3
Income tax receivables	[14]	14.4	35.2
Other financial assets	[23]	119.0	82.0
Other assets	[24]	84.3	86.2
Cash and cash equivalents	[27]	173.2	279.6
Current assets		**2,481.5**	**2,354.6**
Total assets*		**11,228.4**	**11,297.0**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated statement of financial position – Equity and liabilities

TABLE 042

in € million	Note	2017	2016
Subscribed capital		117.9	108.6
Capital reserve		3,034.0	2,444.4
Retained earnings		521.3	183.4
Accumulated other comprehensive loss*		–528.8	–246.4
Non-controlling interests		4.4	5.7
Equity*	[28]	**3,148.8**	**2,495.7**
Retirement benefit obligation	[29]	1,002.7	991.0
Non-current financial liabilities	[30]	2,024.8	2,889.1
Lease liabilities	[31]	798.2	722.0
Other non-current provisions	[32]	95.6	92.3
Other financial liabilities	[34]	407.8	349.3
Other liabilities	[35]	235.7	202.8
Deferred taxes*	[14]	665.2	882.5
Non-current liabilities*		**5,230.0**	**6,128.9**
Current financial liabilities	[30]	243.9	293.9
Trade payables	[33]	923.9	802.2
Lease liabilities	[31]	332.9	285.2
Income tax liabilities	[14]	82.6	63.0
Other current provisions	[32]	149.0	163.4
Other financial liabilities	[34]	296.7	222.6
Other liabilities	[35]	820.7	842.1
Current liabilities		**2,849.6**	**2,672.5**
Total equity and liabilities*		**11,228.4**	**11,297.0**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated statement of cash flows

Consolidated statement of cash flows TABLE 043

in € million	Note	2017	2016
Earnings before interest and taxes		**549.4**	**434.8**
Amortisation, depreciation and impairment charges of non-current assets	[15]	636.4	454.7
Other non-cash income (–)/expenses (+)		24.6	45.0
Gains (–)/losses (+) on disposal of non-current assets		–0.2	1.7
Changes in leased assets (excluding depreciation) and lease receivables/liabilities	[18], [22], [31]	–143.6	–120.4
Change in rental assets (excluding depreciation) and liabilities for Finance Leases	[19], [34]	–205.8	–158.2
Change in net working capital*		–109.6	–28.6
Cash payments for defined benefit obligations	[29]	–28.2	–20.6
Change in other provisions	[32]	–4.0	4.7
Change in other operating assets/liabilities		33.2	–90.0
Taxes paid		–136.3	–108.7
Cash flow from operating activities	[37]	**615.8**	**414.3**
Cash payments for purchase of non-current assets	[37]	–218.3	–166.7
Cash receipts from disposal of non-current assets	[37]	4.0	6.4
Dividends received		9.3	9.6
Acquisition of subsidiaries (net of cash acquired) and other equity investments	[5], [37]	–13.3	–2,118.7
Cash receipts/payments for sundry assets		–19.3	5.0
Cash flow from investing activities	[37]	**–237.6**	**–2,264.3**

Consolidated statement of cash flows (continued)

TABLE 043

in € million	Note	2017	2016
Capital contribution from shareholders for the carried out capital increase	[37]	598.6	456.7
Capital increase from issuing of employee shares	[28]	2.3	3.2
Acquisition of treasury shares		–4.3	–2.8
Dividend of KION GROUP AG		–86.9	–76.0
Dividends paid to non-controlling interests		–2.7	–2.1
Cash receipts/payments for changes in ownership interests in subsidiaries without change of control		0.5	0.3
Financing costs paid	[37]	–7.4	–23.2
Proceeds from borrowings	[37]	2,425.3	4,362.5
Repayment of borrowings	[37]	–3,340.0	–2,618.5
Interest received		7.5	8.0
Interest paid	[37]	–58.1	–76.3
Cash receipts/payments from other financing activities		–7.3	–5.5
Cash flow from financing activities	[37]	**–472.5**	**2,026.3**
Effect of foreign exchange rate changes on cash and cash equivalents		–12.2	0.2
Change in cash and cash equivalents		**–106.4**	**176.5**
Cash and cash equivalents at the beginning of the year	[37]	279.6	103.1
Cash and cash equivalents at the end of the year	[37]	173.2	279.6

* Net working capital comprises inventories, trade receivables and unbilled construction contracts (net) less trade payables and advances received

Consolidated statement of changes in equity

Consolidated statement of changes in equity

in € million	Note	Subscribed capital	Capital reserves	Retained earnings
Balance as at 01/01/2016		**98.7**	**1,996.6**	**11.3**
Net income for the year				245.5
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		**0.0**	**0.0**	**245.5**
Dividend of KION GROUP AG	[28]			–76.0
Capital increase	[28]	9.9	449.4	
Transaction costs	[28]		–2.0	
Dividends paid to non-controlling interests				
Acquisition of treasury shares	[28]	–0.1	–2.7	
Changes from employee share option programme	[28]	0.0	3.2	
Effects from the acquisition / disposal of non-controlling interests	[28]			
Other changes				2.6
Balance as at 31/12/2016		**108.6**	**2,444.4**	**183.4**
Balance as at 01/01/2017		**108.6**	**2,444.4**	**183.4**
Net income for the year				424.8
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		**0.0**	**0.0**	**424.8**
Dividend of KION GROUP AG	[28]			–86.9
Capital increase	[28]	9.3	593.6	
Transaction costs	[28]		–3.0	
Dividends paid to non-controlling interests	[28]			
Acquisition of treasury shares	[28]	–0.1	–4.3	
Changes from employee share option programme	[28]	0.1	3.2	
Effects from the acquisition / disposal of non-controlling interests	[28]			
Balance as at 31/12/2017		**117.9**	**3,034.0**	**521.3**

TABLE 044

Accumulated other comprehensive income (loss)							
Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on hedge reserves	Gains/losses on available-for-sale financial instruments	Gains/losses from equity-accounted investments	Equity attributable to shareholders of KION GROUP AG	Non-controlling interests	Total
–11.4	**–251.9**	**–0.2**	**0.0**	**–2.0**	**1,841.0**	**7.7**	**1,848.7**
					245.5	0.5	246.1
71.0	–50.1	–1.7		–0.1	19.1	–0.6	18.5
71.0	**–50.1**	**–1.7**	**0.0**	**–0.1**	**264.6**	**–0.1**	**264.6**
					–76.0	0.0	–76.0
					459.3	0.0	459.3
					–2.0	0.0	–2.0
					0.0	–2.1	–2.1
					–2.8	0.0	–2.8
					3.2	0.0	3.2
					0.0	0.2	0.2
					2.6	0.0	2.6
59.7	**–302.0**	**–1.9**	**0.0**	**–2.2**	**2,490.0**	**5.7**	**2,495.7**
59.7	**–302.0**	**–1.9**	**0.0**	**–2.2**	**2,490.0**	**5.7**	**2,495.7**
					424.8	1.6	426.4
–314.8	18.7	3.7	8.4	1.6	–282.4	–0.5	–282.8
–314.8	**18.7**	**3.7**	**8.4**	**1.6**	**142.5**	**1.1**	**143.6**
					–86.9	0.0	–86.9
					602.9	0.0	602.9
					–3.0	0.0	–3.0
					0.0	–2.7	–2.7
					–4.3	0.0	–4.3
					3.3	0.0	3.3
					0.0	0.2	0.2
–255.1	**–283.3**	**1.8**	**8.4**	**–0.6**	**3,144.4**	**4.4**	**3,148.8**

Notes to the consolidated financial statements

Basis of presentation

[1] GENERAL INFORMATION ON THE COMPANY

KION GROUP AG, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, is entered in the commercial register at the Wiesbaden local court under reference HRB 27060. The Company has had a new business address since November 2017: Thea-Rasche-Strasse 8, 60549 Frankfurt am Main, Germany.

Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China, is the company that prepares the global consolidated financial statements for the largest number of affiliated companies. These consolidated financial statements are not publicly available.

Weichai Power Co., Ltd., Weifang, People's Republic of China, is the company that prepares the global consolidated financial statements for the smallest number of affiliated companies. These are available in English on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the company (www.weichaipower.com).

The KION Group is a global leader in industrial trucks, warehouse technology, related services and supply chain solutions. In 2017, the Group's approximately 32,000 highly skilled employees generated €7,653.6 million in revenue (2016: €5,587.2 million).

The consolidated financial statements and the combined group management report and management report of the Company were prepared by the Executive Board of KION GROUP AG on 21 February 2018.

[2] BASIS OF PREPARATION

The consolidated financial statements of the KION Group for the financial year ended 31 December 2017 have been prepared in accordance with section 315e of the German Commercial Code (HGB) in conjunction with the 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 had been enacted by the reporting date and that were required to be applied in the 2017 financial year have been applied in preparing the consolidated financial statements.

In order to improve the clarity of presentation, certain items are aggregated in the statement of financial position and the income statement. The items concerned are disclosed and explained separately in the notes. Assets and liabilities are broken down 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 consolidated financial statements are prepared in euros, which is the Group's functional currency and reporting currency. All amounts are disclosed in millions of euros (€ million) unless stated otherwise. The addition of the totals presented may result in minor rounding differences. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros. The separate financial statements of the subsidiaries included in the consolidation were prepared as at the same reporting date as the annual financial statements of KION GROUP AG.

Financial reporting standards to be adopted for the first time in the current financial year

The following financial reporting standards were adopted for the first time in 2017:

- Amendments to IFRS 12 'Disclosure of Interests in Other Entities': amendments in connection with the annual improvements to IFRSs (2014–2016)
- Amendments to IAS 7 'Statement of Cash Flows': amendments in connection with the disclosure initiative
- Amendments to IAS 12 'Income Taxes': amendments relating to the recognition of deferred tax assets for unrealised losses on available-for-sale financial assets.

The first-time adoption of these amendments to standards has had no significant effect on presentation of the financial performance, financial position or notes to the financial statements of the KION Group. To provide a more detailed overview of the KION Group's financing-related incoming and outgoing payments, a reconciliation of liabilities arising from financing activities in the current reporting period has been added in note [37] in connection with improvements to the disclosure requirements.

Financial reporting standards released but not yet adopted

In its consolidated financial statements for the year ended 31 December 2017, the KION Group has not applied the following standards and interpretations, which have been issued by the IASB but were not yet required to be adopted in 2017:

- Amendments to IFRS 2 'Share-based Payment': amendments relating to the classification and measurement of share-based payment transactions
- Amendments to IFRS 4 'Insurance Contracts': exempting provisions relating to the adoption of IFRS 9 'Financial Instruments' before the effective date of the new version of IFRS 4
- IFRS 9 'Financial Instruments'
- Amendments to IFRS 9 'Financial Instruments': amendments relating to the classification of particular prepayable financial assets
- IFRS 15 'Revenue from Contracts with Customers'
- Clarifications to IFRS 15 'Revenue from Contracts with Customers': amendments relating to the identification of performance obligations, classification as principal or agent, revenue from licences and transition relief
- IFRS 16 'Leases'
- IFRS 17 'Insurance Contracts'
- Amendments to IAS 19 'Employee Benefits': amendments in connection with the remeasurement of net defined benefit liabilities resulting from plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures': amendments in connection with the annual improvements to IFRSs (2014–2016)
- Amendments to IAS 28 'Investments in Associates and Joint Ventures': clarification relating to the accounting treatment of long-term interests that form part of the net investment in the associate or joint venture
- Amendments to IAS 40 'Investment Property': clarification in relation to transfers of property to, or from, investment property
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to IFRSs (2015–2017).

These standards and interpretations are expected to be applied by the entities included in the KION Group only from the date of mandatory initial application. An exception is IFRS 16 'Leases', which because of its interactions with IFRS 15 'Revenue from Contracts with Customers' is being adopted early, on 1 January 2018.

For the majority of financial assets, the new classification rules in IFRS 9 do not require any change to the respective measurement model. However, the first-time adoption of IFRS 9 primarily results in changes to the subsequent measurement of financial assets. The KION Group applies the simplified impairment approach of IFRS 9 for the majority of financial assets and thus recognises lifetime expected losses. As a result of the new impairment model, which is based on expected losses, the KION Group expects the loss allowance recognised for counterparty risks to be reduced by between €25.0 million and €35.0 million. The KION Group is adopting IFRS 9 for the first time from 1 January 2018; as permitted under the applicable transitional provisions, the prior-year figures will not be restated. Furthermore, it is expected that all existing hedging relationships will also satisfy the requirements in IFRS 9 regarding hedge accounting. The amended hedge accounting requirements are applied prospectively.

Based on the analysis of the implications of the first-time adoption of IFRS 15 as at the transition date, it is expected that the revenue recognition pattern (point in time vs. over time) for the vast majority of today's new business and service business contracts as well as construction contracts will not change. In the Supply Chain Solutions segment, KION expects that revenue will have to be recognised later for only a few, individual construction contracts currently accounted for by the percentage-of-completion method in accordance with IAS 11, because the IFRS 15 criteria for revenue recognition over time are not met. The resulting effect on the financial position of the KION Group is expected to be less than €50.0 million and for the financial performance insignificant. The KION Group is adopting IFRS 15 retrospectively for the first time with effect from 1 January 2018 and is restating the prior-year figures accordingly. Overall, there is no material impact on retained earnings as at 1 January 2017.

Analysis of the first-time adoption of IFRS 16 indicates that, as at the transition date, all off-balance procurement leases that were previously recognised as operating leases must in future be recorded in the statement of financial position as a right of use asset plus a corresponding lease liability. This will result in additional right of use assets of between €240.0 million and €280.0 million as well as liabilities from procurement leases of between €260.0 million and €300.0 million. Moreover, in relation to indirect end customer financing, the application of IFRS 15 and IFRS 16 is expected to result in a not insignificant proportion of such transactions – previously regarded as sales transactions – being categorised as leases in future. In particular, this will cause leased assets to rise by between €660.0 million and €720.0 million. Correspondingly, there will be additional residual-value liabilities of between €290.0 million and €350.0 million as well as deferred revenues of between €520.0 million and €580.0 million. The KION Group is adopting IFRS 16 retrospectively for the first time with effect from 1 January 2018; it will restate the prior-year figures in accordance with the pertinent transitional provisions. As a result of retrospective adoption, the decrease in retained earnings as at 1 January 2017 is likely to be in the region of €145.0 million to €195.0 million.

The effects of the first-time adoption of the other aforementioned standards and interpretations on the presentation of the financial position and financial performance of the KION Group are expected to be immaterial.

[3] PRINCIPLES OF CONSOLIDATION

Acquisitions are accounted for using the acquisition method. In accordance with IFRS 3, 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 acquisition cost, 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 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. KION GROUP AG recognises non-controlling interests at the proportionate value of the net assets attributable to them excluding goodwill.

In the case of business combinations in stages, previously held equity interests are recognised at their fair value at 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 taken to income. 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 category, changes in their fair value are included in subsequent measurements.

The consolidated financial statements include all of the parent company's material 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 arising from consolidation transactions.

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 equity. Gains and losses arising from the sale of non-controlling interests are also recognised in equity, provided there is no change in control.

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

[4] BASIS OF CONSOLIDATION

KION GROUP AG's equity investments include subsidiaries, joint ventures, associates and financial investments.

In addition to KION GROUP AG, the consolidated financial statements of the KION Group include, using the acquisition method, all material subsidiaries over which KION GROUP AG exercises control. KION GROUP AG controls a subsidiary if it has decision-making power over the main activities of the entity and can use this power to affect the amount of the variable returns to which it is exposed as a result of the equity investment. Subsidiaries acquired in the course of the financial year are consolidated from the date on which control 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 on the basis of a contractual agreement, and these parties have rights to the net assets of the joint venture.

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 GROUP AG holds between 20 per cent and 50 per cent of the voting rights.

Equity interests over which KION GROUP companies are unable to exercise control or a significant influence, or that are not jointly controlled by them, are classified as financial investments.

The number of equity investments broken down by category is shown in > TABLE 045.

Shareholdings by categories TABLE 045

	01/01/2017	Additions	Disposals	31/12/2017
Consolidated subsidiaries	**139**	**7**	**8**	**138**
Domestic	25	1	2	24
Foreign	114	6	6	114
Equity-accounted associates and joint ventures	**9**	**–**	**–**	**9**
Domestic	5	–	–	5
Foreign	4	–	–	4
Non-consolidated subsidiaries and other investments	**60**	**3**	**7**	**56**
Domestic	13	3	1	15
Foreign	47	–	6	41

A total of 24 German (2016: 25) and 114 foreign (2016: 114) subsidiaries were fully consolidated in addition to KION GROUP AG as at 31 December 2017.

In connection with the integration of Egemin and Retrotech into Dematic, a total of five subsidiaries were merged into other subsidiaries and were therefore no longer included in the basis of consolidation. KION Supply Chain Solutions Czech, s.r.o., Český Krumlov, Czech Republic, was founded in January 2017 and will start manufacturing modules for Dematic's automated conveyor systems from early 2018.

As had been the case a year earlier, nine joint ventures and associates were accounted for under the equity method as at 31 December 2017. In each case, the last available annual financial statements were used as the basis for measurement.

Equity investments in 56 (2016: 60) companies with minimal business volumes or no business operations were generally recognised at amortised cost. This includes the start-up Comnovo GmbH, which was acquired by Linde Material Handling GmbH in July 2017. The financial investment in Balyo SA is measured at fair value due to Balyo's IPO in 2017.

These non-consolidated subsidiaries and other equity investments (joint ventures and associates that are not accounted for using the equity method, plus financial investments) are of minor importance to the presentation of the financial position and financial performance of the KION Group, both individually and as a whole.

Where other requirements are met, the fully consolidated companies listed in > TABLE 046 are exempt from the obligation to disclose annual financial statements and to prepare notes to the financial statements and management reports in accordance with sections 264 (3) and 264b HGB on account of their inclusion in the consolidated financial statements. In the case of STILL Financial Services GmbH, it has been decided solely not to disclose the annual financial statements.

A detailed overview of all the direct and indirect shareholdings of KION GROUP AG is shown in the list of shareholdings (note [47]).

German entities exempted from disclosure requirements

TABLE 046

Entities exempted	Head office
BlackForxx GmbH	Stuhr
Eisenwerk Weilbach GmbH	Wiesbaden
Fahrzeugbau GmbH Geisa	Geisa
KION Financial Services GmbH	Wiesbaden
KION Information Management Services GmbH	Frankfurt am Main
KION Warehouse Systems GmbH	Reutlingen
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Linde Material Handling GmbH	Aschaffenburg
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg
LR Intralogistik GmbH	Wörth an der Isar
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
STILL Financial Services GmbH	Hamburg
STILL Gesellschaft mit beschränkter Haftung	Hamburg
Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim

[5] ACQUISITIONS

Dematic purchase price allocation

The purchase price allocation for the acquisition of DH Services Luxembourg Holding S.à r.l., Luxembourg, on 1 November 2016 that was recognised in the consolidated financial statements of KION GROUP AG as at 31 December 2016 was provisional.

As part of the finalisation of the purchase price allocation (PPA) for the acquisition of Dematic in the third quarter of 2017, the intangible assets were allocated to individual companies. This adjustment resulted in a reduction of deferred tax liabilities and a corresponding decline of €13.1 million in goodwill.

As a result of the retrospective restatement of the purchase price allocation as at 1 November 2016, adjustments were also made to the carrying amounts as at 31 December 2016. These adjustments are presented in > TABLE 047.

Currency translation effects as at 31 December 2016 fell by a total of €39.4 million because goodwill and other intangible assets had been allocated to individual companies for the purposes of foreign currency translation. The retrospective adjustments to the purchase price allocations did not have a material impact on the KION Group's consolidated income statement.

Other acquisitions

With effect from 3 October 2017, the remaining share capital and voting rights (75.0 per cent) in Nordtruck AB, Örnsköldsvik, Sweden, were acquired. The purchase consideration for these shares was €4.8 million. Remeasurement of the investment of 25.0 per cent previously held, which had been recognised at cost, resulted in a fair value of €1.6 million. The difference of €1.5 million resulting from remeasurement was taken to income and recognised in the consolidated income statement under other income.

Furthermore, the remaining share capital and voting rights (50.0 per cent) in Eisengiesserei Dinklage GmbH, Dinklage, Germany, were acquired with effect from 15 November 2017. The purchase consideration for these shares was €2.4 million. Remeasurement of the investment of 50.0 per cent previously held, which had been recognised at cost, resulted in a fair value of €2.4 million. The difference of €0.9 million resulting from remeasurement was taken to income and recognised in the consolidated income statement under other income.

Consolidated statement of financial position TABLE 047

in € million	31/12/2016 Before Adjustments	Adjustment Purchase price allocation Dematic	Effects from exchange differences	31/12/2016 After Adjustments
Assets				
Goodwill	3,605.8	–13.1	–19.8	3,572.9
Other intangible assets	2,630.9	0.0	–28.2	2,602.7
Other property, plant and equipment	679.1	–	–0.8	678.3
Deferred taxes	420.2	–0.3	–0.1	419.8
Equity and liabilities				
Accumulated other comprehensive income	–207.0	–	–39.4	–246.4
Deferred taxes	905.3	–13.3	–9.5	882.5

Impact of the other acquisitions on the financial position of the KION Group TABLE 048

in € million	Fair value at the acquisition date
Goodwill	9.5
Other property, plant and equipment	3.7
Leased/Rental assets	1.0
Lease receivables	7.3
Trade receivables	3.8
Cash and cash equivalents	0.3
Other assets	5.2
Total assets	**30.7**
Financial liabilities	4.0
Lease liabilities	7.9
Trade payables	3.6
Other liabilities	4.1
Total liabilities	**19.6**
Total net assets	**11.1**
Cash payment	7.2
Consideration transferred	**7.2**
Previously held share of equity	4.0
Total	**11.1**

The impact of these acquisitions on the consolidated financial statements of KION GROUP AG based on the figures available at their acquisition dates is shown in > TABLE 048.

The goodwill constitutes the strategic, technological and geographical synergies that the KION Group expects to derive from these business combinations. None of the goodwill arising from the other acquisitions is currently tax deductible. The goodwill derived from Nordtruck AB is assigned to the LMH EMEA Operating Unit, while that derived from Eisengiesserei Dinklage GmbH is assigned to the STILL EMEA Operating Unit.

The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated statement of cash flows contains a net cash outflow totalling €6.9 million for these transactions.

The purchase price allocations for the other acquisitions presented were considered provisional as at 31 December 2017 because some details, particularly the measurement of intangible assets, provisions and leases, had not yet been fully evaluated. In addition, the deferred taxes should be considered provisional.

[6] CURRENCY TRANSLATION

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 an entity operates. The modified 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. 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 taken to income and are recognised in other comprehensive income (loss) until subsidiaries are disposed of.

The financial statements of foreign equity-accounted investments are also translated using the method described above.

Transactions of the consolidated entities 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 taken to income and recognised in other income/expenses or in net financial income / expenses.

The translation rates used for currencies that are material to the financial statements are listed in > TABLE 049.

[7] ACCOUNTING POLICIES

The accounting policies applied in these consolidated financial statements are, besides the aforementioned accounting policies to be adopted for the first time in 2017, fundamentally the same as those used for the year ended 31 December 2016. These consolidated financial statements are based on the financial statements of the parent company and its consolidated subsidiaries prepared in accordance with the standard accounting policies applicable throughout the KION Group.

Revenue recognition

Revenue is the fair value of the consideration received for the sale of products and services and rental 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

Major foreign currency rates in € TABLE 049

	Average rate		Closing rate	
	2017	2016	2017	2016
Australia (AUD)	1.4734	1.4884	1.5372	1.4597
Brazil (BRL)	3.6090	3.8560	3.9785	3.4288
China (CNY)	7.6292	7.3501	7.8024	7.3382
United Kingdom (GBP)	0.8764	0.8193	0.8881	0.8535
U.S.A. (USD)	1.1300	1.1069	1.2005	1.0517

that a future economic benefit will accrue to the entity and that it can be reliably measured. Other criteria may arise, depending on each individual transaction, such as:

Sale of goods

Revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the risks and rewards incidental to the ownership of the goods sold are substantially transferred to the customer and the flow of benefits to the Group is considered to be sufficiently 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.

Rendering of services

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 progressive costs (constant margin).

Revenue from financial service transactions is recognised in the amount of the sale 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. If industrial trucks are first sold to and then leased back from a finance partner to refinance leases, the selling margin in connection with an operating lease sub-lease is deferred and recognised as revenue in profit or loss over the term of the refinancing. In addition, as part of the financial services provided by the Group, industrial trucks are sold to finance partners who enter into leases directly with the end customer ('indirect end customer finance'). If significant risks and rewards remain with KION Group companies 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 customer default guarantee ('sale with risk'), 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.

Construction contracts

Revenue from construction contracts is recognised according to the stage of completion (percentage-of-completion method).

Interest income and royalties

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.

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, amortisation expense on capitalised development costs and certain intangible assets, and 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.

Financial income and expenses

Financial income and expenses mainly consist of interest expenses on financial liabilities, interest income from financial receivables, interest income from leases and the interest cost on leases, exchange rate gains and losses on financial activities and the net interest cost of the defined benefit obligation.

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.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the consolidated income statement under other income, provided they are dividends from subsidiaries carried at cost.

Goodwill

Goodwill has an indefinite useful life and is therefore 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 for goodwill 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 goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments. The 2017 forecast, the budget for 2018, the medium-term planning for 2019 to 2020 and the KION Group's internal projections for 2021 to 2022 were drawn up on the basis of this reporting structure.

The CGUs identified for the purposes of testing goodwill and brand names for impairment equate to the Operating Units LMH EMEA, STILL EMEA, KION APAC, KION Americas in the segment Industrial Trucks & Services and Dematic in the segment Supply Chain Solutions.

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 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. Cash flows beyond the five-year planning horizon were extrapolated for the LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic CGUs using a growth rate of 0.5 per cent (2016: 0.5 per cent).

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.

Yield curve data from the European Central Bank (three-month average, rounded) was used to determine the risk-free interest rate; as at 1 November 2017, the rate was 1.25 per cent (1 November 2016: 0.6 per cent). The market risk premium derived from empirical studies of the capital markets was set at 6.75 per cent (2016: 7.0 per cent) and was within the band recommended by the technical committee for business valuation and administration (FAUB) of the German Institute of Auditors (IDW), which is 5.5 per cent to 7.0 per cent.

The implied return on equity was 8.0 per cent, which was slightly higher than in the previous year (2016: 7.6 per cent). The mark-up for the assumed country risk was 0.16 per cent for the LMH EMEA CGU (2016: 0.16 per cent), 0.19 per cent for the STILL EMEA CGU (2016: 0.21 per cent), 0.85 per cent for the KION APAC CGU (2016: 0.78 per cent), 1.62 per cent for the KION Americas CGU (2016: 1.67 per cent) and 0.11 per cent for the Dematic CGU (2016: 0.15 per cent).

The underlying capital structure for the LMH EMEA, STILL EMEA, KION APAC and KION Americas CGUs is determined by comparing peer group companies in the same sector. The beta factor derived from this peer group was 1.05 (2016: 1.00). A leverage ratio of 26.8 per cent (2016: 25.8 per cent) was calculated based on the capital structure determined for the peer group. Based on a sector-specific peer group, a leveraged beta of 0.89 (2016: 0.88) and a leverage ratio of 0.0 per cent (2016: 1.8 per cent) were used for the Dematic CGU.

The WACC before tax, which is used to discount the estimated cash flows, was calculated at 9.3 per cent for LMH EMEA, 9.3 per cent for STILL EMEA, 8.9 per cent for KION APAC, 11.7 per cent for KION Americas and 9.8 per cent for Dematic. The WACC after tax was 6.6 per cent for LMH EMEA, 6.7 per cent for STILL EMEA, 7.6 per cent for KION APAC, 7.8 per cent for KION Americas and 7.6 per cent for Dematic.

The impairment test carried out in the fourth quarter of 2017 did not reveal any need to recognise impairment losses for the existing goodwill recognised for the LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic CGUs. Using sensitivity analysis, it was determined that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits, in particular variations in WACC of plus or minus 100 basis points.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at historical 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 less costs to sell. If the reasons for recognising impairment losses in the past no longer apply, the relevant impairment losses are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its amortised cost.

Other intangible assets with an indefinite useful life are carried at cost and are 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 and uses the same assumptions. Assessments of indefinite useful life are carried out in every period.

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 likelihood that the intangible asset will 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 non-qualifying development costs are expensed as incurred and reported in the income statement under research and development costs together with research costs.

Amortisation of intangible assets with a finite useful life is recognised on a straight-line basis and, with the exception of the amortisation expense on capitalised development costs, is reported under functional costs. The impairment losses on intangible assets are reported under other expenses.

The useful lives shown in > TABLE 050 are applied in determining the carrying amounts of other intangible assets.

Useful life of other intangible assets TABLE 050

	Years
Customer relationships / client base	4–15
Technology	10–15
Development costs	5–7
Patents and licences	3–15
Software	2–10

Leases / short-term rentals

KION Group entities lease industrial trucks and related items of equipment 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).

Entities 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 rentals and leases are classified as operating leases, again in accordance with IAS 17.

If a KION Group entity enters into a finance lease as the lessor, the future lease payments to be made by the customer 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 beneficial ownership of leased assets remains with a KION Group entity as the lessor under an operating lease, the assets are reported as leased assets in a separate item in the statement of financial position. The leased assets are carried at cost and depreciated on a straight-line basis over the term of the underlying leases.

To fund leases, industrial trucks are generally sold to leasing companies. The industrial trucks are then leased back to entities in the Industrial Trucks & Services segment (head lease), who sub-lease them to external end customers (described below as 'sale and leaseback sub-leases'). If, in the case of sale and leaseback sub-leases, the risks and rewards incidental to the head lease are substantially borne by entities in the Industrial Trucks & Services segment, the corresponding assets are reported as leased assets within non-current assets. These leased assets are reported in the statement of financial position at the lower of the present value of the minimum lease payments and fair value. However, if substantially the risks and rewards incidental to the head lease are transferred to the end customer, a corresponding lease receivable is recognised. In both cases, the funding items for these long-term customer leases, which are funded for terms that match those of the leases, 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 the trucks having been sold ('sale with risk').

In the case of short-term rentals, entities in the Industrial Trucks & Services segment rent industrial trucks to end customers directly. Short-term rental agreements usually have a term of one day to one year. The risks and rewards remain substantially with the entities in the Industrial Trucks & Services segment. The industrial trucks are carried at cost and depreciated on a straight-line basis over the normal useful life of between five and seven years, depending on the product group. If a sale-and-leaseback arrangement is in place for refinancing purposes, the assets are reported in the statement of financial position at the lower of the present value of the minimum rental payments and fair value.

In an indirect end customer finance arrangement, industrial trucks are sold to finance partners who enter into leases with end customers. If entities in the Industrial Trucks & Services segment provide residual value guarantees on a significant scale or provide a customer default guarantee ('sale with risk'), these transactions, which are classified as sale agreements under civil law, are recognised in accordance with the provisions relating to lessors with operating leases in conjunction with 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 written down to their guaranteed residual value, or zero, on a straight-line basis over the period until the residual value guarantee or the customer default guarantee expires. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under other financial liabilities.

Other property, plant and equipment

Property, plant and equipment is 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, provided the relevant requirements are met. 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 2017.

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

The useful lives below are applied in determining the carrying amounts of items of property, plant and equipment. > TABLE 051

KION Group companies also lease property, plant and equipment for their own use through 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 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 impairment losses on property, plant and equipment are reported under other expenses.

If the recoverable amount is calculated on the basis of 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, the relevant impairment losses are reversed, but

Useful life of other property, plant and equipment TABLE 051

	Years
Buildings	10–50
Plant and machinery	3–15
Office furniture and equipment	2–15

subject to a limit such that the carrying amount of the asset is no higher than its amortised cost. 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. Subsequently, the carrying amount of the equity investment is adjusted in line with any changes to the KION Group's interest in the net assets of the investee. 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.

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. The carrying amount of the asset is compared with its recoverable amount. If the carrying amount is greater than the recoverable amount, an impairment loss is recognised for the equity investment.

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 have been recognised on some loss carryforwards and interest carryforwards.

Deferred taxes are determined on the basis of the tax rates that will apply at the recovery date, or have been announced, 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. 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. If the reasons for the recognition of the write-downs no longer apply, they are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its cost.

Construction contracts

Receivables and revenue from construction contracts are recognised according to the stage of completion (percentage-of-completion method). The percentage of completion is the proportion of contract costs incurred up to the reporting date compared to the total estimated contract costs as at the reporting date (cost-to-cost method). Under the percentage-of-completion method, construction contracts are measured at the amount of the contract costs incurred to date plus the pro rata profit earned according to the percentage of completion. If it is probable that the total contract costs will exceed the contract revenue, the expected loss is immediately recognised as an expense in the financial year in which the loss becomes apparent. If the contract costs incurred and the profit and loss recognised exceed the progress billings, the excess is recognised as an asset under trade receivables (see note [26]). If the progress billings exceed the capitalised costs and recognised profit and loss, the excess is recognised as a liability under other liabilities (see note [35]).

If the outcome of a construction contract cannot be reliably estimated, the likely achievable revenue is recognised up to the amount of the costs incurred. Contract costs are recognised as an expense in the period in which they are incurred. Variations in the contract work, claims and incentive payments are recognised if they are likely to result in revenue and their amount can be reliably estimated.

Trade receivables

In the first period in which they are recognised, trade receivables 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash, credit balances with banks and current financial assets that can be transformed into cash at any time and are only subject to a minor level of volatility.

Other financial assets

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

The KION Group differentiates between financial assets held for trading at fair value through profit or loss (FAHfT), available for sale financial assets (AfS) and financial assets classified as loans and receivables (LaR).

The FAHfT category contains derivative financial instruments that do not form part of a formally documented hedge. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories.

Available-for-sale financial assets (AfS) are carried at fair value. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised. Equity investments for which no market price is available are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted valuation techniques. At present there is no intention to sell these financial instruments.

In the first period in which they are recognised, financial assets 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 of financial assets 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 carried out to an appropriate extent. The recognition of reversals must not result in a carrying amount greater than 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 (AfS), reversals of impairment losses are recognised in the income statement.

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

Currently, derivative financial instruments in the KION Group mainly comprise currency forwards and interest-rate swaps that are used for hedging purposes to mitigate currency risk and interest-rate risk.

In accordance with IAS 39, all derivative financial instruments must be measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. The KION Group currently uses cash flow hedges for currency risk and interest-rate risk.

In the case of cash flow hedges, derivatives are employed to hedge future cash flow risks from existing hedged items, planned transactions and firm obligations not reported in the statement of financial position. 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 corresponding hedged item is also recognised. The ineffective portion of the changes in fair value is recognised immediately in the income statement.

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

Further information on risk management and accounting for derivative financial instruments can be found in notes [39] and [40].

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.

Remeasurements, including deferred taxes, are recognised in other comprehensive income (loss). It is not permitted to reclassify remeasurements recognised in other comprehensive income (loss) to profit or loss in future periods. The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the interest income from plan assets are netted and 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 likely to lead to a future outflow of resources and that can be reliably estimated. Where there is a range of possible outcomes and each individual point within the range has an equal probability of occurring, a provision is recognised in the amount of the mean of the individual points. 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. The interest cost from unwinding the discount is recognised in interest expenses.

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

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 entity has prepared a detailed, formal restructuring plan and this plan has raised the valid expectation in those affected that the entity 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 entity concerned.

Share-based payments

IFRS 2 distinguishes between equity-settled and cash-settled share-based payment transactions.

Equity-settled share-based payment transactions are recognised at their fair value at the date of grant. The fair value of the obligation is recognised as an expense under functional costs over the vesting period and offset against capital reserves.

The portion of the fair value of cash-settled share-based payments that is attributable to service provided up to the valuation date is recognised as an expense under functional costs and is also reported as a liability. The fair value is recalculated on each reporting date until the end of the performance period. Any change in the fair value of the obligation must be recognised (pro rata temporis) under expenses.

Financial liabilities and other financial liabilities

The KION Group differentiates between financial liabilities held for trading at fair value through profit or loss (FLHfT) and financial liabilities at amortised cost using the effective interest method (FLaC).

The FLHfT category contains derivative financial instruments that do not form part of a formally documented hedge. These are reported under other financial liabilities and must be carried at fair value through profit or loss. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories.

All other financial liabilities reported under financial liabilities or other financial liabilities must be categorised as FLaC. These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted. These liabilities are then measured at amortised cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

Trade payables

Trade payables are categorised as FLaC and, in the first period in which they are recognised, are carried at fair value net of the directly attributable transaction costs. In subsequent periods, these liabilities are measured at amortised cost using the effective interest method. Low-interest or non-interest-bearing liabilities due in more than one year are carried at their present value.

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,
- in recognising and measuring defined benefit pension obligations and other provisions,
- in recognising and measuring current and deferred taxes,
- in recognising and measuring assets acquired and liabilities assumed in connection with business combinations, and
- in evaluating the stage of completion in the case of long-term construction contracts.

Goodwill is tested for impairment annually at the level of the cash-generating units to which goodwill is allocated, applying the budget for 2018 and the medium-term planning for 2019 to 2020 combined with the growth predicted in the market forecasts for the projections for 2021 to 2022 and assuming division-specific growth rates for the period thereafter. Any material changes to these and other factors might result in the recognition of impairment losses. Further information on goodwill can be found earlier in this note and in note [17].

Information on leases can be found in the sections on leases / short-term rentals, 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 remeasurements are taken to 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 in relation to the impact of all significant assumptions, please refer to the information about the retirement benefit obligation in note [29].

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 [32].

Significant estimates are involved in calculating income taxes. These estimates may change on the basis of new information and experience (see also note [14]). In the year under review, this new information concerns the future tax rates in the US, which have a direct impact on the level of deferred taxes. 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.

On first-time consolidation of an acquisition, all identifiable assets and liabilities are recognised at their fair value at the acquisition date. The fair values of identifiable assets are determined using appropriate valuation techniques. These measurements are based, for example, on estimates of future cash flows, expected growth rates, exchange rates, discount rates and useful lives. In the event of material changes to assumptions or circumstances, estimates must be reassessed and this can lead to the recognition of an impairment loss for the asset concerned. For further information on acquisitions, see note [5].

Construction contracts are accounted for using the percentage-of-completion method based on management estimates of the contract costs incurred. If estimates change, or if there are differences between planned and actual costs, this is directly reflected in the profit or loss from construction contracts. The Operating Units continually review the cost estimates and adjust them as appropriate. Further information on construction contracts can be found earlier in this note.

Where necessary, the KION Group's accounting departments receive assistance from external advisors when making the estimates required.

The carrying amounts of the affected line items can be found in the relevant notes / the consolidated statement of financial position.

The impact of a change to an estimate is recognised prospectively when it becomes known and assumptions are adjusted accordingly.

Notes to the consolidated income statement

[8] REVENUE

The revenue generated by the KION Group in the year under review broken down by product category is as follows: > TABLE 052

Revenue with third parties by product category TABLE 052

in € million	2017	2016
Industrial Trucks & Services	**5,626.9**	**5,200.5**
New business	3,126.0	2,860.2
Service business	2,500.9	2,340.2
– Aftersales	1,429.5	1,363.8
– Rental business	619.3	558.3
– Used trucks	306.6	285.8
– Other	145.5	132.4
Supply Chain Solutions	**2,001.8**	**364.7**
Business Solutions	1,509.1	263.9
Service business	492.7	100.7
Corporate Services	**24.8**	**22.1**
Total revenue	**7,653.6**	**5,587.2**

The ‘Supply Chain Solutions’ line item includes revenue from construction contracts amounting to €1,725.6 million (2016: €325.4 million). The figure for 2016 only includes Dematic for two months because it was acquired on 1 November 2016.

Detailed information on the geographical breakdown of revenue is provided in note [41].

[9] OTHER INCOME

The breakdown of other income is as follows: > TABLE 053

Other income TABLE 053

in € million	2017	2016
Foreign currency exchange rate gains	34.5	22.0
Income from reversal of provisions	2.5	6.0
Gains on disposal of non-current assets	3.3	2.4
Rental income	1.2	1.2
Sundry income	34.3	56.0
Total other income	**75.7**	**87.7**

The rise in foreign currency exchange rate gains was largely attributable to gains arising in the course of the Group companies' operating activities. This line item also contains gains on hedges that were entered into in order to hedge currency risk arising from the operating business but do not form part of a documented hedging relationships. Sundry income also included income from non-consolidated subsidiaries and other equity investments amounting to €2.1 million (2016: €3.0 million).

[10] OTHER EXPENSES

The breakdown of other expenses is as follows: > TABLE 054

Other expenses TABLE 054

in € million	2017	2016
Foreign currency exchange rate losses	40.1	25.1
Losses on disposal of non-current assets	3.3	3.0
Impairment of non-current assets	14.8	–
Sundry expenses	12.8	13.8
Total other expenses	**71.1**	**41.9**

Gains arising from operational foreign currency positions recognised under foreign currency exchange rate gains (see note [9]) were offset by losses shown under foreign currency exchange rate losses. These arose partly in connection with the hedging of foreign currency positions in the operating business for which the hedge instruments in question do not form part of a documented hedging relationship. Of the total amount recognised as impairment of non-current assets, €8.6 million resulted from giving up the Egemin brand. The remaining amount was attributable to buildings, plant & machinery and office furniture & equipment.

[11] SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS

The share of profit (loss) of equity-accounted investments in the reporting year amounted to a profit of €13.6 million (2016: €6.5 million). Further details on equity-accounted investments can be found in note [21].

[12] FINANCIAL INCOME

Financial income breaks down as shown in > TABLE 055.

The increase in financial income in 2017 mainly resulted from gains in connection with foreign currency positions in internal financing and from the related hedging transactions. These gains were offset by corresponding exchange rate losses (see note [13]).

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group entities operate as lessors (finance leases).

The line item 'Net interest income from defined benefit plans' relates to the net interest income on the net assets of two pension plans in the United Kingdom in which plan assets exceed pension obligations.

Financial income TABLE 055

in € million	2017	2016
Interest income from leases	36.2	36.4
Foreign currency exchange rate gains (financing)	87.5	42.2
Net interest income from defined benefit plans	0.4	1.1
Other interest and similar income	8.2	9.1
Total financial income	**132.2**	**88.9**

[13] FINANCIAL EXPENSES

Financial expenses break down as follows: > TABLE 056

Financial expense TABLE 056

in € million	2017	2016
Interest expense from loans	29.6	16.0
Interest expense from corporate bond	–	18.9
Interest expense from promissory note	12.2	–
Interest cost of leases	47.6	50.8
Net interest expense from defined benefit plans	19.3	18.7
Amortisation of finance costs	8.8	7.9
Foreign currency exchange rate losses (financing)	66.6	45.6
Compounding of non-current financial liabilities	0.0	1.6
Other interest expenses and similar charges	29.2	25.1
Total financial expense	**213.3**	**184.5**

In 2017, financial expenses rose by €28.8 million year on year. This increase stemmed largely from the rise in the current interest expense on loans and the promissory note in connection with the acquisition of Dematic and from exchange rate losses (see note [12] for details of the countervailing exchange rate gains).

At the time of the early repayment of certain financial liabilities (see also note [30]), deferred borrowing costs of €3.5 million were reclassified as financial expenses. The prior-year figure included one-off financial expenses of €25.7 million, which were also incurred in connection with the optimisation of the financing structure.

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 entities as lessees (finance leases). Sale and finance leaseback operating sub-leases (SALB-FL-OL) incurred interest expenses of €27.7 million (2016: €28.3 million). The income from corresponding customer agreements is, according to IAS 17, a component of the rental and lease payments received and is therefore reported within revenue rather than as interest income.

Net interest expense from defined benefit plans relates to the net interest cost of the net liability of pension plans applying the discount rate for plans in which pension obligations exceed plan assets.

[14] INCOME TAXES

The income tax expense of €41.9 million (2016: expense of €93.1 million) consisted of €184.9 million in current tax expense (2016: current tax expense of €86.2 million) and €143.0 million in deferred tax income (2016: deferred tax expense of €6.9 million). The current tax expense included income of €16.2 million

(2016: expense of €0.3 million) relating to previous financial years. The deferred tax income included income of €92.2 million, which relates to the decision taken on 22 December 2017 to lower the corporate income tax rate in the United States from 35.0 per cent to 21.0 per cent.

At the reporting date, there were income tax assets of €14.4 million receivable from tax authorities (2016: €35.2 million) and income tax liabilities of €82.6 million (2016: €63.0 million).

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 at the recovery date, or have been announced, in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent plus the solidarity surcharge (5.5 per cent of corporate income tax). Taking into account the average trade tax rate of 15.00 per cent (2016: 15.03 per cent), the combined nominal tax rate for entities in Germany was 30.82 per cent (2016: 30.85 per cent). The income tax rates for foreign companies used in the calculation of deferred taxes were between 9.0 per cent and 34.0 per cent (2016: between 9.0 per cent and 40.0 per cent).

No deferred taxes have been recognised on temporary differences of €231.4 million (2016: €78.7 million) between the net assets reported in the consolidated financial statements for the Group companies and the tax base for the shares in these Group companies (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 are allocated to the following items in the statement of financial position: > TABLE 057

Deferred tax assets TABLE 057

in € million	2017	2016
Intangible assets and property, plant and equipment*	143.9	109.9
Financial assets	1.0	1.0
Current assets	67.7	53.5
Deferred charges and prepaid expenses	2.3	1.7
Provisions	229.8	216.5
Liabilities	430.5	395.5
Deferred income	29.1	37.5
Tax loss carry forwards, interest carry forwards and tax credits	38.7	52.6
Offsetting	–572.5	–448.4
Total deferred tax assets	**370.5**	**419.8**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

Deferred tax liabilities are allocated to the following items in the statement of financial position: > TABLE 058

Deferred tax liabilities TABLE 058

in € million	2017	2016
Intangible assets and property, plant and equipment*	854.9	1,052.8
Financial assets	3.0	5.7
Current assets	296.9	214.8
Deferred charges and prepaid expenses	0.7	0.8
Provisions	16.6	15.5
Liabilities	60.1	36.9
Deferred income	5.5	4.4
Offsetting	–572.5	–448.4
Total deferred tax liabilities	**665.2**	**882.5**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

The deferred tax liabilities essentially related to the purchase price allocation in the acquisition of the KION Group and Dematic, particularly for intangible assets and property, plant and equipment.

In 2017, deferred taxes – not including currency effects – of minus €10.5 million were recognised in other comprehensive income (loss), resulting in a decrease in equity (2016: €17.2 million, resulting in an increase in equity). Of this amount, deferred taxes of minus €8.0 million (2016: €16.7 million) arose from the remeasurement of the defined benefit obligation. Furthermore, deferred taxes of minus €2.4 million (2016: €0.4 million) were recognised in connection with realised and unrealised changes in the fair value of derivatives in cash flow hedges (minus €1.7 million; 2016: €1.1 million) and net investment hedges (minus €0.7 million; 2016: minus €0.7 million). In 2017, deferred taxes of minus €0.1 million were recognised for the first time on the remeasurement of available-for-sale financial instruments, resulting in a decrease in equity.

The deferred taxes recognised in the statement of financial position also rose as a consequence of the purchase price allocation in connection with the other acquisitions (2017: rise in deferred tax assets of €1.5 million; 2016 primarily in relation to the Dematic acquisition: rise in deferred tax assets of €104.8 million and rise in deferred tax liabilities of €601.2 million). In addition, currency translation as at the reporting date led to deferred taxes of €33.9 million (2016: minus €18.0 million) that were predominantly attributable to the first-time consolidation of Dematic. These currency effects were recognised in other comprehensive income (loss) under cumulative translation adjustment, resulting in an increase in equity (2016: resulting in a decrease in equity).

In 2017, the parent company and subsidiaries that reported losses for 2017 or 2016 recognised net deferred tax assets on temporary differences and on loss carryforwards totalling €24.2 million (2016: €29.4 million). The assets were considered to be unimpaired because these companies are expected to generate taxable income in future.

No deferred tax assets have been recognised on tax loss carryforwards of €526.0 million (2016: €509.3 million) – of which €13.0 million (2016: €29.4 million) can only be carried forward on a restricted basis –, on interest carryforwards of €185.0 million (2016: €193.5 million) or on other temporary differences of €5.2 million (2016: €4.7 million).

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. The total amount of unrecognised deferred tax assets relating to loss carryforwards is therefore €124.5 million (2016: €139.6 million), of which €120.9 million (2016: €130.1 million) concerns tax losses that can be carried forward indefinitely.

The KION Group's corporation-tax loss carryforwards in Germany as at 31 December 2017 amounted to €109.1 million (31 December 2016: €126.1 million), while trade-tax loss carryforwards stood at €88.6 million (31 December 2016: €97.3 million). There were also foreign tax loss carryforwards totalling €481.1 million (31 December 2016: €547.8 million).

The interest that can be carried forward indefinitely in Germany as at 31 December 2017 amounted to €185.0 million (31 December 2016: €206.1 million).

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 30.82 per cent (2016: 30.85 per cent). > TABLE 059

Income taxes TABLE 059

in € million	2017	2016
Earnings before taxes	**468.3**	**339.2**
Anticipated income taxes	–144.3	–104.6
Deviations due to the trade tax base	–2.6	–4.0
Deviations from the anticipated tax rate	3.2	17.3
Losses for which deferred taxes have not been recognised	–27.9	–6.5
Change in tax rates and tax legislation	92.2	1.1
Non-deductible expenses	–5.8	–5.4
Non-taxable income / tax-exempt income	34.7	8.7
Taxes relating to other periods	16.2	–0.3
Deferred taxes relating to prior periods	3.7	5.0
Non-creditable withholding tax on dividends	–9.8	–
Other	–1.4	–4.4
Effective income taxes (current and deferred taxes)	**–41.9**	**–93.1**

[15] OTHER INCOME STATEMENT DISCLOSURES

The cost of materials rose by €904.6 million in the reporting year to €3,573.7 million (2016: €2,669.1 million). The figure for 2016 only includes Dematic for two months because it was acquired on 1 November 2016.

Personnel expenses went up by €469.4 million to €1,989.7 million in 2017 (2016: €1,520.3 million). These personnel expenses included wages and salaries of €1,590.4 million (2016: €1,198.3 million), social security contributions of €320.8 million (2016: €258.4 million) and expenses for pensions of €78.5 million (2016: €63.6 million). 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 expenses as a component of interest cost of the defined benefit obligation. Pension expenses essentially comprised the pension entitlements of €40.6 million vested in 2017 (2016: €35.3 million) and unrecognised past service income of €0.1 million (2016: €0.1 million) arising from plan amendments and curtailments.

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expenses on intangible assets amounted to €636.4 million in the reporting year (2016: €454.7 million). Inventories were written down by €18.0 million (2016: €17.8 million).

The breakdown of rental and lease payments expensed in the period and arising in connection with operating leases in which KION Group entities are lessees is as follows: > TABLE 060

The expenses in connection with sub-leases relate to leases and rental agreements in which KION Group entities are both lessors and lessees. These expenses were offset by income of €37.3 million in 2017 (2016: €43.8 million).

Lessee: Expenses recognised for operating lease payments TABLE 060

in € million	2017	2016
Procurement lease contracts	126.4	89.6
Sublease contracts	35.9	36.3
Total recognised expenses for lease payments	**162.4**	**125.9**

[16] EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) accruing to the KION GROUP AG shareholders by the weighted average number of shares outstanding during the reporting period (2017: 114,328,999 no-par-value shares; 2016: 103,241,256 no-par-value shares). The net income accruing to the shareholders of KION GROUP AG was €424.8 million (2016: €245.5 million); information about determining the net income (loss) accruing to the KION GROUP AG shareholders can be found in the consolidated income statement. Basic earnings per share for the reporting period came to €3.72 (2016: €2.38). The 160,829 no-par-value treasury shares repurchased by KION GROUP AG were not included in this figure as at 31 December 2017 (31 December 2016: 164,486).

Diluted earnings per share is calculated by adding the potential dilutive no-par-value shares that employees can obtain for free under the employee share option programme (KEEP) to the weighted average number of shares outstanding during the reporting period. The calculation of diluted earnings per share was based on a weighted average of 114,356,934 no-par-value shares issued (2016: 103,278,542 no-par-value shares). Diluted earnings per share for the reporting period came to €3.71 (2016: €2.38).

Notes to the consolidated statement of financial position

[17] GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is broken down by segment as follows: > TABLE 061

Goodwill broken down by segment TABLE 061

in € million	2017	2016
Industrial Trucks & Services	**1,511.0**	**1,504.9**
LMH EMEA	817.7	813.4
STILL EMEA	549.7	546.5
KION Americas	23.5	23.5
KION Asia Pacific	120.1	121.6
Supply Chain Solutions	**1,871.5**	**2,068.0**
Dematic	1,871.5	2,068.0
Total goodwill	**3,382.5**	**3,572.9**

The change in goodwill in 2017 mainly resulted from currency effects. There was also an impact from the acquisitions of Eisengiesserei Dinklage GmbH and Nordtruck AB, from which goodwill totalling €9.5 million arose. In 2016, the change in goodwill was mainly due to the acquisition of Dematic and other businesses, from which goodwill totalling €1,949.1 million arose.

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 €466.2 million are assigned to the LMH EMEA CGU (31 December 2016: €466.3 million) and brand names worth €114.8 million to the STILL EMEA CGU (31 December 2016: €115.0 million). These assets are not amortised as they have an indefinite useful life. As at 31 December 2017, the brand names allocated to the KION APAC CGU had a residual value of €7.8 million (31 December 2016: €8.3 million) and had an indefinite useful life. In 2016, a value of €349.7 million was attributed to the Dematic brand name and allocated to the Supply Chain Solutions segment as part of the purchase price allocation. A value of €8.6 million was attributed to the Egemin Automation brand name and allocated to the Supply Chain Solutions segment as part of the original purchase price allocation. In 2017, impairment losses of €8.6 million were recognised due to the Egemin Automation brand name being subsumed within the Dematic brand name. As a result, the brand names allocated to the Supply Chain Solutions segment decreased to a carrying amount of €350.6 million as at 31 December 2017 (31 December 2016: €359.6 million), of which €349.7 million was attributable to brand names with an indefinite useful life (31 December 2016: €358.3 million). The KION brand name is allocated to the Corporate Services segment and had a carrying amount as at 31 December 2017 of €5.1 million (31 December 2016: €5.1 million). This asset is not amortised as it has an indefinite useful life. > TABLE 062

Intangible assets

TABLE 062

in € million	Goodwill	Brand names	Technology & development	Sundry intangible assets	Total
Balance as at 01/01/2016	**1,548.1**	**604.1**	**194.1**	**106.2**	**2,452.5**
Group changes	1,961.8	353.5	519.1	824.3	3,658.7
Currency translation adjustments	63.0	−3.0	17.0	30.0	107.1
Additions	–	–	50.6	22.1	72.6
Disposals	–	–	−0.0	−0.1	−0.1
Amortisation	–	−0.3	−57.0	−57.9	−115.2
Balance as at 31/12/2016	**3,572.9**	**954.3**	**723.7**	**924.6**	**6,175.6**
Gross carrying amount as at 31/12/2016	3,572.9	956.2	933.1	1,154.7	6,616.8
Accumulated amortisation	–	−1.9	−209.3	−230.0	−441.2
Balance as at 01/01/2017	**3,572.9**	**954.3**	**723.7**	**924.6**	**6,175.6**
Group changes	9.5	–	–	0.1	9.6
Currency translation adjustments	−199.8	−0.9	−59.8	−86.0	−346.5
Additions	–	–	75.4	24.8	100.2
Disposals	0.0	–	–	3.7	3.7
Amortisation	–	−0.2	−69.0	−148.2	−217.5
Impairment	–	−8.6	–	–	−8.6
Balance as at 31/12/2017	**3,382.5**	**944.6**	**670.3**	**719.0**	**5,716.4**
Gross carrying amount as at 31/12/2017	3,382.5	955.2	917.2	1,049.5	6,304.3
Accumulated amortisation	−0.0	−10.6	−246.9	−330.5	−587.9

The total carrying amount for technology and development assets as at 31 December 2017 was €670.3 million (31 December 2016: €723.7 million). Development costs of €75.4 million were capitalised in the reporting year (2016: €50.6 million). Research and development costs totalling €137.0 million (2016: €96.5 million) were expensed. Furthermore, amortisation expenses of €69.0 million were recognised (31 December 2016: €57.0 million); these expenses are reported under cost of sales.

Other intangible assets relate in particular to licences, patents, software and customer relationships.

The change to the basis of consolidation in 2016 had been due almost entirely to the acquisition of the Dematic Group.

[18] LEASED ASSETS

The changes in leased assets in 2017 and 2016 were as follows: > TABLE 063

Leased assets are attributable to the Industrial Trucks & Services segment and relate to industrial trucks in the amount of €522.3 million (31 December 2016: €429.7 million) that are leased to external customers under operating leases.

Leased assets include assets leased over the long term with a residual value of €420.8 million (31 December 2016: €367.5 million) that are funded by means of sale and leaseback transactions with leasing companies and leased assets with a residual value of €101.5 million (31 December 2016: €62.2 million) that are funded internally or by means of bank loans.

Leased assets resulted in non-cancellable minimum lease payments under operating leases with customers amounting to €514.3 million (31 December 2016: €402.7 million).

The following table shows the maturity structure of these future payments: > TABLE 064

Leased assets TABLE 063

in € million	2017	2016
Balance as at 01/01/	**429.7**	**334.4**
Group changes	0.5	7.4
Currency translation adjustments	–2.2	–2.8
Additions	327.9	290.3
Disposals	–116.7	–103.0
Depreciation	–116.4	–94.2
Reclassification	–0.5	–2.4
Balance as at 31/12/	**522.3**	**429.7**
Gross carrying amount as at 31/12/	897.2	747.3
Accumulated depreciation	–374.9	–317.6

Minimum lease payments TABLE 064

in € million	2017	2016
Cash receipts from future minimum lease payments	**514.3**	**402.7**
due within one year	185.2	144.7
due in one to five years	317.3	248.5
due in more than five years	11.8	9.6

[19] RENTAL ASSETS

The changes in rental assets in 2017 and 2016 were as follows: > TABLE 065

Rental assets TABLE 065

in € million	2017	2016
Balance as at 01/01/	**575.3**	**544.0**
Group changes	0.5	6.1
Currency translation adjustments	–9.8	–2.9
Additions	347.2	286.1
Disposals	–77.0	–91.8
Depreciation	–185.2	–169.1
Reclassification	0.4	2.8
Balance as at 31/12/	**651.4**	**575.3**
Gross carrying amount as at 31/12/	1,114.7	990.0
Accumulated depreciation	–463.3	–414.6

Rental assets are allocated solely to the Industrial Trucks & Services segment. The breakdown of rental assets by contract type is shown in the following table: > TABLE 066

The rental assets item comprises assets resulting from short-term rentals ('operating leases as lessor') and assets in relation to which significant risks and rewards remain with the KION Group although they were sold ('sale with risk').

Rental assets broken down by contract types TABLE 066

	Operating leases as lessor		Sale with risk		Total	
in € million	2017	2016	2017	2016	2017	2016
Industrial trucks	586.3	514.4	63.2	57.9	649.5	572.3
Truck equipment	1.9	3.0	0.0	0.0	1.9	3.0
Total rental assets	**588.2**	**517.4**	**63.2**	**57.9**	**651.4**	**575.3**

[20] OTHER PROPERTY, PLANT AND EQUIPMENT

The changes in the carrying amounts of other property, plant and equipment are shown in > TABLE 067.

Land and buildings in the amount of €18.3 million (31 December 2016: €18.3 million) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

Plant & machinery and office furniture & equipment include assets from procurement leases (finance leases) amounting to €27.6 million (31 December 2016: €17.2 million). Depreciation on these assets came to €9.9 million in 2017 (2016: €5.6 million). The corresponding liabilities are reported as other financial liabilities.

Other property, plant and equipment TABLE 067

in € million	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
Balance as at 01/01/2016	**305.7**	**174.1**	**29.0**	**508.8**
Group changes	69.1	80.9	10.7	160.7
Currency translation adjustments	–2.2	–0.3	–0.1	–2.6
Additions	10.0	59.7	24.8	94.5
Disposals	–0.3	–3.9	–2.3	–6.5
Depreciation	–13.9	–62.3	–	–76.2
Reclassification	5.8	18.7	–24.9	–0.4
Balance as at 31/12/2016	**374.2**	**266.8**	**37.3**	**678.3**
Gross carrying amount as at 31/12/2016	727.9	1,059.6	37.3	1,824.7
Accumulated depreciation	–353.7	–792.8	–	–1,146.4
Balance as at 01/01/2017	**374.2**	**266.8**	**37.3**	**678.3**
Group changes	1.4	2.0	0.3	3.7
Currency translation adjustments	–12.2	–10.0	–1.1	–23.3
Additions	9.7	90.2	37.2	137.0
Disposals	–1.5	–2.8	–6.0	–10.3
Depreciation	–18.3	–84.2	–	–102.4
Impairment	–0.5	–5.8	–	–6.2
Reclassification	3.0	18.0	–20.9	0.1
Balance as at 31/12/2017	**355.9**	**274.3**	**46.7**	**676.9**
Gross carrying amount as at 31/12/2017	714.6	1,091.5	46.7	1,852.8
Accumulated depreciation	–358.7	–817.2	–	–1,175.9

[21] EQUITY-ACCOUNTED INVESTMENTS

The KION Group reported equity-accounted investments with a total carrying amount of €80.3 million as at 31 December 2017 (31 December 2016: €72.7 million).

The carrying amount of the equity-accounted investments mainly resulted from the shares (10.0 per cent) in Linde Hydraulics GmbH & Co. KG, Aschaffenburg ('Linde Hydraulics'), the shares (45.0 per cent) in Linde Leasing GmbH, Wiesbaden, and the shares (50.0 per cent) in JULI Motorenwerk s.r.o, Moravany, Czech Republic. The associates and joint ventures can be seen in the list of shareholdings (see note [47]). Their financial information is summarised below. > TABLES 068 – 069

Summarised financial information associates TABLE 068

in € million	2017	2016
Total carrying amount	43.8	42.5
Profit (+) / loss (–) from continuing operations	5.2	0.2
Other comprehensive income	–0.7	0.3
Total comprehensive income	**4.5**	**0.5**

Summarised financial information joint ventures TABLE 069

in € million	2017	2016
Total carrying amount	36.4	30.1
Profit (+) / loss (–) from continuing operations	8.5	6.3
Other comprehensive income	1.3	0.1
Total comprehensive income	**9.7**	**6.4**

The amounts in the tables are based on the share held by the KION Group in the relevant associate or joint venture.

[22] LEASE RECEIVABLES

In the case of leases under which KION Group entities lease assets directly to customers as part of the Group's financial services 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: > TABLE 070

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €715.2 million (31 December 2016: €648.4 million).

Lease receivables include unguaranteed residual values of €107.3 million (31 December 2016: €87.6 million).

Lease receivables TABLE 070

in € million	2017	2016
Gross investments	**962.2**	**807.9**
due within one year	262.5	225.6
due in one to five years	655.6	552.0
due in more than five years	44.1	30.2
Present value of outstanding minimum lease payments	**875.8**	**731.5**
due within one year	228.0	200.3
due in one to five years	605.3	503.3
due in more than five years	42.4	27.9
Unrealised financial income	**86.5**	**76.3**

[23] OTHER FINANCIAL ASSETS

The breakdown of other financial assets of €176.1 million (31 December 2016: €129.4 million) is shown in > TABLE 071.

The non-consolidated subsidiaries and other equity investments include the equity investment in Balyo SA in an amount of €11.7 million (31 December 2016: €2.7 million), which is measured at fair value due to Balyo's IPO in 2017.

Other financial assets TABLE 071

in € million	2017	2016
Investments in non-consolidated subsidiaries and other investments	36.0	22.2
Loans receivable	2.2	4.6
Other financial investments	18.9	20.7
Other non-current financial assets	**57.1**	**47.5**
Derivative financial instruments	30.0	10.3
Financial receivables	30.3	21.3
Sundry other financial assets	58.7	50.3
Other current financial assets	**119.0**	**82.0**
Total other financial assets	**176.1**	**129.4**

[24] OTHER ASSETS

Other assets of €108.5 million (31 December 2016: €98.5 million) comprise the following: > TABLE 072

Pension assets relate to asset surpluses from two defined benefit plans in the United Kingdom (31 December 2016: two), in which plan assets exceed the present value of the defined benefit obligation (see note [29]).

Other assets TABLE 072

in € million	2017	2016
Pension assets	24.2	12.3
Other non-current assets	**24.2**	**12.3**
Deferred charges and prepaid expenses	40.2	49.5
Sundry tax receivables	44.0	36.6
Other current assets	**84.3**	**86.2**
Total other assets	**108.5**	**98.5**

[25] INVENTORIES

The reported inventories break down as follows: > TABLE 073

The year-on-year expansion in inventories was largely attributable to increases in materials and supplies (17.2 per cent), work in progress (3.5 per cent) and finished goods (15.8 per cent). In 2017, write-downs of €18.0 million were recognised on inventories (2016: €17.8 million). Reversals of write-downs had to be recognised in the amount of €7.5 million (2016: €3.2 million) because the reasons for the write-downs no longer existed.

[26] TRADE RECEIVABLES

The trade receivables break down as follows: > TABLE 074

Valuation allowances of €51.1 million (31 December 2016: €40.4 million) were recognised for trade receivables.

The breakdown of construction contracts that had not been completed by the reporting date is presented in > TABLE 075.

Inventories TABLE 073

in € million	2017	2016
Materials and supplies	185.2	158.0
Work in progress	109.0	105.3
Finished goods and merchandise	459.0	396.5
Advances paid	15.4	12.6
Total inventories	**768.6**	**672.4**

Trade receivables TABLE 074

in € million	2017	2016
Receivables from third parties	958.5	863.6
thereof receivables from third parties before valuation allowances	1,009.6	904.0
thereof valuation allowances for overdue receivables > 90 days ≤ 180 days	–10.0	–4.8
thereof valuation allowances for overdue receivables > 180 days	–25.8	–24.7
thereof other valuation allowances for receivables	–15.3	–11.0
Trade receivables from non-consolidated subsidiaries	13.2	13.2
Trade receivables from equity-accounted investments and other investments	27.7	19.1
Construction contracts with a net credit balance due from customers	94.7	103.1
Total trade receivables	**1,094.1**	**998.9**

Construction contracts TABLE 075

in € million	2017	2016
Contract costs incurred and		
recognised profits (less recognised losses)	2,300.1	2,247.8
less progress billings	–2,469.4	–2,445.4
Total	**–169.3**	**–197.6**
thereof gross amount due from customers for contract work	94.7	103.1
thereof gross amount due to customers for contract work	–264.0	–300.7

Construction contracts with a net credit balance due from customers are included in trade receivables. Construction contracts with a net debit balance due to customers are reported under other current liabilities (see note [35]). Advances received in respect of construction contracts for which no work had yet been carried out amounted to €19.2 million as at 31 December 2017 (31 December 2016: €28.3 million). Customer retentions relating to construction contracts came to €0.3 million (31 December 2016: €0.6 million).

[27] CASH AND CASH EQUIVALENTS

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 [37]. > TABLE 076

Cash and cash equivalents TABLE 076

in € million	2017	2016
Balances with banks, cash and cheques	172.8	276.0
Pledged cash	0.4	3.5
Total cash and cash equivalents	**173.2**	**279.6**

[28] EQUITY

Subscribed capital and capital reserves

As at 31 December 2017, the Company's share capital amounted to €118.1 million (31 December 2016: €108.8 million) and was fully paid up. It was divided into 118.1 million no-par-value shares (31 December 2016: 108.8 million).

The Annual General Meeting on 11 May 2017 voted to create new authorised capital that will enable the KION Group to continue to meet its funding needs quickly and flexibly. Subject to the consent of the Supervisory Board, the Executive Board is authorised until 10 May 2022 to increase the Company's share capital by up to €10.879 million by way of an issue of up to 10,879,000 new no-par-value bearer shares (2017 Authorised Capital).

With the consent of the Supervisory Board, the Executive Board of KION GROUP AG decided on 22 May 2017 to utilise the authorised capital created by the 2017 Annual General Meeting. The purpose of the capital increase was to partly refinance the bridge loan taken out for the acquisition of Dematic. The Company's share capital was increased by 8.55 per cent in return for cash contributions; shareholders' pre-emption rights were disapplied. The share capital was increased by issuing 9.3 million new no-par-value bearer shares. The gross proceeds from the capital increase came to €602.9 million. An amount of €593.6 million was paid into the capital reserves. The capital increase was entered in the commercial register on 23 May 2017.

The costs associated with the capital increase amounting to €3.0 million (net) were recognised directly in equity.

The total number of shares outstanding as at 31 December 2017 was 117,929,171 no-par-value shares (31 December 2016: 108,625,514 no-par-value shares). Between 10 October 2017 and 30 October 2017, a further 60,000 treasury shares were repurchased via the stock exchange at an average price of €72.15 in order to provide the shares for employees' own investments and the free shares under the KEEP 2017 employee share option programme. The total cost was €4.3 million. Due to the issue of 27,363 bonus shares under KEEP 2014 and 36,294 no-par-value shares (2016: 45,564 no-par-value shares) under KEEP 2017, KION GROUP AG held 160,829 treasury shares at the reporting date (31 December 2016: 164,486). These treasury shares are not dividend-bearing and do not confer any voting rights. Further details on the KEEP employee share option programme can be found in note [44].

As at 31 December 2017, KION Group employees held options on a total of 50,166 no-par-value shares (31 December 2016: 67,106 no-par-value shares). The share options granted under the employee share option programme are not dividend-bearing and do not confer any voting rights.

Retained earnings

The changes in retained earnings are shown in the consolidated statement of changes in equity in > TABLE 044. The retained earnings comprise the net income (loss) for the financial year and past contributions to earnings by the consolidated entities, provided they have not been distributed.

The distribution of a dividend of €0.80 per share (2016: €0.77 per share) to the shareholders of KION GROUP AG resulted in an outflow of funds of €86.9 million in May 2017 (2016: €76.0 million).

Appropriation of profit

The Executive Board and the Supervisory Board propose to the Annual General Meeting to be held on 9 May 2018 that an amount of €116.7 million be appropriated from the distributable profit of KION GROUP AG for the 2017 financial year of €168.1 million for the payment of a dividend of €0.99 per dividend-bearing share. It is also proposed that a further sum of €51.2 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. If the net income is adjusted for remeasurement of deferred tax assets and liabilities in connection with the lowering of the corporate income tax rate in the United States, this equates to a dividend payout rate of around 35 per cent of the net income accruing to the shareholders of the KION Group.

Accumulated other comprehensive income (loss)

The breakdown of accumulated other comprehensive income (loss) is shown in > TABLE 044.

The currency translation adjustment contains the exchange differences arising from the financial statements prepared in a foreign currency of foreign subsidiaries, associates and joint ventures.

The gains/losses on the defined benefit obligation are the result of remeasuring defined benefit pension obligations (see also note [29]).

The gains/losses on hedge reserves are the effective portion of the changes in the fair value of the hedging instruments for cash flow hedges and net investment hedges. The gains/losses on available-for-sale financial instruments relate to the remeasurement of the equity investment in Balyo SA at fair value.

The gains/losses from equity-accounted investments contain the share of other comprehensive income (loss) from associates and joint ventures accounted for under the equity method.

Non-controlling interests

Non-controlling interests in companies in the KION Group amounted to €4.4 million (31 December 2016: €5.7 million).

[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 €92.9 million in 2017 (2016: €84.5 million). Of this total, contributions paid by employers into government-run schemes came to €72.8 million (2016: €75.0 million). The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

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 (DBO) including adjustments for future salary and pension increases.

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. As at 31 December 2017, the KION Group had set up defined benefit plans in 13 countries. 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. The largest of the KION Group's defined benefit plans – together accounting for 93.0 per cent of the global defined benefit obligation

(31 December 2016: 92.8 per cent) – are in Germany, the United Kingdom and the US.

Germany

In Germany, the pension benefits granted under the 2001 pension benefit conditions and 2002 pension benefit conditions depend on employees' length of service and gross annual remuneration (pension component entitlement). The pension component is calculated by multiplying a certain percentage by an age-dependent annuitisation factor. The contribution rate is 3.4 per cent (2001 pension benefit conditions) or 2.0 per cent (2002 pension benefit conditions) of the gross remuneration that an employee earns in the computation period. Employees receive the pension entitlement that they have earned in the form of a monthly retirement pension or invalidity benefit or, in the event of their death, the entitlement is paid to their surviving dependants in the form of a widow's/widower's pension or orphans' pension. Members of the Executive Board and other executives are predominantly covered by individual pension plans. For details of the pension entitlements of KION GROUP AG Executive Board members, please refer to the information in note [45]. The amount of the benefits paid to executives depends on the type of entitlement. Under the 'old' individual pension plans, executives were entitled to a certain percentage of income as their pension benefit. By contrast, the employer-funded entitlement under the 'new' individual pension plans consists of two components: a fixed basic pension and a variable top-up pension through which annual components are earned within a defined contribution system. Both components depend on the seniority of the executive. The existing employer-funded company pension schemes for employees covered by collective pay agreements and those not subject to such agreements (2001 pension benefit conditions, 2002 pension benefit conditions, KION pension plan) was closed to new entrants with effect from 1 January 2018. From this date, the 2018 pension benefit conditions apply to new entrants at participating companies.

On 1 January 2018, the KION pension plan was replaced by the 2018 KION pension plan for all employees covered by collective pay agreements and those not subject to such agreements at participating companies. The new pension plans are also designed as defined contribution plans. The contributions are invested on the capital markets and, at the same time, entitlement to a guaranteed pension benefit is granted.

In addition, employees in Germany are able to pay part of their salary into a company pension plan, for which KION provides a defined minimum rate of return to enable employees to build up their personal pension provision. The pension benefits consist of retirement, invalidity and surviving dependants' benefits. Each contribution made is converted into a capital component on the basis of a guaranteed minimum rate of return of 3.0 per cent and depending on the age of the employee. The capital components acquired each calendar year are added up to give the pension capital. When an insured event occurs, the pension capital is converted into an ongoing life-long pension or a one-off capital payment.

In Germany, the KION Group also helps employees to build up their own pension provision with an additional matching contribution for those employees who pay part of their salary into the KION pension plan. The additional matching contribution received by executives is 50.0 per cent of the amount they defer in a calendar year, although the absolute amount of this contribution is limited to a certain percentage of income (ranging from 2.5 per cent to a maximum of 5.0 per cent). All other employees who participate in the company pension scheme receive up to 0.4 per cent of their gross remuneration.

Some of the 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. The trustees are required to follow a defined investment strategy and guidelines. There are no statutory minimum funding requirements. In the event of the Company's insolvency, the company pension scheme in Germany is to a large extent protected by law by the insolvency protection scheme (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit, PSVaG).

United Kingdom

In the United Kingdom, defined benefit pension obligations predominantly relate to two plans. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits. The amount of the pension depends on employees' length of service and final salary.

The two plans were closed to new employees more than ten years ago. Each plan is monitored by its own board of trustees, which oversees the running of the plan as well as its funded status and the investment strategy. The members of the board of trustees comprise people appointed by the company involved and selected plan beneficiaries.

Under UK law, the board of trustees is obliged to have a valuation of the plan carried out at least every three years. In connection with the valuation of the pension plans for the employees of the KION Group's UK companies as at 1 January 2015, the Company and the trustees of the pension funds agreed in March 2016 on certain assumptions relevant to the valuation, according to which the deficit for the two pension plans amounted to €11.1 million as at 1 January 2015. On this basis, the KION Group agreed with the trustees that it would pay approximately the equivalent of €3.6 million in 2017 in order to reduce the deficit. The trustees and the Company are currently assessing the valuation of the pension plans as at 1 January 2018.

In addition, collateral in rem in the form of charges on the real estate of Group companies in the UK and flexible collateral in respect of the rental fleets of UK dealers within a maximum overall limit of approximately €20.3 million were extended for the benefit of the pension funds. The term of this collateral is limited to four years (1 July 2021), and the overall limit will not be reduced by payments made by the KION Group. The likelihood of the guarantee being used is deemed low in view of the position of the individual companies with regard to their current and future financial and earnings situations.

United States

Following the acquisition of Dematic, the KION Group maintains three main defined benefit pension plans in the US. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits.

Unionised employees receive pension entitlements on the basis of fixed amounts for each month of service. Salaried employees receive benefits that generally depend on their period of service and on their average final salary fixed on the date the plan concerned was frozen. These defined benefit plans have been frozen for some time now in relation to future periods of service.

Two of the plans are subject to statutory minimum funding provisions that specify a certain coverage ratio and provide for annual payments amounting to approximately the equivalent of €5.3 million to maintain the required ratio.

Other countries

Furthermore, significant asset volumes are invested in external pension funds with restricted access in Switzerland and the Netherlands. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. They also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

Measurement assumptions

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 (after the vesting period has expired) former employees of the KION Group and their surviving dependants. 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 biometric 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 significant weighted-average assumptions as at the reporting date shown in > TABLE 077.

Assumptions underlying provisions for pensions and other postemployment benefits

TABLE 077

	Germany		UK		USA		Other	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate	1.95%	1.90%	2.35%	2.55%	3.60%	4.05%	1.41%	1.35%
Salary increase rate	2.75%	2.75%	4.12%	4.12%	–	–	1.49%	2.51%
Pension increase rate	1.75%	1.75%	3.37%	3.47%	–	–	0.27%	0.28%

The assumed discount rate is determined on the basis of the yield as at the reporting date on AA-rated, fixed-interest senior 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.

Future increases in salaries are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The biometric 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 S1NA CMI 2013 tables (standard mortality tables for self-administered pension schemes ('SAPS') based on normal health) with a long-term trend of 1.25 per cent p.a. are applied to the two defined benefit plans in the United Kingdom. In the US, calculations use the modified RP-2014 mortality tables with the generational projection from the Mortality Improvement Scale MP-2016.

The actuarial assumptions not listed in > TABLE 077, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts in the companies concerned.

The significant weighted-average assumptions shown in > TABLE 078 were applied to the calculation of the net interest cost and the cost of benefits earned in the current year (current service cost).

Differences between the forecast and actual change in the defined benefit obligation and changes in related assets (known as remeasurements) are recognised immediately in other comprehensive income (loss) in accordance with IAS 19. This serves to ensure that the pension liability in the statement of financial position is the present value of the defined benefit obligation.

In the case of externally funded pension plans, this present value of the defined benefit obligation is reduced by the fair value of the assets of the external pension fund (plan assets). If the plan assets exceed the present value of the defined benefit obligation (net assets), a corresponding asset is recognised in accordance with IAS 19. IAS 19.64 in conjunction with the supplementary explanatory information in IFRIC 14 states that the recognition of

Assumptions underlying pensions expenses TABLE 078

	Germany		UK		USA		Other	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate	1.90%	2.35%	2.55%	3.75%	4.05%	3.80%	1.35%	1.61%
Salary increase rate	2.75%	2.75%	4.12%	4.25%	–	–	2.51%	2.50%
Pension increase rate	1.75%	1.75%	3.47%	3.13%	–	–	0.28%	0.42%

an asset for an excess of plan assets is only permitted if the company concerned, in its function as the employer, gains economic benefits in the form of reductions in future contributions to the plan or in the form of refunds from the plan. If the present value of the defined benefit obligation is not covered by the plan assets, the net obligation is reported under the retirement benefit obligation.

In two defined benefit plans in the United Kingdom, plan assets exceed the present value of the defined benefit obligation. Stipulations limiting the asset to be recognised in the statement of financial position do not apply.

Statement of financial position

The change in the present value of the defined benefit obligation (DBO) is shown in > TABLE 079.

The DBO in the other countries was predominantly attributable to subsidiaries in Switzerland (2017: €50.2 million; 2016: €53.7 million) and the Netherlands (2017: €35.7 million; 2016: €36.2 million).

The change in the fair value of plan assets is shown in > TABLE 080.

Employees in Germany paid a total of €3.5 million (2016: €2.9 million) into the KION pension plan in 2017.

In 2017, employer contributions in the United Kingdom, which amounted to €3.9 million, included one-off payments of €3.6 million (2016: €4.2 million) into pension funds on the basis of contractual agreements. In Germany, one-off payments of €0.5 million (2016: €0.4 million) were also made to a German CTA for the other members of the KION GROUP AG Executive Board.

Changes in defined benefit obligation

TABLE 079

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Present value of defined benefit obligation as at 01/01/	**974.7**	**829.7**	**448.5**	**440.5**	**218.1**	**0.4**	**127.8**	**123.6**	**1,769.1**	**1,394.2**
Group changes	0.5	38.3	–	–	–	214.8	–	2.0	0.5	255.1
Exchange differences	–	–	–17.4	–62.7	–28.2	10.9	–4.6	0.7	–50.2	–51.1
Current service cost	35.5	30.4	1.0	0.9	0.1	0.1	4.0	3.9	40.6	35.3
Past service cost (+) and income (–)	–	–	–	–	–	–	–0.1	–0.1	–0.1	–0.1
Interest expense	18.0	19.4	10.9	14.5	7.7	1.3	1.4	1.9	38.1	37.1
Employee contributions	3.5	2.9	–	–	–	–	1.0	1.0	4.5	4.0
Pension benefits directly paid by company	–15.6	–12.8	–	–	–0.4	–	–1.9	–1.1	–17.9	–13.9
Pension benefits paid by funds	–1.2	–2.3	–16.6	–18.5	–7.7	–1.2	–2.7	–5.9	–28.3	–27.9
Liability transfer out to third parties	–0.5	–0.2	–	–	–	–	0.1	–	–0.4	–0.2
Actuarial gains (–) and losses (+) arising from										
changes in demographic assumptions	–	–	–0.4	–	5.0	–	–0.0	–0.7	4.6	–0.7
changes in financial assumptions	–11.8	80.4	2.8	83.3	14.2	–8.1	–0.7	5.2	4.5	160.7
experience adjustments	–1.7	–11.1	0.1	–9.5	1.2	–0.0	0.0	–2.6	–0.5	–23.2
Present value of defined benefit obligation as at 31/12/	**1,001.4**	**974.7**	**428.9**	**448.5**	**210.0**	**218.1**	**124.2**	**127.8**	**1,764.4**	**1,769.1**
thereof unfunded	436.9	427.7	0.0	0.0	7.3	7.9	37.6	37.7	481.8	472.6
thereof funded	564.5	547.0	428.9	448.5	202.6	210.3	86.6	90.2	1,282.6	1,296.5

Changes in plan assets

TABLE 080

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fair value of plan assets as at 01/01/	**86.3**	**79.8**	**455.7**	**467.2**	**167.0**	**–**	**81.4**	**79.4**	**790.4**	**626.4**
Group changes	–	–	–	–	–	156.0	–	–	–	156.0
Exchange differences	–	–	–17.9	–65.7	–21.9	8.3	–3.9	0.6	–43.6	–56.7
Interest income on plan assets	1.6	1.9	11.1	15.5	5.6	1.0	0.8	1.1	19.1	19.5
Employee contributions	3.5	2.9	–	–	–	–	1.0	1.0	4.5	4.0
Employer contributions	0.9	0.9	3.9	4.3	3.9	0.0	1.3	1.3	10.0	6.6
Pension benefits paid by funds	–1.2	–2.3	–16.6	–18.5	–7.7	–1.2	–2.7	–5.9	–28.3	–27.9
Liability transfer out to third parties	–0.1	–0.1	–	–	–	–	–	–	–0.1	–0.1
Remeasurements	2.9	3.1	12.4	52.8	18.0	2.9	0.6	4.0	33.9	62.8
Fair value of plan assets as at 31/12/	**93.8**	**86.3**	**448.7**	**455.7**	**165.0**	**167.0**	**78.4**	**81.4**	**785.9**	**790.4**

The payments expected for 2018 amount to €26.1 million (2017: €28.5 million), which includes expected employer contributions of €6.8 million to plan assets (2017: €10.1 million) and expected direct payments of pension benefits amounting to €19.3 million (2017: €18.4 million) that are not covered by corresponding reimbursements from plan assets. The expected employer contributions for 2018 include payments of €5.1 million for one plan in the US.

The reconciliation of funded status and net defined benefit obligation to the amounts reported in the consolidated statement of financial position as at 31 December is shown in > TABLE 081.

Funded status and net defined benefit obligation

TABLE 081

in € million	Germany 2017	Germany 2016	UK 2017	UK 2016	USA 2017	USA 2016	Other 2017	Other 2016	Total 2017	Total 2016
Present value of the funded defined benefit obligation	–564.5	–547.0	–428.9	–448.5	–202.6	–210.3	–86.6	–90.2	–1,282.6	–1,295.9
Fair value of plan assets	93.8	86.3	448.7	455.7	165.0	167.0	78.4	81.4	785.9	790.4
Surplus (+) / deficit (–)	**–470.7**	**–460.7**	**19.8**	**7.3**	**–37.6**	**–43.3**	**–8.1**	**–8.7**	**–496.7**	**–505.5**
Present value of the unfunded defined benefit obligation	–436.9	–427.7	–0.0	–0.0	–7.3	–7.9	–37.6	–37.7	–481.8	–473.2
Net liability (–) / net asset (+) as at 31/12/	**–907.5**	**–888.3**	**19.8**	**7.3**	**–45.0**	**–51.2**	**–45.8**	**–46.4**	**–978.5**	**–978.7**
Reported as “retirement benefit obligation“	–907.5	–888.3	–4.4	–5.0	–45.0	–51.2	–45.8	–46.4	–1,002.7	–991.0
Reported as “Other non-current assets“	–	–	24.2	12.3	–	–	–	–	24.2	12.3

Overall, the funding ratio (ratio of plan assets to the present value of the defined benefit obligation) in the KION Group was 44.5 per cent (2016: 44.7 per cent).

The changes in the retirement benefit obligations reported in the statement of financial position are shown in > TABLE 082.

Changes in retirement benefit obligation

TABLE 082

in € million	Germany 2017	Germany 2016	UK 2017	UK 2016	USA 2017	USA 2016	Other 2017	Other 2016	Total 2017	Total 2016
Balance as at 01/01/	**888.3**	**749.9**	**5.0**	**3.6**	**51.2**	**0.4**	**46.4**	**44.3**	**991.0**	**798.0**
Group changes	0.5	38.3	–	–	–	58.8	–	2.0	0.5	99.1
Exchange differences	–	–	–0.2	–0.6	–6.3	2.5	–0.8	0.1	–7.3	2.1
Total service cost	35.5	30.4	0.0	0.0	0.1	0.1	3.9	3.8	39.5	34.3
Net interest expense	16.5	17.4	0.1	0.1	2.1	0.4	0.6	0.8	19.3	18.7
Pension benefits directly paid by company	–15.6	–12.8	–	–	–0.4	–	–1.9	–1.1	–17.9	–13.9
Employer contributions to plan assets	–0.9	–0.9	–0.3	–0.3	–3.9	–0.0	–1.3	–1.3	–6.4	–2.5
Liability transfer out to third parties	–0.4	–0.2	–	–	–	–	0.1	–	–0.3	–0.2
Remeasurements	–16.4	66.2	–0.3	2.2	2.4	–11.0	–1.3	–2.1	–15.6	55.3
Balance as at 31/12/	**907.5**	**888.3**	**4.4**	**5.0**	**45.0**	**51.2**	**45.8**	**46.4**	**1,002.7**	**991.0**

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 flow 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 a cash outflow for operating activities.

During the reporting year, pension benefits of €46.2 million (2016: €41.8 million) were paid in connection with the main pension entitlements in the KION Group, of which €17.9 million (2016: €13.9 million) was paid directly by the Company and €28.3 million (2016: €27.9 million) was paid from plan assets. Cash contributions to plan assets in 2017 amounted to €10.0 million (2016: €6.6 million). Furthermore, pension benefit payments totalling €0.3 million (2016: €0.1 million) 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 accordance with fixed rules. The expenses recognised in the income statement for pensions and similar obligations consist of a number of components that must be 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 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.

Past service cost arises if there is a change to the pension entitlement and it is recognised immediately in full.

The net interest expense/income, which is calculated by multiplying the net liability (present value of the defined benefit obligation minus plan assets) or the net assets (if the plan assets exceed the present value of the defined benefit obligation) at the start of the year by the discount rate, is also recognised in the income statement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2017 is shown in > TABLE 083.

Cost of defined benefit obligation TABLE 083

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current service cost	35.5	30.4	1.0	0.9	0.1	0.1	4.0	3.9	40.6	35.3
Past service cost (+) and income (–)	–	–	–	–	–	–	–0.1	–0.1	–0.1	–0.1
Total service cost	**35.5**	**30.4**	**1.0**	**0.9**	**0.1**	**0.1**	**3.9**	**3.8**	**40.5**	**35.1**
Interest expense	18.0	19.4	10.9	14.5	7.7	1.3	1.4	1.9	38.1	37.1
Interest income on plan assets	–1.6	–1.9	–11.1	–15.5	–5.6	–1.0	–0.8	–1.1	–19.1	–19.5
Net interest expense (+)/income (–)	**16.5**	**17.4**	**–0.2**	**–1.0**	**2.1**	**0.4**	**0.6**	**0.8**	**18.9**	**17.6**
Total cost of defined benefit obligation	**52.0**	**47.9**	**0.8**	**–0.1**	**2.2**	**0.5**	**4.5**	**4.6**	**59.5**	**52.7**

The KION Group's net financial income/expenses includes a net interest expense of €18.9 million (2016: €17.6 million). All other components of pension expenses are recognised under functional costs.

The actual total return on plan assets in 2017 was €53.1 million (2016: €82.3 million).

Other comprehensive income (loss)

The breakdown of the remeasurement of the defined benefit obligation recognised in the statement of comprehensive income in 2017 is presented in > TABLE 084.

Accumulated other comprehensive income (loss) TABLE 084

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated other comprehensive income/loss as at 01/01/	**–350.4**	**–284.2**	**–57.1**	**–42.8**	**11.6**	**–**	**–26.0**	**–28.0**	**–421.9**	**–355.0**
Exchange differences	–	–	2.1	6.7	–1.3	0.6	0.7	–0.1	1.5	7.1
Gains (+) and losses (–) arising from remeasurements of defined benefit obligation	13.5	–69.3	–2.5	–73.7	–20.4	8.2	0.8	–1.9	–8.7	–136.8
Gains (+) and losses (–) arising from remeasurements of plan assets	2.9	3.1	12.4	52.8	18.0	2.9	0.6	4.0	33.9	62.8
Accumulated other comprehensive income/loss as at 31/12/	**–334.0**	**–350.4**	**–45.1**	**–57.1**	**7.9**	**11.6**	**–24.0**	**–26.0**	**–395.1**	**–421.9**

The components of the remeasurements of the defined benefit obligations are listed in > TABLE 079.

The gains and losses on the remeasurement of plan assets are attributable entirely to experience adjustments. The changes in estimates relating to defined benefit pension entitlements resulted in an €18.7 million increase in equity as at 31 December 2017 after deduction of deferred taxes (31 December 2016: decrease of €50.1 million).

Composition of plan assets

The plan assets of the main pension plans consist of the following components: > TABLE 085

The plan assets do not include any real estate or other assets used by the KION Group itself.

Fair value of plan assets TABLE 085

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Shares	26.7	24.7	53.8	87.8	72.6	77.9	10.1	9.7	163.1	200.0
Fixed-income securities	28.8	26.4	362.9	361.5	78.9	74.5	12.1	16.3	482.7	478.7
Real estate	6.7	5.9	–	–	–	–	5.4	4.7	12.1	10.6
Insurance policies	–	–	–	–	–	–	46.3	47.2	46.3	47.2
Other	31.6	29.3	32.0	6.5	13.5	14.6	4.5	3.6	81.6	54.0
Total plan assets	**93.8**	**86.3**	**448.7**	**455.7**	**165.0**	**167.0**	**78.4**	**81.4**	**785.9**	**790.4**
thereof total assets that do not have a quoted price in active markets	**9.0**	**9.0**	**7.9**	**–**	**–**	**–**	**47.8**	**48.9**	**64.7**	**57.9**
Insurance policies	–	–	–	–	–	–	46.3	47.2	46.3	47.2
Other	9.0	9.0	7.9	–	–	–	1.5	1.7	18.4	10.7

Sensitivity analysis

The present value of the defined benefit obligation is based on the significant assumptions detailed in > TABLE 077 above. If one assumption were to vary and the other assumptions remained unchanged, the impact on the present value of the defined benefit obligation would be as shown in > TABLE 086.

Sensitivity defined benefit obligation TABLE 086

in € million		2017	2016
Discount rate	Increase by 1.0 percentage point	–279.7	–284.1
	Reduction by 1.0 percentage point	373.1	380.5
Salary increase rate	Increase by 0.5 percentage point	18.7	20.6
	Reduction by 0.5 percentage point	–18.7	–20.7
Pension increase rate	Increase by 0.25 percentage point	42.2	40.1
	Reduction by 0.25 percentage point	–40.2	–39.5
Life expectancy	Increase by 1 year	61.7	65.2

The sensitivity analysis shown in > TABLE 086 is not representative of an actual change in the present value of the defined benefit obligation because variations in the significant assumptions are unlikely to occur in isolation as, to some extent, the assumptions are interrelated. Sensitivity is determined using the same methods (projected unit credit method) as for the measurement of the obligation recognised in the consolidated statement of financial position as at 31 December 2017.

Future pension benefit payments

The pension benefit payments shown in > TABLE 087 are forecast for the next ten years for the defined benefit pension entitlements in existence as at 31 December 2017. The expected pension benefits break down into future benefits to be paid directly by the employer (for 2018: €19.3 million) and future benefits to be paid from existing plan assets (for 2018: €28.8 million).

Expected payments for pension benefits TABLE 087

in € million	Germany	UK	USA	Other	Total
2018	18.4	16.8	9.2	3.7	48.1
2019	19.1	17.3	9.0	4.0	49.4
2020	20.5	17.3	9.6	4.9	52.3
2021	22.0	17.4	10.1	5.2	54.8
2022	24.2	17.6	10.5	4.6	56.9
2023 to 2027	145.3	89.1	56.1	27.6	318.2

As at the reporting date, the average duration of the defined benefit obligation, weighted on the basis of the present value of the defined benefit obligation, was 22.2 years in Germany (2016: 22.7 years), 15.5 years in the United Kingdom (2016: 15.4 years), 14.1 years in the US (2016: 14.3 years) and 16.0 years in the other countries (2016: 16.5 years).

Risks

The funding ratio, the defined benefit obligation and the associated costs depend on the performance of financial markets. The return on plan assets is assumed to equal the discount rate, which is determined on the basis of the yield earned on AA-rated, fixed-interest senior corporate bonds. If the actual return on plan assets falls below the discount rates applied, the net obligation arising out of the pension plans increases. The amount of the net obligation is also particularly affected by the discount rates, and the current low level of interest rates – especially in the eurozone – is resulting in a comparatively large net obligation.

The plan assets are predominantly invested in corporate bonds and inflation-linked UK government bonds, particularly in the United Kingdom. The market risk attaching to plan assets – above all in the case of equities – is mitigated by defining an investment strategy and investment guidelines and constantly monitoring the assets' performance. Moreover, a downward trend in financial markets could have a significant effect on minimum funding requirements, some of which apply outside Germany.

The KION Group also bears the full risk of possible future pension adjustments resulting from changes in longevity and inflation.

Payroll-based contributions to the KION pension plan made by employees in Germany are invested in fund units. If the actual returns on these fund units fall below the rate of return of 3.0 per cent that has been guaranteed to participating employees, the KION Group's personnel expenses rise.

[30] FINANCIAL LIABILITIES

The financial liabilities reported by the KION Group as at 31 December 2017 essentially comprised interest-bearing liabilities to banks and a promissory note. The liabilities to banks were predominantly attributable to the loan for the financing of the Dematic acquisition and liabilities under the syndicated loan agreement.

> TABLE 088 shows the contractual maturity structure of the financial liabilities.

Maturity structure of financial liabilities TABLE 088

in € million	2017	2016
Liabilities to banks	**1,253.7**	**3,175.8**
due within one year	236.5	287.1
due in one to five years	1,017.2	2,888.6
due in more than five years	–	–
Promissory note	**1,007.3**	**–**
due within one year	–	–
due in one to five years	744.0	–
due in more than five years	263.3	–
Other financial liabilities to non-banks	**7.7**	**7.2**
due within one year	7.4	6.8
due in one to five years	0.3	0.4
due in more than five years	–	–
Total current financial liabilities	**243.9**	**293.9**
Total non-current financial liabilities	**2,024.8**	**2,889.1**

Liabilities to banks

Senior facilities agreement

KION GROUP AG signed a syndicated loan agreement (senior facilities agreement, SFA) of originally €1,500.0 million with a syndicate of international banks on 28 October 2015. The SFA comprised a revolving credit facility of €1,150.0 million and a fixed-term tranche of €350.0 million. The fixed-term tranche of €350.0 million, which had a variable interest rate and was due to mature in February 2019, was repaid in full ahead of schedule in 2017. As a result of the early repayment, deferred borrowing costs of €0.9 million were recognised under financial expenses.

On the reporting date, the SFA consisted solely of the revolving credit facility, which has a variable interest rate and will mature in February 2022. As at 31 December 2017, an amount of €184.7 million had been drawn down from the revolving credit facility, which includes other loan liabilities and contingent liabilities. The drawdowns under the revolving credit facility have been classified as short term.

Acquisition facilities agreement

On 4 July 2016, KION GROUP AG reached agreement with a group of banks on a bridge loan to finance the acquisition of Dematic (acquisition facilities agreement, AFA), originally in an amount of €3,000.0 million. This bridge loan was refinanced by means of two corporate actions in 2017, which means that the liabilities under the AFA as at 31 December 2017 consisted solely of a floating-rate loan of €1,000.0 million that is due to mature in October 2021.

The amount drawn down under the AFA as at 31 December 2016 was €2,543.2 million and was divided into three variable-rate tranches repayable as bullet payments on maturity: tranche A2 of

€343.2 million, tranche B of €1,200.0 million and the loan of €1,000.0 million. Tranche A2 and tranche B of the AFA were repaid in full in 2017. The funds for the repayment were provided by the promissory note issued in the first quarter of 2017 with a nominal amount totalling €1,010.0 million and the capital increase carried out in May 2017, which generated gross proceeds of €602.9 million (see also note [28]). In connection with the early repayment of these tranches, previously deferred borrowing costs of €2.5 million were recognised under financial expenses.

Promissory note

The promissory note issued in 2017 in an amount of €1,010.0 million is divided into three tranches with different maturities and floating-rate or fixed coupons: a tranche of €746.0 million maturing in May 2022, a tranche of €236.5 million maturing in April 2024 and a tranche of €27.5 million maturing in April 2027. Issuance of the promissory note resulted in directly attributable transaction costs of €3.1 million. These were deducted from the fair value of each tranche on initial recognition and will be expensed over subsequent periods.

The KION Group entered into a number of interest-rate derivatives in order to hedge the interest-rate risk resulting from the floating-rate tranches of the promissory note. The interest-rate derivatives are accounted for as cash flow hedges (see also note [40]).

The SFA, AFA and promissory note are not collateralised. KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the SFA and AFA.

Changes in net financial debt

The KION Group uses its net financial debt as a key internal figure for analysing the changes in its financial liabilities. Net financial debt is defined as the difference between financial liabilities and cash and cash equivalents.

The breakdown of the KION Group's net financial debt as at 31 December 2017 is shown in > TABLE 089.

Net financial debt TABLE 089

in € million	2017	2016
Liabilities to banks (gross)	1,259.6	3,188.6
Promissory note (gross)	1,010.0	–
Other financial liabilities to non-banks	7.7	7.2
./. Capitalised borrowing costs	–8.6	–12.9
Financial liabilities	**2,268.7**	**3,183.0**
./. Cash and cash equivalents	–173.2	–279.6
Net financial debt	**2,095.5**	**2,903.4**

> TABLE 090 gives details of the changes in financial liabilities and lists the applicable terms and conditions.

Credit terms TABLE 090

in € million	Interest rate	Notional amount 2017	Notional amount 2016	Maturity
Multicurrency Revolving Credit Facility (SFA)	EURIBOR + Margin	178.0	212.1	2022
Term Loan Facility B (SFA)	EURIBOR + Margin	–	350.0	2019
Bridge Loan Facility A2 (AFA)	EURIBOR + Margin	–	343.2	2018
Bridge Loan Facility B (AFA)	EURIBOR + Margin	–	1,200.0	2018
Term Loan Facility (AFA)	EURIBOR + Margin	1,000.0	1,000.0	2021
Promissory note (5 years term)	EURIBOR + Margin / fixed rate	746.0	–	2022
Promissory note (7 years term)	EURIBOR + Margin / fixed rate	236.5	–	2024
Promissory note (10 years term)	EURIBOR + Margin / fixed rate	27.5	–	2027
Other liabilities to banks	Various currencies and interest terms	81.6	83.3	
Other financial liabilities to non-banks		7.7	7.2	
./. Capitalised borrowing costs		–8.6	–12.9	
Total financial liabilities		**2,268.7**	**3,183.0**	

Covenants

Among other stipulations, the contractual terms of the SFA, AFA and promissory note set out certain covenants. In addition, there is a financial covenant that involves ongoing testing of adherence to a defined maximum level of leverage (the ratio of financial liabilities to EBITDA). Non-compliance with the covenants or with the defined maximum level of leverage as at a particular reporting date may potentially give lenders a right of termination or lead to an increase in interest payments.

All covenants were complied with in the past financial year, as had been the case in 2016.

[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 end customers.

The amounts recognised as lease liabilities (the present value of future minimum lease payments) are based on the following data: > TABLE 091

Whereas lease liabilities stood at €1,131.1 million (31 December 2016: €1,007.2 million), lease receivables arising from sale and leaseback transactions amounted to €739.1 million (31 December 2016: €663.4 million) and leased assets under sale and leaseback transactions totalled €420.8 million (31 December 2016: €367.5 million).

Future minimum lease payments TABLE 091

in € million	2017	2016
Total future minimum lease payments (gross)	**1,203.9**	**1,084.2**
due within one year	363.1	315.4
due in one to five years	806.1	737.6
due in more than five years	34.7	31.2
Present value of future minimum lease payments	**1,131.1**	**1,007.2**
due within one year	332.9	285.2
due in one to five years	764.3	691.9
due in more than five years	33.9	30.1
Interest included in future minimum lease payments	**72.8**	**77.0**

[32] OTHER PROVISIONS

Other provisions relate to the following items: > TABLE 092

Other provisions TABLE 092

in € million	Provisions for product warranties	Provisions for personnel	Other obligations	Total other provisions
Balance as at 01/01/2017	**69.5**	**110.9**	**75.4**	**255.7**
thereof non-current	18.1	50.6	23.7	92.3
thereof current	51.4	60.4	51.7	163.4
Group changes	0.0	0.2	0.2	0.4
Additions	45.1	40.8	31.9	117.8
Utilisations	–20.8	–52.5	–9.2	–82.5
Reversals	–12.4	–1.5	–21.3	–35.2
Additions to accrued interest	0.0	0.0	–0.0	0.0
Currency translation adjustments	–2.5	–0.6	–2.4	–5.5
Other adjustments	2.6	–1.4	–7.4	–6.1
Balance as at 31/12/2017	**81.6**	**95.8**	**67.2**	**244.6**
thereof non-current	21.8	53.8	20.1	95.6
thereof current	59.8	42.1	47.2	149.0

The provisions for product warranties include contractual and statutory obligations arising from the sale of industrial trucks, spare parts and automation solutions. It is expected that the bulk of the cash payments 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, obligations under social plans and obligations under the employee equity programmes. The provisions for partial retirement obligations are recognised on the basis of individual contractual arrangements and agreements under collective bargaining law.

Other obligations comprise, among others, provisions for restructuring, litigation and expected losses from onerous contracts.

Total restructuring provisions (including obligations under social plans and termination benefits) came to €12.7 million as at 31 December 2017 (31 December 2016: €28.5 million).

[33] TRADE PAYABLES

As at 31 December 2017, trade payables of €923.9 million (31 December 2016: €802.2 million) included liabilities to non-consolidated subsidiaries of €6.0 million (31 December 2016: €4.7 million) and liabilities to equity-accounted investments and other equity investments of €17.7 million (31 December 2016: €15.0 million).

[34] OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following items: > TABLE 093

Other financial liabilities TABLE 093

in € million	2017	2016
Liabilities from finance leases	382.3	341.7
Derivative financial instruments	1.9	–
Sundry other financial liabilities	23.6	7.5
Other non-current financial liabilities	**407.8**	**349.3**
Liabilities from finance leases	159.1	136.0
Liabilities for financial services	85.7	8.3
Derivative financial instruments	3.3	22.4
Liabilities from accrued interest	14.5	12.4
Sundry other financial liabilities	34.1	43.6
Other current financial liabilities	**296.7**	**222.6**
Total other financial liabilities	**704.5**	**571.9**

The non-current derivative financial instruments consist of a number of interest-rate derivatives that were entered into in order to hedge the interest-rate risk resulting from the floating-rate tranches of the promissory note. The current derivative financial instruments include a call option of Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg ('Weichai Power') on the 10 per cent equity investment of the KION Group in Linde Hydraulics amounting to €0.0 million (31 December 2016: €0.3 million).

The liabilities for financial services relate to the funding of the long-term leasing business.

The liabilities from finance leases comprise liabilities arising from the financing of industrial trucks for short-term rental of €493.8 million (31 December 2016: €440.0 million) and residual value obligations of €18.2 million (31 December 2016: €16.7 million). The KION Group has also recognised other financial liabilities amounting to €29.4 million (31 December 2016: €21.0 million) arising from procurement leases classified as finance leases due to their terms and conditions.

The liabilities from finance leases are based on the following future minimum lease payments: > TABLE 094

Future minimum lease payments TABLE 094

in € million	2017	2016
Total future minimum lease payments (gross)	**576.3**	**514.2**
due within one year	173.6	150.3
due in one to five years	383.7	350.6
due in more than five years	19.0	13.3
Present value of future minimum lease payments	**541.4**	**477.7**
due within one year	159.1	136.0
due in one to five years	363.7	329.0
due in more than five years	18.6	12.8
Interest included in future minimum lease payments	**34.8**	**36.5**

[35] OTHER LIABILITIES

Other liabilities comprise the following items: > TABLE 095

Other liabilities TABLE 095

in € million	2017	2016
Deferred income	235.7	202.8
Other non-current liabilities	**235.7**	**202.8**
Deferred income	76.2	74.9
Personnel liabilities	253.0	256.5
Social security liabilities	48.2	44.7
Tax liabilities	110.8	92.7
Advances received	68.5	72.6
Construction contracts with a net debit balance due to customers	264.0	300.7
Other current liabilities	**820.7**	**842.1**
Total other liabilities	**1,056.3**	**1,044.9**

Please refer to the details in note [26] for further information on construction contracts that had not yet been completed on the reporting date.

[36] CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities

The contingent liabilities include guarantees to external parties. In addition, guarantees of €1.6 million related to contingent liabilities assumed jointly with another shareholder of a joint venture (31 December 2016: €1.9 million). > TABLE 096

Litigation

The legal risks arising from the KION Group'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 they 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 believes it is unlikely that these ongoing lawsuits will require funds to be utilised that exceed the provisions recognised.

Contingent liabilities TABLE 096

in € million	2017	2016
Liabilities on bills of exchange	–	4.3
Liabilities on guarantees	48.2	86.2
Total contingent liabilities	**48.2**	**90.5**

Other financial commitments

Sundry other financial commitments included future payment obligations to an associate amounting to €1.3 million (31 December 2016: €1.3 million). > TABLE 097

The maturity structure of the total future minimum lease payments under non-cancellable operating leases is shown in > TABLE 098.

Other financial commitments TABLE 097

in € million	2017	2016
Commitments under non-cancellable operating leases	442.0	362.7
Commitments under licence and support agreements	56.1	58.5
Capital expenditure commitments in property, plant and equipment	51.6	30.0
Other financial commitments	14.2	15.4
Total other financial commitments	**563.9**	**466.6**

Future minimum lease payments TABLE 098

in € million	2017	2016
Nominal future minimum lease payments (gross)	**442.0**	**362.7**
due within one year	96.1	85.5
due in one to five years	192.8	169.4
due in more than five years	153.0	107.8

The future 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). > TABLE 099

The future minimum lease payments for sale and leaseback transactions not recognised in the statement of financial position amounting to €29.4 million (31 December 2016: €43.6 million) are partially offset by receipts under non-cancellable sub-leases amounting to €2.4 million (31 December 2016: €6.3 million). The future payments also include obligations arising from the refinancing of industrial trucks for which there were no offsetting receipts under short-term sub-leases as at the reporting date.

Future minimum lease payments broken down into procurement leases & sale and leaseback sub-leases TABLE 099

	Procurement leases		Sale and leaseback sub-leases	
in € million	2017	2016	2017	2016
Future minimum lease payments (cash out)	**412.5**	**319.1**	**29.4**	**43.6**
due within one year	80.4	67.0	15.7	18.5
due in one to five years	179.2	144.7	13.6	24.8
due in more than five years	153.0	107.4	0.0	0.4
Future minimum lease payments (cash in)	**–**	**–**	**2.4**	**6.3**
due within one year	–	–	1.7	2.2
due in one to five years	–	–	0.7	4.1
due in more than five years	–	–	–	0.0

Other disclosures

[37] 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 earnings before interest and taxes for the year is adjusted for non-cash operating items.

The KION Group's net cash provided by operating activities totalled €615.8 million, which was significantly higher than the prior-year figure (2016: €414.3 million). This increase was attributable to contributions from operating profit and other incoming payments. The effect was amplified because, unlike in the prior year, Dematic made contributions to operations for twelve months in 2017. The higher net working capital, the rise in the volume of rentals and leasing, and higher tax payments were fully offset as a result. Furthermore, expenses of €63.1 million in connection with the Dematic transaction had been recognised and negatively impacted cash flow from operating activities at the end of 2016.

Net cash used for investing activities amounted to €237.6 million (2016: net cash used of €2,264.3 million). The main influence on the prior-year figure was the net cash outflow of €2,091.1 million for the acquisition of Dematic. Smaller acquisitions were carried out in 2017, the total cash payments for which came to €13.3 million net. Cash payments for development (R&D) and for property, plant and equipment amounted to €218.3 million (2016: €166.7 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – improved to €378.3 million in the reporting period (2016: minus €1,850.0 million). The prior-year figure had been influenced by acquisitions.

The net cash used for financing activities was €472.5 million. In 2016, cash flow from financing activities had amounted to a significant positive balance of €2,026.3 million, caused by the refinancing of the acquisition of Dematic. The decline in the reporting year is primarily due to the net repayment of financial debt in an amount of €914.7 million, which outweighed the inflows from the capital increase of €598.6 million. While financial debt taken on during the year came to €2,425.3 million, repayments totalled €3,340.0 million. Net cash of €50.6 million was also used for interest payments (2016: net cash used of €68.3 million). The costs of obtaining financing in the year under review amounted to €7.4 million (2016: €23.2 million). The distribution of a dividend of €0.80 per share (2016: €0.77 per share) resulted in a cash outflow of €86.9 million (2016: €76.0 million), while the acquisition of 60,000 treasury shares required an outflow of €4.3 million. Additional information for 2017 on the changes to liabilities arising from financing activities can be found in > TABLE 100.

Reconciliation of liabilities arising from financing activities TABLE 100

in € million	01/01/2017	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Other changes	31/12/2017
Non-current financial liabilities	2,889.1	–860.5	–0.5	–3.2	2,024.8
Current financial liabilities	293.9	–54.2	–4.4	8.5	243.9
Liabilities from accrued interest	12.4	–58.1	–0.0	60.3	14.5
Liabilities from procurement leases	21.0	–11.8	–0.4	20.5	29.4
Total liabilities financial activities	**3,216.4**	**–984.6**	**–5.3**	**86.1**	**2,312.5**

Partly due to negative currency effects of €12.2 million (2016: positive currency effects of €0.2 million), this resulted overall in a decrease in cash and cash equivalents, which fell from €279.6 million at the end of 2016 to €173.2 million as at 31 December 2017. > TABLE 042

[38] 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 tables show the measurement categories defined by IAS 39. In line with IFRS 7, the tables show the carrying amounts and fair values of financial assets and liabilities. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories and are therefore not included in > TABLES 101 – 102.

Carrying amounts broken down by class and category 2017

TABLE 101

Classes	Carrying amount	Categories					Fair value
		FAHfT	AfS	LaR	FLaC	FLHfT	
in € million							
Financial assets							
Investments in non-consolidated subsidiaries and other investments	36.0		36.0				36.0
Loans receivable	2.2			2.2			2.2
Financial receivables	30.3			30.3			30.3
Other financial investments	18.9		0.5	18.4			18.9
Lease receivables[1]	875.8						878.3
Trade receivables	1,094.1			999.4			1,094.1
thereof construction contracts with a net credit balance due from customers[2]	94.7						94.7
Other financial receivables	88.7						88.7
thereof non-derivative receivables	58.7			58.7			58.7
thereof derivative financial instruments	30.0	22.2					30.0
Cash and cash equivalents	173.2			173.2			173.2
Financial liabilities							
Liabilities to banks	1,253.7				1,253.7		1,259.6
Promissory note	1,007.3				1,007.3		1,021.0
Other financial liabilities to non-banks	7.7				7.7		7.7
Lease liabilities[1]	1,131.1						1,135.5
Trade payables	923.9				923.9		923.9
Other financial liabilities	704.5						706.6
thereof non-derivative liabilities	157.8				157.8		157.8
thereof liabilities from finance leases[1]	541.4						543.6
thereof derivative financial instruments	5.2					1.0	5.2

1 as defined by IAS 17
2 as defined by IAS 11

Carrying amounts broken down by class and category 2016

TABLE 102

Classes	Carrying amount	Categories					Fair value
		FAHfT	AfS	LaR	FLaC	FLHfT	
in € million							
Financial assets							
Investments in non-consolidated subsidiaries and other investments	22.2		22.2				22.2
Loans receivable	4.6			4.6			4.6
Financial receivables	21.3			21.3			21.3
Other financial investments	20.7		0.5	20.2			20.7
Lease receivables[1]	731.5						740.8
Trade receivables	998.9			895.9			998.9
thereof construction contracts with a net credit balance due from customers[2]	103.1						103.1
Other financial receivables	60.6						60.6
thereof non-derivative receivables	50.3			50.3			50.3
thereof derivative financial instruments	10.3	7.5					10.3
Cash and cash equivalents	279.6			279.6			279.6
Financial liabilities							
Liabilities to banks	3,175.8				3,175.8		3,188.6
Other financial liabilities to non-banks	7.2				7.2		7.2
Lease liabilities[1]	1,007.2						1,017.5
Trade payables	802.2				802.2		802.2
Other financial liabilities	571.9						576.7
thereof non-derivative liabilities	71.8				71.8		71.8
thereof liabilities from finance leases[1]	477.7						482.5
thereof derivative financial instruments	22.4					13.8	22.4

1 as defined by IAS 17
2 as defined by IAS 11

The change in valuation allowances for trade receivables is presented in > TABLE 103.

The net gains and losses on financial instruments are broken down by IAS 39 category as shown in > TABLE 104.

In 2017, the net gains and losses on available-for-sale financial instruments included, for the first time, gains of €8.5 million arising on the measurement of the equity investment in Balyo SA. These gains were recognised in other comprehensive income (loss). Gains and losses on financial instruments do not include gains/losses arising on hedging transactions that are part of a documented hedge (see also note [40]).

As at the reporting date, the KION Group's trade receivables of €0.4 million (31 December 2016: €1.6 million) were actually offset by trade payables of the same amount. In addition, there was a potential offsetting volume of €3.1 million in connection with derivative financial instruments as at 31 December 2017 (31 December 2016: €4.5 million). The potential offsetting volume essentially arose from netting arrangements in framework agreements governing derivatives trading that the KION Group had entered into with commercial banks.

Change in valuation allowances

TABLE 103

in € million	2017	2016
Valuation allowances as at 01/01/	**40.4**	**38.5**
Additions (cost of valuation allowances)	20.6	10.8
Reversals	–6.3	–4.1
Utilisations	–2.4	–5.0
Currency translation adjustments	–1.2	0.2
Valuation allowances as at 31/12/	**51.1**	**40.4**

Net gains and losses on financial instruments broken down by category

TABLE 104

in € million	2017	2016
Loans and receivables (LaR)	–7.3	3.2
Available-for-sale investments (AfS)	15.1	6.2
Financial instruments held for trading (FAHfT, FLHfT)	35.8	–17.6
Financial liabilities carried at amortised cost (FLaC)	–94.6	–57.1

Fair value measurement

The majority of the cash and cash equivalents, financial receivables, 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 are roughly equal to their fair values. The fair value of liabilities to banks and the promissory note corresponds to the present value of the outstanding payments, taking account of the current interest-rate curve and the Group's own default risk. This fair value, calculated for the purposes of disclosure in the notes to the financial statements, is classified as Level 2 of the fair value hierarchy.

The fair value of lease receivables, lease liabilities and liabilities from finance leases corresponds to the present value of the net lease payments, taking account of the current market interest rate for similar leases.

The following tables show the assignment of fair values to the individual classification levels as defined by IFRS 7 for financial instruments measured at fair value. > TABLES 105–106

Level 1 comprises the equity investment in Balyo SA as well as other financial assets for which the fair value is calculated using prices quoted in an active market.

Interest-rate swaps and currency forwards are classified as Level 2. The fair value of derivative financial instruments is determined by the system using appropriate valuation methods on the basis of the observable market information at the reporting date. The default risk for the Group and for the counterparty is taken into account on the basis of gross figures. The fair value of interest-rate swaps is calculated as the present value of the future cash flows. Both contractually agreed payments and forward interest rates are used to calculate the cash flows, which are then discounted on the basis of a yield curve that is observable in the market. The fair value of the currency forwards is calculated by the system using the discounting method based on forward rates on the reporting date.

The derivative financial liabilities allocated to Level 3 relate to a call option of Weichai Power on the 10 per cent shareholding of the KION Group in Linde Hydraulics. The Black-Scholes model and probability-weighted scenario analysis were used to calculate the fair value of the call option. As at 31 December 2017, the fair value calculated for the call option on the shares in Linde Hydraulics came to minus €0.0 million (31 December 2016: minus

Financial instruments measured at fair value TABLE 105

	Fair Value Hierarchy			
in € million	Level 1	Level 2	Level 3	2017
Financial assets				**42.1**
thereof non-consolidated subsidiaries and other financial investments	11.7			11.7
thereof other financial investments	0.5			0.5
thereof derivative instruments		30.0		30.0
Financial liabilities				**5.2**
thereof derivative instruments		5.2	0.0	5.2

Financial instruments measured at fair value

TABLE 106

in € million	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	2016
Financial assets				**10.8**
thereof other financial investments	0.5			0.5
thereof derivative instruments		10.3		10.3
Financial liabilities				**22.4**
thereof derivative instruments		22.1	0.3	22.4

€0.3 million). Unrealised gains of €0.3 million in connection with the call option were recognised in net financial income / expenses in 2017 (2016: €0.3 million). As at the reporting date, a change in the fair value of the shares in Linde Hydraulics would not have had any material effect on profit or loss as a consequence of the change in the fair value of the call option.

In order to eliminate default risk to the greatest possible extent, the KION Group only enters into derivatives with investment-grade counterparties.

If events or changes in circumstances make it necessary to reclassify financial instruments to a different level, they are reclassified at the end of a reporting period. As had been the case in 2016, no financial instruments were transferred between Levels 1, 2 or 3 in 2017.

[39] 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. Close cooperation between local units and the Group head office ensures that the local legal and regulatory requirements faced by foreign Group companies are taken into account in capital management.

Net financial debt – defined as the difference between financial liabilities and cash and cash equivalents – is the key performance measure used in liquidity planning at Group level (see note [30]) and amounted to €2,095.5 million as at 31 December 2017 (31 December 2016: €2,903.4 million).

The financial liabilities reported by the KION Group as at 31 December 2017 consisted of liabilities under the syndicated loan agreement (SFA), liabilities under the loan for the financing of the Dematic acquisition (AFA) and a promissory note. The SFA comprises a variable-rate revolving credit facility of €1,150.0 million maturing in February 2022. A fixed-term tranche originally agreed under the SFA, which had a volume of €350.0 million and was due to mature in February 2019, was repaid in full ahead of schedule in 2017 (see note [30]).

As at 31 December 2017, the drawdown under the AFA consisted of a floating-rate bullet loan of €1,000.0 million maturing in October 2021. A year earlier, the amount drawn down under the AFA was €2,543.2 million and also included two variable-rate tranches repayable as bullet payments on maturity that were repaid in full ahead of schedule in 2017: tranche A2 of €343.2 million and tranche B of €1,200.0 million. The funds used for the repayment came from two corporate actions carried out in 2017. In the first quarter of 2017, a promissory note with a nominal value totalling €1,010.0 million was issued. In May 2017, a capital increase was implemented that generated gross proceeds of €602.9 million (see also note [28]).

Taking into account credit facilities that had not yet been utilised, the unrestricted cash and cash equivalents available to the KION Group as at 31 December 2017 amounted to €1,138.0 million (31 December 2016: €1,200.8 million).

Default 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 defined as the risk that a counterparty will default, and hence is limited to a maximum of the carrying amount of the assets relating to the counterparty involved. Default 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. The potential default risk attaching to financial assets is also mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees, and potential netting agreements. Counterparty risks involving our customers are managed by the individual Group companies. Financial transactions are only entered into with selected partners holding good credit ratings. Investments in interest-bearing securities are limited to securities with an investment-grade credit rating.

> TABLE 107 shows the age structure of receivables as at the reporting date.

Specific valuation allowances for defaults are recognised to reflect the risk arising from primary financial instruments. Valuation allowances are based on the credit risk associated with the receivables, the risk being assessed mainly using factors such as customer credit rating and failure to adhere to payment terms.

Some of the receivables that were overdue as at the reporting date, but for which no valuation allowances had been recognised, were offset by corresponding trade payables. Apart from this item, the Group did not hold any significant collateral.

Age structure analysis of receivables TABLE 107

in € million	Carrying amount	Thereof: Neither overdue nor impaired at the reporting date	Thereof: Impaired at the reporting date	Thereof: Not impaired at the reporting date and overdue in the following timebands: up to and including 90 days overdue	Thereof: Not impaired at the reporting date and overdue in the following timebands: more than 90 days overdue
2017					
Financial receivables	30.3	30.3	–	–	–
Lease receivables	875.8	875.8	–	–	–
Trade receivables	1,094.1	870.8	9.8	201.3	12.1
Other non-derivative receivables	58.7	55.9	1.9	0.0	0.9
2016					
Financial receivables	21.3	21.3	–	–	–
Lease receivables	731.5	731.5	–	–	–
Trade receivables	998.9	764.0	67.2	153.7	14.0
Other non-derivative receivables	50.3	46.6	0.6	0.0	3.1

Liquidity risk

Based on the definitions in IFRS 7, a liquidity risk arises if an entity 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 continually. In January 2017, the KION Group received an investment-grade rating for the first time. Fitch Ratings gave the Group a long-term issuer rating of BBB– with a stable outlook in recognition of its improved financial profile, high level of profitability and stable free cash flow. In September 2017, rating agency Standard & Poor's raised its credit rating for the KION Group from BB+ with a stable outlook to BB+ with a positive outlook.

The following tables show all of the contractually agreed undiscounted payments under recognised financial liabilities as at 31 December 2017 and 2016, including derivative financial instruments with negative fair values. > TABLES 108–109

Liquidity analysis of financial liabilities and derivatives 2017

TABLE 108

in € million	Carrying amount 2017	Cash flow 2018	Cash flow 2019–2022	Cash flow from 2023
Primary financial liabilities				
Liabilities to banks	1,253.7	–267.1	–1,083.2	–
Promissory note	1,007.3	–	–788.8	–295.5
Other financial liabilities to non-banks	7.7	–7.4	–0.3	–
Lease liabilities	1,131.1	–363.1	–806.1	–34.7
Trade payables	923.9	–923.9	–	–
Other financial liabilities	699.3	–331.4	–383.7	–19.0
Derivative financial liabilities				
Derivatives with negative fair value	5.2			
+ Cash in		182.5	16.2	2.6
– Cash out		–189.9	–18.9	–1.6

Liquidity analysis of financial liabilities and derivatives 2016

TABLE 109

in € million	Carrying amount 2016	Cash flow 2017	Cash flow 2018–2021	Cash flow from 2022
Primary financial liabilities				
Liabilities to banks	3,175.8	–293.1	–3,026.5	–
Other financial liabilities to non-banks	7.2	–6.8	–0.4	–
Lease liabilities	1,007.2	–315.4	–737.6	–31.2
Trade payables	802.2	–802.2	–	–
Other financial liabilities	549.4	–222.1	–350.6	–13.3
Derivative financial liabilities				
Derivatives with negative fair value	22.1			
+ Cash in		452.7	210.7	–
– Cash out		–472.6	–222.8	–

The calculation of future cash flows for derivative financial liabilities includes all currency forwards that have negative fair values as at the reporting date.

In 2017, the KION Group sold financial assets with a total value of €132.0 million (2016: €101.3 million) in factoring transactions. In some cases, the KION Group retains insignificant rights and duties in connection with fully derecognised financial assets, primarily the provision of limited reserves for defaults. The recognised assets that serve as reserves for defaults and are reported under other current financial assets stood at €2.6 million as at 31 December 2017 (31 December 2016: €1.4 million). The short residual maturity of these financial assets means their carrying amount was almost the same as their fair value. The maximum downside risk arising on the transferred and fully derecognised financial assets amounted to €16.2 million as at 31 December 2017 (31 December 2016: €7.4 million).

Risks arising from financial services

The leasing activities of the Industrial Trucks & Services segment mean that the KION Group 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. The KION Group regularly assesses its aggregate 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 the KION Group'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 financial results in 2017. Groupwide 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 attaching to financial services by ensuring that most of its transactions and funding loans have matching maturities and by constantly updating its liquidity planning. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

In order to exclude currency risk, the KION Group 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 Group. The KION Group has not identified any material changes between 2016 and 2017. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. In addition, receivables management has been improved by enhancing the dunning process. The credit portfolio management system was updated during 2017. Besides the design of the business processes, it also encompassed the risk management and control processes.

Moreover, the KION Group offers the majority of financial services indirectly via selected financing partners that bear the risks of the finance transaction. As far as these financial services are concerned, the KION Group bore the counterparty risk in under 3 per cent of cases (2016: 3 per cent).

Currency 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 AG using prescribed hedging ratios.

The main hedging instruments employed are foreign-currency forwards, provided that there are no country-specific restrictions on their use.

In the Industrial Trucks & Services segment, hedges are entered into at company level 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. Currency risk arising from customer-specific construction contracts in the Supply Chain Solutions segment is hedged at individual company level on a project basis. Some of these hedges are classified as cash flow hedges for accounting purposes in accordance with IAS 39 (see note [40]).

The hedging that had still been in place in 2016 for the currency risk arising on translation of a foreign subsidiary's financial statements into the Group's reporting currency (net investment hedge) expired at the start of 2017 (see note [40]).

In addition, foreign-currency forwards are employed to hedge the currency risks arising in the course of internal financing. > TABLE 110 shows an overview of the foreign-currency forwards entered into by the KION Group.

Significant currency risk arising from financial instruments is measured using a currency sensitivity method. Currency risks from financial instruments as defined by IFRS 7 are only included in calculating currency sensitivity if the financial instruments are denominated in a currency other than the functional currency of the reporting entity concerned. This means that currency risks resulting from the translation of the separate financial statements of subsidiaries into the Group reporting currency, i.e. currency translation risks, are not included.

Foreign-currency forwards TABLE 110

		Fair value		Notional amount	
in € million		2017	2016	2017	2016
Foreign-currency forwards (assets)	Hedge accounting	7.8	2.9	224.8	83.1
	Held for trading	22.1	7.5	502.1	552.7
Foreign-currency forwards (liabilities)	Hedge accounting	2.3	8.7	100.3	279.3
	Held for trading	1.0	13.5	95.3	384.4

Currency risk relevant to currency sensitivity in the KION Group arises mainly in connection with derivative financial instruments, trade receivables and trade payables. It is assumed that the portfolio of financial instruments as at the reporting date is representative of the portfolio over the whole of the year. The sensitivity analysis for the relevant currencies is shown in > TABLE 111. The table shows the after-tax impact from changes in exchange rates considered to be possible (+10 per cent: increase in the value of the euro against the other currencies of 10.0 per cent; –10 per cent: fall in the value of the euro against the other currencies of 10.0 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.

Foreign-currency sensitivity TABLE 111

	Net income		Other comprehensive loss (income)	
	+10%	–10%	+10%	–10%
in € million **2017**				
GBP	0.2	–0.3	9.2	–11.2
USD	11.4	–13.9	5.1	–6.3
in € million **2016**				
GBP	2.2	–2.7	7.7	–9.5
USD	12.9	–16.1	3.6	–4.4

Some of the Group's financing takes the form of floating-rate financial liabilities. Interest-rate swaps were entered into in 2017 in order to hedge the resultant interest-rate risk. > TABLE 112 provides an overview of the interest-rate derivatives used by the KION Group.

A shift in the relevant yield curve of +/– 50 basis points (bps) (2016: +/–50 bps) was simulated to assess interest-rate risk. The cumulative effect after tax resulted from variable-rate exposures and is shown in > TABLE 113.

[40] HEDGE ACCOUNTING

Hedging currency risk

In accordance with its treasury risk policy, the KION Group applies cash flow hedge accounting in hedging the currency risks arising from highly probable future transactions and firm obligations not reported in the statement of financial position in various currencies. Foreign-currency forwards 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 forwards is recognised in accumulated other comprehensive income (loss) and only reversed when the corresponding hedged item is recognised in income.

On account 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 despatched or received. Until the corresponding payment is received, changes in the fair value of the derivative are recognised in the income statement such that they largely offset the effect of the measurement of the foreign-currency receivable or liability at the reporting date.

The changes in fair value recognised and reclassified in other comprehensive income in 2017 are shown in the consolidated

Interest-rate swaps TABLE 112

in € million		Fair value 2017	Fair value 2016	Notional amount 2017	Notional amount 2016
Interest-rate swaps (assets)	Hedge accounting	–	–	–	–
	Held for trading	0.1	–	50.0	–
Interest-rate swaps (liabilities)	Hedge accounting	1.9	–	760.0	–
	Held for trading	–	–	–	–

Interest-rate sensitivity TABLE 113

	+50 bps	−50 bps	+50 bps	−50 bps
in € million	2017	2017	2016	2016
Net income	0.0	−1.2	−1.1	−0.9
Other comprehensive loss (income)	9.9	−4.9	–	–

statement of comprehensive income. In matching transactions with the recognition of the hedged item, income from hedging transactions amounting to €1.5 million (2016: €0.1 million) was reclassified to revenue, and an amount of €4.0 million (2016: €14.1 million) was reclassified to cost of sales. There were no significant ineffective portions in 2017, as had been the case in the previous year.

In total, foreign-currency cash flows of €325.2 million (2016: €362.4 million) were hedged and designated as hedged items, of which €306.7 million is expected by 31 December 2018 (2016: €357.3 million expected by 31 December 2017). The remaining cash flows designated as hedged items fall due in the period up to 31 December 2019 (2016: 31 December 2018).

The hedging that had still been in place in 2016 for the currency risk arising on translation of a foreign subsidiary's financial statements into the Group's reporting currency (net investment hedge) expired at the start of 2017. Only the spot rate element of the foreign-currency forward was designated as the hedging instrument. In the reporting year, an unrealised loss of €0.2 million (2016: unrealised gain of €2.2 million) was recognised in other comprehensive income (loss) in connection with this hedging. This effective portion of the hedge recognised in other comprehensive income (loss) is not reversed and recognised in the income statement until the foreign operation is sold. There were no ineffective portions of the net investment hedge in 2017, as had also been the case in 2016. The effectiveness of the Group's hedging transaction was determined on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. In 2017, an expense of €0.7 million (2016: €3.2 million) arising in connection with the interest element of the foreign-currency forward was recognised under financial expenses.

In 2016, the KION Group had made use of transaction-related foreign-currency forwards to hedge currency risk in connection with the acquisition of Dematic. The notional amount of these currency forwards totalled €2.3 billion. Currency forwards with a total notional amount of €1.9 billion served to hedge the purchase price obligation for the shares and were accounted for as cash flow hedges. The resulting changes in exchange rates were included in the reclassified changes in fair value under gains/losses on hedge reserves and were recognised as a basis adjustment.

Hedging of interest-rate risk

The KION Group uses cash flow hedge accounting in connection with the hedging of interest-rate risk.

The KION Group issued a promissory note in 2017 as part of its financing. It hedged the interest-rate risk arising on the variable-rate tranches of the promissory note by entering into a number of interest-rate swaps, thereby transforming the variable interest-rate exposure into fixed-rate obligations.

The effectiveness of the Group's hedging transactions is assessed using the hypothetical derivative approach under the cumulative dollar-offset method. In 2017, the effective portion of the changes in fair value of the interest-rate swaps resulted in an unrealised loss of €1.3 million, which was recognised – after taking deferred taxes into account – in other comprehensive income (loss). There were no ineffective portions.

In total, variable cash flows of €12.9 million were hedged and designated as hedged items, of which €10.2 million relates to cash flows that are expected in 2019 to 2022. The remaining cash flows of €2.6 million are likely to materialise from 2023 onwards.

The KION Group did not have any interest-rate hedges in 2016.

[41] SEGMENT REPORT

The Executive Board, as the chief operating decision-maker (CODM), manages the KION Group on the basis of the following segments: Industrial Trucks & Services, Supply Chain Solutions and Corporate Services. Segment reporting therefore takes into account the organisational and strategic focus of the KION Group.

Description of the segments

Industrial Trucks & Services

So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers key steps of the value chain: product development, manufacturing, sales and service, truck rental and used trucks, fleet management and financial services that support the core industrial truck business. The segment operates a multi-brand strategy involving the three international brands Linde, STILL and Baoli plus the national brands Fenwick, OM STILL and OM Voltas.

Supply Chain Solutions

The Supply Chain Solutions segment, with its Dematic Operating Unit, is a strategic partner to customers in a variety of industries, supplying them with integrated technology and software solutions with which to optimise their supply chains. Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking and value-added packing. This segment is primarily involved in customer-specific, longer-term project business operated under the leadership of the Dematic brand name. With global resources, ten production facilities worldwide and regional teams of experts, Dematic is able to plan and deliver logistics solutions with varying degrees of complexity anywhere in the world.

Corporate Services

The Corporate Services segment comprises the other activities of the holding and service companies in the KION Group. The service companies provide services for all segments in the KION Group. The bulk of the total revenue in this segment is generated by internal IT and logistics services.

Segment management

The KPIs used to manage the segments are order intake, revenue and adjusted EBIT. Segment reporting therefore includes a reconciliation of externally reported consolidated earnings before interest and tax (EBIT) – including effects from purchase price allocations and non-recurring items – to the adjusted EBIT for the segments ('adjusted EBIT'). Intra-group transactions are generally conducted on an arm's-length basis. Segment reports are prepared in accordance with the same accounting policies as the consolidated financial statements, as described in note [7].

> TABLES 114–115 show information on the KION Group's operating segments for 2017 and 2016.

Segment report 2017

TABLE 114

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation / Reconciliation	Total
Revenue from external customers	5,626.9	2,001.8	24.8	–	7,653.6
Intersegment revenue	4.0	4.5	241.8	–250.3	–
Total revenue	5,630.9	2,006.3	266.6	–250.3	7,653.6
Earnings before taxes	**592.3**	**–21.9**	**485.6**	**–587.7**	**468.3**
Financial income	48.1	66.8	49.3	–32.0	132.2
Financial expenses	–93.4	–64.8	–86.0	30.8	–213.3
= Net financial expenses / income	–45.3	2.0	–36.6	–1.1	–81.1
EBIT	**637.6**	**–23.8**	**522.2**	**–586.5**	**549.4**
+ Non-recurring items	1.7	29.9	8.5	0.0	40.1
+ PPA items	0.9	175.3	0.0	–	176.2
= Adjusted EBIT	**640.1**	**181.4**	**530.7**	**–586.5**	**765.6**
Segment assets	8,117.1	4,690.1	1,787.8	–3,366.5	11,228.4
Segment liabilities	5,240.4	1,970.3	4,243.7	–3,374.8	8,079.6
Carrying amount of equity-accounted investments	80.3	0.0	0.0	–	80.3
Profit from equity-accounted investments	13.6	0.0	0.0	–	13.6
Capital expenditure [1]	153.7	47.0	17.5	–	218.3
Amortisation and depreciation [2]	113.3	191.3	15.4	–	319.9
Order intake	5,859.5	2,099.2	266.6	–246.2	7,979.1
Number of employees [3]	24,090	6,820	698	–	31,608

1 Capital expenditure including capitalised development costs, excluding leased and rental assets
2 On intangible assets and property, plant and equipment excluding leased and rental assets
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

Segment report 2016 TABLE 115

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation / Reconciliation	Total
Revenue from external customers	5,200.5	364.7	22.1	–	5,587.2
Intersegment revenue	2.1	1.3	220.0	–223.4	–
Total revenue	5,202.6	366.0	242.0	–223.4	5,587.2
Earnings before taxes	**511.7**	**–42.8**	**230.6**	**–360.4**	**339.2**
Financial income	52.2	7.5	44.7	–15.5	88.9
Financial expenses	–93.5	–18.6	–89.0	16.5	–184.5
= Net financial expenses / income	–41.3	–11.1	–44.3	1.1	–95.7
EBIT	**553.0**	**–31.7**	**274.9**	**–361.5**	**434.8**
+ Non-recurring items	5.4	5.7	31.0	–0.0	42.2
+ PPA items	28.5	31.9	0.0	–	60.4
= Adjusted EBIT	**586.9**	**6.0**	**305.9**	**–361.5**	**537.3**
Segment assets	8,914.0	5,144.9	1,588.2	–4,350.1	11,297.0
Segment liabilities	4,700.9	2,550.3	5,910.7	–4,360.6	8,801.3
Carrying amount of equity-accounted investments	72.7	0.0	0.0	–	72.7
Profit from equity-accounted investments	6.5	0.0	0.0	–	6.5
Capital expenditure [1]	142.7	9.4	14.5	–	166.7
Amortisation and depreciation [2]	137.1	36.7	17.6	–	191.4
Order intake	5,383.2	431.2	242.0	–223.3	5,833.1
Number of employees [3]	23,064	6,810	670	–	30,544

1 Capital expenditure including capitalised development costs, excluding leased and rental assets
2 On intangible assets and property, plant and equipment excl. leased and rental assets
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

External revenue by region is presented in > TABLE 116.

Revenue in Germany came to €1,423.1 million in 2017 (2016: €1,321.1 million). 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 comprised consultancy costs – in particular costs relating to the acquisition and integration of Dematic – and, in the previous year, start-up costs for the new plant in Monterrey, Mexico. They totalled €40.1 million in 2017 (2016: €42.2 million).

The effects from purchase price allocations comprised net write-downs and other expenses in relation to the hidden reserves and charges identified as part of the acquisition processes.

Capital expenditure includes additions to intangible assets and property, plant and equipment. Leased assets are described in note [18]. > TABLE 117

Capital expenditure in Germany came to €122.6 million in 2017 (2016: €100.9 million).

Revenue with third parties broken down by customer location TABLE 116

in € million	2017	2016
Western Europe	4,627.8	3,982.7
Eastern Europe	537.9	459.6
Middle East and Africa	152.9	100.3
North America	1,266.5	295.9
Central and South America	163.1	148.6
Asia-Pacific	905.5	600.1
Total revenue	**7,653.6**	**5,587.2**

Capital expenditures broken down by company location (excl. leased and rental assets) TABLE 117

in € million	2017	2016
Western Europe	162.8	133.4
Eastern Europe	6.6	3.7
Middle East and Africa	0.6	0.2
North America	31.6	16.6
Central and South America	3.5	1.0
Asia-Pacific	13.3	11.8
Total capital expenditures	**218.3**	**166.7**

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 shown in > TABLE 118.

Non-current assets attributable to Germany amounted to €3,143.7 million as at 31 December 2017 (31 December 2016: €3,058.4 million).

[42] EMPLOYEES

The KION Group employed an average of 31,064 full-time equivalents (including trainees and apprentices) in the reporting year (2016: 24,957). The number of employees (with part-time staff included on a pro rata basis) is shown by region in > TABLE 119.

The KION Group employed an average of 541 trainees and apprentices in 2017 (2016: 536).

Non-current assets broken down by company location* TABLE 118

in € million	2017	2016
Western Europe	4,369.6	4,209.3
Eastern Europe	200.7	152.2
Middle East and Africa	6.5	6.6
North America	2,380.0	2,838.4
Central and South America	90.7	104.0
Asia-Pacific	519.6	548.5
Total non-current assets (IFRS 8)	**7,567.0**	**7,858.9**

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

Employees (average) TABLE 119

	2017	2016
Germany	9,127	8,460
France	3,508	3,293
UK	2,396	1,937
Italy	1,094	899
Rest of Europe	5,100	4,437
USA	3,038	801
Asia	4,267	3,845
Rest of world	2,534	1,286
Total employees	**31,064**	**24,957**

[43] 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 non-consolidated subsidiaries, joint ventures and associates in the course of its ordinary business activities.

The related parties that are solely or jointly controlled by the KION Group or over which significant influence can be exercised are included in the list of shareholdings as at 31 December 2017 (see note [47]).

Another related party is Weichai Power Co. Ltd., Weifang, China, which indirectly holds a 43.3 per cent stake in KION GROUP AG. Since 2017, it has therefore had a majority at the Annual General Meeting and can exercise control over the KION Group. In the context of the capital increase in May 2017, Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg ('Weichai Power'), acquired 4,023,275 of the new shares in line with its stake in KION GROUP AG, which remained unchanged at 43.3 per cent. The distribution of a dividend of €0.80 per share to the shareholders of Weichai Power resulted in an outflow of funds from KION GROUP AG of €37.7 million.

The revenue that the KION Group generated in 2017 and 2016 from selling goods and services to related parties, and vice versa, is shown in > TABLES 120–121 along with the associated receivables and liabilities as at the reporting date. The receivables include a loan that the KION Group has granted to Linde Hydraulics GmbH & Co. KG, Aschaffenburg. The commitment included an amount of €9.3 million (31 December 2016: €5.3 million). This resulted in a loan receivable for the KION Group of €8.0 million as at 31 December 2017 (31 December 2016: €4.0 million); it has a variable interest rate. No valuation allowances for trade receivables had been recognised as at the reporting date, a situation that was unchanged on the end of 2016.

The members of the Executive Board and Supervisory Board of KION GROUP AG are also related parties. Details of the remuneration of the Executive Board and Supervisory Board can be found in note [45].

In its consolidated financial statements, which are published on the website of the Hong Kong Stock Exchange, Weichai Power Co. Ltd. states that its highest-level parent company is Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China, which itself is owned by Shandong Province and thus the People's Republic of China. The exemption for government-related entities were applied. There were no transactions that were significant, either individually or taken together, between the KION Group and companies with which the KION Group is closely associated solely because of its relationship with Shandong Heavy Industry Group Co., Ltd.

Related party disclosures 2017 TABLE 120

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	28.7	15.7	31.1	21.7
Associates (equity-accounted)	25.1	11.2	158.1	126.4
Joint ventures (equity-accounted)	1.5	60.1	56.8	83.2
Other related parties*	10.9	2.7	23.5	7.7
Total	**66.2**	**89.7**	**269.4**	**239.0**

* 'Other related parties' include, among others, transactions with Weichai Power and its affiliated companies

Related party disclosures 2016 TABLE 121

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	22.8	13.1	24.7	19.7
Associates (equity-accounted)	19.7	9.2	163.0	121.1
Joint ventures (equity-accounted)	2.3	54.4	50.7	77.4
Other related parties*	4.7	1.6	15.1	18.2
Total	**49.5**	**78.3**	**253.5**	**236.5**

* 'Other related parties' include, among others, transactions with Weichai Power and its affiliated companies

[44] VARIABLE REMUNERATION

KEEP employee equity programme

On 1 November 2017, the Executive Board of KION GROUP AG decided to launch a further share option programme for employees (KEEP 2017) in the countries that had been included in the previous year. The period during which eligible employees could take up this offer by making a declaration of acceptance ran from 2 to 22 November 2017. To be eligible to participate in KEEP 2017, employees needed, at the start of the offer phase, to have had a permanent, uninterrupted employment contract with a participating KION Group company for at least one year. Currently, KION GROUP AG plus 17 German (2016: 14) and 60 foreign (2016: 53) subsidiaries are eligible to take part in KEEP. The Company is considering whether to extend the employee equity programme to other countries over the coming years.

The KEEP programme is a share matching plan. Participating employees acquire KION shares for their own investment purposes. Each set of three KION shares represents a share package. Once the three-year holding period has expired, employees are entitled to one free matching share (bonus share) for each share package. However, KION GROUP AG has the right to satisfy each programme participant's entitlement by paying a cash settlement instead of granting a bonus share. For employees taking part for the first time, the KION Group offers a special incentive in the form of starter packages. Under KEEP 2017, the KION Group will bear the cost of one KION share (free share) in each of the first five share packages that an employee takes up.

The right to obtain a bonus share lapses if participants sell their own investment in KION shares or cease to work for the KION Group. The change in the number of bonus shares to be granted is shown in > TABLE 122.

Development of the granted bonus shares

TABLE 122

in units	2017	2016
Balance as at 01/01/	**67,106**	**53,220**
Granted subscription rights	12,098	15,188
Issued bonus shares	–27,363	0
Forfeited subscription rights	–1,675	–1,302
Balance as at 31/12/	**50,166**	**67,106**

In 2017, 2,545 free shares were issued to employees as part of their starter packages (2016: 2,282 free shares).

The free shares to be issued are measured at their fair value on the day on which employees obtain the right to acquire shares as their own investment. The fair value on the grant date is determined on the basis of Monte Carlo simulation. The measurement parameters used are shown in > TABLE 123.

For KEEP 2017, the fair value of a bonus share was €62.02 (KEEP 2016: €52.51; KEEP 2015: €38.57).

The fair value of the bonus shares to be granted is recognised as an expense and paid into capital reserves over the three-year holding period. The holding period for KEEP 2014 ended on 1 October 2017 and the bonus shares were issued to the eligible employees at no cost.

In 2017, an expense totalling €0.9 million was recognised under functional costs for free shares and bonus shares in connection with the employee share option programme (2016: €0.7 million). Of this amount, €0.2 million related to KEEP 2017, €0.2 million to KEEP 2016 (2016: €0.2 million), €0.3 million to KEEP 2015 (2016: €0.3 million) and €0.2 million to KEEP 2014 (2016: €0.2 million).

Each year, the Executive Board of KION GROUP AG decides whether there will be an offer made under the share option programme that year and which companies will participate.

Significant measurement parameters for the KION GROUP AG Share Matching Programme

TABLE 123

Measurement parameters	KEEP 2017	KEEP 2016	KEEP 2015
Expected dividend	€0.88	€0.88	€0.88
Price of the KION share as at grant date	€64.62	€55.02	€41.01

KION performance share plan (PSP) for managers

The 2017 tranche of the multiple-year variable remuneration component for the managers in the KION Group (LTI 2017) with a defined period (three years) was granted with effect from 1 January 2017. The remuneration component measured over the long term is based in equal parts on the total shareholder return (TSR) of KION GROUP AG shares compared with the performance of the MDAX index (previously the STOXX Europe TMI Industrial Engineering index) as a measure of market performance, and with return on capital employed (ROCE) as an internal measure. It also depends on the performance of KION GROUP AG shares during the relevant period.

The performance period for the 2017 tranche ends on 31 December 2019 (2016 tranche: 31 December 2018). The 2015 tranche expired on 31 December 2017 and will be paid out in the second quarter of 2018.

At the beginning of the performance period on 1 January 2017 (2016 tranche: 1 January 2016; 2015 tranche: 1 January 2015), the managers were allocated a total of 0.2 million phantom shares for this tranche (2016 tranche: 0.2 million phantom shares; 2015 tranche: 0.2 million phantom shares). The allocation was based on a particular percentage of each manager's individual gross annual remuneration at the time of grant. At the end of the performance period, the number of the phantom shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of phantom shares multiplied by the smoothed price of KION GROUP AG shares at the end of the performance period determines the amount of cash actually paid. The KION Group has the right to adjust the amount payable at the end of the performance period in the event of exceptional occurrences or developments. The maximum amount payable is limited to 200.0 per cent of the value of the shares allotted to an individual at the grant date.

The pro-rata expense calculation based on the fair value of the phantom shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 124 were used to value the phantom shares on the reporting date.

Significant measurement parameters of the PSP for Executive Employees TABLE 124

	Valuation date 31/12/2017	
Measurement parameters	**Tranche 2017**	**Tranche 2016**
Expected volatility of the KION share	25.0%	25.0%
Expected volatility of the MDAX Index	15.0%	–
Expected volatility of the STOXX Europe TMI Industrial Engineering Index	–	10.0%
Risk-free interest rate	−0.68%	−0.78%
Expected dividend	€0.88	€0.88
KION share price at the valuation date	€72.71	€72.71
Price of the MDAX Index at valuation date	€26,193.74	–
Price of the STOXX Europe TMI Industrial Engineering Index at valuation date	–	€292.74
Initial value of the KION share (60-days average)	€53.85	€43.54
Initial value of the MDAX Index (60-days average)	€21,178.13	–
Initial value of the STOXX Europe TMI Industrial Engineering Index (60-days average)	–	€209.26

Taking account of the remaining term of two years (2017 tranche) and one year (2016 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2017, the fair value of one phantom share was €67.18 for the 2016 tranche (31 December 2016: €42.86) and €65.60 for the 2017 tranche. On that date, the total fair value based on 0.2 million phantom shares was €11.7 million (2016 tranche; 31 December 2016: €7.7 million) and €11.6 million (2017 tranche). The amount of €11.4 million that is expected to be paid out for the 2015 tranche (2016: €10.9 million for the 2014 tranche) is calculated on the basis of a preliminary total target achievement rate. In April 2017, the first payment from the 2014 tranche was made on the basis of the achievement of the long-term targets that were defined in 2014 at the start of the performance period.

The total carrying amount for liabilities in connection with share-based remuneration was €23.0 million as at 31 December 2017 (31 December 2016: €20.6 million). Of this amount, €11.4 million related to the 2015 tranche (31 December 2016: €7.1 million), €7.8 million to the 2016 tranche (31 December 2016: €2.6 million) and €3.9 million to the 2017 tranche. In 2016, there had also been an amount of €10.9 million relating to the 2014 tranche. In 2017, a pro-rata expense of €4.3 million in respect of the 2015 tranche (2016: €4.3 million), a pro-rata expense of €5.2 million for the 2016 tranche (2016: €2.6 million) and a pro-rata expense of €3.9 million for the 2017 tranche were recognised for twelve months under functional costs.

KION performance share plan (PSP) for the Executive Board

The members of the Executive Board have been promised a multiple-year variable remuneration component in the form of a performance share plan with a three-year term in each case. The remuneration component measured over the long term is based in equal parts on the total shareholder return (TSR) of KION GROUP AG shares compared with the performance of the MDAX index (previously the STOXX Europe TMI Industrial Engineering index) as a measure of market performance, and with return on capital employed (ROCE) as an internal measure. It also depends on the performance of KION GROUP AG shares during the relevant period.

The performance period for the 2017 tranche ends on 31 December 2019 (2016 tranche: 31 December 2018). The 2015 tranche expired on 31 December 2017 and will be paid out in the spring of 2018. At the beginning of the performance period on 1 January 2017 (2016 tranche: 1 January 2016; 2015 tranche: 1 January 2015), the Executive Board members were allocated a total of 0.1 million phantom shares for this tranche (2016 tranche: 0.1 million phantom shares; 2015 tranche: 0.2 million phantom shares) on the basis of the starting price of KION shares (60-day average; previously the fair value at the time of grant). The shares were allocated on the basis of an allocation value in euros specified in each Executive Board member's service contract.

At the end of the performance period, the number of the phantom shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of phantom shares multiplied by the smoothed price of KION GROUP AG shares at the end of the performance period determines the amount of cash actually paid. The Supervisory Board can also use a discretionary personal performance multiplier to adjust the final payment at the end of the performance period by +/–30.0 per cent. The maximum amount payable is limited to 200.0 per cent of the value of the shares allotted to an individual at the grant date.

The pro-rata expense calculation based on the fair value of the phantom shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 125 were used to value the phantom shares on the reporting date.

Significant measurement parameters of the KION GROUP AG Performance Share Plan TABLE 125

	Valuation date 31/12/2017	
Measurement parameters	**Tranche 2017**	**Tranche 2016**
Expected volatility of the KION share	25.0%	25.0%
Expected volatility of the MDAX Index	15.0%	–
Expected volatility of the STOXX Europe TMI Industrial Engineering Index	–	10.0%
Risk-free interest rate	–0.68%	–0.78%
Expected dividend	€0.88	€0.88
Price of the KION share at valuation date	€72.71	€72.71
Price of the MDAX Index at valuation date	€26,193.74	–
Price of the STOXX Europe TMI Industrial Engineering Index at valuation date	–	€292.74
Initial value of the KION share (60-days average)	€53.85	€43.54
Initial value of the MDAX Index (60-days average)	€21,178.13	–
Initial value of the STOXX Europe TMI Industrial Engineering Index (60-days average)	–	€209.26

Taking account of the remaining term of two years (2017 tranche) and one year (2016 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2017, the fair value of one phantom share was €65.13 for the 2016 tranche (31 December 2016: €42.19) and €65.60 for the 2017 tranche. On that date, the total fair value based on 0.1 million phantom shares was €5.2 million (2016 tranche; 31 December 2016: €4.4 million) and €4.2 million (2017 tranche). The amount of €9.5 million that is expected to be paid out for the 2015 tranche (2016: €9.3 million for the 2014 tranche) is calculated on the basis of a preliminary total target achievement rate. In March 2017, a payment from the 2014 tranche was made on the basis of the achievement of the long-term targets that were defined in 2014 at the start of the performance period.

The total carrying amount for liabilities in connection with share-based remuneration was €15.1 million as at 31 December 2017 (31 December 2016: €16.9 million). Of this amount, €9.5 million related to the 2015 tranche (31 December 2016: €6.0 million), €4.0 million to the 2016 tranche (31 December 2016: €1.6 million) and €1.6 million to the 2017 tranche. In 2016, there had also been an amount of €9.3 million relating to the 2014 tranche. In 2017, a pro-rata expense of €3.6 million in respect of the 2015 tranche (2016: €3.8 million), a pro-rata expense of €2.3 million for the 2016 tranche (2016: €1.6 million) and a pro-rata expense of €1.6 million for the 2017 tranche were recognised for twelve months under functional costs.

[45] REMUNERATION OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Responsibilities

Gordon Riske, Chief Executive Officer (CEO), is responsible for the LMH EMEA and STILL EMEA Operating Units in the Industrial Trucks & Services segment and the Dematic Operating Unit. He also remains in charge of the following group functions: corporate strategy, corporate communications, corporate office, internal audit and corporate compliance. In addition, he takes on responsibility for the Digitalisation@KION initiative.

Dr Eike Böhm, in his role as Chief Technology Officer (CTO), has groupwide responsibility for research and development (R&D) in the areas of industrial trucks and supply chain solutions including modules & components, for software development, procurement and quality.

Ching Pong Quek, Chief Asia Pacific Officer, heads up the KION APAC Operating Unit and thus the entire Asia business within the Industrial Trucks & Services segment.

Dr Thomas Toepfer is Chief Financial Officer (CFO) and his responsibilities include corporate accounting & tax, financial services, corporate finance, corporate controlling, corporate HR/Labour Relations Director, legal affairs, KION Group IT, data protection, health, safety & environment and logistics/Urban. He also took over responsibility from Mr Riske for the KION Americas Operating Unit in the Industrial Trucks & Services segment.

Remuneration

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 comprise an annually recurring component linked to business performance and a multi-year performance-related component in the form of the KION performance share plan for all members of the Executive Board. The pension entitlements consist of retirement, invalidity and surviving dependants' benefits.

An expense of €13.6 million was recognised for the total remuneration for members of the Executive Board in 2017 (2016: €15.5 million). This consisted of short-term remuneration amounting to €5.0 million (2016: €5.0 million), post-employment benefits totalling €1.1 million (2016: €1.0 million), termination benefits of €0.0 million (2016: €0.4 million) and share-based payments of €7.5 million (2016: €9.0 million). The short-term remuneration comprised non-performance-related components amounting to €3.1 million (2016: €2.6 million) and performance-related components amounting to €1.9 million (2016: €2.4 million). The current service cost resulting from pension provisions for the Executive Board is reported under post-employment benefits. The long-term incentive components take the form of a performance share plan (see also note [44]).

Under section 314 HGB, disclosure of the expense for share-based payments is not required. Rather, the payments must be included in the Executive Board members' remuneration for the year in which they are paid on the basis of the fair value at the individual grant dates. The fair value of the share-based payments at their individual grant dates, including tax equalisation, amounted to €3.9 million (2016: €4.8 million). Furthermore, disclosure of post-employment benefits (expense of €1.1 million; 2016: expense of €1.0 million) and of termination benefits (expense of €0.0 million; 2016: expense of €0.4 million) is not required. On this basis, the total remuneration of the members of the Executive Board pursuant to section 314 HGB came to €8.9 million (2016: €9.8 million).

As in the previous year, no loans or advances were made to members of the Executive Board in 2017. The present value of the defined benefit obligation in respect of Executive Board members as at 31 December 2017 was €8.3 million (31 December 2016: €7.5 million).

The total remuneration paid to former members of the Executive Board in 2017 amounted to €0.3 million (2016: €0.2 million). Defined benefit obligations to former members of the Executive Board or their surviving dependants amounting to €9.8 million (31 December 2016: €9.8 million) were recognised in accordance with IAS 19.

Further details of Executive Board remuneration, including the individual amounts for each member, can be found in the remuneration report on pages 43 to 56 of this annual report.

Supervisory Board

The total remuneration paid to the members of the Supervisory Board for the performance of their tasks at the parent company and subsidiaries in 2017 amounted to €1.4 million (2016: €1.2 million). There were no loans or advances to members of the Supervisory Board in 2017. 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.

Members of the Supervisory Board also received short-term employee benefits of €0.8 million for employee services (2016: €0.8 million).

[46] MEMBERS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Gordon Riske
Chief Executive Officer (CEO)

Member of the Executive Board of KION Holding 2 GmbH, Wiesbaden (until 22 June 2017)
Chairman of the Board of Directors of Linde (China) Forklift Truck Co., Ltd., Xiamen, People's Republic of China
Chairman of the Board of Directors of Dematic NV (formerly Egemin Group NV), Zwijndrecht, Belgium (until 15 May 2017)
Non-Executive Director of Weichai Power Co., Ltd., Weifang, People's Republic of China
Member of the Executive Board of the non-profit Hertie Foundation, Frankfurt am Main

Dr Eike Böhm
Member of the Executive Board / CTO

Member of the Supervisory Board of e.GO Mobile AG, Aachen

Ching Pong Quek
Member of the Executive Board / Chief Asia Pacific Officer

Member of the Board of KION South Asia Pte Ltd., Singapore, Singapore
President and CEO of KION Asia Ltd., Hong Kong, People's Republic of China
Chairman of KION Baoli Forklift Co., Ltd., Jiangsu, People's Republic of China
Member of the Board of Directors of KION India Pvte. Ltd., Pune, India
Member of the Board of Directors of Linde Material Handling Asia Pacific Pte., Ltd., Singapore, Singapore
Chairman of the Board of Directors of Linde Material Handling Hong Kong Ltd., Hong Kong, People's Republic of China

Dr Thomas Toepfer
Member of the Executive Board / CFO

Member of the Executive Board of KION Holding 2 GmbH, Wiesbaden (until 22 June 2017)
Chairman of the Supervisory Board of STILL GmbH, Hamburg
Chairman of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg
Chairman of the Board of Directors of KION North America Corp., Summerville, USA
Member of the Board of Directors of Superlift UK Ltd., Basingstoke, United Kingdom

Supervisory Board

Dr John Feldmann
Chairman of the Supervisory Board

Former member of the Board of Executive Directors of BASF SE, Ludwigshafen
Member of the Supervisory Board of HORNBACH Baumarkt AG, Bornheim
Member of the Supervisory Board of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstrasse
Member of the Supervisory Board of HORNBACH Management AG, Annweiler am Trifels

Özcan Pancarci[1]
Deputy Chairman of the Supervisory Board

Chairman of the Plants I and II Works Council, Linde Material Handling GmbH, Aschaffenburg
Chairman of the Group Works Council of the KION Group
Deputy Chairman of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg

Birgit A. Behrendt
Vice President of Joint Ventures, Alliances and Commercial Affairs at Ford of Europe GmbH, Cologne
Member of the Supervisory Board of Ford Werke GmbH, Cologne
Member of the Board of Directors of Ford Sollers Holding LLC, Chelny, Russia
Member of the Audit Committee of Ford Sollers Holding LLC, Chelny, Russia

Holger Brandt[2] (until 11 May 2017)
Senior Vice President of the DACH Region at STILL GmbH, Hamburg

Stefan Casper[1] (since 11 May 2017)
Chairman of the Works Council of KION Warehouse Systems GmbH, Reutlingen

Dr Alexander Dibelius
Managing Partner at CVC Capital Partners (Deutschland) GmbH, Frankfurt am Main
Deputy Chairman of the Board of Directors of Breitling S.A., Grenchen, Switzerland
Member of the Board of Directors of CVC Capital Partners (Luxembourg) SARL, Luxembourg
Chairman of the Supervisory Board of Diebold Nixdorf AG, Paderborn
Chairman of the Supervisory Board of Diebold Nixdorf International GmbH, Paderborn
Member of the Board of Directors of Diebold Nixdorf Inc., Ohio, USA
Member of the Supervisory Board of Douglas GmbH, Düsseldorf
Member of the Supervisory Board of Douglas Holding AG, Düsseldorf
Member of the Supervisory Board of Kirk Beauty Investments SA, Luxembourg
Member of the Shareholders' Committee of Tipico Group Ltd., Malta

Joachim Hartig[1] (until 11 May 2017)
Former Organisational Development Advisor at Linde Material Handling GmbH, Aschaffenburg (retired)

Denis Heljic[1]
Spokesperson for the STILL branches,
Chairman of the European Works Council and Deputy Chairman of the Works Council of STILL GmbH, Dortmund plant

Jiang Kui
President of Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China
Member of the Board of Directors of Ferretti International Holding S.p.A., Milan, Italy
Member of the Board of Directors of Ferretti S.p.A., Milan, Italy
Member of the Executive Board of Hydraulics Drive Technology Beteiligungs GmbH, Aschaffenburg
Member of the Supervisory Board of Linde Hydraulics Verwaltungs GmbH, Aschaffenburg
Member of the Board of Directors of PSI, Delaware, USA
Member of the Board of Directors of Shandong Heavy Industry India Private Ltd., Pune, India
Member of the Board of Directors of Shantui Construction Machinery Co. Ltd. Jining, People's Republic of China
Member of the Board of Directors of Weichai Power Co. Ltd., Weifang, People's Republic of China

Olaf Kunz[1]
Head of Collective Bargaining at IG Metall District Office for the Coast, Hamburg
Member of the Supervisory Board of STILL GmbH, Hamburg

Jörg Milla[1]
Chairman of the Works Council of STILL GmbH, Hamburg
Deputy Chairman of the Supervisory Board of STILL GmbH, Hamburg

Dr Christina Reuter
Head of Central Manufacturing Engineering & Operational Excellence for Space Equipment Operations at Airbus Defence and Space GmbH, Taufkirchen

Hans Peter Ring
Management Consultant, Munich
Member of the Supervisory Board of Airbus Defence and Space GmbH, Taufkirchen
Member of the Supervisory Board of Fokker Technologies Holding B.V., Papendrecht, Netherlands

Alexandra Schädler[1]
Trade Union Secretary on the National Executive of IG Metall, Frankfurt am Main
Member of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg (since 18 January 2017)

Dr Frank Schepp[2] **(since 11 May 2017)**
Vice President of Quality at KION GROUP AG, Frankfurt am Main (based in Aschaffenburg)

Tan Xuguang
Chairman of the Board of Directors and President of Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China
Chairman of the Board of Directors of Shandong Communications Industry Group Holding Co., Ltd., Jinan, People's Republic of China
Chairman of the Board of Directors of Ferretti International Holding S.p.A., Milan, Italy
Chairman of the Board of Directors of Ferretti S.p.A., Milan, Italy
Chairman of the Board of Directors of Weichai Holding Group Co., Ltd., Weifang, People's Republic of China
Chairman of the Board of Directors and Chief Executive Officer of Weichai Power Co., Ltd., Weifang, People's Republic of China

Claudia Wenzel[1]
Full-time works council member, HQ and plant 2 at Linde Material Handling GmbH, Aschaffenburg

Xu Ping
Partner and Member of the Management Committee at King & Wood Mallesons, Beijing, People's Republic of China

1 Employee representatives
2 Executive representatives

[47] LIST OF THE SHAREHOLDINGS OF KION GROUP AG, WIESBADEN

The shareholdings of the KION Group as at 31 December 2017 are listed below. > TABLE 126

List of shareholdings as at 31 December 2017 TABLE 126

No.	Name	Registered office	Country	Parent company	Shareholding 2017	Shareholding 2016	Note
1	KION GROUP AG	Wiesbaden	Germany				
Consolidated subsidiaries							
Domestic							
2	BlackForxx GmbH	Stuhr	Germany	21	100.00%	100.00%	
3	Dematic GmbH	Heusenstamm	Germany	82	100.00%	100.00%	
4	Dematic Logistics GmbH	Bielefeld	Germany	82	100.00%	100.00%	
5	Dematic Services GmbH	Heusenstamm	Germany	3	100.00%	100.00%	
6	Eisengießerei Dinklage GmbH	Dinklage	Germany	21	100.00%	50.00%	
7	Eisenwerk Weilbach GmbH	Wiesbaden	Germany	13	100.00%	100.00%	
8	Fahrzeugbau GmbH Geisa	Geisa	Germany	21	100.00%	100.00%	
9	KION Financial Services GmbH	Wiesbaden	Germany	13	100.00%	100.00%	
10	KION Information Management Services GmbH	Frankfurt am Main	Germany	1	100.00%	100.00%	
11	KION Warehouse Systems GmbH	Reutlingen	Germany	21	100.00%	100.00%	
12	Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan	Germany	13	100.00%	100.00%	
13	Linde Material Handling GmbH	Aschaffenburg	Germany	1	100.00%	100.00%	
14	LMH Immobilien GmbH & Co. KG	Aschaffenburg	Germany	13 & 15	99.64%	99.64%	
15	LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg	Germany	13	94.00%	94.00%	
16	LMH Immobilien Holding Verwaltungs-GmbH	Aschaffenburg	Germany	13	100.00%	100.00%	
17	LMH Immobilien Verwaltungs-GmbH	Aschaffenburg	Germany	13	100.00%	100.00%	
18	LR Intralogistik GmbH	Wörth a. d. Isar	Germany	21	100.00%	100.00%	
19	Schrader Industriefahrzeuge GmbH & Co. KG	Essen	Germany	13	100.00%	100.00%	
20	STILL Financial Services GmbH	Hamburg	Germany	9	100.00%	100.00%	
21	STILL Gesellschaft mit beschränkter Haftung	Hamburg	Germany	13	100.00%	100.00%	
22	Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim	Germany	13	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued) TABLE 126

No.	Name	Registered office	Country	Parent company	Shareholding 2017	Shareholding 2016	Note
23	Willenbrock Fördertechnik GmbH & Co. KG	Bremen	Germany	25	74.00%	74.00%	
24	Willenbrock Fördertechnik GmbH & Co. KG	Hannover	Germany	25	74.00%	74.00%	
25	Willenbrock Fördertechnik Holding GmbH	Bremen	Germany	13	74.00%	74.00%	
Foreign							
26	Dematic Holdings Pty. Ltd.	Belrose	Australia	82	100.00%	100.00%	
27	Dematic Pty. Ltd.	Belrose	Australia	26	100.00%	100.00%	
28	Linde Material Handling Pty. Ltd.	Huntingwood	Australia	13	100.00%	100.00%	
29	Dematic NV (formerly: Egemin Group NV)	Zwijndrecht	Belgium	53 & 3	100.00%	100.00%	
30	STILL NV	Wijnegem	Belgium	21 & 91	100.00%	100.00%	
31	Dematic Sistemas e Equipamentos de Movimentação de Materiais Ltda.	São Paulo	Brazil	82 & 3	100.00%	100.00%	
32	KION South America Fabricação de Equipamentos para Armazenagem Ltda.	Indaiatuba / São Paulo	Brazil	21	100.00%	100.00%	
33	Dematic Logistics de Chile Ltda.	Santiago de Chile	Chile	51 & 115	100.00%	100.00%	
34	STILL DANMARK A/S	Kolding	Denmark	21	100.00%	100.00%	
35	BARTHELEMY MANUTENTION SAS	Vitrolles	France	41	82.00%	83.50%	
36	Bastide Manutention SAS	Bruguières	France	41	100.00%	100.00%	
37	Bretagne Manutention SAS (formerly: Bretagne Manutention S.A.)	Pacé	France	41	100.00%	100.00%	
38	Dematic SAS	Bussy-Saint-Georges	France	82	100.00%	100.00%	
39	FENWICK FINANCIAL SERVICES SAS	Elancourt	France	42	100.00%	100.00%	
40	FENWICK-LINDE OPERATIONS SAS	Cenon sur Vienne	France	41	100.00%	–	[1]
41	FENWICK-LINDE SAS (formerly: FENWICK-LINDE S.A.R.L.)	Elancourt	France	42	100.00%	100.00%	
42	KION France SERVICES SAS	Elancourt	France	13	100.00%	100.00%	
43	LOIRE OCEAN MANUTENTION SAS	Saint-Herblain	France	41	74.04%	77.01%	
44	Manuchar SAS (formerly: Manuchar S.A.)	Gond Pontouvre	France	41	100.00%	100.00%	
45	MANUSOM SAS	Rivery	France	49	100.00%	100.00%	
46	Société Angoumoisine de Manutention (SAMA) SAS	Champniers	France	49	100.00%	100.00%	
47	SM Rental SAS	Roissy Charles de Gaulle	France	41	100.00%	100.00%	
48	STILL Location Services SAS	Marne la Vallée	France	42	100.00%	100.00%	
49	STILL SAS	Marne la Vallée	France	42	100.00%	100.00%	
50	URBAN LOGISTIQUE SAS	Elancourt	France	22	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued)

TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
51	Dematic Ltd.	Banbury	UK	82	100.00%	100.00%	
52	Dematic Group Ltd.	Banbury	UK	85	100.00%	100.00%	
53	Dematic Holdings UK Ltd.	Banbury	UK	82	100.00%	–	[1]
54	Dematic Services Ltd.	Banbury	UK	84	100.00%	100.00%	
55	Egemin UK Ltd.	Huntingdon	UK	29	100.00%	100.00%	
56	FSU Investments Ltd.	Banbury	UK	82	100.00%	100.00%	
57	KION FINANCIAL SERVICES Ltd.	Basingstoke	UK	72	100.00%	100.00%	
58	Linde Castle Ltd.	Basingstoke	UK	62	100.00%	100.00%	
59	Linde Creighton Ltd.	Basingstoke	UK	62	100.00%	100.00%	
60	Linde Holdings Ltd.	Basingstoke	UK	72	100.00%	100.00%	
61	Linde Jewsbury's Ltd.	Basingstoke	UK	62	100.00%	100.00%	
62	Linde Material Handling (UK) Ltd.	Basingstoke	UK	60	100.00%	100.00%	
63	Linde Material Handling East Ltd.	Basingstoke	UK	62	100.00%	100.00%	
64	Linde Material Handling Scotland Ltd.	Basingstoke	UK	62	100.00%	100.00%	
65	Linde Material Handling South East Ltd.	Basingstoke	UK	62	100.00%	100.00%	
66	Linde Severnside Ltd.	Basingstoke	UK	62	100.00%	100.00%	
67	Linde Sterling Ltd.	Basingstoke	UK	62	100.00%	100.00%	
68	Mirror Bidco Ltd.	Banbury	UK	85	100.00%	100.00%	
69	SDI Group Ltd.	Banbury	UK	56 & 82	100.00%	100.00%	
70	SDI Group UK Ltd.	Banbury	UK	69	100.00%	100.00%	
71	STILL Materials Handling Ltd.	Exeter	UK	72	100.00%	100.00%	
72	Superlift UK Ltd.	Basingstoke	UK	13	100.00%	100.00%	
73	KION India Pvt. Ltd.	Pune	India	111	100.00%	100.00%	
74	Linde Material Handling (Ireland) Ltd.	Walkinstown	Ireland	60	100.00%	100.00%	
75	Baoli EMEA S.p.A. (formerly: STILL ITALIA S.p.A.)	Lainate	Italy	21	100.00%	100.00%	
76	Dematic S.r.l.	Cernusco sul Naviglio	Italy	82	100.00%	100.00%	
77	Emhilia Material Handling S.p.A.	Modena	Italy	79	100.00%	100.00%	
78	KION Rental Services S.p.A.	Milan	Italy	75 & 79 & 80	100.00%	100.00%	
79	Linde Material Handling Italia S.p.A.	Buguggiate	Italy	13	100.00%	100.00%	
80	OM Carrelli Elevatori S.p.A.	Lainate	Italy	13 & 75	100.00%	100.00%	
81	Dematic Ltd.	Mississauga	Canada	82	100.00%	100.00%	
82	Dematic Group S.à r.l.	Senningerberg	Luxembourg	83	100.00%	100.00%	
83	Dematic Holding S.à r.l.	Senningerberg	Luxembourg	52	100.00%	100.00%	
84	DH Services Luxembourg Holding S.à r.l.	Senningerberg	Luxembourg	1	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued) TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
85	DH Services Luxembourg S.à r.l.	Senningerberg	Luxembourg	54	100.00%	100.00%	
86	Dematic (Malaysia) Sdn. Bhd.	Shah Alam	Malaysia	109	100.00%	100.00%	
87	Dematic Logistics de Mexico S. de R.L. de C.V.	Monterrey	Mexico	51 & 115	100.00%	100.00%	
88	DMTC Technology Services, S. de. R.L. de C.V.	Monterrey	Mexico	51 & 115	100.00%	100.00%	
89	Dematic Trading de Mexico S. de. R.L. de C.V.	Mexico City	Mexico	51 & 115	100.00%	100.00%	
90	Dematic B.V. (formerly: Egemin Handling Automation B.V.)	Gorinchem	Netherlands	5	100.00%	100.00%	
91	STILL Intern Transport B.V.	Hendrik Ido Ambacht	Netherlands	21	100.00%	100.00%	
92	STILL Norge AS	Heimdal	Norway	21	100.00%	100.00%	
93	AUSTRO OM PIMESPO Fördertechnik GmbH	Linz	Austria	80	100.00%	100.00%	
94	Linde Material Handling Austria GmbH (formerly: Linde Fördertechnik GmbH)	Linz	Austria	13 & 93	100.00%	100.00%	
95	STILL Gesellschaft m.b.H.	Wiener Neudorf	Austria	21	100.00%	100.00%	
96	Dematic Poland Sp. z o.o.	Poznań	Poland	3	100.00%	100.00%	
97	Linde Material Handling Polska Sp. z o.o.	Warsaw	Poland	13	100.00%	100.00%	
98	STILL POLSKA Sp. z o.o.	Gadki	Poland	21	100.00%	100.00%	
99	STILL MATERIAL HANDLING ROMANIA SRL	Giurgiu	Romania	13 & 21	100.00%	100.00%	
100	OOO “Linde Material Handling Rus”	Moscow	Russia	13 & 7	100.00%	100.00%	
101	OOO “STILL Forklifttrucks”	Moscow	Russia	13 & 21	100.00%	100.00%	
102	Linde Material Handling AB	Örebro	Sweden	13	100.00%	100.00%	
103	Linde Material Handling Financial Services AB	Örebro	Sweden	102	100.00%	–	[1]
104	Nordtruck AB	Örnsköldsvik	Sweden	102	100.00%	25.00%	
105	STILL Sverige AB	Malmö	Sweden	21	100.00%	100.00%	
106	Dematic Suisse Sagl	Lugano	Switzerland	82	100.00%	100.00%	
107	Linde Material Handling Schweiz AG	Dietlikon	Switzerland	13	100.00%	100.00%	
108	STILL AG	Otelfingen	Switzerland	21	100.00%	100.00%	
109	Dematic S.E.A. Pte. Ltd.	Singapore	Singapore	82	100.00%	100.00%	
110	KION South Asia Pte. Ltd.	Singapore	Singapore	13	100.00%	100.00%	
111	Linde Material Handling Asia Pacific Pte. Ltd.	Singapore	Singapore	13	100.00%	100.00%	
112	Linde Material Handling Slovenská republika s.r.o.	Trenčin	Slovakia	13 & 122	100.00%	100.00%	
113	STILL SR, spol. s.r.o.	Nitra	Slovakia	21 & 125	100.00%	100.00%	
114	Linde Viličar d.o.o.	Celje	Slovenia	13	100.00%	100.00%	
115	Dematic Logistic Systems S.A.U.	Coslada	Spain	82	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued) TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
116	Islavista Spain S.A.U.	L'Hospitalet de Llobregat	Spain	13	100.00%	100.00%	
117	KION Rental Services S.A.U.	Barcelona	Spain	116	100.00%	100.00%	
118	Linde Material Handling Ibérica, S.A.U.	Pallejá	Spain	116	100.00%	100.00%	
119	STILL, S.A.U.	L'Hospitalet de Llobregat	Spain	116	100.00%	100.00%	
120	Linde Material Handling (Pty) Ltd.	Linbro Park	South Africa	13	100.00%	100.00%	
121	KION Supply Chain Solutions Czech, s.r.o.	Český Krumlov	Czech Republic	52	100.00%	100.00%	
122	Linde Material Handling Česká republika s.r.o.	Prague	Czech Republic	13 & 21	100.00%	100.00%	
123	Linde Material Handling Parts Distribution CZ s.r.o.	Český Krumlov	Czech Republic	13	100.00%	100.00%	
124	Linde Pohony s.r.o.	Český Krumlov	Czech Republic	13	100.00%	100.00%	
125	STILL ČR spol. s.r.o.	Prague	Czech Republic	13 & 21	100.00%	100.00%	
126	STILL Regional Service Center, s.r.o.	Prague	Czech Republic	21	100.00%	–	[1]
127	STILL ARSER Iş Makineleri Servis ve Ticaret A.Ş.	Izmir	Turkey	21	51.00%	51.00%	
128	Linde Magyarország Anyagmozgatási Kft.	Dunaharaszti	Hungary	13	100.00%	100.00%	
129	STILL Kft.	Környe	Hungary	21	100.00%	100.00%	
130	Dematic Corp.	Grand Rapids	United States	68	100.00%	100.00%	
131	KION North America Corp.	Summerville	United States	13	100.00%	100.00%	
132	Dematic International Trading Ltd.	Shanghai	People's Republic of China	82	100.00%	100.00%	
133	Dematic Logistics Systems Ltd.	Suzhou	People's Republic of China	82	100.00%	100.00%	
134	Egemin Asia Pacific Automation Ltd.	Causeway Bay – Hong Kong	People's Republic of China	29	100.00%	100.00%	
135	Egemin (Shanghai) Trading Company Ltd.	Shanghai	People's Republic of China	134	100.00%	100.00%	
136	KION ASIA (HONG KONG) Ltd.	Kwai Chung – Hong Kong	People's Republic of China	13	100.00%	100.00%	
137	KION Baoli (Jiangsu) Forklift Co., Ltd.	Jiangjiang	People's Republic of China	136	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued)

TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
138	Linde Material Handling Hong Kong Ltd.	Kwai Chung - Hong Kong	People's Republic of China	13	100.00%	100.00%	
139	Linde (China) Forklift Truck Corporation Ltd.	Xiamen	People's Republic of China	13	100.00%	100.00%	
Non-consolidated subsidiaries							
Domestic							
140	Comnovo GmbH	Dortmund	Germany	13	100.00%	–	[1]
141	KION IoT Systems GmbH	Frankfurt am Main	Germany	1	100.00%	–	[1]
142	Klaus Pahlke Betriebsführungs-GmbH	Haan	Germany	13	100.00%	100.00%	
143	Linde Material Handling Rental Services GmbH	Aschaffenburg	Germany	13	100.00%	–	[1]
144	OM Deutschland GmbH	Neuhausen a. d. Fildern	Germany	80	100.00%	100.00%	[R]
145	proplan Transport- und Lagersysteme GmbH	Aschaffenburg	Germany	1	100.00%	100.00%	
146	Schrader Industriefahrzeuge Verwaltung GmbH	Essen	Germany	13	100.00%	100.00%	
147	Trainingscenter für Sicherheit und Transport GmbH	Bremen	Germany	25	74.00%	74.00%	
148	Willenbrock Fördertechnik Beteiligungs-GmbH	Bremen	Germany	25	74.00%	74.00%	
149	Willenbrock Fördertechnik Beteiligungs-GmbH	Hannover	Germany	25	74.00%	74.00%	
Foreign							
150	Lansing Bagnall (Aust.) Pty. Ltd.	Huntingwood	Australia	62 & 13	100.00%	100.00%	[R]
151	NDC Automation Pty. Ltd.	Belrose	Australia	27	100.00%	100.00%	[R]
152	NDC Manage Pty. Ltd.	Belrose	Australia	27	100.00%	100.00%	[R]
153	Baoli France SAS	Elancourt	France	42	100.00%	100.00%	
154	SCI Champ Lagarde	Elancourt	France	41	100.00%	100.00%	
155	Castle Lift Trucks Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
156	Creighton Materials Handling Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
157	D.B.S. Brand Factors Ltd.	Basingstoke	UK	67	100.00%	100.00%	[R]
158	Fork Truck Rentals Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
159	Fork Truck Training Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
160	Lancashire (Fork Truck) Services Ltd.	Basingstoke	UK	67	100.00%	100.00%	[R]
161	Linde Heavy Truck Division Ltd.	Basingstoke	UK	62	100.00%	100.00%	
162	McLEMAN FORK LIFT SERVICES LTD.	Basingstoke	UK	59	100.00%	100.00%	

List of shareholdings as at 31 December 2017 (continued)

TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
163	Reddwerks Ltd.	Banbury	UK	130	100.00%	100.00%	[R]
164	Stephensons Enterprise Fork Trucks Ltd.	Basingstoke	UK	67	100.00%	100.00%	[R]
165	Sterling Mechanical Handling Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
166	Trifik Services Ltd.	Basingstoke	UK	62	100.00%	100.00%	[R]
167	Urban Logistics (UK) Ltd.	Basingstoke	UK	22	100.00%	100.00%	
168	Handling & Storage Equipment (Ireland) Ltd.	Walkinstown	Ireland	74	100.00%	100.00%	[R]
169	Carest SRL	Lainate	Italy	80	100.00%	100.00%	[R]
170	COMMERCIALE CARRELLI S.r.l.	Lainate	Italy	75 & 78	100.00%	100.00%	[R]
171	QUALIFT S.p.A.	Verona	Italy	79	100.00%	100.00%	
172	URBAN LOGISTICA S.R.L.	Lainate	Italy	22	100.00%	100.00%	
173	WHO Real Estate UAB	Vilnius	Lithuania	25	74.00%	74.00%	
174	Linde Material Handling (Malaysia) Sdn. Bhd.	Petaling Jaya	Malaysia	111	100.00%	100.00%	
175	Linde Viljuškari d.o.o.	Vrčin	Serbia	94	100.00%	100.00%	
176	IBER-MICAR S.L.	Gavà	Spain	13	100.00%	100.00%	
177	Dematic Thailand Co. Ltd.	Bangkok	Thailand	109 & 200	73.89%	73.89%	
178	Linde Material Handling (Thailand) Co., Ltd.	Pathum Thani	Thailand	111	100.00%	100.00%	
179	Baoli Material Handling Europe s.r.o.	Prague	Czech Republic	137	100.00%	100.00%	
180	Použitý Vozík CZ, s.r.o.	Prague	Czech Republic	122	100.00%	100.00%	
181	Urban Transporte spol. s.r.o.	Moravany	Czech Republic	22	100.00%	100.00%	
182	TOV “Linde Material Handling Ukraine”	Kiev	Ukraine	13 & 7	100.00%	100.00%	

Associates (equity-accounted investments)

Domestic

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
183	Carl Beutlhauser Kommunal- und Fördertechnik GmbH & Co. KG	Hagelstadt	Germany	13	25.00%	25.00%	
184	Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Hamburg	Germany	13	21.00%	21.00%	
185	Linde Hydraulics GmbH & Co. KG	Aschaffenburg	Germany	13	10.00%	10.00%	
186	Pelzer Fördertechnik GmbH	Kerpen	Germany	13	24.96%	24.96%	

List of shareholdings as at 31 December 2017 (continued)

TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
Foreign							
187	Linde High Lift Chile S.A.	Santiago de Chile	Chile	13	45.00%	45.00%	
188	Labrosse Equipement SAS (formerly: Labrosse Equipement S.A.)	Saint-Péray	France	41	34.00%	34.00%	
189	Normandie Manutention SAS (formerly: Normandie Manutention S.A.)	Saint-Etienne du Rouvray	France	41	34.00%	34.00%	
Joint Ventures (equity-accounted investments)							
Domestic							
190	Linde Leasing GmbH	Wiesbaden	Germany	13	45.00%	45.00%	
Foreign							
191	JULI Motorenwerk s.r.o.	Moravany	Czech Republic	13 & 21	50.00%	50.00%	
Associates (at cost)							
Domestic							
192	JETSCHKE GmbH	Hamburg	Germany	13	21.00%	21.00%	
193	Linde Hydraulics Verwaltungs GmbH	Aschaffenburg	Germany	13	10.00%	10.00%	
194	MV Fördertechnik GmbH	Blankenhain	Germany	13	25.00%	25.00%	
195	Supralift Beteiligungs- und Kommunikations-gesellschaft mbH	Hofheim am Taunus	Germany	13	50.00%	50.00%	
196	Supralift GmbH & Co. KG	Hofheim am Taunus	Germany	13	50.00%	50.00%	
Foreign							
197	Chadwick Materials Handling Ltd.	Corsham	UK	62	48.00%	48.00%	
198	Bari Servizi Industriali S.C.A R.L.	Modugno	Italy	80	25.00%	25.00%	
199	Carretillas Elevadoras Sudeste S.A.	Murcia	Spain	118	38.54%	38.54%	
200	Dematic Holding (Thailand) Co., Ltd.	Bangkok	Thailand	109	48.90%	48.90%	
201	Motorové závody JULI CZ s.r.o.	Moravany	Czech Republic	13	50.00%	50.00%	
202	DEMATIC ELECTROMECHANICAL SYSTEMS MIDDLE EAST L.L.C.	Dubai	United Arab Emirates	3	49.00%	49.00%	

List of shareholdings as at 31 December 2017 (continued)

TABLE 126

No.	Name	Registered office	Country	Parent company	Share-holding 2017	Share-holding 2016	Note
Financial investments							
Foreign							
203	Balyo SA	Moissy-Cramayel	France	13	6.48%	10.00%	[2]
204	TPZ Linde Viličari Hrvatska d.o.o.	Zagreb	Croatia	13	20.00%	20.00%	[2]

[1] New during 2017
[2] No material influence
[R] Dormant company

[48] AUDITORS' FEES

The fees recognised as an expense and paid to the auditors of the consolidated financial statements in 2017 amounted to €2.1 million (2016: €1.8 million) for the audit of the financial statements, €0.1 million (2016: €0.0 million) for other attestation services, €0.0 million (2016: €0.0 million) for tax consultancy services and €0.1 million (2016: €0.1 million) for other services.

[49] COMPLY-OR-EXPLAIN STATEMENT REGARDING THE GERMAN CORPORATE GOVERNANCE CODE (DCGK)

In December 2017, the Executive Board and Supervisory Board of KION GROUP AG submitted their comply-or-explain statement for 2017 relating to the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG. The comply-or-explain statement has been made permanently available to shareholders on the website of KION GROUP AG at kiongroup.com/comply_statement.

[50] EVENTS AFTER THE REPORTING DATE

In January 2018, the term of the revolving credit facility of €1,150.0 million agreed under the SFA was extended by a year, which means the KION Group can now utilise this credit facility until February 2023.

[51] INFORMATION ON PREPARATION AND APPROVAL

The Executive Board of KION GROUP AG prepared the consolidated financial statements on 21 February 2018 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.

Frankfurt am Main, 21 February 2018

The Executive Board

Gordon Riske

Dr Eike Böhm

Ching Pong Quek

Dr Thomas Toepfer

Independent auditors’ report

To KION GROUP AG, Wiesbaden/Germany

Report on the audit of the consolidated financial statements and the combined management report

Audit opinions

We have audited the consolidated financial statements of KION GROUP AG, Wiesbaden/Germany, and its subsidiaries (Group) – which comprise the consolidated balance sheet as at 31 December 2017, the group income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the business year from 1 January to 31 December 2017 as well as the notes to the consolidated financial statements including a summary of significant accounting methods. In addition, we have audited the combined management report on the entity and the Group of KION GROUP AG, Wiesbaden/Germany, for the business year from 1 January to 31 December 2017. In conformity with German legal regulations we have not audited the parts of the combined management report specified in the Chapter “Other information” of our independent auditors’ report with regard to their content.

In our opinion, based on our knowledge obtained during the audit

- the accompanying consolidated financial statements in all material respects comply with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) German Commercial Code (HGB) and give a true and fair view of the net assets and financial position in accordance with German principles of proper accounting as at 31 December 2017 as well as its results of operations for the business year from 1 January to 31 December 2017, and
- the accompanying combined management report as a whole provides a suitable view of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the content of the parts of the combined management report detailed in the Chapter “Other information”.

Pursuant to Sec. 322 (3) Sentence 1 of the German Commercial Code (HGB), we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements and the combined management report.

Basis for audit opinions

We conducted our audit of the consolidated financial statements and combined management report in accordance with Sec. 317 of the German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014, hereinafter “EU Audit Regulation”), and German generally accepted standards for the audit of consolidated financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer] (IDW). Our responsibilities under these requirements and principles are further described in the Chapter “Auditors’ responsibility for the audit of the consolidated financial statements and the combined management report” of our independent auditors’ report. We are independent of the group entities in accordance with European and German commercial law and rules of professional conduct and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. In addition, pursuant to Article 10 (2) Lit. f) of the EU Audit Regulation, we declare that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the business year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon but we do not provide a separate opinion on these matters.

In the following we present the key audit matters in our view:

1) Recoverability of the goodwill and brand names with indefinite useful life
2) Recognition of leases as regards sales
3) Realisation of revenue regarding construction contracts in the Supply Chain Solutions business segment

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information within the consolidated financial statements)
b) Auditors' response

1) Recoverability of the goodwill and brand names with indefinite useful life

a. As at 31 December 2017, the goodwill and brand names with indefinite useful life in the consolidated financial statements amount to mEUR 3,382.5 (30.1% of total assets) and mEUR 943.7 (8.4% of total assets), respectively. The goodwill and brand names with indefinite useful life are tested by Management for impairment each year. This impairment test is conducted regardless of whether there are external or internal indicators for an impairment. The impairment test is conducted at the level of the operating entities as cash-generating units by determining the corresponding realisable amount and comparing that realisable amount with the corresponding carrying value. The realisable amount is determined using the discounted cash flow method on the basis of KION GROUP AG's budget consisting of the operative three-years plan (budget 2018 and medium-term budget 2019 to 2020) as well as of a projection concerning two further years, which is adjusted using assumptions about long-term growth rates. The result of this measurement highly depends on the Legal representative's estimation of the forecast cash flows of the corresponding operating entities as well as the discount rate used (weighted average cost of capital – WAAC) and, therefore, is subject to great uncertainty. Therefore and due to the underlying complexity of the valuation models applied, this matter was of particular significance in the scope of our audit.

   The entity's information on the goodwill and brand names with indefinite useful life is provided in Note [7] and [17] of the consolidated financial statements.

b. During our audit, we, among other things, obtained an understanding of the method applied during the impairment test, the budget process of KION as well as the determination of the cashgenerating units and assessed the determination of the WACC. In this context, we considered the Group's adherence to the budget process over the past years.

   Regarding the impairment test, we audited the appropriateness of the expected future cash flows mainly by comparing the information with the operative budget (2018) approved by the Supervisory Board and with the medium-term budget (2019 to 2020) approved by the Legal representatives and by examining the key valuation assumptions and parameters for plausibility based on expectations about macroeconomic and industry-specific trends. As a significant portion of the value in use has been determined based on projected cash flows for the period following the five-year budget (period of perpetuity), we also audited in particular the sustained growth rate applied for the period of perpetuity based on industry-specific market expectations. With respect to the evaluation of the discount rate, we consulted internal valuation specialists, who convinced themselves of the appropriateness of the discount rate used based on market comparisons. Due to the great significance of the goodwill and the brand names with indefinite useful life in the consolidated financial statements, we finally conducted sensitivity analyses with regard to both the growth expectations of the future cash flows from the operating entities and the applied discount rate.

2) Recognition of leases as regards sales

a. To a great extent, KION uses leases as a sales instrument in the business segment Industrial Trucks & Services. The corresponding agreements comprise contracts, under which the KION entities qualify as contract parties, and those, under which the lease object was sold to external financial partners. The following three contract types are primarily used:

- Single Step Lease: The lease object is directly leased to the consumer.
- Sale and Leaseback Sublease: The lease object is sold to a financial partner and subsequently leased back. At the same time, the lease object is also rented out under a sublease contract to the consumer.
- Indirect consumer financing: The (lease) object is sold to a financial partner, who rents it out to a consumer.

As at 31 December 2017, the carrying value of the lease receivables and of the lease assets amounts to mEUR 875.8 (finance leases) (7.8% of total assets) and mEUR 1,173.7 (operating leases and indirect consumer financing, which does not meet the requirements under IAS 18) (10.5% of total assets), respectively. Single-step leases and sale-and-leaseback sublease contract types are classified as finance leases or operating leases within the meaning of IAS 17. Revenue realisation with respect to the indirect consumer financing is governed by IAS 18 and, consequently, depends on whether the material benefits and risks are transferred to the financial partner. If the requirements for realisation of revenue according to IAS 18 are not met, the purchase price paid by the financing party is recognised as deferred charge and proportionately recognised as revenue over the term of the lease agreement between financing party and consumer.

Group-wide, consistent lease applications shall ensure that the recognition, categorisation and classification of the various contract types according to the IFRS are complete and correct. The determination of the criteria and parameters in these applications are subject to the Legal representative's judgement. The classification and entry routines of the lease applications are updated, programmed and managed centrally in Germany while the contract input is performed locally in the operating or the Group's own financial services entities. In the financial year 2017, in this context, a new lease application was introduced in the operating group entities, with this new application replacing the previous applications in selected component areas.

Due to the high transaction volume in connection with the various contract types, any errors in this area may considerably affect the consolidated financial statements. For this reason, the assessment of the accounting for leases was of particular significance in the scope of our audit.

The entity's information on the accounting for leases is provided in the Notes [7], [18], [19], [22], [31] and [34].

b. As part of our audit, we first updated our understanding of the process including our understanding of the existing contract types as well as the entity's internal controls regarding leases.

In the light of our understanding of the organisational composition and the overall process, the audit on the one hand focused on the lease applications used and on the other hand on the completeness and accuracy of the data input in the individual component areas.

With respect to the lease applications used, we examined, where required, the appropriateness, implementation and effectiveness of the IT controls in line with our audit strategy. As part of this examination, we consulted internal IT specialists.

In a next step, we obtained an understanding of whether the automated entry and classification routines used in the lease applications comply with the relevant IFRS. To this end, we first examined the KION Accounting Manual, which represents the basis for routine programming, for conformity with the IFRS. In addition, we assessed whether the entry and classification routines have been appropriate. To this end, regarding the lease applications, which have already been used in the prior year, we examined, on the one hand, the revision protocols of the financial year for compliance with the KION Accounting Manual. On the other hand, we made examinations on a sample basis both in the form of random samples and judgemental selections by making sure that all contract types used were subject to the examination. Based on the data inputs, we assessed for each selected contract whether the results of the lease applications comply with the relevant IFRS.

We examined the data inputs made in the financial year in the individual component areas for accuracy directly in the operating entities on a sample basis in the form of mathematical and statistical methods and extrapolated any identified deviations to the corresponding basic population. In this context, apart from the accuracy, we audited the appropriate cut-off and completeness of the data inputs on the basis of the original contracts. Where required, we received confirmations of third parties to assess the completeness of the entered contracts.

Due to the introduction of a new lease application in selected group entities in the financial year, we additionally examined the required migration of the historical contract data for completeness and accuracy and the entry and classification routines for appropriateness. This examination was performed in the form of a reconciliation of the assessed results of the lease applications and comparison between the transferred and the migrated contract data.

3) Realisation of revenue regarding construction contracts in the Supply Chain Solutions business segment

a. In the business segment Supply Chain Solutions, KION's revenue increased from mEUR 364.7 to mEUR 2,001.8 in the financial year 2017 primarily due to the acquisition of the Dematic group in November 2016. Accordingly, the business segment's contribution to the Group's total revenue increased from 6.5% to 26.2% due to the full-year effect.

Construction contracts, the determination of which is based on the percentage of completion of the individual projects, make up a significant portion of the revenue in the business segment Supply Chain Solutions as they amount to mEUR 1,725.6 and account for 86.2% of the business segment's total revenue. The percentage of completion is determined based on the proportion of the contract costs that have already been incurred to the total estimated contract costs as at the balance sheet date.

The revenue highly depends on estimations subject to the legal representative's judgement particularly concerning the total contract costs and the resulting percentage of completion. Also taking into account the high amount of revenue related to construction contracts in the consolidated financial statements, this matter is of particular significance in the scope of our audit.

The information in the notes to the consolidated financial statements concerning revenue realisation from construction contracts in the business segment Supply Chain Solutions is provided in Notes [7] and [8].

b. As part of our audit, we deepened our knowledge of the processes concerning the project business including our understanding of the corresponding internal controls of the Group. We examined the appropriateness of the internal controls' design and implementation regarding the estimation of the percentage of completion and continued review of contract costs.

Based on that, we assessed the estimations made for individual projects, which were selected based on risk considerations. To this end, we examined the current cost reports and project calculations taking into account the customer contracts with respect to the percentage of completion of the selected projects. To this end, we additionally consulted the employees responsible for the relevant projects on matters such as the current project phase, any risks including penalties and changes to original assumptions and requested declarations on unexpected project developments, which were compared with supplementary evidence. In addition, we have convinced ourselves, where required, of the project progress on site and have taken into account the adherence to the budget planning based on retrospective analyses of selected projects.

Other information

The legal representatives are responsible for the other information. The other information comprises the following documents received prior to the date of this independent auditors' report:

- the Group's statement on business management specified in the combined management report,
- The assurance pursuant to Sec. 297 (2) Sentence 4 German Commercial Code (HGB) to the consolidated financial statements and assurance pursuant to Sec. 315 (1) Sentence 5 German Commercial Code (HGB) to the Group management report, and
- The remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report as well as our independent auditors' report.

In addition, the other information comprises the separate non-financial Group report, which is expected to be published to KION GROUP AG's website by 30 April 2018.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to cover the other information, and accordingly we do not issue an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be substantially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the requirements of the IFRS, as adopted in the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) German Commercial Code (HGB) in all material respects, so that the consolidated financial statements in accordance with German principles of proper accounting give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls they have identified as necessary in order to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the consolidated financial statements, the Legal representatives are responsible for assessing the Group's ability to continue as a going concern. Furthermore, they have the responsibility to disclose matters related to going concern, as applicable. In addition, they are responsible for using the going concern basis of accounting, unless this conflicts with the Group's intention to liquidate the Group or wind down operations or there is no realistic alternative.

In addition, the Legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Company's position, is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the Legal representatives are responsible for such arrangements and measures (systems) which it has deemed necessary in order to enable the preparation of a combined management report in accordance with the German commercial law to be applied and to furnish sufficient and appropriate evidence for the statements in the management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditors' responsibility for the audit of the consolidated financial statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatements, whether intentional or unintentional, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the findings of the audit, is in accordance with German legal regulations, and appropriately presents the opportunities and risks of future development, as well as to issue an independent auditors' report that includes our opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 of the German Commercial Code (HGB) and the EU Audit Regulation and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the combined management report.

As part of an audit, we exercise professional judgement and maintain professional scepticism. We also

- identify and assess the risks of material misstatements in the consolidated financial statements and in the combined management report, whether intentional or unintentional, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of the accounting policies used by the Legal representatives and the reasonableness of accounting estimates and related disclosures made by the Legal representatives.

- conclude on the appropriateness of the legal representative's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our independent auditors' report to the related disclosures in the consolidated financial statements and combined management report, or, if such disclosures are inadequate, to modify our corresponding opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with the IFRS, as applicable in the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its legal consistency and the view provided of the Group's position.
- perform audit procedures on the forward-looking information presented by the Legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we particularly evaluate the significant assumptions underlying the forward-looking information by the Legal representatives and evaluate the correct derivation of forward-looking information from these assumptions. We do not issue an independent opinion on the forward-looking information or on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking information.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control, which we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our independent auditors' report on the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Other information pursuant to Article 10 EU Audit Regulation

We were appointed by the annual general meeting on 11 May 2017 to audit the consolidated financial statements. We were engaged by the Supervisory Board on 16 May 2017 and 20/27 November 2017. We have been engaged continuously as the auditor of the consolidated financial statements of KION GROUP AG, Wiesbaden/Germany, which was named KION 1 Holding GmbH until 12 June 2013, since the business year 2007. Since the financial year 2013, the entity has been a public interest entity within the meaning of Sec. 319a (1) Sentence 1 German Commercial Code (HGB).

We confirm that the audit opinions contained in this independent auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation ("Prüfungsbericht").

Responsible Auditor

The auditor responsible for the audit is Kirsten Gräbner-Vogel.

Frankfurt am Main/Germany, 21 February 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Crampton)	(Gräbner-Vogel)
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for consolidated financial reporting, the consolidated financial statements give a true and fair view of the financial performance and financial position of the Group, and the group management report, which is combined with the Company's management report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt am Main, 21 February 2018

The Executive Board

Gordon Riske

Dr Eike Böhm

Ching Pong Quek

Dr Thomas Toepfer

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Quarterly information

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in € million	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Order intake	**2,279.6**	**1,847.2**	**1,970.5**	**1,881.7**
thereof Industrial Trucks & Services	1,579.6	1,351.6	1,513.7	1,414.6
thereof Supply Chain Solutions	692.9	492.7	452.3	461.3
Total revenue	**1,978.3**	**1,847.4**	**2,016.4**	**1,811.4**
thereof Industrial Trucks & Services	1,560.8	1,329.9	1,417.0	1,323.2
thereof Supply Chain Solutions	413.1	514.2	596.0	483.0
Adjusted EBITDA	**325.5**	**309.5**	**326.0**	**263.0**
thereof Industrial Trucks & Services	301.9	256.6	267.5	228.1
thereof Supply Chain Solutions	35.0	66.0	68.3	41.0
Adjusted EBITDA margin	**16.5%**	**16.8%**	**16.2%**	**14.5%**
thereof Industrial Trucks & Services	19.3%	19.3%	18.9%	17.2%
thereof Supply Chain Solutions	8.5%	12.8%	11.5%	8.5%
EBIT	**153.8**	**135.3**	**163.7**	**96.6**
thereof Industrial Trucks & Services	190.6	151.6	167.0	128.4
thereof Supply Chain Solutions	–22.1	2.4	13.5	–17.6
Adjusted EBIT	**203.8**	**194.7**	**214.2**	**152.9**
thereof Industrial Trucks & Services	191.8	152.5	166.7	129.1
thereof Supply Chain Solutions	27.2	58.7	61.4	34.2
Adjusted EBIT margin	**10.3%**	**10.5%**	**10.6%**	**8.4%**
thereof Industrial Trucks & Services	12.3%	11.5%	11.8%	9.8%
thereof Supply Chain Solutions	6.6%	11.4%	10.3%	7.1%

Multi-year overview

KION Group multi-year overview

TABLE 128

in € million	2017	2016	2015	2014	2013
Order intake	7,979.1	5,833.1	5,215.6	4,771.2	4,489.1
Revenue	7,653.6	5,587.2	5,097.9	4,677.9	4,494.6
Order book [1,2]	2,614.6	2,396.6	864.0	764.1	693.3
Financial performance					
EBITDA	1,185.7	889.5	824.2	714.2	708.8
Adjusted EBITDA [3]	1,223.9	931.6	850.0	780.4	721.5
Adjusted EBITDA margin [3]	16.0%	16.7%	16.7%	16.7%	16.1%
EBIT	549.4	434.8	422.8	347.0	374.2
Adjusted EBIT [3]	765.6	537.3	482.9	442.9	416.5
Adjusted EBIT margin [3]	10.0%	9.6%	9.5%	9.5%	9.3%
Net income	426.4	246.1	221.1	178.2	138.4
Financial position [1]					
Total assets	11,228.4	11,297.0	6,440.2	6,128.5	6,026.4
Equity	3,148.8	2,495.7	1,848.7	1,647.1	1,610.0
Net financial debt	2,095.5	2,903.4	573.5	810.7	979.3
ROCE [4]	9.9%	6.9%	11.9%	11.4%	–
Cash flow					
Free cash flow [5]	378.3	–1,850.0	332.7	305.9	195.6
Capital expenditure [6]	218.3	166.7	142.6	133.1	125.8
Employees [7]	**31,608**	**30,544**	**23,506**	**22,669**	**22,273**

1 Figures as at balance sheet date 31/12/ (adjusted due to the final purchase price allocation Dematic)
2 Order backlog 2016 adjusted to reflect specific customer orders from long-term construction contracts in the segment SCS
3 Adjusted for PPA items and non-recurring items
4 ROCE is defined as the proportion of EBIT adjusted to capital employed
5 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities
6 Capital expenditure including capitalised development costs, excluding leased and rental assets
7 Number of employees (full-time equivalents) as at balance sheet date 31/12/

DISCLAIMER

Rounding
Certain numbers in this annual report have been rounded up or down. There may therefore be discrepancies between the actual totals of the individual amounts in the tables and the totals shown as well as between the numbers in the tables and the numbers given in the corresponding analyses in the text of the annual report. All percentage changes and key figures were calculated using the underlying data in thousands of euros (€ thousand).

FINANCIAL CALENDAR

1 March 2018
Publication of 2017 annual report
Financial statements press conference

6 March 2018
Capital Markets Day

26 April 2018
Quarterly statement for the period ended 31 March 2018 (Q1 2018) and analyst call

9 May 2018
Annual General Meeting

26 July 2018
Interim report for the period ended 30 June 2018 (Q2 2018) and analyst call

25 October 2018
Quarterly statement for the period ended 30 September 2018 (Q3 2018) and analyst call

Subject to change without notice

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This annual report is available in German and English at kiongroup.com under Investor Relations / Financial Reports. The content of the German version is authoritative.

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We
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the
world
moving.

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