

# Report of the Supervisory Board of KION GROUP AG

Dear shareholders,

I am delighted to be reporting for the first time as chairman on the work of our Company's Supervisory Board in 2019.

## **Targets achieved despite difficult conditions**

The KION Group proved to be a reliable performer yet again in 2019. Every aspect of the outlook for the past reporting year was borne out by the results achieved and, in some cases, comfortably exceeded. The Company enjoyed a successful year, although 2019 was not always easy. Economic conditions proved challenging. International trade disputes and uncertainty surrounding other major issues, such as Brexit, took their toll on the investment climate in markets important to our Company. And yet the KION Group was able to keep the effects of these difficult conditions in check, outperform the market as a whole and strengthen its own market position thanks to the fantastic efforts of the entire workforce. Global demand for highly efficient industrial trucks remains firmly at unprecedented levels, although the individual regional markets present a distinctly mixed picture. There has been robust growth in demand for integrated, connected and increasingly automated intralogistics solutions for customers in industry, retail and wholesale. The steps taken by the Company after acquiring Dematic are having an effect, yielding measurable success that is clearly reflected in the Company's overall results. This is confirmation of the disciplined operational management of the Company and of the focus on the fields of action defined in the KION 2027 strategy.

**DR MICHAEL MACHT**

Chairman

Against this backdrop, it was only logical to work with the Executive Board last year to tackle the next phase in the implementation of KION 2027. A clear sign of the Company's commitment to taking the necessary steps is the earmarking of significant funds for capital expenditure on projects in the five fields of action (energy, digital, automation, innovation and performance). The Supervisory Board sees 2020 as a year of transition. Building on the very solid results for the financial years spanned by the first phase of the strategy, the Company now plans to invest at locations where products and services will bring lasting added value for its customers in future. One prominent example is the announcement that the Company will be pursuing a growth strategy in the Chinese market involving the local development of a brand-new line of modular material handling equipment for the mid-price product segment. These trucks are to be produced at a new factory in China.

The Supervisory Board held extensive and in-depth discussions with the Executive Board on this willingness to invest while economic conditions are difficult to forecast. Although the volume of the capital expenditure programme means that the Company will have to take a short break from improving its profitability in 2020, the Supervisory Board agreed with the Executive Board that it was the right time to take action for the future.

### **Personnel matters relating to the Executive Board**

In view of the aforementioned new strategy for the Asia-Pacific region, it made sense to ensure that the Company had the right people in place to successfully implement the strategy. Consequently, Ching Pong Quek's term of appointment as a member of the Executive Board and as Chief Asia Pacific Officer was extended for a further five years. Mr Quek will play an important role in the strategic realignment of the Company in the Chinese market over the coming years. To achieve its very ambitious goals, the Company needs an experienced and successful officer in the region who is familiar with its day-to-day business and its strengths and weaknesses and who is able to implement the strategic path that has been laid out. Mr Quek meets this brief in all respects.

The Supervisory Board and Ms Schneeberger, whose responsibilities on the Executive Board include the Supply Chain Solutions segment (Dematic) and digitalisation topics, reached agreement by amicable and mutual consent that she will leave the KION Group due to differing views on corporate strategy. Ms Schneeberger therefore stepped down as a member of the Executive Board of KION GROUP AG on 12 January 2020. The Supervisory Board would like to thank Ms Schneeberger for her contributions during her time at the Company.

### **Strengthening of corporate governance in the Company**

Over the course of the year, the Supervisory Board scrutinised the initiatives announced by German lawmakers and the government commission responsible for the German Corporate Governance Code. Although the provisions of the law to implement the second Shareholder Rights' Directive and the new German Corporate Governance Code did not come into effect in 2019, despite earlier announcements to the contrary, the Supervisory Board made significant preparations in the reporting year that will enable the KION Group to adequately apply these new rules for listed companies in Germany. The Supervisory Board of KION GROUP AG hopes that the lawmakers and government commission will now maintain a phase of stability for the legislation and Code and will refrain from introducing further new rules over the next few years.

With regard to its own arrangements, the Supervisory Board has resolved to make changes so that the terms of office of shareholder representatives on the Supervisory Board end on different dates rather than on the same date. The aim of introducing a 'staggered board' is to ensure that not all shareholder representatives have to be elected by the Annual General Meeting at the same time. The main reason for switching the end dates in this way is because holding elections for the full contingent of shareholder representatives can result in major changes and the loss of continuity of experience and expertise on the Supervisory Board. The elections may also come

at the same time as key Executive Board members have to be re-appointed. This can lead to the perception, particularly among investors, that the management of the Company is (temporarily) uncertain and unstable.

### **Collaboration between the Supervisory Board and Executive Board**

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

As in previous years, the Supervisory Board discussed numerous other issues and transactions requiring consent, made necessary decisions, regularly advised the Executive Board on all significant matters relating to managing the Company and monitored the Executive Board's running of the Company's business. The Supervisory Board was always fully involved in major decisions affecting the Company from an early stage. Giving the specified period of notice, the Executive Board presented to the Supervisory Board transactions that, according to the law, the Company's articles of association or the rules of procedure for the Executive Board of KION GROUP AG, require the Supervisory Board's consent so that it could adopt resolutions. Between meetings of the Supervisory Board and between those of its committees, the chairmen of the Supervisory Board and Audit Committee remained in close contact at all times with the Chief Executive Officer and Chief Financial Officer. There was also regular contact between the chairman of the Audit Committee and those responsible for internal audit and compliance in the Company.

### **Corporate governance matters handled by the Supervisory Board**

The Supervisory Board and its committees held in-depth discussions on the Supervisory Board's own obligations in relation to the Company's corporate governance decisions and declarations before adopting unanimous resolutions.

Contrary to expectations, no amendments were made to the German Corporate Governance Code in 2019. At its meeting on 19 December 2019, the Supervisory Board held its final discussion on the KION Group's compliance with the unchanged recommendations and suggestions of the Code and issued an unchanged declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). This has been made permanently available to the public on the KION GROUP AG website.

The Supervisory Board must review the content of the non-financial Group report, which the Company is obliged to publish in accordance with section 315b of the German Commercial Code (HGB). The Supervisory Board engaged our Company's auditors for the preparation of this review of the 2018 report, which was presented to the Supervisory Board for a decision in April 2019 and published on 30 April 2019, and of the upcoming report for 2019. No concerns were raised as a result of the Supervisory Board's review of the report. As was the case in the previous year, the Supervisory Board will take account of the auditors' assessment in its own review of the 2019 non-financial Group report, which will take place in April 2020, i.e. after this report of the Supervisory Board has been submitted. After carrying out detailed preparations, the Supervisory Board will make a decision promptly to ensure that the report can be published on time by the end of April.

The Executive Board and 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 and can be found on pages 32 to 41 of this annual report and on the KION GROUP AG website at [kiongroup.com/GovernanceReport](http://kiongroup.com/GovernanceReport).

### **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 2020. The auditors reviewed this report and issued an auditors' report. Based on their audit, which they completed on 21 February 2020 without having identified any deficiencies, the auditors issued the following opinion:

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

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

The dependency report and the auditors' report about it were submitted to all the members of the Supervisory Board in good time. Both reports were discussed in detail in the presence of the auditors at the Supervisory Board meeting on 2 March 2020 after the auditors had presented their report in person. The Supervisory Board agreed with the findings of the audit. Based on the final outcome of its own review, the Supervisory Board did not raise any objections to the Executive Board's declaration at the end of the report concerning relationships with affiliated entities.

### **Work of the committees**

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

In 2019, the Supervisory Board and its committees dealt with the matters at hand and made the necessary decisions at a total of 17 meetings. These consisted of seven meetings of the full Supervisory Board, four of the Executive Committee, five of the Audit Committee and one of the Nomination Committee. The Mediation Committee did not meet in the reporting period. There were also several conference calls for the purpose of providing the members of the Supervisory Board or the relevant committees with advance information. In 2019, 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 five (of the seven) Supervisory Board meetings at each of which one member sent apologies and two committee meetings at each of which one member sent apologies. There was also one Supervisory Board meeting at which two members sent apologies. In the period since 9 May 2019, during which Mr Tan Xuguang has been a member of the Supervisory Board, he has attended one of the five meetings.

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

The Company's independent auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), Munich, Frankfurt am Main branch office, audited the separate financial statements, consolidated financial statements and combined management report for KION GROUP AG and the Group for the year ended 31 December 2019 following their engagement by the Annual General Meeting on 9 May 2019. The corresponding proposal to the Annual General Meeting had been prepared in meetings held between the chairman of the Audit Committee and the auditors. The proposal was discussed at the Audit Committee's meeting on 20 February 2019, and committee members were given the opportunity to speak to the auditors in person.

The auditors were appointed by the chairman of the Supervisory Board on 23 July 2019. The key audit matters were discussed and set out accordingly at the Audit Committee's meeting on 23 October 2019.

The auditors submitted their report and the documents relating to the 2019 financial statements to the members of the Audit Committee and the members of the Supervisory Board, in each case with the required lead time. The Audit Committee and Supervisory Board each discussed the report extensively, in both cases in the presence of the auditors. The auditors reported in detail on the main findings of the audit on each occasion.

The auditors issued an unqualified opinion for the separate financial statements, consolidated financial statements and group management report, which was combined with the Company's management report, on 21 February 2020. Having itself scrutinised the Company's separate financial statements, consolidated financial statements and combined management report for the year ended 31 December 2019, the Supervisory Board – on the basis of a recommendation from the Audit Committee – agreed with the findings of the audit by the auditors after further discussing these findings at its meeting on 2 March 2020. 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 2019 prepared by the Executive Board, thereby adopting the annual financial statements.

At its meeting on 2 March 2020, the Supervisory Board also discussed and approved the proposal made by the Executive Board that the distributable profit of KION GROUP AG be appropriated for the payment of a dividend of €1.30 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.

### Personnel changes on the Supervisory Board

On 9 May 2019, there was a change at the helm of the Supervisory Board. After Dr John Feldmann stepped down as a shareholder representative on the Supervisory Board and thus as its chairman, the Supervisory Board elected me as its new chairman during its constitutive meeting on 9 May 2019. We owe a debt of gratitude to Dr Feldmann for his great dedication and significant contributions to the Company during his tenure as chairman of the Supervisory Board. He played a key role in the KION Group's transformation from a European industrial truck manufacturer into one of the world's leading providers of intralogistics and automation solutions. While Dr Feldmann was chairman of the Supervisory Board, the Company also put in place an Executive Board that is diverse, international and equipped with the necessary expertise for the future.

As I was initially appointed as a member of the Supervisory Board by the court for a limited period, the Annual General Meeting elected me as a shareholder representative on the Supervisory Board on 9 May 2019. The Annual General Meeting also elected Mr Tan Xuguang as a shareholder representative on the Company's Supervisory Board on 9 May 2019.

The details of this report were discussed thoroughly at the Supervisory Board meeting on 2 March 2020 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 2019.



**Dr Michael Macht**

Chairman