

KION GROUP AG

Annual General Meeting on 11 Mai 2017

Report of the Executive Board on agenda item 10

An adequate capital base and adequate financing are material bases for the further development of KION GROUP AG and for a successful market presence. By issuing convertible and warrant bonds, participation rights and participation bonds, the Company can – depending on the market situation and its financing needs – take advantage of attractive financing opportunities at comparatively low interest rates, for example to procure favourable debt capital for the Company. Moreover, by issuing convertible and warrant bonds, participation rights and participation bonds, the Company may possibly even reach new investor groups in addition to using other instruments, such as a capital increase. Further, the Company will benefit from the conversion and option premiums obtained when issuing such bonds.

The planned authorization is intended to replace the existing authorization to issue bonds with warrants or convertible bonds or participation rights which had been resolved in the General Meeting of 19 May 2014. Although the authorization resolved on 19 May 2014 will remain available until 18 May 2019 and has not been utilised to date, there is no more contingent capital available to issue shares with which bonds with warrants or convertible bonds or participation rights issued on the basis of the authorization of 19 May 2014 could be serviced. The Contingent Capital 2014 in the amount of EUR 9,890,000.00 created for this was reduced pursuant to the resolution of the General Meeting of 19 May 2014 and article 4(5) of the Articles of Association by the proportion of the share capital that was attributed to shares issued on the basis of the Authorized Capital 2014. Since 9,890,000 new shares with a pro rata amount of the share capital of EUR 9,890,000.00 were issued on the basis of the Authorized Capital 2014 in the 2016 financial year, the Contingent Capital 2014 is no longer available as a basis for issuing shares.

The Executive Board and the Supervisory Board consider it reasonable to continue to enable the Company in future to issue convertible bonds and/or bonds with warrants, participation rights and participation bonds, by excluding the subscription right, in a flexible manner. The new authorization to issue bonds which is proposed under agenda item 10 and the Contingent Capital 2017 which is also proposed will enable the Executive Board to issue, once or repeatedly up to and including 10 May 2022, bearer or registered convertible bonds and/or bonds with warrants and/or participation rights and/or participation bonds carrying a conversion or option right and/or conversion or option obligation (or a combination of these instruments) in the total nominal amount of up to EUR 1,000,000,000.00 with or without a limited maturity term (hereinafter referred to collectively as “**Bonds**”) and to grant to or impose on the creditors of Bonds conversion/option rights and/or conversion/option obligations to subscribe to a total of up to 10,879,000 new no-par value bearer shares of the Company with a pro rata amount of the share capital of up to EUR 10,879,000.00 in total in accordance with the terms and conditions of the Bonds (hereinafter collectively the “**Bond Terms**”). The authorization proposed in agenda item 10 will also enable the Executive Board to issue the Bonds with a variable interest rate, in

terms of which the interest rate may be wholly or partially dependent on the amount of the net profit for the year, the balance sheet profit, or the Company's dividend.

The issuance of Bonds is restricted in that the total amount of the shares issued in order to serve Bonds that are issued on the basis of this authorization may not exceed a pro rata amount of 10% of the share capital, either when this authorization comes into effect or when it is exercised. Shares that are issued during the term of this authorization from authorized capital will be counted towards this limit. Because of this capital limit, the total extent of any issuance of shares on the basis of the issuance of Bonds and authorized capital is restricted to 10% of the current share capital. In this way, shareholders will be protected to a particularly high degree against dilution of their holdings.

The possibility provided for in the authorization to the effect that Bonds may also be issued with a conversion or option obligation upon maturity or at other times extends the scope for structuring financing instruments of this kind.

When issuing Bonds, the Company shall be able, depending on the market situation, to make use of the German or international capital markets and issue Bonds not only in Euro but also in the legal currency of an OECD country, however, limited to the equivalent value in Euro. The Bonds may also be issued by domestic or foreign companies in which the Company directly or indirectly holds the majority of the votes and capital (hereinafter also a **“Majority-Owned Subsidiary”**); in this case, the Executive Board will, with the consent of the Supervisory Board, be authorized to provide a guarantee for the Bonds on behalf of the Company and to grant the creditors of such Bonds conversion and/or option rights on shares of the Company and/or perform conversion or option obligations in shares of the Company, as well as to make other declarations and take other actions which may be required for a successful issue.

The proposed Contingent Capital 2017 shall enable the Company to issue shares to the creditors of Bonds which are issued on the basis of the authorization that is to be newly created under agenda item 10. The nominal value of the Contingent Capital 2017 corresponds to 10% of the current share capital of the Company. The new shares from the Contingent Capital 2017 shall be issued at the conversion or option price to be determined in each case in accordance with the respective authorization. Pursuant to section 193(2) no. 3 German Stock Corporation Act, the authorization will merely define the bases for determining the relevant minimum issue price so as to give the Company the necessary flexibility when determining the terms and conditions. The conditional increase of the share capital shall be performed only to the extent that conversion or option rights under issued Bonds are exercised or conversion or option obligations under such Bonds are performed, and to the extent that the conversion or option rights and/or conversion or option obligations are not satisfied through own shares, shares from authorized capital, or other consideration.

When Bonds with a conversion or option right or a conversion or option obligation are issued, the shareholders are generally entitled to a subscription right (section 221(4) German Stock Corporation Act in conjunction with section 186(1) German Stock Corporation Act). If the Bonds are issued by a Majority-Owned Subsidiary of KION GROUP AG, KION GROUP AG must ensure that the shareholders are granted the statutory subscription right. To simplify the settlement procedure, the Bonds

may also be subscribed to by one or several credit institutions pursuant to section 186(5) German Stock Corporation Act, which must undertake to offer them to the shareholders for subscription (so-called indirect subscription right).

In this regard, the Executive Board shall – with the consent of the Supervisory Board – also be permitted to determine that the subscription right in part shall be a direct subscription right and otherwise an indirect subscription right. In particular, it may be appropriate and in the Company's interest for financial reasons to offer a principal shareholder entitled to subscription, who has committed to the subscription of a fixed number of (partial) Bonds in advance, such Bonds directly for subscription, in order to thus avoid the issuing banks' fees that would be otherwise incurred by the Company in case of an indirect subscription right. This does not entail any restriction of the content of the subscription right for those shareholders to whom the Bonds are offered by way of an indirect subscription right.

In accordance with the legal provisions, the Executive Board shall be authorized – with the consent of the Supervisory Board – in the cases specified in detail in the authorization to exclude the shareholders' subscription right.

Exclusion of the subscription right for fractional amounts

First, the Executive Board shall be authorized to exclude the shareholders' subscription right for fractional amounts with the consent of the Supervisory Board. Such exclusion of the subscription right shall allow for a practicable subscription ratio and shall thus facilitate the technical performance of the issue of Bonds. As a general rule, the value of the fractional amounts is low, whereas the time and effort required to issue Bonds without an exclusion of the subscription right for fractional amounts is regularly much higher. When it comes to fractional amounts, the costs associated with trading in subscription rights would be out of proportion to the shareholders' actual benefits. The Bonds that are excluded from the subscription right due to such fractional amounts shall be utilised in the best possible manner for the Company. The exclusion of the subscription right in these cases thus serves to make an issue and its implementation more practicable and feasible.

Exclusion of the subscription right for bonds with warrants and convertible bonds

Further, the Executive Board shall be authorized, when issuing Bonds, to exclude the shareholders' subscription right with the consent of the Supervisory Board also to the extent that this is necessary to grant holders and/or creditors of conversion or option rights or creditors of Bonds with conversion or option obligations, which were issued or are still to be issued by the Company or a Majority-Owned Subsidiary, a subscription right to the extent to which they would be entitled as a shareholder after exercising the conversion or option rights or after the performance of conversion or option obligations.

The reasons for this are as follows: The economic value of the aforementioned conversion or option rights or the bonds with conversion or option obligations depends not only on the conversion or option price but also and in particular on the value of the shares of the company to which the conversion or option rights or conversion or option obligations relate. In order to ensure a successful placement of

the respective bonds or to avoid a markdown of the price in the placement, it is therefore common practice to include so-called anti-dilution provisions in the terms and conditions of the bond, which will protect the holders of rights from a loss in the value of their conversion or option rights as a result of a dilution of the value of the shares to be subscribed; accordingly, the inclusion of such anti-dilution provisions in the Bond Terms is also provided for in the authorization to issue convertible bonds and/or bonds with warrants and/or participation rights and/or participation bonds carrying a conversion or option conversion right and/or a conversion or option obligation (or a combination of such instruments), as proposed under agenda item 10. In the absence of such protection against dilution, the subsequent issuing of further bonds with conversion or option rights or with conversion or option obligations, with the subscription right being granted to the shareholders, would typically lead to such a dilution of value. This is because in order to make the terms and conditions of the subscription right attractive to the shareholders and to ensure that the shares will be subscribed to, the relevant convertible bonds or bonds with warrants are generally issued on more favourable terms and conditions than would be in line with their market value, if a subscription right is granted. This leads to a corresponding dilution of the value of the shares. The aforementioned anti-dilution provisions in the Bond Terms regularly provide for a reduction of the conversion or option price in such a case, with the result that in the event of the subsequent conversion or exercise of the option or the subsequent performance of a conversion or option obligation, the funds accruing to the Company are reduced and the number of shares to be issued by the Company is increased, respectively.

As an alternative by which the reduction of the conversion or option price can be avoided, the anti-dilution provisions usually permit the holders of rights under bonds with conversion or option rights or conversion or option obligations to be granted a right to subscribe to subsequently issued convertible bonds and/or bonds with warrants to the extent to which they would be entitled after exercising their own conversion or option rights or after performing their conversion or option obligations. They are thus placed in the position in which they would be, if they had already become a shareholder prior to the offer to subscribe, by exercising the conversion or option rights or by performing any conversion or option obligations, and would already be entitled to subscribe to that extent; thus, they are compensated – like all shareholders already holding shares – for the dilution of value by the value of the subscription right. For the Company, this second alternative for granting protection against dilution has the benefit that the conversion or option price need not be reduced; therefore, this alternative serves to ensure the largest possible inflow of funds in the event of a subsequent conversion or exercise of the option or the subsequent performance of any conversion or option obligation, and reduces the number of shares to be issued in this case, respectively. This also benefits the participating shareholders, so that this is at the same time compensation for the restriction of their subscription right. Their subscription right as such continues to exist and is merely reduced pro rata to the extent to which, in addition to the participating shareholders, the holders of the conversion or option rights or Bonds with conversion or option obligations are also granted a subscription right. This authorization will enable the Company in the case of a subscription right issue to choose one of the two alternatives for granting protection against dilution described above, by weighing the shareholders' interests against those of the Company.

Exclusion of the subscription right in the issue of Bonds against consideration in cash

Further, the Executive Board shall be authorized to exclude the subscription right with the consent of the Supervisory Board if, where Bonds are issued in return for cash payment, the issue price of the Bonds is not substantially below the theoretical market value of the Bonds determined by applying recognised financial calculation methods.

It may be expedient to make use of this statutory possibility of excluding the subscription right, in order to enable the Company to respond swiftly to favourable market situations and place Bonds on the market quickly and flexibly on attractive terms and conditions. The two-week subscription period required when granting a subscription right to the shareholders (by analogous application of section 186(1) sentence 2 German Stock Corporation Act) does not allow for a comparably swift reaction to the current market situation. Moreover, because of the volatility of the stock markets, terms and conditions which are close to market terms and conditions can generally only be achieved if the Company is not bound to them for a longer period of time. If a subscription right is granted, section 186(2) German Stock Corporation Act stipulates that the final subscription price or, in the case of Bonds with conversion and/or option rights or with conversion or option obligations, the final terms and conditions of the Bonds must be announced no later than three days before the expiry of the subscription period. As compared to an allocation excluding a subscription right, this is therefore associated with a greater market risk, in particular with the risk of a price change that exists for several days. When granting a subscription right, one must hence regularly provide for corresponding safety margins when determining the terms and conditions of the Bonds in order to achieve a successful placement; this will normally result in less favorable terms and conditions for the Company than when placing the Bonds under exclusion of the subscription right. Also, when granting a subscription right, a full placement is not definitely ensured due to the uncertainty regarding the exercise of the subscription rights by those entitled thereto, and a subsequent placement with third parties is normally associated with additional expenses.

In the case of such exclusion of the subscription right, the shareholders' interests are protected by the fact that the Bonds must not be issued substantially below their theoretical market value, whereby the arithmetical value of the subscription right is reduced to almost zero. The resolution therefore provides that the Executive Board, before issuing the Bonds, must have arrived at the conclusion that the envisaged issue price will not lead to any significant dilution of the value of the shares. To the extent that the Executive Board deems it appropriate in the given situation to obtain expert advice, it may seek the support of experts – e.g. the syndicate banks involved in the issue, an independent investment bank or an expert – who will confirm in appropriate form that any significant dilution of the value of the shares is not to be expected. Regardless of such assessment performed by the Executive Board, a market-driven determination of the terms and conditions will be ensured in case of a book-building procedure being performed. This means that the exclusion of the subscription right will not lead to a significant dilution of the value of the shares.

This authorization to exclude the subscription right will apply only to Bonds carrying rights to shares or obligations to subscribe for shares, to which a proportional amount of no more than 10% of the share capital is attributable, either at the time of the authorization taking effect or at the time of the au-

thorization being exercised. Within this limit, the legislator deems it reasonable for the shareholders to maintain the percentage of their shareholding by purchases on the market. Shares of the Company which are issued or sold by the Company during the term of this authorization, with the shareholders' subscription right being excluded pursuant to or by analogous application of section 186(3) sentence 4 German Stock Corporation Act, shall be taken into account for the purpose of this 10% limit. Such taking into account serves to protect the shareholders in order to keep the dilution of their shareholding as low as possible.

Exclusion of the subscription right in the issue of Bonds against non-cash consideration

Further, the Executive Board shall be authorized to exclude the shareholders' subscription right with the consent of the Supervisory Board in the case of Bonds being issued against non-cash consideration, if the exclusion of the subscription right is in the Company's interest.

This shall ensure that the Bonds can be used as an acquisition currency in order to specifically acquire certain assets, enterprises, parts of or interests in enterprises. The Company will thus be enabled, in particular in combination with other financing instruments or with the issue of Bonds against consideration in cash, to act flexibly and to respond to the respective demands made by the sellers. The issue of the Bonds against consideration in kind requires that the value of the consideration in kind is at least equivalent to the issue price of the Bonds. Therefore, the Company will not suffer any disadvantage as a result of issuing Bonds against consideration in kind. Rather, this possibility will allow for additional flexibility and will improve the Company's competitive position in terms of making acquisitions. In each individual case, the Executive Board will carefully consider whether it will make use of the possibility of issuing Bonds against consideration in kind. The Executive Board will only make use thereof if this is in the best interest of the Company and thus of its shareholders.

Further information

Each and every case of an exclusion of the subscription right, as proposed herein, will require the consent of the Supervisory Board.

Furthermore, the Executive Board will carefully consider in each case whether it would be in the interest of the Company to make use of the proposed authorization to issue Bonds; in this regard, the Executive Board will consider also and in particular whether a possible exclusion of the subscription right is objectively justified in a specific case. The Executive Board will report to the respective next General Meeting on any utilisation of the authorization.