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Chief Executive Officer of KION GROUP AG

Annual General Meeting of  
KION GROUP AG

Frankfurt, May 11, 2017

## **1. Introduction**

Dear shareholders,  
ladies and gentlemen,

On behalf of the Executive Board and our employees, who now number more than 30,000, I would also like to welcome you here today to the fourth Annual General Meeting of KION GROUP AG.

Since I last spoke to you here one year ago, there has been a fundamental change to KION GROUP AG – to your KION GROUP AG. What was a truck manufacturing group is now also one of the world's leading providers of warehouse automation. Software capabilities, networked systems, and custom automation solutions have been added to the KION DNA.

But one thing hasn't changed: We want to be the best at understanding our customers and their needs. We want to offer the most innovative solutions through which we create individual added value. For our customers and therefore also for you, our shareholders. By delivering consistent, profitable growth.

For around half a year now we have been in a better position to achieve this. In November, we completed the biggest acquisition in our Company's history with the purchase of Dematic.

This acquisition has substantially changed our Group. We have welcomed 6,000 new people to the KION family. We can now offer our customers around the world everything that they need for their intralogistics – from robust and reliable hand pallet trucks to highly complex, automated supply chain solutions. We meet these needs with a product portfolio that is unique in our industry – and with the support of what is probably the industry's most extensive sales and service network.

By acquiring Dematic, KION GROUP AG has taken another important step toward the future. Forklift trucks, warehouse technology, and related services remain the backbone of our business. But now we can start to shape trends in the world of logistics. E-commerce is booming. However, advances in logistics will also become a key competitive advantage for many other industries. Our customers will therefore increasingly be looking for solutions for their warehouses and production halls that are automated, that use digital technologies, and that are tailored to their specific requirements.

Many of you invested in the KION Group four years ago when we went public. At that time, you invested in a highly promising and robust German engineering company that operates globally.

Today you are shareholders of a Company that is a driving force in the digitalization and automation of logistics. You are shareholders of a Company that is helping to shape a megatrend of our time – and that at the same time is built on a solid foundation provided by a proven business model.

I believe that there is no better combination of the new and old economy.

This is our, this is your, new KION Group. We are talking about a new era for our Group – but also for our customers and our industry as a whole. We would like to enshrine this new KION Group in our articles of incorporation and so, under agenda item 11, we ask you to approve an amendment to the object of the Company.

And under agenda item 12 we ask you to consent to the merger of KION Holding 2 GmbH into KION GROUP AG. KION Holding 2 GmbH is a wholly owned subsidiary of KION GROUP AG. KION Holding 2 GmbH is a holding company with no employees and no operational functions. Our primary aims with the merger are to speed up decision-making processes within the Group and to cut costs.

As part of the merger agreement, the assets of KION Holding 2 GmbH will be transferred to KION GROUP AG in full and including all rights and obligations. KION GROUP AG will not grant any consideration in return. The merger will also have no impact on the employees of the KION Group and their representatives. The full wording of the merger agreement is printed in the notice of the Annual General Meeting under agenda item 12.

Ladies and gentlemen,

I will start my address to the Annual General Meeting by reporting on 2016, which was another very successful year for the KION Group.

I will then look ahead to the current year and beyond. I will go into detail about where we see the major opportunities and potential presented by Dematic. And I will tell you about the new structure of the KION Group.

## **2. Review**

Let us take a look back at the two major milestones that we reached last year:

- First, excluding Dematic, we not only delivered on our outlook in full but we also set new records – in the total value of our order intake, in our revenue, in our adjusted EBIT, and in our net income. Not including Dematic, we achieved an adjusted EBIT margin of 9.9 percent, meaning we have never been as profitable.
- Second, as previously mentioned, we completed the future-focused acquisition of Dematic. This is enabling us to bring together under one roof one of the world's most profitable manufacturer of forklift trucks and warehouse technology with one of the the fastest growing provider of automation solutions.

We are now operating from a broader base and with greater capabilities than ever before.

The acquisition of Dematic was undoubtedly the standout event of last year. But we also registered other successes in 2016.

- At the beginning of the year, we commenced production at our plant in Stříbro in the Czech Republic. This is the most cutting-edge KION plant – a factory of the future in which we are managing, monitoring, and documenting processes using digital technologies.

At this site, we are building a new production plant for Dematic. This second plant for automated conveyor systems is currently under construction on 23,000 square meters of land in Stříbro, right next to the existing factory. This new factory is a sign of the tremendous progress that is being made with the integration of Dematic.

- In July, we implemented a capital increase. We brought in almost €460 million gross, which we used for the acquisition of Dematic.

The 2014 Authorized Capital was used in full for this. An Executive Board report on utilization of the 2014 Authorized Capital is printed in the notice of the Annual General Meeting.

Under agenda item 9 we ask for your consent to create a new 2017 Authorized Capital in an amount of €10,879,000.00. That represents 10 percent of the Company's share capital. We want to give ourselves the option, subject to the consent of the Supervisory Board, of utilizing financing to capitalize on business opportunities and strengthen our capital base.

As per agenda item 10, the company submits the creation of a new Contingent Capital to the shareholders for their approval. As a result, the company will be authorized to issue shares up to 10 per cent of the issued share capital to the holders of convertible bonds. Again such new authorization shall create the flexibility to take advantage of future attractive financing opportunities. The issue of shares to holders of such instruments resulting from the Contingent Capital 2017 and the issue of shares from the Authorized Capital 2017 is limited to a total of 10 per cent of the share capital. The details are explained in the respective Reports of the Executive Board on agenda items 9 and 10 which are included in the invitation to the General Meeting.

- In February 2017, we issued a promissory note for more than €1 billion for the very first time. We thereby refinanced the bridge loan for the long term that we used to acquire Dematic.
- In January, we were given our first investment-grade credit rating. The agency Fitch awarded us a rating of BBB- with a stable outlook. We see this as confirmation of our work over the past few years. In April, rating agency Standard & Poor's raised its credit rating for the KION Group from BB+ with a negative outlook to BB+ with a stable outlook.
- And, because of the Dematic takeover, we implemented a new reporting structure. More on this in a moment.
- One constant remains our multi-brand strategy with which we are covering different regions and price segments. Innovations are more important than ever, particularly in the premium segment. So in 2016 we added further models, including to our Linde robotics range. These models are able to navigate around a warehouse independently and without the need for additional infrastructure. They respond in real time to obstacles. We also enhanced our solutions for fleet management. Customers can now use apps to quickly and easily analyze the data relating to their fleet – here you can see an example from our brand company STILL.
- In 2016, Linde and STILL brought to market the first counterbalance trucks fitted with lithium-ion batteries. These electric forklift trucks offer the highest level of performance with low energy consumption – in other words, they provide maximum efficiency.
- By bringing on board Dematic we strengthened our regional presence, particularly in North America. And we are already reaping the benefits this year. We are introducing new products in the Industrial Trucks & Services segment that have been specially developed for the North American market. No other company in our industry has ever released so many

new models onto the North American market in a comparable space of time. This is bringing us closer to our goal of being a major player in one of the world's biggest markets.

- We want to centrally manage our technological innovations and bring new products to market more quickly. We enhanced our internal structure to achieve this. At the beginning of 2016, we consolidated all activities for research and development into a single organization under a new Executive Board role. It is headed up by our Chief Technology Officer, Eike Böhm. This consolidation is now also delivering tangible benefits with regard to Dematic.
- We've always known we set the trends in our industry, but just a few days ago it was made official with two new STILL-branded products winning the prestigious International Forklift of the Year (IFOY) Award in two out of four categories.

All this was made possible by more than 30,000 hard-working KION employees. I would like to take this opportunity to thank each and every one of them. And I gladly do so on your behalf, too.

- It is important to us that all this change within the KION Group is properly supported. This is why we launched the 'Lift up' initiative last year as a way of communicating the new structures and embedding them in the corporate culture. This year we began to identify and define our shared values across the Group, so that together we can run our business in accordance with them.
- This year we once again intend to put our finger on the pulse of the organization by conducting a large-scale survey. We did this two years ago and have tried to learn from the findings. Now we want to measure how we have advanced.

### **3. 2016**

Ladies and gentlemen,

There's no doubt about it: 2016 was a very successful year for the KION Group, both financially and strategically.

- We achieved record levels in all key performance indicators. Dematic has been included in the figures since November.
- Revenue, for example, reached €5.6 billion.
- Order intake, including Dematic, increased by 11.8 percent to reach €5.8 billion, which is also higher than ever before. We received orders for a total of 178,300 trucks and warehouse trucks – a new record!
- We increased our profitability, too.
- Our net income increased by 11.3 percent including Dematic, and thus at a stronger rate than revenue.

We would like you, our shareholders, to share in this success. At today's Annual General Meeting, the Executive Board and Supervisory Board are proposing a dividend of 80 cents per share. We would then once again be distributing 35 percent of net income to the KION GROUP AG shareholders.

When you return home today from this Annual General Meeting, please remember this: Our results for 2016 provide excellent foundations on which to start our new era.

#### **4. New segment reporting structure**

Ladies and gentlemen,

The acquisition of Dematic has substantially changed the KION Group. This is reflected in our reporting structure, which we changed after the acquisition.

Since December, our operational business has been divided into two main segments. The first is Industrial Trucks & Services, where we have consolidated our existing business with forklift trucks, warehouse equipment, and related services. Our financing products also come under this segment.

The second segment, Supply Chain Solutions, brings together our activities for automated material flow solutions, represented by the brand companies Dematic, Retrotech, and Egemin. Retrotech and Egemin were purchased in the past two years as we made our first inroads into this important future market.

Our third segment, Corporate Services, brings together our internal services.

For us it represents a huge success to have fully implemented this new reporting structure so quickly after completion of the Dematic deal.

#### **5. Outlook for 2017**

We now come to the outlook. We are anticipating a favorable economic climate in 2017.

- The KION Group therefore expects the global market for material handling solutions to continue growing in 2017.
- In new business with industrial trucks, the global market expanded by an impressive 8 percent in 2016. This year we expect the growth rate to normalize at a level closer to the long-term trend of around 4 percent.
- A further increase in orders is forecast in Europe and North America. However, growth rates are likely to be more modest due to the record-high market volume and political uncertainties. Following a strong second half of 2016, we expect a further firming of demand in China.
- In our business with automated warehouse systems we are benefiting from the fast growing e-commerce market and the Industry 4.0 trend. This should drive demand for automated solutions. We expect this market to increase by an average of around 10 percent until 2019.

Specifically this means the following for the KION Group:

We expect that we will build on our successful performance last year. We are looking to further increase order intake and revenue. Our adjusted EBIT is expected to grow at a stronger rate than revenue. Specifically, this means:

- We expect the total value of order intake to be between €7.8 billion and €8.25 billion.
- The target figure for consolidated revenue is in the range of €7.5 billion and €7.95 billion.
- We are aiming for adjusted EBIT of between €740 million and €800 million.
- Our adjusted EBIT margin should exceed the 9.6 percent that we achieved last year.
- We expect free cash flow to be in a range between €370 million and €430 million.
- In the medium term, so over the next three to five years, we are aiming for an adjusted EBIT margin of 12 percent for the KION Group as a whole. Both the main segments – Industrial Trucks & Services and Supply Chain Solutions – will play a part in achieving this target.

So together with Dematic we are looking to continue growing profitably and to once again exceed the record levels of the prior year.

This forecast is based on the assumption that material prices will hold steady and the current exchange rate environment will remain as it is. However, developments in global politics and the world economy may cause our actual business performance to deviate from our forecasts. Some of these opportunities and risks are described in the 2016 management report. Performance may be negatively affected by increasing uncertainty or a worsening of the economic and political situation.

## **6. Dynamic start to 2017**

We built on a strong fourth quarter of 2016 to record a dynamic start to the current year. Growth was uninterrupted in the first quarter of 2017, both organically and because of the Dematic acquisition.

- The total value of order intake went up by more than 45 percent to €1.882 billion.
- At €2.306 billion, the order book was above the high level seen at the end of 2016.
- In the first three months of 2017, revenue grew substantially, by more than 48 percent, to reach €1.811 billion.
- Adjusted EBIT advanced by more than 55 percent to €152.9 million. This resulted in an improvement in the adjusted EBIT margin from 8.1 percent to 8.4 percent.
- Net income increased by more than 27 percent to €42 million in the period January to March.
- Furthermore, the Group generated strong free cash flow of €64.5 million.

These encouraging results for the first quarter show that we are on track to achieve our targets for this year. We therefore confirmed our outlook for 2017 when presenting these figures on 27 April.

## **7. What is driving the demand for KION products**

Ladies and gentlemen,

There are sound reasons for the strength indicated by these numbers. Our market, the market for material handling, is a global growth market. We are benefiting from several trends.

- One is the globalization of trade. This is driving demand for transport services. It is also ramping up the competitive pressure. Companies are becoming more specialized as a result, leading to more fragmented supply chains.
- A further trend is digitalization. This is making it possible to coordinate the flow of materials throughout the supply chain, and thus to turn production facilities and warehouses into intelligent, networked systems.
- The digital revolution is particularly pronounced in retail. In the booming e-commerce sector, consumers not only want to see a wide range of products, they also expect to receive their orders quickly – either next day or, increasingly, the same day. But bricks-and-mortar retailers also need to move more and more products around much faster than before. They are using decentralized warehouses in out-of-town locations in order to keep their space requirements and personnel expenses as low as possible.

These trends are changing customer behavior and markets. They have enormous power. More than ever before, the efficiency of the supply chain is determining the success of the business. It's important that all processes – whether they are related to materials, products, or data – are optimally connected and coordinated.

The integration of Dematic into the KION Group is helping us to adapt even more effectively to these new requirements. We are actively shaping global intralogistics.

## **8. The new KION Group: We are setting the course in global intralogistics**

The KION Group has always helped its customers to design their global supply chains to be as efficient as possible. The environment for this is becoming increasingly digital and interconnected. Our brand companies are market leaders in their respective segments. Our technologies are best in class.

- Dematic is contributing cutting-edge automation technologies and strengthening the software expertise of our Group.
- Geographically, our companies complement each perfectly. Together with Dematic, we employ more than 30,000 people in over 100 countries and are represented at more than 1,500 locations.

## **A one-stop shop**

This chart shows how the offerings of the two segments – Industrial Trucks & Services and Supply Chain Solutions – mesh together. We can cover any intralogistics need – be it in the warehouse or the production hall.

Our products in the Industrial Trucks & Solutions segment are highlighted in blue. Here you'll see electric forklift trucks and tugging trains, for example. Our supply chain solutions are shown in yellow. These include automated storage and retrieval systems and sorting systems.

A much more detailed chart is included in the annual report.

## **9. KION and Dematic – the ideal fit**

KION and Dematic are the ideal fit because of their strong and complementary market positions. This is opening up new opportunities.

- With Dematic on board, we have significantly expanded our presence in the highly attractive market for supply chain solutions. The segment is benefiting hugely from the boom in e-commerce. And we too want to tap into this growth.
- In addition, we will harness the opportunities in sales and service that are resulting from our complementary positioning. We are looking to develop the markets together through combined offerings. Using the structures of our truck business, we can drive sales of Dematic solutions in Europe, China, and Brazil. Conversely, our truck business will benefit from the strong position of Dematic in the USA and Europe.

As you can see: Thanks to the acquisition of Dematic we have a unique opportunity to build on our leading position in industrial trucks and warehouse technology. This segment will continue to play a critical role in the success of our business.

You already know about our Strategy 2020. We will continue to develop this strategy in 2017. And it remains our overarching goal to generate lasting, profitable growth.

## **10. What we are focusing on in 2017**

Ladies and gentlemen,

As shareholders you look ahead – and we do too. So what do we have planned for 2017?

Integrating Dematic as rapidly as possible is of course our priority. We are making very good progress with this. In the first 100 days after the acquisition we set out our new internal structures.

Now we are focusing on transforming these structures into successful additional business. We are looking to persuade existing and potential customers of our combined offering's advantages. This process has begun. The response has been entirely positive. Here are just two examples:

- Specialists from Linde and Dematic worked together on the planned expansion of an automated warehouse in China. We are thus able to offer the customer a one-stop shop that will help them even more in their planning processes.
- In Brazil Dematic introduced the team from the truck business as a new partner to one of its customers. Through this combination, we can offer the customer a comprehensive service.

In the long term, we are looking to operate in all markets with a standardized product portfolio and a coordinated strategy. We are laying the foundation for this in 2017.

This year, we are also focusing on bringing together the various areas of technological expertise in the Company under the umbrella of the CTO organization. Our strong technology team has grown to more than 2,000 employees now that Dematic is on board. They are contributing their knowledge of industrial trucks and their expertise in highly complex automation projects. This will mean that we can develop products and systems much more quickly than before and build on our technology leadership.

The most important joint technology project this year concerns the Dematic iQ software platform, which coordinates all processes within a factory or warehouse. We want to enhance it and enable forklift trucks and warehouse trucks to dock to it. Customers will then be able to centrally manage their industrial trucks and automated warehouse systems using a single software platform. This connectivity is a key driver for our business of tomorrow.

We are also making advances in our traditional business with trucks, warehouse equipment, and related services. A key focus is on ongoing enhancements to our electric forklift trucks, a segment in which we are the clear global market leaders. The prospects for these products are extremely promising: Last year electric trucks accounted for almost two thirds of the global market. Demand looks set to increase even further, partly due to stricter emissions regulations.

## **11. The new KION Group**

Let me summarize: Last year was a special year for us. Rarely have we initiated and implemented as much change as we did in 2016. We now have everything in place to be successful in the digitalized world of tomorrow and beyond.

We are operating with an exceptionally attractive business model in markets that are growing. Our brand companies are market leaders in their respective segments. We have first-class technology and software expertise – and, of course, outstanding employees.

And now we are endeavoring to shape our new era.

All that taken together signals great opportunities for the KION Group. Opportunities that will benefit our customers, the KION Group and, of course, you, our shareholders.

Thank you for listening.