

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.

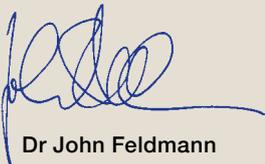
There were several changes on the Supervisory Board in 2017:

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