

**Gordon Riske**

**Chief Executive Officer of KION GROUP AG**

**Annual General Meeting of**

**KION GROUP AG**

**Frankfurt, May 9, 2018**

**- Check against delivery -**

## **1. Introduction**

Ladies and gentlemen, shareholders, friends, and partners of the KION Group,

On behalf of the Executive Board and our employees, who now number 32,000, I would like to welcome you to the fifth Annual General Meeting of KION GROUP AG.

This is the fourth time that we have invited you here to Frankfurt. And Frankfurt is now also home to the Company's head office. In November, we moved into the office building that we have leased at the airport. Our Company – and even some of our products – are now highly visible to many of our customers and to key investors arriving in Frankfurt. At today's meeting, we will be asking you to approve the change of registered office in the Company's articles of incorporation from Wiesbaden to Frankfurt.

There have also been changes at board level within the KION Group. I too would like to welcome Ms. Anke Groth, who will become our new chief financial officer with effect from June 1. My fellow Executive Board members and I very much look forward to working with her. And I would also like to thank our outgoing CFO, Thomas Toepfer, for his valuable work at KION. He played a major role in shaping the Company. We wish him every success in his new role as CFO at Covestro.

Ladies and gentlemen:

KION is currently enjoying something of a golden age. Rarely has there been a more exciting time to be fulfilling our customers' needs in connection with material handling and intralogistics solutions.

Digitalization is becoming an increasingly prevalent part of our day-to-day lives, but 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.

The material handling sector is evolving at a fast pace. 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.

'Response and responsibility' is the title of our 2017 annual report.

We chose it for good reason.

Firstly, because we produced our first groupwide sustainability report last year. The second report came out just a few days ago. It is a record of the progress that we have made in recent months. It proves that we don't merely pay lip service in our quest for greater sustainability. In fact, sustainability is a fundamental principle that we have put into practice

throughout the Group. The report also documents how everything that we do is underpinned by a forward-looking and values-based approach to our business. Dr. Feldmann has already talked about this in his presentation. And you saw some great examples of our work in the short video. You can read more about this on our website.

Secondly, because KION is not only responsible, but also responsive.

Our acquisition of Dematic in 2016 was a very important response to the opportunities and challenges that we face in our industry. We can now offer everything that our customers need in terms of intralogistics, from hand pallet trucks to highly complex, automated material flow solutions. Today, a good 18 months since the acquisition of Dematic, our belief in the deal has been vindicated: The integration of Dematic into the KION Group was exactly the right move in terms of defining the future direction of the Group.

Another, equally important response comes in the form of our KION 2027 strategy, the continuation of our Strategy 2020. Strategy 2020 provided the basis for our profitable growth over the past few years. And we aim to continue on this successful path with the KION 2027 strategy.

We are focusing on the enormous opportunities offered by the digital revolution. Many of you invested in the KION Group five years ago when we went public. At that time, you were investing in a highly promising and robust German engineering company. Today, you are shareholders of a company that is harnessing the potential offered by megatrends such as digitalization and automation, benefiting from them and using them to shape its future.

With this in mind, I will be asking you under agenda item 7 to approve a control and profit-and-loss transfer agreement between KION GROUP AG (the controlling company) and KION IoT Systems GmbH (the dependent company). KION IoT Systems GmbH is a wholly owned subsidiary of KION GROUP AG.

'IoT' stands for Internet of Things – the term used to describe the fusion of the physical and virtual worlds where objects begin to communicate with one another. In Germany, the Internet of Things is better known as Industry 4.0. It is part of a genuine technological revolution.

Under the agreement, KION GROUP AG is entitled to issue the Management Board of KION IoT Systems GmbH with instructions on how the subsidiary should be run, making it more practical and efficient.

The agreement will also strengthen the existing VAT affiliation between KION GROUP AG and KION IoT Systems GmbH and make them a single entity for income tax purposes. The agreement is therefore financially advantageous for the KION Group. In particular, it reduces the overall tax rate of the KION Group and reduces the risk of losses remaining unutilized for tax purposes.

Further details of the control and profit-and-loss transfer agreement with KION IoT Systems GmbH can be found in the joint report prepared by the Executive Board of KION GROUP AG and the Management Board of KION IoT Systems concerning the conclusion and content of the control and profit-and-loss transfer agreement.

I will return to the subject of KION IoT Systems GmbH at the end of my presentation.

But before I talk about the future, before I set out the fantastic opportunities and potential that automation and digitalization offer for our Group, I would like to take a look back at the 2017 financial year.

## **2. Review**

2017 was another very successful year for the KION Group, a year full of change.

- We matched our slightly adjusted **outlook** in full. This was the first year in which Dematic was consolidated for the full period. Organically, and through the purchase of Dematic, our revenue, adjusted EBIT, and net income reached unprecedented levels, as did the value of our order intake.
- In 2017, we also focused on integrating Dematic. And we have achieved this very effectively, as evidenced by many concrete examples from China to South America. The acquisition of Dematic has opened up an important section of the material handling market for us.

Our vision is clear:

**We are the best company in the world at understanding our customers' material handling needs and providing the right solutions.**

I have a number of highlights to report from last year and the start of this year.

- KION North America unveiled a comprehensive range of new trucks at the ProMat trade fair in Chicago in May. This was also the first time that the KION brand companies Dematic, Linde, and Baoli exhibited to customers together.
- In the second half of the year, our brand company Linde launched its new electric forklift trucks that have a lifting capacity of two to three tonnes and are fitted with lithium-ion batteries.
- We entered into an exclusive global partnership with EP Equipment in January of this year to service the fast-growing market for affordable warehouse trucks. EP is a leading Chinese manufacturer and exporter.
- The Stříbro site in the Czech Republic has been expanded to include a second production hall for automated conveyor systems. The new facility has recently begun manufacturing modules for Dematic's automated storage and retrieval systems for the European market.
- In January 2017, we 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.

- One month later, we issued our first promissory note. Promissory notes are a particularly attractive form of corporate finance, and the proceeds of around €1 billion were put toward refinancing the bridge loan for the acquisition of Dematic on very good terms.
- The gross proceeds from the capital increase in May amounted to approximately €603 million, allowing us to partly refinance the Dematic acquisition. Part of the 2017 Authorized Capital was used for this. An Executive Board report on utilization of the 2017 Authorized Capital is printed in the notice of the Annual General Meeting.
- We notched up another great success just a few days ago when the new RX 20 electric forklift truck from STILL was crowned best counterbalance truck at the illustrious International Intralogistics and Forklift Truck of the Year awards. Congratulations!

Once again, all this was made possible by the 32,000 highly committed KION Group employees. I would like to thank them for their incredibly hard work. And I do so on your behalf, too.

Ladies and gentlemen:

Part of being an organization 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 – last year involved giving a voice to employees around the globe.

These values represent the convictions of the entire KION Group. They are enshrined in our daily work. Integrity means doing the right thing. Collaboration requires us to believe in one another. We have the courage to embrace change and innovation, and we create outstanding value for our customers in everything we do.

### **3. 2017**

We live by these values and translate them into commercial success.

Our figures for 2017 provide evidence of this.

This is the first full financial year to include the contributions of Dematic.

- 2017 was a year of **strong growth**.
- The **order intake value** was close to €8 billion. The KION Group brand companies that manufacture forklift trucks and warehouse trucks recorded **more than 200,000 truck orders** in one year for the first time ever. This equates to an increase of 13 percent.
- **Revenue** was around €7.7 billion.
- We increased our **profitability** again, too. The adjusted EBIT margin was 10.0 percent, into **double figures for the first time**.

We would like you, our shareholders, to share in the success we have achieved in recent years. At today's Annual General Meeting, the Executive Board and Supervisory Board are

proposing a **dividend** of 99 cents per share. That is a massive 24 percent more than last year.

**With these record results, 2017 marked an excellent start to the new era of the KION Group.**

#### **4. Outlook for 2018: Further growth ahead**

We want to build on this success in 2018.

We are anticipating a positive economic climate in 2018, and therefore expect continued growth this year in the global market for industrial trucks and warehouse systems.

- In 2017, our new industrial truck business benefited from very strong growth in the global market. We expect growth rates to normalize in 2018 and be closer to the long-term trend of around 4 percent.
- Europe and North America are expected to register further moderate increases in orders. We anticipate that demand will carry on growing in China.
- Our supply chain solutions business is underpinned by the strong inclination to invest seen in all the main customer industries in connection with multichannel and e-commerce strategies. This is likely to have a positive effect on demand.

We aim to build on our successful performance of recent years in 2018. Based on the forecasts for market growth, we will be seeking to achieve further increases in order intake, revenue, and adjusted EBIT.

- **Order intake** is expected to be between €8.05 billion and €8.55 billion.
- The target figure for **consolidated revenue** is in the range of €7.7 billion to €8.2 billion.
- 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 target figure for **ROCE** is in the range of 8.7 percent to 9.7 percent.

This outlook is based on the assumption that material prices and the exchange rate environment will remain broadly the same as at the time the outlook was prepared.

#### **5. Dynamic start to 2018**

**Following the strong fourth quarter of 2017, the new financial year has also got off to a good start with profitable growth, despite the sizeable negative currency effects.**

- At €1.885 billion, the value of order intake was high in the first quarter of 2018. Adjusted for negative currency effects of €74 million, order intake rose by 4.1 percent.
- At €2.626 billion, the order book remained at the high level seen at the end of 2017.

- Revenue rose by 2.4 percent to €1.843 billion in the first three months of 2018. Adjusted for negative currency effects of €83 million, revenue increased by 7 percent.
- Adjusted EBIT advanced by 4.2 percent to €157.9 million. The adjusted EBIT margin improved from 8.4 percent to 8.6 percent.
- Net income increased substantially by more than 70 percent to €68.4 million in the period January to March.
- In the Industrial Trucks & Services segment, orders for around 53,500 units were received in the first three months of the year – the highest total ever for a first quarter.
- We also significantly increased profitability in the Supply Chain Solutions segment. The EBIT margin improved from 7.2 percent to 7.4 percent in spite of a slower start to the year and despite the massive adverse effects caused by the movement in the dollar exchange rate.

These results for the first quarter show that we are on track to achieve our targets for this year. We therefore confirmed our outlook for 2018 when we presented them on April 26.

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

Ladies and gentlemen:

The market for material handling remains a global growth market. It 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.

We are benefiting from several trends here.

- One is the **globalization of trade**. This is driving demand for transport services. At the same time, it is increasing competitive pressure and encouraging companies to become more specialized, leading to more fragmented supply chains. Some of you may be asking whether this driver, which is so vitally important for KION, could suffer as a result of the recent turmoil in trade policy. I firmly believe that no individual political player can curb global trade. It is the foundation on which growing global prosperity is built. It provides a livelihood for billions of people every day.
- A further trend is **digitalization**. This is making it possible to coordinate the flow of materials along the entire supply chain, turning production facilities and warehouses into intelligently networked systems and enabling warehousing and production spaces to be used much more efficiently.
- 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, but also expect to receive their orders quickly – either next day or, increasingly, the same day. We all know this from our own personal experience.

Where we choose to shop is no longer determined solely by price. Efficient and reliable supply chains are playing an increasingly important role in influencing where we, as

consumers, spend our money.

Efficient and reliable supply chains are therefore critical to the success of the customers of KION's brand companies. It's important to our customers that all processes – whether they are related to materials, products, or data – are optimally connected and coordinated. So companies are speeding up their processes. And, in doing so, also saving valuable resources. Automation is crucial to getting ahead of the competition.

## **7. KION 2027 strategy – our response**

Ladies and gentlemen:

I began by saying how vital it is that we have the right responses to the questions and demands of our customers, to the enormous opportunities open to our industry.

The purchase of Dematic in 2016 was one such response.

Our KION 2027 strategy is another. It builds on the successful Strategy 2020 for long-term profitable growth that we launched four years ago. KION 2027 factors in the comprehensive changes that have taken place within the Group.

Strategy 2020 enabled us to achieve profitable growth through efficient use of capital. And it made us resilient and better able to withstand economic downturns.

With KION 2027, we are seeking to build on our leading position within the industry and do even better at unlocking our immense potential. Our focus is on a coordinated, customer-centric innovation, sales, and brands strategy, at the heart of which lies further profitable growth.

- We want to grow at a faster rate than the material handling market.
- We want to remain the most profitable provider in our sector and build on this position.
- We want to remain profitable throughout the whole economic cycle.
- And we want to offer our shareholders – that means you, ladies and gentlemen – an attractive return on investment.

We have identified five areas of action that we believe will enable us to achieve these objectives. All five have a common denominator: our aspiration to be the best at understanding our customers' requirements and offering them the perfect solution for their specific needs.

And that is why we are working to develop our capabilities in the areas of energy, automation, and digitalization, on a basis of innovation and performance.

What specifically do we mean by this?

Let's start with the basis.

- **Innovation:** We are driving innovation in the material handling market with an effective innovation ecosystem and cutting-edge, rapid development processes. We are entering into strategic partnerships with research institutes, universities, and innovative companies so that we can go to market quickly with new products and solutions.
- **Performance:** You all know how successful we have been in the years since our IPO. We are continually improving efficiency within the Group. Every day, we work on making our products and services better for our customers. We exploit synergies. And we intend to continue this successful approach.
- **Energy:** We want to be leaders for energy-efficient intralogistics and supply chain solutions. A focus of our strategy will be to develop and commercialize new energy sources for industrial trucks. Customers are also increasingly turning to us for advice on energy matters. We are working to expand this line of business.
- **Automation:** I have already spoken about how automation is crucial for many of our customers. Our solutions enable particularly effective use of automation solutions. In many urban centers, it is becoming increasingly difficult to find staff to operate warehouses manually. We are helping our customers to achieve a 'lights-out' warehouse, i.e. one in which light is no longer necessary because the operation is completely automated.
- **Digitalization:** We are aligning our business to an increasingly digital world and developing our digitalization strategy. Our digital customer solutions span the whole spectrum, right up to fully automated warehouses incorporating robotics solutions. And of course we are pushing ahead with the digitalization of our internal processes at the same time.

## **8. The digitalization initiatives of the KION Group**

Everyone is talking about digitalization these days. We hear about the dawning of the digital age, although in reality this began long ago. Digitalization is becoming an increasingly prevalent part of everyone's lives. Even here, at an event as traditional as an annual general meeting, you will be casting your votes digitally later on. And of course the digital revolution is making itself felt in our industry, too. It goes without saying that the products and services of the KION brand companies have long been digital.

Examples include the new Truck Call app from Linde Material Handling, STILL's nextFleet fleet management system, and iQ Sprocket, the computer-aided maintenance system from Dematic.

Linde's Truck Call app assigns orders to trucks digitally. This simplifies communication between the fleet manager and driver. In smaller companies in particular, fleet managers have a lot of responsibilities and therefore little time to be constantly looking for the right truck for a job. In the future, this app will enable them to do this from their desk.

The nextFleet system from STILL is setting new standards in terms of availability, ease of operation, and visualization in fleet management. The online portal presents all relevant data about the fleet in a clear and easy-to-read form, and enables accurate analysis to optimize management of the fleet.

Dematic Sprocket is a solution that assists customers with their maintenance requirements. Computer-controlled back-office processes reduce the administrative burden on companies, allowing technicians to concentrate on completing their work on the system. The management of maintenance tasks becomes more straightforward and transparent.

Within the KION Group, we see digitalization as a house built on four pillars:

**Digital processes, digital products, digital customer solutions, and new digital business models.**

- **Digital processes:**  
We are ensuring that we are ready to unlock the potential of the digital world by digitalizing our own processes in sales, in production, and in back-office functions.
- **Digital products:**  
And of course this also applies to what we make. If our products are to be part of the digital economy, they must have connectivity.
- **Digital customer solutions:**  
We want to offer our customers more added value through digital products, services, and solutions.
- **New digital business models:**  
This means developing new business models, whether it be with partners or technology start-ups.

We are serious about digitalization. Let me illustrate this with an exciting example:

At the beginning of this year, we opened our Digital Campus in Frankfurt. The aim is to provide an innovative working environment where we can drive forward the process of digitalizing the KION Group.

Digital projects are developed and implemented in an agile working environment in direct collaboration with the customer – i.e. co-creatively. The KION teams are drawn both from the Operating Units and from cross-group functions.

The Campus provides a space where the teams can come together for a certain period and focus completely on a specific project. Innovative working practices are used, such as 'agile' methods.

The Digital Campus is also a place where we can host training courses to introduce new tools and agile methods and approaches. Members of project teams acquire relevant digital expertise that they can then use in their projects. We firmly believe that the Digital Campus will help to anchor the idea of 'thinking in digital dimensions' throughout our Group.

Our Digital Campus enables us to support digital projects through every stage of the process, from the initial idea through to market readiness.

- Work at the Campus starts with the generation of ideas and ends with an analysis of the data relating to a product or solution.
- In the future, we also aim to have workplaces at our customers' premises so that projects can be implemented locally. Campus teams will be embedded with our customers to work closely on developing solutions.
- A Digital Program Office coordinates the projects, while the Digital Academy offers training and learning content.

The interaction of these elements speeds up the development of digital products and harmonizes digital initiatives being carried out in different parts of the Group.

I can give you another example of the digital initiatives being carried out in the KION Group:

At the start of my presentation, I mentioned KION IoT Systems GmbH. This new company has more than a dozen digitalization experts, who joined us as a complete team just a few months ago.

The team comprises software and app developers, test engineers and system architects, along with data security specialists. Together, they have all the skills and expertise required to develop innovative digital applications from the generation of ideas to the final implementation. The core task of the KION IoT Systems team will be to improve the connectivity of the KION brand companies' products.

In the future, our customers will expect all products to be connected to one another. They will expect all performance data to be available in real time. And they will expect the data to be clear and readily understandable. We have already made a lot of progress in this regard, but the addition of this team of specialists will take the connectivity of the products of the KION brand companies to a whole new level.

## **9. Summary**

So to sum up:

- Over the past year, we have made good progress in securing the KION Group's future success.
- Our KION 2027 strategy lays the foundation for further profitable growth.
- Our most important action areas are digitalization, automation, and energy. We are continuing to extend our leadership position in these areas. Our aim is to define the future course of our industry through our unique business performance and innovative strength. With the best employees. The best ideas. The best technologies. And with initiatives such as our Digital Campus and KION IoT Systems GmbH. They will help to consolidate the leading position of the KION Group in the digital age. For the benefit of our customers. For the benefit of our 32,000 employees. And for the benefit of our shareholders.

This means we can continue to do what we do best: come up with the right response. To the questions that matter to our customers, our industry, our society. And of course to the questions that matter to you, our shareholders.