**Segments 2010**

| € million | Revenue | Year-on-year change | Adjusted EBIT[1] | Year-on-year change | EBIT | Year-on-year change | Number of employees | Year-on-year change |
|---|---|---|---|---|---|---|---|---|
| LMH | 2,254 | 17% | 139 | >100% | 86 | >100% | 12,240 | 0.1% |
| STILL | 1,245 | 14% | 26 | >100% | 2 | >100% | 6,271 | -0.4% |
| OM | 202 | 6% | -5 | 53% | -20 | -29% | 964 | -7.1% |
| Other | 160 | >100% | -22 | 64% | -34 | 54% | 493 | 26.1% |
| Consolidation | -326 | – | 1 | – | 1 | – | – | - |
| **Total** | **3,534** | 15% | **139** | >100% | **35** | >100% | **19,968** | 0.1% |

[1] Adjusted for KION acquisition items and one-off items

# Group management report of KION Holding 1 GmbH

for the year ended 31 December 2010

## 1 Milestones in 2010

### Market recovery generates strong growth – market position strengthened

Driven by strong growth in key markets such as Germany, China, South America and eastern Europe, the KION Group's business situation increasingly improved in 2010 and it gradually stepped up production levels. Besides generating new business, the upturn also led to higher demand in the market for services such as aftersales, rentals and used trucks because customers were using their products to a greater extent. However, despite the improved market situation, levels were still below where they had been before the start of the economic crisis in the fourth quarter of 2008. Although at 121,500 trucks, the order intake in 2010 was 32 per cent higher than in 2009, it was just 76 per cent of the record level achieved in 2007.

The KION Group's global market share contracted slightly to 15.3 per cent (2009: 16.8 per cent). Gains in market share in the major western European markets were not able to fully make up for the structural shift resulting from strong growth in China, which now represents a quarter of the global market. However, the KION Group was able to extend its position as the number two in the global market and the market leader in Europe due to its excellent foothold in all high-growth regions and its balanced product mix compared to its main direct competitors.

### Production is relocated successfully

The KION Group has successfully adapted its production structure to the new market conditions, thereby benefiting from economies of scale and more efficient production processes. Production at the UK plant in Basingstoke ended in the first quarter of 2010 and was relocated to Linde Material Handling's core site in Aschaffenburg, Germany, and STILL's core site in Hamburg. The plant in Reutlingen, Germany, focuses on VNA (very narrow aisle) trucks and has been upgraded to a cross-group centre of competence for VNA trucks and systems engineering.

### The KION Group remains a reliable employer

To address the issue of overcapacity, the KION Group again used short-time working in Germany and similar measures in other countries during 2010. At times, over 7,000 employees in Germany alone were affected by short-time working. Short-time working was gradually reduced during the course of the year as the market picked up. A high proportion of the affected employees enrolled on continuing professional development programmes. In 2010, the first year after the worst crisis to hit the sector, the number of employees (19,968) remained relatively stable compared to 2009. The KION Group therefore retained the valuable expertise of its employees for the future.

### STILL and OM combine their strengths

In 2010, the STILL and OM brands began to bundle their activities, enabling them to boost their competitiveness by benefiting from each other's product range and distribution capability. OM focuses on its home Italian market and is integrating the STILL Group's activities in Italy into its operations, making OM the clear market leader in that country. In the medium term, STILL will integrate the OM Group's activities outside Italy into its network. STILL is also using attractive products from OM to supplement its own product range. It is therefore significantly expanding its coverage of the market for these products and greatly improving their market penetration via its excellent distribution network. The STILL and OM brands will be managed jointly from 2011.

### Strategic course set at early stage in China, complete control of Baoli assumed

During the second quarter of 2010, the KION Group assumed complete management control of the KION Baoli joint venture, which it had established with Chinese joint venture partners in January 2009. The KION Group has therefore consolidated its position in the Chinese market against a background of sustained market growth and, along with Linde, now has two brands in the country, which cover different customer and product segments. The KION Group is by far the largest international competitor in the Chinese market. China is now the third-largest individual market for the KION Group in terms of unit sales, behind Germany and France.

### Linde Hydraulics forms strong alliance with Eaton

In 2010, Linde Hydraulics entered into a distribution and product partnership with the US industrial manufacturer Eaton. Eaton's hydraulics business makes it one of the global market leaders for hydraulic components and drive systems. The two strategic partners complement each other in terms of product range and regional presence. As a result of the alliance with Eaton, Linde Hydraulics has direct access to an outstanding global distribution network and can offer a more comprehensive range of hydraulic system technologies and services to its international customers in the construction, agricultural, commercial vehicles and manufacturing sectors.

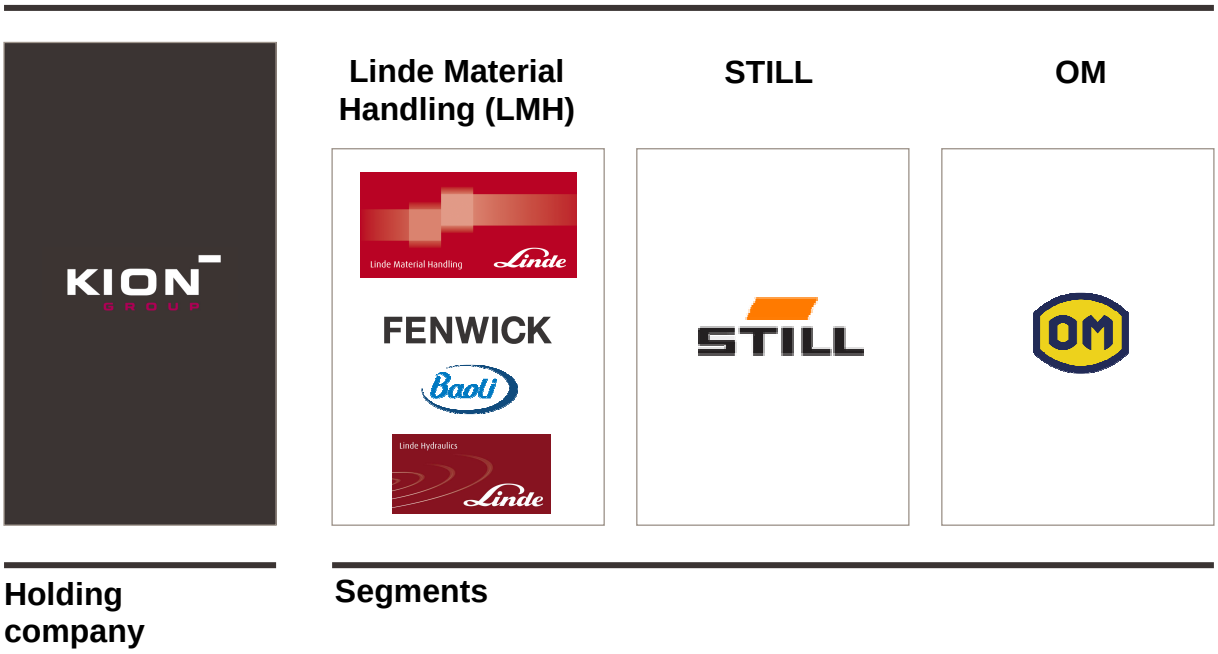
## 2 Company profile

## 2.1 Group structure

KION Holding 1 GmbH owns all the shares in KION Holding 2 GmbH, which in turn is the sole shareholder of KION GROUP GmbH. KION GROUP GmbH acts as the group parent and management holding company for Linde Material Handling GmbH (LMH), STILL GmbH and OM Carrelli Elevatori S.p.A. In this report, 'the KION Group' refers to all the companies of the KION Group collectively. The KION Group pursues a multi-brand strategy based on its Linde, Fenwick, STILL, OM and Baoli industrial truck brands so that it can provide highly effective coverage of different market segments in terms of product range, services, technological expertise and regional presence.

KION GROUP GmbH acts as a strategic management holding company and is responsible for key head office functions itself. It sets and pursues strategic, commercial and market-oriented objectives and defines shared business standards for these head office functions. The brands have full operational and commercial responsibility for their business operations and for achieving their objectives.
The operating segments pursuant to IFRS 8 are Linde Material Handling, STILL and OM. Baoli and Linde Hydraulics belong to the Linde Material Handling operating segment, as does the local French brand Fenwick.

*Diagram of the KION Group's segment structure in 2010*




## 2.2 Business activities of the KION Group

### 2.2.1 Overview of the KION Group

The KION Group is a leading provider of industrial trucks with an outstanding position in the market. In 2010, the Group generated revenue of €3,534 million and an order intake of 121,500 units. In its home European market, the KION Group is the market leader with a market share of significantly more than 30 per cent. It is also one of the leading providers in the important growth markets of China and Brazil. Globally, the KION Group is the number two in terms of order intake (units) and revenue.

Having been spun off as an independent company in August 2006 from Linde AG, Munich, the KION Group was sold to investment funds, which are advised by Kohlberg Kravis Roberts and Goldman Sachs Capital Partners, in December 2006.

The KION Group's origins go back as far as 1904, when Carl von Linde, Hugo Güldner and other partners founded Güldner-Motoren-Werke in Aschaffenburg, Germany. Güldner-Motoren-Werke was acquired by Linde AG in 1929. STILL GmbH was founded in 1920 and was acquired by the former Linde AG in 1973. Since then the KION Group has extended its product range and further increased its market share through significant organic growth and through acquisitions. One of the most important acquisitions was of the French company Fenwick in 1984, which covers the French market as the local brand of the Linde Material Handling Group and is the French market leader. In 1992 the KION Group expanded its brand portfolio again by acquiring OM, which had originally been established in 1917. The Chinese company Baoli was added to the multi-brand Group as a fifth brand in 2009 in order to better exploit the potential growth in emerging markets. Complete management control of Baoli was assumed in 2010.

Across all its brands, the KION Group offers a complete product portfolio for handling companies' internal goods flow management. This portfolio ranges from warehouse equipment to counterbalance trucks fitted with either internal combustion (IC) engines or electric motors, and covers load capacities of up to 46 tonnes. In addition to new trucks, client solutions around finance, service and process management are playing an increasingly important role.

The KION Group includes twelve sites worldwide where industrial trucks are manufactured, plus component production sites and foundries. With 1,200 sales outlets worldwide, the KION Group runs one of the most extensive distribution and service networks in the industry, making it a global player with a presence in around 100 countries.

As at the end of 2010, the KION Group had 19,968 employees.

### 2.2.2 Segment overview

**Linde Material Handling – Engineered for your Performance**

Linde Material Handling manufactures material-handling products under the Linde and Fenwick brands as well as producing hydraulic components in its Linde Hydraulics business that are used both in its own trucks and in the products of external manufacturers. As a global provider of high-quality material-handling products and services, the Linde brand stands for technological and innovation leadership and is the world's second-largest producer of industrial trucks, with a market share of 9 per cent. Linde Material Handling is the sole manufacturer to offer an extensive portfolio of products and is therefore able to satisfy any requirement, whether small pallet trucks for moving goods around the warehouse or large container handlers for use in ports and rail freight depots.

All products and services are designed to increase customers' efficiency, something that is reflected in the company's slogan 'Engineered for your Performance'. An efficiency test for forklift trucks certified by TÜV Nord, a technical inspection, testing and certification organisation, has enabled an objective comparison of the costs and performance of forklifts for the first time. These tests, which measured the overall cost of the loading cycle for a lorry, found that Linde's trucks had 20 per cent lower costs than competitors' products.

Linde Material Handling employs innovative technologies and user-friendly, ergonomic concepts as well as designing ground-breaking solutions in order to create more efficient products. Its truck design has already won numerous awards. Linde Material Handling also has a wealth of service expertise and a comprehensive product portfolio ranging from warehouse equipment to heavy trucks and container handlers as well as extensive aftersales support. This enables it to meet each customer's individual requirements.

In 2010, Linde Material Handling launched a variety of new products. One of these was the CiTi Truck, a world premiere in the material-handling market. This new type of pallet truck, with motors for driving and lifting, enables effortless load handling, particularly when it comes to deliveries in city centres – and can even cope with kerbs. The company won an EVA Award in the Corporate Events category in recognition of its marketing concept for the CiTi Truck product presentation. Linde Material Handling is the first industrial truck manufacturer in Europe to add a fuel-cell powered truck to its product range. Instead of the 80-volt batteries that are usually installed, the trucks have a fuel cell and fuel tank that holds 1.6kg of hydrogen gas at a pressure of 350 bars. Using the trucks does not generate any emissions, thereby representing a key step towards fully tapping the benefits of innovative drive technologies. Following on from the electric counterbalance trucks, Linde H20-50 trucks with IC engines now come fitted with 'eco mode' as standard. This technology enables the driver to control the power and energy consumption of the truck as required. Depending on how it is used, the truck operator can therefore reduce energy consumption and tyre wear.

The new online module of the truck data management system, LFM, enables the collection, retrieval and analysis of data about truck fleets spread across multiple locations. Data is transferred via the mobile phone network. The module gives customers maximum transparency about where and how their truck fleets are being used.

Linde Material Handling is also a major producer of hydraulic components and hydrostatic drives. In 2010, the company celebrated 50 years of the Linde truck with hydrostatic drive. The drive system of this Linde truck provides the basis for sensitive and precise lifting and handling, low fuel consumption and ease of maintenance. Linde Material Handling thereby combines both truck development and drive technology development. Major brand manufacturers around the world install its hydraulic products in their equipment for the construction, agricultural and forestry sectors. In 2010, Linde

Hydraulics and Eaton Corporation (USA) entered into a strategic alliance for the global marketing of each other's hydraulic products that allows them to offer all-in-one drive systems. This will create a broad product range for many different applications – not just mobile machinery such as agricultural equipment, but also stationary drive systems. Another advantage of the alliance is that the two partners complement each other in terms of regional market coverage.

As at the balance sheet date, Linde Material Handling employed 12,240 people worldwide. The head office of Linde Material Handling is located in Aschaffenburg, Germany. Driven by the upturn in the German market as well as in the emerging markets of China, South America and eastern Europe, new truck order intake rose by 34 per cent to 72,600 units, generating revenue of €2,254 million. Adjusted EBIT increased by over 100 per cent to €139 million. Linde Material Handling has an extensive global distribution and service network with over 700 sales outlets. Depending on the country and region, products are sold by Linde Material Handling's own sales outlets or via dealers that cover the market. Overall, the company has a balanced distribution mix, with about half of its business generated via its own distribution network and the other half through external dealers. International production sites are located in Châtellerault (France), where warehouse handling equipment is produced, and Merthyr Tydfil (UK), which focuses on extra heavy-duty trucks and container handlers. To cater to local needs and requirements, Linde Material Handling manufactures region-specific products in Summerville, South Carolina (USA), and in Xiamen (China).

The Baoli brand operates as an independent brand in the market, focusing on the economy segment in China and other growth markets. The attractive product range, combined with the KION Group's excellent distribution network, enables Baoli to quickly satisfy demand for sturdy, low-cost trucks, above all in emerging markets such as South America. As an integral part of the Linde Material Handling segment, Baoli generated an order intake of 3,100 units in 2010. Worldwide, it has more than 110 sales and service outlets, the bulk of which are in Baoli's home Chinese market. Production is located at its headquarters in Jingjiang, China. At the end of 2010, Baoli employed a workforce of 523.

**STILL – First in Intralogistics**

The STILL brand has positioned itself as a leading provider of intelligent intralogistics management tools.

In addition to core products (forklifts, warehouse handling equipment and tow tractors), the range includes cutting-edge material flow services. STILL is traditionally one of the market leaders in western and eastern Europe and is also excellently positioned in South America. The company is one of the leading brands in Europe, where it has a market share of more than 11 per cent. It celebrated its 90th anniversary in 2010.

In the second quarter of 2010, the STILL and OM brands announced plans to bundle their activities and better leverage the potential of the two brands. The regional OM brand will focus on the home Italian market in conjunction with STILL, making STILL/OM the clear market leader there. OM is significantly expanding its range of products as a result of gaining access to STILL's comprehensive product portfolio. STILL will take on OM's activities outside Italy and integrate them into its own operations. This step greatly improves the market penetration and coverage of the combined products of STILL and OM. From 2011, the KION Group will report on the STILL and OM brands as one entity.

One-stop aftersales activities as well as advice on the following issues are becoming more and more important to STILL: warehouse logistics and the design of companies' internal logistics processes, goods flow management and fleet management. Fully and partially autonomous industrial trucks are increasingly being integrated into these types of solutions. STILL is already using computer-guided turret order pickers, which are navigated by laser and use Optispeed software to reach the selected rack independently and by the quickest available route.

STILL has added further innovative forklift and warehouse material-handling products and services to its modern product range. In 2010, STILL greatly expanded and updated its portfolio of warehouse handling equipment, showcasing the EXU-SF low-lift pallet truck for horizontal transport and two new double-stacker trucks. This modular group of warehouse handling equipment aims to make the flow of

material more effective when goods are received or dispatched, loaded onto or unloaded from lorries or moved to the production line from the warehouse. The equipment is therefore highly suited to use in distribution logistics, industry and the retail sector. STILL also presented the new EXU-H low-lift pallet truck with an order picking lift, which is particularly useful for replenishing supermarket shelves and changing tools in industrial applications. In early 2010, STILL exclusively launched a complete tugger train system with new 'liftrunner' trailers, for which it received excellent feedback. The new system enables the just-in-time transport of materials at production sites that operate a modern lean manufacturing concept. STILL presented CiTi One in the second quarter of 2010. This innovative truck for inner-city deliveries can easily transport goods weighing up to 500kg. Its name indicates its main areas of application: deliveries to companies in city-centre locations and other delivery zones where there is contact with the public.

STILL has also expanded its range of diesel and LPG trucks with the launch of the RC 40 series, which features a torque converter and load capacities between 1.5 and 3.0 tonnes. The RC 40 is the first product to emerge from the cooperation between the STILL and OM brands. It means that STILL can now offer a lower-price starter model via its large distribution network that lends itself well to applications in the high-growth regions of eastern Europe, Asia and South America.

The diesel-powered RX 70 truck earned STILL two international awards in 2010: the GOOD DESIGN Award for pioneering industrial design from the Chicago Athenaeum and the Green DOT Award for ground-breaking, environmentally responsible products in the transport category. The STILL RX 70, which has load capacities of between 2.2 and 3.5 tonnes, is the most economical diesel truck in its class. It combines an IC engine and electric drive system with efficiency-boosting hybrid technology components.

STILL uses its own direct sales organisation in Germany, France and large parts of Europe. It uses dealers to supplement its own direct sales operations in its UK, Spanish and Italian markets. Other countries such as Norway, Sweden, Israel and Portugal are covered by dealers. In 2010, STILL again expanded its distribution and service network, extending the distribution alliance that it had entered into with the Finnish company KONEKESKO in 2009 to cover the Baltic states. It also enlarged its direct sales organisation in Sweden with STILL Sverige AB. Worldwide, STILL operates 230 sales outlets, consisting of its own sales operations and dealers.

STILL employs 6,271 people worldwide and has its head office in Hamburg, Germany, where it produces both electric and IC forklift trucks. Following the relocation of production from the Linde Material Handling plants in Basingstoke (UK) and Reutlingen (Germany), STILL has been manufacturing the R07 and R08 tow tractors as well as reach trucks in Hamburg since March 2010. Warehouse equipment is produced at the plant in Montataire (France). It also has two production sites that serve the entire KION Group: KION Warehouse Systems in Reutlingen (Germany) and KION South America in Rio de Janeiro (Brazil). KION Warehouse Systems focuses on the complex technologies required for very narrow aisle (VNA) trucks and systems engineering, while KION South America specialises in trucks for the South and Central American markets.

The market upturn, particularly in Germany and Brazil, was of great benefit to STILL, which was able to boost its new truck order intake by 38 per cent to 35,300 units. Revenue rose by 14 per cent to €1,245 million, enabling STILL to generate EBIT – adjusted for one-off items – of €26 million.

**OM – Reliable. Always.**

As a leading Italian manufacturer, OM offers reliable electric and diesel trucks as well as warehouse handling equipment with high-quality technology to customers in the value segment.

In 2010, OM launched the TL series of low-lift pallet trucks as part of its range of warehouse equipment. The new series offers improved features, such as optimised ergonomics. It is designed to transport pallets around the warehouse and meets the needs of customers in various sectors. As a result of the new partnership with STILL, OM will include a new electric lift truck from STILL in its product range so that it can expand its offering for the Italian market. OM has an extensive distribution and service network in its home markets in southeast Europe, consisting of its distribution network and external dealers. In total there are around 150 OM sales outlets.

The production and distribution alliance with the Japanese manufacturer Komatsu expired in 2010. This does not cause any material changes for OM.

OM's head office is located in Lainate (Italy). It produces counterbalance trucks at its plant in Bari (Italy) and warehouse equipment in Luzzara (also Italy).

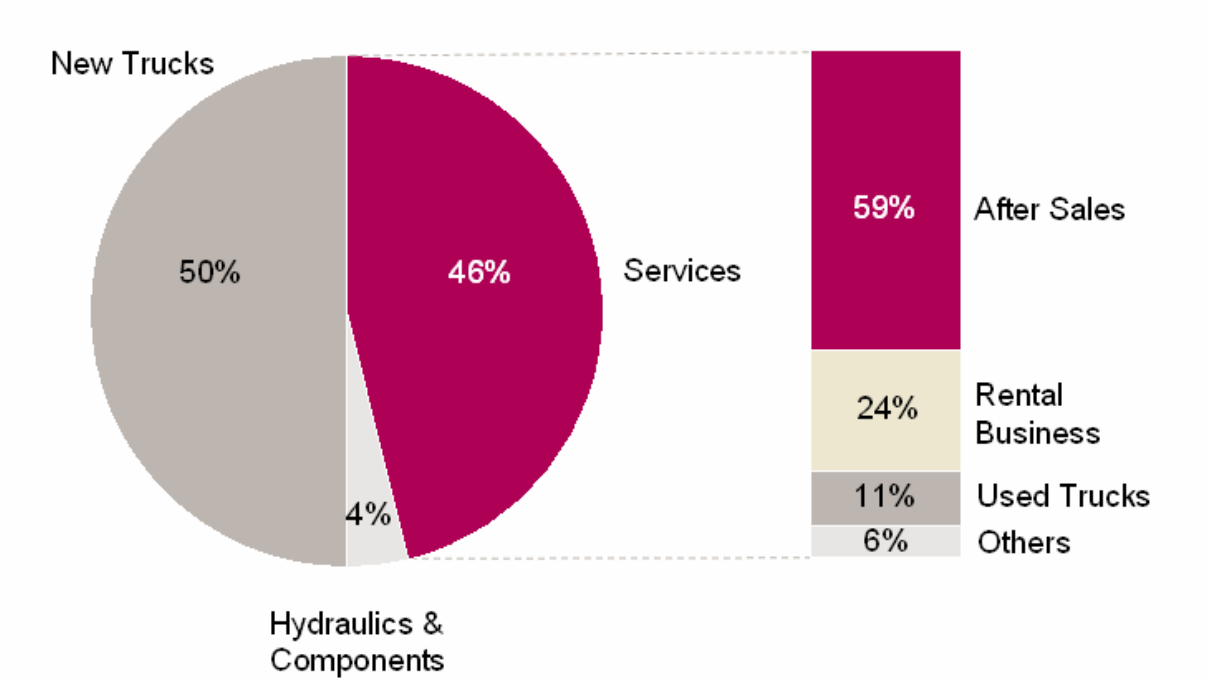
OM increased its order intake by 10 per cent to 10,400 units in 2010, generating revenue of €202 million and EBIT – adjusted for one-off items – of minus €5 million. This reflected the continuing difficulties in OM's home markets of Italy and Spain.

## 2.2.3 Service reduces dependency on the business cycle

Service is a crucial factor for many customers when it comes to selecting a business partner. The KION Group therefore considers service to be a key way of retaining customers as well as an increasingly important line of business. To fully exploit the potential in this area, the KION Group offers its customers a wide choice of services. They include a broad spectrum of simple repairs, spare parts sales, warehouse planning (including administrative systems) and the organisation of automated processes. In addition, the KION Group offers IT solutions for truck and material flow management that provide cost transparency and boost efficiency. The well-developed service business is enabling the KION Group to cushion itself better against the impact that fluctuations in the business cycle have on its business with new trucks.

In 2010, service accounted for 46 per cent of revenue (2009: 49 per cent). This slight percentage decline is due to the sharp rise in the new trucks business on the back of the recovery in the industrial trucks markets. The KION Group divides its service business into aftersales, used trucks and rental business. The 'other' product category also includes services such as consultancy, IT solutions and warehouse equipment systems.

*Diagram showing the breakdown of revenue in 2010*




**After sales business covers customers' individual needs**

The KION Group's extensive global network enables it to offer all kinds of repairs and maintenance work. Such services are the most important part of the service business because they are required

throughout a truck's lifecycle. An active fleet of currently over one million trucks provides a sound basis for these services. In the KION Group's brand companies, 7,000 employees look after customers' service requirements. More than 5,400 of them are inhouse service and workshop mechanics who are responsible for repairing and maintaining trucks. KION's own network is backed up by external dealers who work in cooperation with the brand companies.

The KION Group brand companies offer service contracts tailored to customers' requirements that encompass various services and materials. A modular concept enables customers to select the relevant regular maintenance services, ad-hoc repairs and materials that they would like included in their contract. As well as repairs and maintenance, customers can obtain spare parts and equipment for their trucks from the brand companies. The spare parts business is a crucial market because it helps the KION Group to reduce its dependency on the business cycle. The KION Group's brand companies have set up a 24-hour hotline, which ensures that their customers can contact them at any time. They guarantee that spare parts can be supplied within 24 hours anywhere in Europe.

**Used trucks open up access to new market segments**

Customers have the option of buying used trucks when their leasing or fleet management contracts expire. Used trucks also enable KION to operate in market segments that would be impossible or difficult to enter if it only sold new trucks. The used trucks are reconditioned by the KION brand companies' service network, often making them a lower-cost alternative to third-party new trucks with less sophisticated technology – and customers can still be sure of receiving the high standard of quality of the KION brands. At the same time, the used truck business contributes to the spare parts business, other aftersales services and financial services.

**Rental trucks with variable services**

In its truck rental business, the KION Group offers three variants: short-term rental, long-term rental and fleet management. Each of these generally also incorporates financing services.

- **Short-term rentals cover customer requirements of up to twelve months**

  Short-term rentals enable customers to meet short-term requirements such as seasonal spikes in demand. The term of such rentals can be anywhere between one day and twelve months. The KION Group's local subsidiaries and dealers maintain their own rental pools to ensure optimum availability of trucks.

- **Long-term rentals provide a comprehensive selection of products and services for an average of four to five years**

  The agreement consists of a long-term rental contract that runs for an average term of four to five years. It usually covers not just the financing itself but also services such as maintenance, repairs, spare parts and insurance. The package of services is tailored to meet the customer's individual requirements. At the end of the rental agreement, the customer returns the truck and can replace it with a new truck. Customers often extend their old contract or sign a new one.

- **Fleet management particularly attractive to big-ticket customers**

  Fleet management is the most flexible form of rentals and is becoming increasingly popular with big-ticket customers in particular. The KION Group takes on the comprehensive management and financing of customers' truck fleets and ensures that the trucks are used in a way that offers maximum value for money. This includes analysing how the trucks are used and optimising the methods used to replace old trucks and to conduct needs analyses. The package of services is tailored to meet the customer's individual requirements. The KION Group has developed proprietary software applications, which it uses to analyse and implement fleet management processes.

**Financial services as a sales function**

The Financial Services function provides an important central service for the three segments of Linde Material Handling, STILL and OM, and represents a valuable sales tool and means of customer retention. Some of the leasing business organised by German LMH dealers is processed by Linde Leasing GmbH (Linde Leasing), in which Linde Material Handling GmbH holds a minority interest. Linde Leasing is included in the KION Group's consolidated financial statements using the equity method. More than half of the KION Group's total unit sales are supported by financial services. They cater to the increasing demand for one-stop solutions that, in addition to the trucks themselves, include finance and other services and even, in some cases, full fleet management and automation.

Financial services are closely linked to truck rentals. The leasing portfolio grew moderately to 223,000 trucks (incl. Linde Leasing). This equates to a replacement value of around €4.32 billion as at the end of 2010. The key markets Germany, France, UK, Italy and Spain accounted for 75 per cent of the total portfolio at the end of last year. The proportion of long-term rentals accounted for by the core markets was unchanged on the proportion at the end of 2009 at around 82 per cent.

# 3 Economic conditions

## 3.1 General business environment

The global economic crisis during the winter of 2008/09 caused many countries to introduce extensive fiscal stimulus packages and prop up their financial sectors in order to cushion the impact of both the economic crisis and the crisis in the real estate markets. They also lowered taxes, for example, in order to create stimulus for growth. This caused an increase in budget deficits, and thereby government debt, in almost all of the major industrialised countries. At the same time, central banks around the world cut their key interest rates and bought bonds to ensure the availability of sufficient liquidity in both the economy and the capital markets.

These measures stabilised economic conditions and helped individual economies to rally in 2010 – although growth rates varied worldwide. Building on the upturn that had already started in 2009, the high-growth regions of Asia and South America experienced a particularly strong recovery, whereas Europe as a whole again managed only sluggish economic growth. Output rose in all industrialised countries and in the emerging markets. Despite expansionary economic policy and a recovery in most countries, many of them still have very high unemployment. Overall, 2010 was influenced by government stimulus measures coming to an end and by attempts to consolidate public finances in light of the record levels of government debt.

**Euro zone descends into crisis – Germany drives growth**

The economies of the euro-zone countries fared very differently. Germany turned out to be one of the main engines of growth. As the largest economy in Europe, Germany benefited from the export focus of its industry and thereby from the strong upturn in the emerging markets. Gross domestic product (GDP) rose by 3.6 per cent, having declined by 4.7 per cent in 2009. The upturn was underpinned by new capital expenditure by companies and an increase in consumer spending as unemployment declined.

France and Italy recorded only weak economic growth of 1.6 per cent and 1.0 per cent respectively, while the economies of Spain, Ireland and Greece actually contracted. High debt levels and the threat of insolvency faced by Greece triggered a euro crisis in the first half of 2010: the capital markets feared that the European Monetary Union would fall apart because some countries had fallen massively short of the euro convergence criteria and market participants were concerned about the negative impact of this on the euro zone as a whole. Greece received an emergency loan from the International Monetary Fund (IMF) and the euro-zone countries, in return promising to implement reforms and significantly consolidate its finances. In addition, the European Union and IMF put together a €750 billion bailout fund to enable debt-ridden euro-zone countries to obtain emergency loans independently of the capital markets. Ireland drew on the bailout fund towards the end of the year and initiated far-reaching reforms in order to consolidate its budget. Similarly affected countries

such as Spain and Portugal came under pressure in the capital markets as it was assumed that they too would need to be bailed out due to their high debt levels and persistently difficult economic situation. Spain and Ireland in particular are still struggling with the fallout from the crisis in the real estate markets and the structural problems in the financial sector. Both countries are also blighted by high unemployment. At the end of 2010, average unemployment in the euro zone stood at 10 per cent.

**Economic indicators**

| | Gross domestic product | | Unemployment rate (%) | | Consumer Price Inflation | | Industrial Production | |
|---|---|---|---|---|---|---|---|---|
| Changes % | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Germany | **3.6** | -4.7 | **7.7** | 8.2 | **1.1** | 0.4 | **9.9** | -15.4 |
| France | **1.6** | -2.5 | **9.4** | 9.1 | **1.5** | 0.1 | **5.5** | -13.4 |
| Italy | **1.0** | -5.1 | **8.5** | 7.8 | **1.5** | 0.8 | **5.4** | -18.4 |
| Spain | **-0.2** | -3.7 | **19.9** | 18.0 | **1.8** | -0.3 | **0.7** | -16.2 |
| Eurozone | **1.7** | -4.0 | **10.0** | 9.5 | **1.6** | 0.3 | **6.6** | -14.8 |
| United Kingdom | **1.7** | -5.0 | **4.6** | 4.7 | **3.3** | 2.2 | **3.6** | -10.8 |

Given that financial markets are heavily interconnected at an international level, the financial crisis and the crisis in the real estate markets also affected the United Kingdom. The economy recovered in 2010, with growth in the UK's GDP of 1.7 per cent compared with a decline in economic output of 5 per cent in 2009. However, as in the euro zone, the rally remained only modest. A sizeable portion of the growth can be attributed to the stock cycle, with only muted increases in consumer spending and companies' capital expenditure. Because of the high budget deficit, the new UK government announced tax rises and across-the-board spending cuts aimed at eliminating the structural deficit in the medium term.

**USA sees strong growth – structural problems remain**

The momentum of the economic recovery in the USA declined over the course of the year. Overall economic output had boomed throughout the winter of 2009/10, but it slowed down again in the summer months as the fiscal stimulus packages and stock cycle gradually ended. Although the estimates for GDP growth were revised downwards during 2010, the USA is still likely to have reversed the 2.6 per cent slump of 2009 with a rise of 2.9 per cent in 2010 – largely owing, however, to government intervention and the Federal Reserve's expansionist monetary policy. There is no sign yet of an upturn on the labour market. At 9.7 per cent, structural unemployment is at one of the highest levels since the 1980s. Moreover, many of the problems that led to the crisis in the real estate markets and then the economic crisis seem to be unresolved. There has still not been a substantial recovery of the housing market, and the number of foreclosures and defaults on mortgages remains at a high level.

**Emerging markets stimulate global economy**

The emerging markets – above all China – continued on their growth trajectory. Having grown by 9 per cent in 2009, the Chinese economy gained a further 10 per cent in 2010. One of the drivers of this strong growth was industry, which recorded sharp rises in production and capital expenditure. Consumer spending increased in China due to higher real incomes and rising real estate prices. In 2010, the country more than made up for the loss in foreign trade that it had suffered during the economic crisis. Exports reached a record high of US$ 154 billion in December 2010.

In South America, the economic situation visibly improved. By the end of the year, the Brazilian economy – the largest in South America – had regained its previous all-time highs for all of the key economic indicators such as production, exports and consumer spending. Rising commodity prices supported the domestic economy. GDP increased by 7.5 per cent in 2010. At the same time, unemployment fell to a record low of 6.8 per cent.

Having slumped by 7.9 per cent in 2009, the Russian economy recovered somewhat in 2010, fuelled by increased production and higher commodity prices. However, the higher rouble exchange rate made Russian goods and services slightly less competitive, and growth was slightly slower in the second half of the year. Overall, Russia's economic output rose by 4 per cent year on year.

**Economic indicators**

| | Gross domestic product | | Unemployment rate (%) | | Consumer Price Inflation | | Industrial Production | |
|---|---|---|---|---|---|---|---|---|
| Changes % | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| USA | **2.9** | -2.6 | **9.7** | 9.3 | **1.6** | -0.3 | **5.6** | -9.3 |
| China | **10.1** | 9.2 | **4.2** | 4.3 | **3.0** | -0.7 | **15.2** | 11.4 |
| Brazil | **7.5** | -0.6 | **6.8** | 8.1 | **5.0** | 4.9 | **4.1** | 19.2 |
| Russia | **4.0** | -7.9 | **7.5** | 8.4 | **6.9** | 11.7 | **8.0** | -9.3 |

## 3.2 Business environment in the sector

### Sharp price rises for raw materials

Various raw materials are used in the production of parts bought in by the KION Group as well as at its own foundries and component production sites. The most widely used material is steel in the form of sheet metal or in processed form in almost all components. Average steel prices, which had fallen significantly in 2009, increased by 31 per cent in 2010. There was even greater recovery in the price of cast-iron scrap, which climbed by an average of 53 per cent. Prices for copper on the London Metal Exchange also rose by 55 per cent on average during the year. However, the sharpest price rise among the raw materials relevant to the KION Group was for natural rubber at 98 per cent. The oil price – an indicator of the price of plastics and of energy costs – increased by 36 per cent in 2010.

### Euro crisis puts pressure on the common currency

The bulk of KION's products are sold in the European Economic Area. But even outside the euro zone, products are invoiced in euros, depending on the sales structure. Besides the major non-European currencies, some revenue is generated in foreign currencies, particularly in the emerging markets of Asia and South America. The most significant foreign currencies for the KION Group are the Chinese renminbi, pound sterling and the Brazilian real. Due to the euro crisis, the euro fell against other reserve currencies in May, but was able to make up for this to some extent during the second half of the year. On a year-on-year basis, however, the euro fell against all of the currencies that are relevant to the KION Group.

**Currencies**

| Average rate per Euro | 2010 | 2009 |
|---|---|---|
| Brazil (BRL) | 2.33 | 2.77 |
| Switzerland (CHF) | 1.38 | 1.51 |
| China (CNY) | 8.99 | 9.52 |
| United Kingdom (GBP) | 0.86 | 0.89 |
| Russia (RUB) | 40.32 | 44.09 |
| USA (USD) | 1.33 | 1.39 |

## 3.3 Market for industrial trucks

### Global markets grow by 45 per cent in 2010

Industrial truck markets around the world benefited from the economic upturn in the regions, with the growth in these markets mirroring the rate of economic recovery in the underlying economies. In contrast to the slump in global order intake in 2009, which had fallen by 37 per cent to 548,000 units, the global markets rallied in 2010 with an increase of 45 per cent to 796,000 units. The upturn in eastern Europe and the emerging markets of Asia and South America, which had begun in 2009, continued last year and generated far higher growth rates than in the developed markets of western Europe, the USA and Japan. This caused a further shift in the market shares of the individual regions. The main contributor to global market growth was China, which now has a 25 per cent share of the global market, compared with just 13 per cent in 2008.

### Pace of economic growth boosts the German market

After a long winter, order intake in the western European market only began to pick up towards the end of the first quarter. The market grew by a total of 23 per cent to 222,000 units year on year, reaching its peak for the reporting period in December. Despite this rise, the market remains at a low level: order intake for 2010 is approximately 32 per cent below that of the record year of 2007 and at about the same level as 1999. Western Europe presents a very mixed picture. Germany, Europe's largest market, was the biggest driver of growth, recording an order intake of 61,500 units. This increase of 38 per cent accounted for almost half of the growth in western Europe. The rise in exports and industrial output was the main reason for higher demand for material-handling solutions. This increase was spread equally across all product types: electric counterbalance trucks, IC trucks and warehouse equipment. In contrast, western Europe's second largest market, France, grew by a relatively modest 12 per cent. However, it should be noted that the French market had proven very stable during the economic crisis due to its high proportion of warehouse equipment. It therefore had less pent-up demand than countries that had been hit harder by the crisis. The euro crisis and the state of the affected economies are also reflected in the market data. Greece, Ireland and Portugal were the only countries in western Europe to record a contraction of the market for the second year in a row. Although the Spanish market increased by 19 per cent to 14,000 units, order intake remains very low and is just 46 per cent of the level achieved in 2007.

### Eastern European market almost doubles

The positive trend in the eastern European market continued in 2010 and order intake increased by 94 per cent year on year to 40,000 units. Following a sharp decline and the reduction of significant inventories in 2009, growth in the Russian market was very encouraging in 2010. With an order intake of 15,300 units, which equated to a rate of growth of more than 370 per cent, Russia has regained its position as the largest market in eastern Europe and the fifth-largest in Europe as a whole. However, the eastern European market is still 46 per cent down on its 2007 level. The main drivers of growth during 2010 were counterbalance trucks fitted with internal combustion engines.

### The Americas generate high growth

Order intake in the North American industrial trucks market also benefited from the economic recovery. This market, which had peaked earlier than the others, namely in 2006, grew by 38 per cent in 2010 to 136,000 units. All product types contributed to the upturn. The South American market had recovered to reach its historic high back at the end of 2009, before more than doubling in 2010. Brazil, which is South America's largest market, enjoyed an even greater rate of growth, rising by 170 per cent to 23,000 units. In 2010, the Brazilian market attained its highest-ever level.

### Chinese market grows sharply and grows in importance

All the Asian markets improved in 2010, but with very different rates of growth. Order intake in Japan, for example, grew by 18 per cent to 58,000 units, whereas Chinese order intake continued to boom and increased by 70 per cent to reach a new record of 200,500 units. The main source of growth was

IC trucks, the dominant segment in China. China is now the largest individual market and accounts for a market share of 25 per cent (2009: 21 per cent).

**Global Industrial Truck Market**

| in thousand units | 2010 | 2009 | 2008 | Changes 2010/2009 |
|---|---|---|---|---|
| Western Europe | 222 | 181 | 298 | 23% |
| thereof | | | | |
| Germany | 62 | 45 | 75 | 38% |
| France | 47 | 42 | 59 | 12% |
| United Kingdom | 22 | 17 | 27 | 29% |
| Eastern Europe | 40 | 21 | 71 | 90% |
| thereof | | | | |
| Russia | 15 | 3 | 25 | >100% |
| Europe | 262 | 202 | 369 | 30% |
| North America | 136 | 98 | 159 | 39% |
| thereof | | | | |
| USA | 124 | 89 | 143 | 39% |
| Central & South America | 45 | 21 | 41 | >100% |
| thereof | | | | |
| Brazil | 23 | 8 | 17 | >100% |
| China | 200 | 118 | 113 | 69% |
| Rest of World | 153 | 110 | 192 | 39% |
| **World** | **796** | **549** | **874** | **45%** |

*Source: WITS/FEM*

## 3.4 Legal situation

The KION Group's material-handling products are machines that have to comply with certain legal requirements in all of the major geographical markets in which the Company operates. These requirements serve to minimise - or eliminate - the risks associated with using the products for drivers, other people, the facilities in which they operate and the environment in the immediate vicinity. They also help maintain the performance of the machines. In the European Union, for example, the products are subject to the machinery directive (2006/42/EC), other technical regulations such as the emissions directives on noise (2000/14/EC) and exhaust gases (2004/26/EC) and the electromagnetic compatibility directive (2004/108/EC) as well as product-specific regulations, for example the directive on products for use in potentially explosive atmospheres (94/9/EC).

As a manufacturer of material-handling products that are governed by these regulations, the Company must ensure that its products comply with the regulations and must verify and certify this compliance in the prescribed manner.

The procedures stipulated by the regulations for the mandatory declaration of conformity vary depending on the product type. For example, the Company uses both self-certification (e.g. declaration of conformity) and third-party certification (e.g. EC type-examination certificate). As a result, when customers receive a product, they always have confirmation – in the form of the CE marking – that the product complies with all applicable European regulations. Many of the aforementioned legal requirements, especially the directives underlying the 'new approach to technical harmonisation and standardisation', are defined in precise terms in product-specific standards and other standards (e.g. EN, ISO and DIN). These standards provide simplified procedures for complying with the defined legal requirements in a verifiable manner, and the Company makes extensive use of them.

As a technology leader, the KION Group endeavours to surpass the minimum standards defined for the products that it makes.

Corresponding regulations and standards apply in other jurisdictions around the world, and the Company's products sold in those markets comply with them as well.

Technical standards, product safety regulations and environmental requirements are constantly being updated by the authorities responsible for them. Examples include the tighter emissions levels permitted for IC trucks and the requirements and limits placed on employers so that they protect their employees against excessive levels of noise and vibration. As a technology leader, the Company is well placed to more than simply fulfil these requirements. In fact, its products' existing technical properties create potential for KION to successfully differentiate itself further from the competition. In addition, the KION Group is an active member of associations such as the German Engineering Federation (VDMA) and its working groups in which it helps to continually enhance standards and regulations. Overall, the KION Group does not expect the changing regulations to have any material negative effects on its business model.

Besides these product-specific rules and regulations, the Company's business activities are subject to the requirements typically placed on companies that have a strong export business (e.g. the relevant export controls) and that work with distribution partners (e.g. EU Block Exemption Regulation). However, these regulations and the corresponding legislation in sales markets do not place any material restrictions on the Company's business activities.

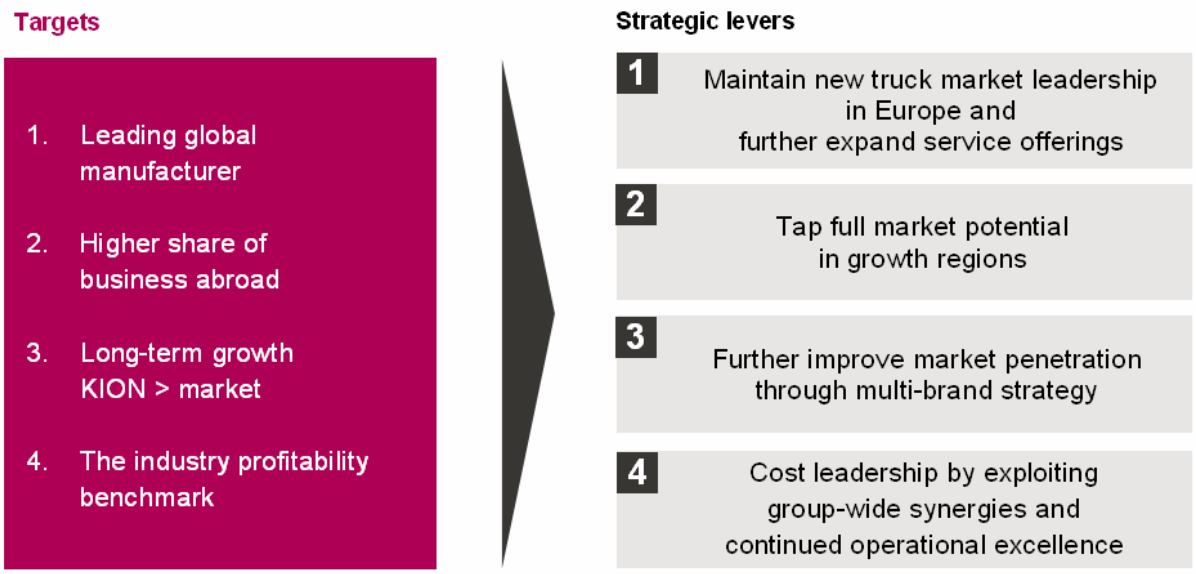
# 4 Strategy

## 4.1 Clear strategic objectives

The KION Group is committed to delivering a sustained increase in shareholder value. It has therefore set itself clear strategic objectives with which it can focus on sustained growth, efficiency and strong earnings. In the medium term, the KION Group aims to be the undisputed market leader and to use its strong competitive position to become the provider with the largest market share in the sector. It intends to expand its market share by exploiting its strong standing in its home markets as well as its excellent foothold in the high-growth markets. Before the crisis in 2009, the KION Group already had the highest profitability in the industrial trucks sector measured in terms of adjusted EBIT margin. The KION Group aims to maintain this leading position. Factors that will help achieve this objective are the KION Group's market-leading technologies, the high proportion of service business and, in particular, the initiatives launched in 2009 to boost performance, such as the relocation of products and plant closures.

To achieve its strategic objectives, the KION Group uses four strategic points of leverage. It will also continue to participate in global market growth – especially in the high-growth regions – by drawing on its strong market position in Europe. To penetrate the markets effectively, the KION Group pursues a multi-brand strategy that enables it to boost its market coverage in terms of customer needs, sales systems and regional requirements. Since it was founded, the KION Group has been successively leveraging potential synergies in the Group and continually improving its operational performance. The KION Group applies these points of leverage in strategic projects and initiatives over which individual members of the Executive Board have direct responsibility.

*Diagram showing the strategy of the KION Group*




## 4.2 Strategic points of leverage and projects

**1. Maintain market leadership in Europe and further expand service offerings**

The KION Group intends to consolidate its market leadership in Europe, which it has achieved through its strong brands, products based on market-leading technologies and a continually expanding range of services.

The KION Group is a technology and innovation leader and concentrates on further extending its competitive edge. Its products enable customers to become more efficient in terms of consumption, performance and ergonomics. Linde has maintained an outstanding position for the past 50 years, offering economical, efficient and low-maintenance hydrostatic drives. Its Linde Hydraulics business continually pushes ahead with new developments in an important technological field. STILL is strongly placed in the high-potential market for hybrid drives with its drive system that combines a diesel engine with an electric motor – a unique concept in the sector. The company already has the most economical truck in the sector: the RX 70 Hybrid. These two major brands are positioning themselves with dedicated concepts that enable them to benefit from the long-term trend for 'green' logistics, such as fuel cell drive systems and lithium ion technology, as well as for more ergonomic trucks. In 2010, the KION Group ploughed 2.9 per cent of its total revenue – or 5.5 per cent of its revenue from new trucks and hydraulics – into research and development. This substantial proportion puts the KION Group in a leading position in its sector, although there is still potential to expand its technological edge and translate the progress that it has made into efficiency gains for customers.

The KION Group continually aligns the broad range of products and services offered by its brands with customer needs. The portfolio consists of far more than the new truck business - the KION Group offers all the solutions and services that customers require for their internal material flow. This includes delivering customised and fleet-based solutions as well as providing customers with a comprehensive package of highly effective material flow management services and the necessary accompanying IT systems. Accounting for 46 per cent of total revenue in 2010, services make a considerable contribution to the KION Group's product range. With a fleet of over one million trucks in use worldwide, the KION Group has a broad and lucrative platform for its service business, which proved to be more stable than the new truck business during the crisis. It will continue to expand its service offering and further increase service coverage for its active fleet. More than half of the KION Group's 19,968 employees work in service or sales. Service is a key factor in long-term customer retention.

**2. Tap full market potential in growth regions**

In comparison to its global competitors, the KION Group occupies an outstanding position in all of the high-growth regions, which include in particular the eastern European, South American and Asian markets. The KION Group intends to consolidate this position and take advantage of the potential and the continuing growth of these markets. It has its own production sites in China and Brazil and, thanks to its distribution and service network, is represented in all the important high-growth markets. The KION Group will continue to launch local products that address the specific needs of the different markets and expand its range of region-specific products, at the same time drawing on its brand companies' broad product portfolio. It will also continue to make targeted investments in high-growth regions, expand its distribution and service network and adapt local production capacities to market requirements.

**3. Further improve market penetration through multi-brand strategy**

The multi-brand strategy is a fundamental element of the KION Group's overall strategy. As the global number two and the market leader in Europe, the KION Group pursues a multi-brand strategy based on its Linde, Fenwick, STILL, OM and Baoli brands, which enables it to cover and serve a wide range of regions, market segments and customer groups as effectively as possible. Whereas the global premium brands Linde and STILL operate in the market independently of one another, the two regional brands Fenwick and OM focus on their home French and Italian markets respectively, where they are among the market leaders. Baoli, the Chinese brand that has been part of the KION Group since 2009, operates in the economy segment and is pursuing the high-growth market for simpler, robust IC trucks, for which there is also demand in other growth regions besides China. The KION Group's five brands enable it to draw on their different strengths and effectively cover the various markets and segments via all the main distribution channels. The range of brands also enables the KION Group to offer several alternatives to competitors' products and thereby expand its market share. In future, the KION Group will continue to pursue a multi-brand strategy and make targeted acquisitions of other local brands that will enable it to further strengthen its market position. Moreover, the KION Group will further expand its distribution and service network.

**4. Cost leadership through synergies and operational excellence**

Since being spun off in 2006, the KION Group has been systematically leveraging potential synergies and boosting its performance by making operational improvements. The objective of the KION Group's organisational structure across all five brand companies is to increase overarching synergies and implement best practice throughout the Group. After all, a multi-brand strategy offers significant potential for synergies. At the same time, clear brand differentiation is a central element of marketing. The KION Group's production and logistics units are managed at head office by Central Operations (COPS) in order to establish uniform standards and make expertise available to all parts of the Group. Besides the ongoing improvement of production processes, COPS also focuses on platform strategies and modular concepts. This focus enables the KION Group to draw on its brand companies' comprehensive product portfolio by making the product developments of individual brands available to other brands so that they can exploit potential in their markets. Having a shared purchasing organisation generates cost savings for the entire Group due to economies of scale and a stronger negotiating position. This, plus the joint research & development unit, enables the bundling of resources and more efficient capacity utilisation. The Group also implements and runs standardised IT systems and platforms. By exploiting potential synergies and continually raising its operating performance, the KION Group can continue to improve its margins.

## 4.3 KIARA programme boosts performance

The main aims of the KIARA performance enhancement programme, which was launched in 2009, are a lower break-even point by means of systematic cost management, optimised structures and more efficient processes. This programme has enabled the KION Group to sustainably improve its cost structure and considerably boost its performance.

The far-reaching programme is divided into various modules: sales & service, production, hydraulics, research & development, purchasing and administrative functions. It comprises almost 200 individual

initiatives, which are managed using relevant key performance indicators and whose progress is measured on a monthly basis. The appetite for change within the organisation is one of the key factors driving the success of the KIARA performance enhancement programme, which has contributed approximately €250 million in its first two years and has thereby exceeded its target of €212 million.

Steps to reduce fixed costs were initiated promptly in 2009 and have lowered the break-even point. Adjustments have been made to capacities in production, sales & service and the administrative departments to reflect changing market conditions. Capacities that will not be required in the short to medium term were reduced by laying off contract workers, reducing time accounts and introducing short-time working. In cases where capacities will not be required in the longer term, the KION Group worked in cooperation with employee representatives to find and implement solutions with the minimum possible social impact.

These optimised structures enable the KION Group to adjust capacities more flexibly. They form the basis for being able to fully participate in the market recovery and therefore emerge from the crisis in a stronger position. The KION Group has transferred the production of products from smaller plants to larger plants, thereby increasing the use of available capacity and benefiting from economies of scale. This has also strengthened the capabilities and competitiveness of the remaining plants. The Group successfully implemented its plans to relocate production facilities and consequently eliminate overcapacities in 2010.

Production at the LMH plant in Basingstoke ended in the first half of 2010, and the plant's production was relocated to the LMH core site in Aschaffenburg, the Châtellerault plant and the STILL core site in Hamburg. After production of reach trucks was relocated from the STILL plant in Reutlingen to the STILL core site in Hamburg, the Reutlingen plant was expanded to create a centre of competence for VNA trucks and systems engineering. In the hydraulics division, axle assembly for diesel trucks was relocated from the Kahl plant in Germany to LiPo, the plant run by Linde Pohony in the Czech Republic.

## 4.4 Financial KPIs for managing the Company's business

The management approach is based on six key performance indicators: order intake, revenue, adjusted EBIT, adjusted EBITDA, net bank debt and free cash flow before tax. These key figures are used for the KION Group as a whole and at segment level. They form the basis for the performance targets for both the KION Group and its segments as well as determining a significant proportion of senior managers' performance-related remuneration. The key performance indicators are determined once a month and submitted to the Executive Board as part of a comprehensive reporting package. Net bank debt is only relevant at Group level. The table below shows the key performance indicators used in the KION Group's internal financial reporting.

**Key performance indicators**

| € million | Order intake | Revenue | Adjusted EBIT[1] | Adjusted EBITDA[1] | Net financial debt | Free cashflow before tax |
|---|---|---|---|---|---|---|
| **2010** | **3,860** | **3,534** | **139** | **462** | **2,641** | **119** |
| 2009 | 3,028 | 3,084 | -29 | 311 | 2,484 | 34 |
| 2008 | 4,399 | 4,554 | 358 | 709 | 2,303 | 292 |

[1] Adjusted for KION acquisition items and one-off items

### Order intake and revenue

Order intake and revenue are broken down by region, product segment and product group in the KION Group's management reporting so that revenue growth drivers and pertinent trends can be identified and analysed in a timely fashion.

**Adjusted EBIT**

The key figure used for the operational management and analysis of the KION Group's financial performance is adjusted earnings before interest and tax (EBIT). The EBIT figure is shown net of depreciation for property, plant and equipment and leased assets and of amortisation for intangible assets. One-off items are not included for the purposes of performance measurement; these items include the effect of purchase price allocation in connection with the KION acquisition, costs incurred in connection with the KIARA performance enhancement programme, redundancy schemes and severance pay. The EBIT margin is also used to measure the KION Group's operational efficiency. The EBIT margin is the ratio of adjusted EBIT to revenue.

For internal management reporting purposes, the adjusted EBIT figure does not include other net financial income/finance cost or net investment income.

**Adjusted EBITDA**

Unlike EBIT, the EBITDA figure is shown before deduction of depreciation for property, plant and equipment and leased assets and of amortisation for intangible assets. As with adjusted EBIT, the effects of the KION acquisition purchase price allocation and one-off items are not included for the purposes of performance measurement. Adjusted EBITDA constitutes an approximation of the cash flow KPI and provides information on the Company's long-term financial performance.

**Net financial debt**

Net financial debt – defined as the difference between financial debt and cash and cash equivalents – is the key performance measure used in liquidity planning at Group level. Lease liabilities and other financial liabilities are excluded from this figure.

**Free cash flow before tax**

Future free cash flows have a direct impact on the value of the Company. They are determined solely by the KION Group's operating activities and investing activities. Free cash flow before tax does not include tax payments or interest arising from financing activities, interest expense and similar charges from leases, or interest and similar income from leases. The performance measurement of free cash flow before tax is supported by the carefully targeted management of working capital and by detailed planning of capital expenditure.

## 4.5 Acquisitions and alliances

**Complete management control of Baoli assumed**

In 2010, the KION Group assumed complete management control of the KION Baoli joint venture, which it had established with Jiangsu Shangqi Group (formerly Jiangsu Baoli Group) and Jingjiang Baoli Forklift in January 2009. Following this, Baoli was fully integrated into the KION Group's business operations.

The fifth KION brand, Baoli is globally positioned in the economy segment. Its product range encompasses IC trucks, electric lift trucks and warehouse equipment with loading capacities of between one and ten tonnes. Baoli has an extensive distribution and service network in all provinces of China and in 80 other countries, enabling it to deliver competitive products and services to customers in China and overseas.

Because of the market recovery, particularly in China, the KION Group will invest further in Baoli. The comprehensive integration plan focuses on sales, service, product development and the production system, enabling Baoli to cater to customer requirements even better.

The additional capital expenditure on Baoli lays the strategic foundations for consolidating the position as number-one international provider of material-handling products in China. Moreover, Baoli – with its

competitive product portfolio – is a mainstay of the strategy for expanding in the world's high-growth markets.

**STILL expands its sales activities in France**

At the start of 2010, STILL acquired the outstanding shares in the French dealer SAMA SAS, thereby stepping up its sales activities in its second most important market.

**Global alliance with Eaton boosts Linde Hydraulics**

KION's Linde Hydraulics division has entered into a global strategic alliance with Eaton, the international industrial manufacturer.

Eaton is a diversified manufacturer of power management solutions and posted annual revenues of some US$ 14 billion in 2010. Its Eaton Hydraulics division is a global market leader for hydraulic components and drive systems.

The joint aims of the two companies, which remain independent, are to expand their global market presence and strengthen their competitiveness. This is enabling the KION Group to take a significant step towards one of the main objectives of its hydraulics strategy, namely to expand business with external customers. The alliance with Eaton gives the KION Group direct access to an extremely powerful global distribution network.

Both companies benefit from the alliance because the product portfolios and regional presence of Linde Hydraulics and Eaton complement each other perfectly. KION Group customers in the construction, agriculture, commercial vehicles and manufacturing sectors gain greater access to hydraulic system technologies and services through the new alliance.

Eaton is adding Linde Hydraulics' comprehensive range of high-pressure piston pumps, motors and valves to its portfolio, and Linde Hydraulics is offering Eaton's medium-pressure piston products.

In the Americas and Asia Pacific, Eaton supplies Linde Hydraulics products through its extensive sales and services networks and distribution partners. Linde Hydraulics continues to operate in these regions by providing application support, technical services and support for major international customers. In Europe, the Middle East and Africa, sales organisations and distributors for both companies continue to focus on their core businesses with the mutually expanded product range.

# 5 Notes on financial position and financial performance

## 5.1 Operating and financial performance

### 5.1.1 Order intake

**Market growth boosts intake of orders for new trucks (units)**

The improved market conditions in 2010 enabled the KION Group to increase its global order intake for new trucks by 32 per cent to 121,500 units, contrasting with the 37 per cent decline to 92,000 units in 2009. Counterbalance trucks, which represent 44 per cent of the KION Group's order intake and are mainly used in industrial applications, benefited significantly from the economic recovery in western Europe, especially in Germany, and from the upward trajectory of the key high-growth markets. They demonstrated a much steeper upward trend than warehouse equipment, thereby making up for the above-average declines in 2009. The increase was driven to a significant extent by the emerging markets, which generated almost half of this growth. In recent years, they have steadily gained in significance and now account for more than a quarter of total order intake. In terms of the number of units sold, China is now the third-largest market for the KION Group, behind Germany and France. Brazil is in sixth place.

In western Europe, where it is a market leader, the KION Group was able to take advantage of its excellent distribution network and Germany's pronounced economic recovery. Order intake across all product categories increased at a higher rate than that of the western European market, rising by 24 per cent to 83,900 units. This means that more than one in three new trucks sold in western Europe was from one of the KION Group brands. The most important industrial truck markets in western Europe are Germany, France, Italy, the UK and Spain.

Order intake by the KION Group in eastern Europe rose sharply by 54 per cent to 8,800 units. The KION Group more than doubled its order intake in Russia, but was not entirely able to keep pace with the strong growth in that country. It slightly improved its market position in other eastern European countries. Besides Russia, the most significant markets in eastern Europe are Poland and the Czech Republic.

In the Americas, the KION Group increased its order intake by 80 per cent to 8,200 units. The most important market and, at the same time, the biggest driver of growth was Brazil, where the KION Group occupies a leading position in the electric-powered counterbalance trucks and warehouse equipment segments. Like the Linde and STILL brands, Baoli also made encouraging gains in the IC trucks segment. Brazil is now Baoli's most important export market.

In China, the KION Group boosted order intake by 47 per cent to 11,700 units due to rapid market growth and the launch of new market-specific products. Although it did not quite keep step with the market's high growth, which was mainly driven by low-priced IC trucks, the KION Group did in fact expand its market share slightly in the second most important, technologically sophisticated market segment for electric forklift trucks. The KION Group is represented by the two brands Linde and Baoli in China, and their product portfolios cater to the different market segments and customer needs. Overall, the KION Group is by far the most important international supplier in China, which is the largest individual market.

**Emerging from the crisis as a winner; but loss of global market share due to strong growth in China**

During the economic crisis, the KION Group gained market share in its important European markets thanks to its comprehensive portfolio of products and services, extensive distribution network and the high quality and efficiency of its products. The KION Group's strategic points of leverage are therefore proving effective. Compared to 2008, the year before the crisis, the KION Group expanded its market share in the four most important western European markets – and therefore in western Europe as a whole – as well as in eastern Europe and Brazil. China was the only country where the KION Group has lost a small amount of market share compared to 2008. This is because the Chinese market has grown strongly, mainly in the low-price IC trucks segment. The KION Group has also been represented there by the Baoli brand since 2009. As the largest provider in the high-quality premium segment in China with its Linde brand, the KION Group is also excellently placed to take advantage of the trend for efficient machinery, particularly in the electric forklift trucks and warehouse equipment segments. The KION Group's global market share contracted slightly from 16.8 per cent to 15.3 per cent. Gains in market share in the major western European markets were not able to fully make up for the structural shift resulting from strong growth in China, which now represents a quarter of the global market. However, the KION Group was able to extend its position as the number two in the global market and the market leader in Europe due to its excellent foothold in all high-growth regions and its balanced product mix compared to its main direct competitors.

**Total order intake (€)**

The value of the KION Group's order intake was €3,860 million, which equated to a year-on-year increase of 27 per cent. Apart from business in new trucks, this total includes other product categories such as rental business, used trucks and aftersales business. The categories other than new trucks were more stable – as they had been during the crisis. Growth in the value of order intake was therefore below that of the growth in orders taken for new trucks as measured in units. This growth was also driven by increased capacity utilisation of the fleet in the market and the associated rise in demand for services and spare parts, plus greater demand for used and rental trucks.

**Order intake by brand**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| LMH | 2,510 | 1,879 | 33.6% |
| STILL | 1,328 | 1,076 | 23.4% |
| OM | 222 | 190 | 16.8% |
| Consolidation | -200 | -117 | -70.7% |
| **Total** | **3,860** | **3,028** | **27.5%** |

Order intake by the KION Group's largest segment, LMH, benefited considerably from the strong upturn in the home German market and from growth in the Chinese, South American and eastern European markets. Order intake for new trucks in the LMH segment climbed by 33 per cent to 75,800 units.

The total value of orders taken by the Linde Material Handling segment grew by 34 per cent to €2,510 million.

In 2010, orders taken by STILL for new trucks increased by 38 per cent to 35,300 units. Germany, the eastern European countries and Brazil were the largest drivers of growth. Brazil is now STILL's third-largest individual market. The total value of STILL's order intake rose by 23 per cent in 2010 to €1,328 million.

The order intake for OM (including Komatsu) climbed by 10 per cent to 10,400 units. The below-average performance of its home southern European markets had a noticeable impact on OM. The distribution and production alliance with Komatsu expired towards the end of 2010. The total value of OM's order intake rose by 17 per cent in 2010 to €222 million.

### 5.1.2 Order backlog

Starting in the second quarter, the order backlog increased as business picked up noticeably. The key contributing factors were the rapid increase in new trucks business and factories' higher capacity utilisation. The order backlog grew to €801 million, a year-on-year increase of 50 per cent. All the brands contributed to this growth.

### 5.1.3 Income statement of the KION Group for 2010

Order intake had a positive impact on the KION Group's revenue, which rose by €450 million or 15 per cent to €3,534 million (2009: €3,084 million). The main factor in this rise was the new trucks business, which recorded a 20 per cent increase and particularly benefited from the rapid recovery of counterbalance trucks (IC and electric trucks). Significant growth rates in the German, Chinese, eastern European and South American markets also played a considerable role. Revenue from new trucks did not quite keep pace with the rise in order intake measured in units, because revenue is not recognised until later and is also affected by the structure of the order backlog. Moderate price increases also helped boost revenue in 2010. The improved market conditions and, therefore, the higher demand for industrial trucks were also felt in other product categories. Rental business, especially short-term rentals, was boosted by customers' immediate need for additional capacity as a result of the economic recovery. There was also an encouraging increase in demand for used trucks, resulting in revenue rising by 15 per cent to €187 million. Aftersales profited from the improved capacity utilisation of the fleet in the market, which caused demand for services and spare parts to rise by 10 per cent to €971 million.

## Revenue by brand

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| LMH | 2,254 | 1,920 | 17.4% |
| STILL | 1,245 | 1,095 | 13.7% |
| OM | 202 | 191 | 5.6% |
| Other | 160 | 79 | >100% |
| Consolidation | -326 | -201 | -62.1% |
| **Total** | **3,534** | **3,084** | **14.6%** |

## Revenue by customer location

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Germany | 900 | 770 | 16.9% |
| EU w/o Germany | 1,820 | 1,747 | 4.2% |
| Rest of Europe - non EU | 152 | 115 | 31.9% |
| America | 233 | 136 | 70.8% |
| Asia | 302 | 219 | 37.9% |
| Rest of world | 128 | 97 | 31.5% |
| **Total** | **3,534** | **3,084** | **14.6%** |

## Revenue by product category

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| New truck business | 1,776 | 1,477 | 20.2% |
| Rental business | 402 | 396 | 1.7% |
| Used trucks | 187 | 163 | 15.0% |
| Aftersales business | 971 | 881 | 10.2% |
| Hydraulic components | 120 | 107 | 12.0% |
| Other | 79 | 61 | 29.5% |
| **Total** | **3,534** | **3,084** | **14.6%** |

Gross profit in the KION Group rose by 42 per cent to €850 million. This was because the rate of increase in the cost of sales (+8 per cent) was lower than that of revenue. Gross margin rose from 19.4 per cent to 24.1 per cent in 2010. The higher margin was caused by the cost-saving measures implemented in 2009, the significant rise in capacity utilisation and efficiency gains in production, which more than offset the higher raw material prices.

There was also only a moderate rise in other functional costs. Selling expenses increased by around 12 per cent, which was a smaller rise than that of revenue and can be attributed to effective monitoring of transport costs. Lower depreciation for property, plant and equipment had a positive impact on general and administrative expenses, which were around 5 per cent lower than in 2009. Research and development (R&D) expenditure rose by 3 per cent to €103 million. In line with the KION Group's focus on consolidating its technology leadership, one of the most crucial projects in 2010 was the establishment of the new KION Asia R&D unit in Xiamen, China, where products tailored specifically to the Asian market are developed.

Revenue rose as a result of the improved market situation, while sales and functional costs increased at a significantly lower rate than revenue partly due to the rigorous management of fixed costs. These two factors combined to enable the KION Group to generate impressive earnings before interest and tax (EBIT) of €35 million (2009: minus €182 million).

## Condensed income statement of the KION Group

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Revenue | 3,534 | 3,084 | 14.6% |
| Cost of sales | -2,684 | -2,484 | -8.1% |
| **Gross profit** | **850** | **600** | **41.6%** |
| Selling expenses | -484 | -434 | -11.5% |
| Research and development costs | -103 | -101 | -2.7% |
| Administrative expenses | -248 | -260 | 5.0% |
| Other | 19 | 13 | 50.5% |
| **Earnings before interest and tax (EBIT)** | **35** | **-182** | **>100%** |
| Net finance cost | -266 | -223 | -19.2% |
| **Loss before tax** | **-231** | **-405** | **42.9%** |
| Income taxes | 35 | 39 | -10.7% |
| **Loss of the year** | **-197** | **-366** | **46.3%** |

Acquisition-related effects and one-off items amounted to a total of €105 million in 2010 – significantly less than in 2009 (€153 million) – primarily owing to one-off items, which decreased by €53 million to €76 million. As the bulk of the restructuring related to the relocation of production was completed in 2009, the corresponding restructuring costs in HR and impairment losses were considerably lower in 2010 than they had been the previous year. The effects from the purchase price allocation (PPA) in connection with the acquisition of KION amounted to €29 million (2009: €24 million). The following table shows the reconciliation from EBIT to adjusted EBIT:

## Reconciliation to adjusted EBIT

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Earnings before interest and tax (EBIT) | 35 | -182 | >100% |
| One-off items | 76 | 129 | -41.2% |
| KION acquisition items | 29 | 24 | 20.6% |
| **Adjusted EBIT[1]** | **139** | **-29** | **>100%** |

[1] Adjusted for KION acquisition items and one-off items

The KION Group's EBIT adjusted for one-off items came to €139 million in 2010, a year-on-year improvement of €168 million.

This presentation of adjusted EBIT also includes the profit or loss from equity-accounted investments and other net investment income. These items are derived from smaller operating investments in the Linde Material Handling segment and other investments in dealers.

Linde Material Handling accounted for a significant portion (€139 million) of the considerably higher adjusted EBIT. The significant improvement is a result of the positive revenue increase in the strong home German market and the emerging markets, optimised capacity utilisation and successful containment of fixed costs. The same applies to STILL's adjusted EBIT, which rose by €42 million to €26 million. OM's adjusted EBIT improved by €6 million to minus €5 million in 2010.

**EBIT by segment adjusted[1]**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| LMH | 139 | 25 | >100% |
| STILL | 26 | -16 | >100% |
| OM | -5 | -11 | 53.4% |
| Other & consolidation | -21 | -27 | 23.5% |
| **Total** | **139** | **-29** | **>100%** |

[1] Adjusted for KION acquisition items and one-off items

**EBIT by segment**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| LMH | 86 | -68 | >100% |
| STILL | 2 | -55 | >100% |
| OM | -20 | -16 | -28.6% |
| Other & consolidation | -33 | -43 | 23.0% |
| **Total** | **35** | **-182** | **>100%** |

Net finance costs rose by €43 million from €223 million to €266 million in 2010. The main reason for this was the increase in the interest expense on loan liabilities in connection with the senior facilities agreement (SFA) from €96 million to €129 million. The challenging economic environment in 2009 and the related amendments to covenant agreements with effect from October 2009 increased interest costs compared with 2009. However, this was partly offset by lower interest-rate hedging costs in 2010. This was attributable to the altered structure of interest-rate hedges because, in addition to swaps, caps are also used now, which did not trigger any compensation payments.

Overall, the loss before tax decreased significantly, declining from €405 million in 2009 to €231 million in 2010.

In 2010, the income taxes reported for the KION Group were again positive. They comprised a net tax income of €35 million, compared to €39 million in 2009. This figure is broken down into current tax expense of €15 million and offsetting deferred tax income of €50 million, which led to a slightly higher amount of deferred tax assets being recognised due to the much stronger earnings situation and utilisation of tax loss carryforwards compared to 2009 (€44 million).

The net loss for 2010 amounted to €197 million (2009: net loss of €366 million). This clear improvement of €169 million reflects the KION Group's much better business situation and the greater efficiency achieved by optimising production processes.

## 5.2 Financial position

### Principles and objectives of financial management

The objective of financial management is to ensure the availability of adequate liquidity at all times and to limit financial risk.

Ensuring that the Company has sufficient liquidity at all times includes not just its solvency in the strict sense of the term but also the availability of the necessary financial resources for its day-to-day business, the settlement of customers' orders, the supply of cash throughout the organisation, and the management of any collateral security provided. The main objective of this approach is to limit the financial risks attaching to the Company's market value and profitability. They include exchange-rate risk, interest-rate risk, price risk, credit risk and country risk.

A group of international banks and investors primarily provide the financial resources required by the KION Group for external operations. The financial resources required within the KION Group are provided through internal funding. Where possible, the KION Group covers subsidiaries' funding requirements with intercompany loans. This central source of funding enables the KION Group to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants.

Companies in the KION Group either utilise other entities' liquidity surpluses in the form of cash pools or receive intercompany loans. Group Treasury arranges credit lines with local banks or leasing companies in some cases in order to comply with legal, tax and other regulations.

The main loan agreement includes financial covenants specifying compliance with defined ratios for financial position and financial performance. The covenants are expressed in the form of key figures relating to gearing, available liquidity, adjusted EBITDA, interest paid and capital expenditure. In 2009, the terms of the loans were adjusted in line with current market conditions with the broad consent of the lenders. In return for the adjustment of the covenants, the lenders were granted an increase in the interest premium. This premium is payable for the most part as a bullet payment on maturity, thereby ensuring that there is no adverse effect in the meantime on the KION Group's liquidity. The KION Group complied with all the financial covenants in the past financial year.
In addition, investment funds associated with Kohlberg Kravis Roberts & Co. L.P. and Goldman, Sachs & Co. have provided the KION Group with a loan of €100 million under the terms of the SFA in order to offer the Company more flexibility in its corporate strategy. The loan amount and the associated interest are repayable as a bullet payment on maturity.

The KION Group also uses factoring for financing purposes. As at 31 December 2010, the volume of non-recourse factoring was €20 million (31 December 2009: €23 million); the KION Group only uses a small amount of recourse factoring.

KION Group GmbH has sufficient cash and cash equivalents as well as unrestricted, bindingly committed credit lines at its disposal to ensure solvency at all times.

**Cash flow**

The key performance indicator for liquidity in the KION Group is free cash flow before tax, which does not include tax payments or interest arising from financing activities, or interest expense and similar charges from leases, or interest and similar income from leases. For more information about free cash flow before tax and other KPIs used to manage the KION Group, see section 4.2 'Financial KPIs for managing the Company's business'.

In 2010, cash flow from operating activities rose sharply by 74 per cent to €199 million (2009: €115 million). The underlying reason for this improvement was the increase in earnings before interest and tax (EBIT) to €35 million (2009: minus €182 million). The slight increase in working capital, which was related to the larger volume of business, was disproportionately low compared to revenue growth and was also reflected in the cash flow from operating activities.

Cash flow from investing activities in the Group amounted to a net outflow of €123 million in 2010 (2009: net outflow of €113 million), equating to an increase of 9 per cent. The reason for this was the higher capital expenditure on non-current assets and property, plant and equipment (capex), with total cash payments amounting to €123 million (2009: €108 million). Capital expenditure went on development projects for new products and facelifts, leaner production processes, plus the conversion and construction work required to relocate production to Germany. The KION Group acquired the remaining shares in a French dealer for €8 million.

In addition, the KION Group acquired a larger stake in Baoli in April 2010. As the KION Group assumed control of Baoli back in 2009, the additional outflow of funds amounting to some €10 million must be recognised as financing activities in accordance with IAS 7.

Cash flow from financing activities amounted to a total net cash outflow of €290 million (2009: net cash inflow of €47 million). Whereas the main activities in 2009 had been the drawdown of an existing line of credit (capex facility) and of the senior facility agreement (SFA), the net outflow of funds in 2010 was caused by the net repayment of loans (€96 million) and the repayment of other funds by individual Group companies (€42 million). Interest payments fell by €24 million to €135 million as a result of the drop in payments for interest-rate hedges.

As at 31 December 2010, the cash and cash equivalents reported on the face of the balance sheet amounted to €253 million (2009: €463 million).

**Condensed cash flow statement**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| EBIT | 35 | -182 | >100% |
| Cash flow from operating activities | 199 | 115 | 73.7% |
| Cash flow from investing activities | -123 | -113 | -9.2% |
| Cash flow from financing activities | -290 | 47 | <-100% |
| Currency effects on cash | 4 | 1 | >100% |
| Change in cash and cash equivalents | -211 | 50 | <-100% |
| Net financial debt[1] | 2,641 | 2,484 | 6.3% |

[1] Before borrowing costs

For internal management purposes, free cash flow is much more narrowly defined as the total of cash flow from operating activities plus cash flow from investing activities.

**Reconciliation to free cash flow before tax**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Cash flow from operating activities | 199 | 115 | 73,7% |
| Cash flow from investing activities | -123 | -113 | -9,2% |
| **Free cash flow** | **76** | **2** | **>100%** |
| Taxes paid | 13 | 22 | -40,8% |
| Interest on lease receivables/liabilities | 10 | 14 | -26,2% |
| Finance receivables incl. interest income | -2 | -4 | 50,0% |
| Cash out from ownership interests (after control) | -10 | – | - |
| Other items | -4 | – | - |
| **Free cash flow before tax[1]** | **83** | **34** | **>100%** |

[1] Internal key performance indicator

In contrast to the free cash flow of €76 million, free cash flow before tax (the figure used for management purposes) does not include a number of items, including tax payments (€13 million) and lease interest payments (€10 million). In 2010, receipts from financial receivables and interest income (€2 million) and other individual items that were treated differently in accordance with IAS 7 were additionally reclassified. Taking into account these items, the free cash flow before tax was €83 million, a sharp rise of 144 per cent.

## 5.3 Net assets

As at 31 December 2010, total assets had decreased minimally by 1.0 per cent to €5,759 million (31 December 2009: €5,815 million).

The structure of the KION Group's balance sheet continued to reflect its acquisition finance and the KION purchase price allocation. The net loss for the year of €197 million considerably increased the negative amount of equity reported on the balance sheet. As at 31 December 2010, the KION Group's equity stood at minus €400 million (31 December 2009: minus €213 million).

### Assets

**Condensed balance sheet, assets**

| € million | 2010 | in (%) | 2009 | in (%) | Δ in % |
|---|---|---|---|---|---|
| **Non-current assets** | **4,105** | **71.3%** | **4,146** | **71.3%** | **-1.0%** |
| thereof: | | | | | |
| Goodwill | 1,507 | 26.2% | 1,505 | 25.9% | 0.1% |
| Brand names | 591 | 10.3% | 590 | 10.2% | 0.1% |
| Deferred tax assets | 242 | 4.2% | 206 | 3.5% | 17.2% |
| Leased assets | 501 | 8.7% | 536 | 9.2% | -6.5% |
| Lease receivables | 247 | 4.3% | 260 | 4.5% | -5.1% |
| **Current assets** | **1,654** | **28.7%** | **1,669** | **28.7%** | **-0.9%** |
| thereof: | | | | | |
| Inventories | 536 | 9.3% | 471 | 8.1% | 13.7% |
| Trade receivables | 633 | 11.0% | 511 | 8.8% | 23.9% |
| Lease receivables | 121 | 2.1% | 115 | 2.0% | 4.8% |
| Cash | 253 | 4.4% | 463 | 8.0% | -45.4% |
| **Total assets** | **5,759** | | **5,815** | | **-1.0%** |

As at 31 December 2010, non-current assets (€4,105 million) and current assets (€1,654 million) were almost unchanged on a year earlier.

Reported under non-current assets, goodwill was largely unchanged at €1,507 million. Other intangible assets, which also include trademark rights, declined as normal by €10 million to €986 million due to amortisation of, among other things, core technologies.

Other property, plant and equipment reduced by €24 million to €566 million. This is mainly due to depreciation (€87 million). However, this was partly offset by capital expenditure on other property, plant and equipment of €53 million.

Leased assets decreased by €35 million to €501 million due to the decline in leases. Non-current lease receivables declined by €13 million to €247 million for the same reason.

Reported under current assets, inventories increased by €65 million to €536 million. The larger volume of business caused a rise in inventories of raw materials, supplies and finished goods. At 13.7 per cent, the rate of increase in inventories was slightly lower than that of revenue growth. Even as its new trucks business grows, the KION Group still strives to optimise inventories by closely managing working capital.

Overall, the larger volume of business contributed to the €122 million rise in trade receivables to €633 million. Moreover, the KION Group's optimised receivables management and the improved payment record of trade debtors meant that there was no increase in valuation allowances.

Cash and cash equivalents declined by €210 million year on year to €253 million (2009: €463 million). This decrease was mainly due to the net repayment of loans (€96 million), the repayment of short-term bank loans by individual Group companies (€38 million) and the reduction in other funding (€4 million).

## Equity and liabilities

**Condensed balance sheet, equity and liabilities**

| € million | 2010 | in (%) | 2009 | in (%) | Δ in % |
|---|---|---|---|---|---|
| **Equity** | **-400** | **-6.9%** | **-213** | **-3.7%** | **-87.7%** |
| **Non-current liabilities** | **4,800** | **83.3%** | **4,874** | **83.8%** | **-1.5%** |
| thereof: | | | | | |
| Shareholder loan | 615 | 10.7% | 587 | 10.1% | 4.7% |
| Financial liabilities | 2,772 | 48.1% | 2,819 | 48.5% | -1.7% |
| Deferred tax liabilities | 335 | 5.8% | 355 | 6.1% | -5.7% |
| Lease liabilities | 411 | 7.1% | 485 | 8.3% | -15.2% |
| **Current liabilities** | **1,359** | **23.6%** | **1,154** | **19.9%** | **17.7%** |
| thereof: | | | | | |
| Financial liabilities | 106 | 1.8% | 108 | 1.9% | -1.7% |
| Trade payables | 508 | 8.8% | 357 | 6.1% | 42.4% |
| Lease liabilities | 251 | 4.4% | 215 | 3.7% | 16.7% |
| **Total equity and liabilities** | **5,759** | | **5,815** | | **-1.0%** |

The equity and liabilities side of the balance sheet primarily reflects the financial liabilities related to the KION Group's acquisition finance. The Company's syndicated loan liabilities were placed with a wide group of international banks and investors in 2007.

The acquisition finance was originally drawn in euros but some of this finance was then converted to US dollars. The last dates for the repayment of amounts drawn down under the syndicated loan are between 2013 and 2016. In both currencies, the interest payable is based on a variable rate. The KION Group has entered into interest rate and currency derivatives – primarily interest rate swaps, currency swaps and currency options – to hedge the interest-rate and exchange-rate risk arising in connection with the acquisition finance. Financial debt as at 31 December 2010 was €2,894 million (gross), a year-on-year decline of €54 million. The main financing activities during 2010 were the net repayment of loans (SFA) (€96 million) and the repayment of other short-term bank loans (€38 million). Currency effects from translating the US dollar tranche of the SFA caused a rise in liabilities to banks of €38 million.

## Credit terms

| € million | Typ | Currency | Interest rate | Maturity | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Term Loan Facility Term B | Bank Loan | EUR | EURIBOR + MARGIN | 2014 | 911 | 897 |
| Term Loan Facility Term B | Bank Loan | USD | LIBOR + MARGIN | 2014 | 297 | 273 |
| Term Loan Facility Term C | Bank Loan | EUR | EURIBOR + MARGIN | 2015 | 870 | 857 |
| Term Loan Facility Term C | Bank Loan | USD | LIBOR + MARGIN | 2015 | 297 | 273 |
| Term Loan Facility Term D | Bank Loan | EUR | EURIBOR + MARGIN | 2016 | 201 | 200 |
| Term Loan Facility Term G | Bank Loan | EUR | EURIBOR + MARGIN | 2016 | 106 | 101 |
| Multicurrency Revolving Credit Facility | Bank Loan | EUR | EURIBOR + MARGIN | 2013 | – | 125 |
| Multicurrency Capex Restructuring and Acquisition Facility | Bank Loan | EUR | EURIBOR + MARGIN | 2013 | 162 | 132 |
| Other liabilities to banks | Diverse | Diverse | Diverse | | 50 | 88 |
| **Financial debt** | | | | | **2,894** | **2,948** |
| Borrowing costs | | | | | -22 | -30 |
| **Financial debt after borrowing costs** | | | | | **2,872** | **2,918** |

The KION Group had been granted bank credit lines totalling €3,144 million as at 31 December 2010. For more information about the volume of credit lines and their use, see note 27 of the notes to the consolidated financial statements.

The transaction costs of €32 million incurred in connection with the loan negotiations, which took place in 2009, were allocated to the individual tranches on a pro rata basis and deducted from the carrying amounts of the liabilities in accordance with IAS 39.

As at the balance sheet date, the weighted average interest rate for liabilities to banks was 4.6 per cent (31 December 2009: 4.3 per cent).

Despite lower liabilities to banks, net financial debt taking into account deferred refinancing costs increased by €157 million or 6 per cent to €2,641 million due to the year-on-year decline in cash and cash equivalents.

## Net financial debt

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Cash | -253 | -463 | 45.4% |
| Financial debt | 2,894 | 2,948 | -1.8% |
| Borrowing costs | -22 | -30 | 27.6% |
| Financial debt after borrowing costs | 2,872 | 2,918 | -1.6% |
| Net financial debt after borrowing costs | 2,619 | 2,454 | 6.7% |
| **Net financial debt** | **2,641** | **2,484** | **6.3%** |

Non-current lease liabilities fell by 15 per cent to €411 million because the new leases taken out in 2010 did not make up for the leases that expired, thereby reflecting the market conditions in the most important western European markets. In 2010, the volumes in the markets that are most significant to the lease business were below the level in the five years leading up to the crisis.

In line with the rising level of production and the growth in capital expenditure, trade payables increased by 42 per cent to €508 million.

The net loss of €197 million resulted in reported equity of minus €400 million; in 2009, the KION Group had reported equity of minus €213 million. Additional factors affecting equity are other comprehensive income/loss and changes in non-controlling interests.

The equity calculated on the basis of these consolidated financial statements for the KION Group is of no relevance under the covenants agreed with the financing banks or under the German Commercial Code (HGB). The relevant figure under HGB in Germany is primarily the equity of KION GROUP GmbH as reported in that company's single-entity financial statements in accordance with HGB. As at 31 December 2010, this equity figure was €333 million. The equity of KION Holding 1 GmbH reported in the single-entity financial statements of that company in accordance with HGB as at 31 December 2010 was €230 million.

## 5.4 Overall assessment of the Company's performance in 2010

In 2010, the KION Group reached major corporate development milestones. The restructuring begun in 2009 as part of the KIARA performance enhancement programme was implemented successfully, new restructuring measures were initiated and costs were significantly reduced. Employees' knowledge and performance represent one of the KION Group's core strengths and were one of the main driving forces behind the upturn that began in 2010. During the economic crisis, the KION Group proved to be a reliable employer, with the number of employees adjusted with a sense of proportion. By combining the strengths of the STILL and OM brands, the KION Group improved its market penetration and product coverage. The KION Group had strengthened its position in the emerging market of China with its fifth brand, Baoli, in 2009 and assumed complete management control of Baoli in 2010. It is therefore very well placed to participate in the fast development of the Chinese market and to penetrate other high-growth markets with Baoli. Linde Hydraulics, one of the Group's technological mainstays, entered into a strategic alliance with Eaton in 2010. The two companies are an ideal fit in terms of their product portfolios and they are moving into additional regional markets. This alliance is crucial to Linde Hydraulics because it is able to offer its products based on market-leading technologies to a broader range of customers.

In 2010, the KION Group benefited considerably from the global economic recovery and the subsequent upturn that was felt on the worldwide industrial trucks markets. The main drivers of growth last year were the strong home German market and, above all, the emerging markets, which accounted for approximately half of the growth in new truck business. Worldwide order intake for new trucks rose by 32 per cent to 121,500 units, while revenue climbed by 15 per cent to €3,534 million. Due to the rate at which the plants could be ramped up and the more stable growth in service revenue, the sharp rise in order intake was not fully matched by the increase in total revenue.

As a result of the slight improvement in the business situation expected for 2010, the KION Group is highly satisfied with its revenue growth and earnings. The steps taken to boost profitability took full effect, and costs were reduced significantly as a consequence of the KIARA performance enhancement programme, which was launched in 2009. Adjusted EBIT increased to €139 million, having been minus €29 million in 2009. Taking into account interest expenses, tax and one-off items, however, the KION Group again reported a net loss (€197 million). This had a negative impact on the Group's equity. As at 31 December 2010, the KION Group reported equity of minus €400 million. This figure is of no relevance under the covenants agreed with the financing banks or under the German Commercial Code (HGB). The equity of KION GROUP GmbH reported in the single-entity financial statements of that company in accordance with HGB was a very comfortable €333 million. The equity of the ultimate parent company KION Holding 1 GmbH reported in the single-entity financial statements of that company in accordance with HGB as at 31 December 2010 was an equally positive €230 million.

The KION Group is ideally placed to benefit from the sustained upturn on the global industrial trucks market and, in 2010, it set the course that will enable it to do so.

## 6 Research and development (R&D)

Despite the tough economic conditions, the KION Group stepped up its research and development activities – involving 827 developers – in 2010 and pushed ahead with important projects. Total spending on R&D in 2010 amounted to €104 million. This equates to 2.9 per cent of total revenue or 5.5 per cent of its relevant revenue from new trucks and hydraulics, making the KION Group an industry leader in this regard. In 2010, the KION brands Linde, STILL and OM submitted 75 new patent applications. A total of 95 patents were registered. This enabled the brands to secure the fruits of their research for their own benefit – an important step in maintaining and enhancing the KION Group's technology leadership, as set out in its strategy.

**Total R&D spending**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| R&D expenses | 103 | 101 | 2.7% |
| Amortisation expense | -47 | -45 | -4.8% |
| Capitalised development expenses | 48 | 45 | 6.0% |
| **Total R&D spending** | **104** | **101** | **2.5%** |
| R&D spending as percentage of revenue | 2.9% | 3.3% | - |

The R&D unit again intensified its cross-plant and cross-brand collaboration within the Group. KION generates valuable synergies by sending its staff to work at different sites. This transfer of knowledge and technological expertise often enables processes to be redesigned more efficiently, as well as boosting performance and product quality. The organisational structure provides a solid basis for innovative technological solutions. The strategy of designing components to be modular places less demand on resources and continuously lowers product costs. In the longer term, the resulting reduced complexity and variation will increase both the speed of development and product quality. By reducing product life-cycle costs early on in the research and development stage, the foundations are laid for sustainable product efficiency. The close cooperation between the purchasing and development functions is also proving to be very effective.

One of the highlights of 2010 was undoubtedly the establishment of the new KION Asia research and development unit in Xiamen, China. It is specifically tailored to the Asian market, which enables the particular requirements of customers in Asia to be taken into account in the development of new products. A case in point is that the average body size of people in Asia tends to be smaller, which calls for a different ergonomic design for the driver's workstation. The KION Asia plant's portfolio covers the entire range, from pallet trucks to container reach stackers, and enables it to fulfil individual customers' specific requirements locally. Linde, for example, will offer customers in Asia locally tailored solutions based on the H35-50 model. However, localisation has a key role to play, not just in the truck segment but in the warehouse equipment segment too: Linde offers the stand-on reach truck BR1123 in China and has added the P30 tow truck to its local product portfolio.

The KION Group brands continue to successfully implement the global strategy of offering products that cater to country-specific requirements. For example, Linde has expanded its range of 346-series electric trucks by introducing four-wheel drive versions for the US market. STILL launched the CXT on the Brazilian market last year.

During the first quarter of 2010, STILL also presented the first fuel-cell powered reach truck in Germany, which is being trialled at BASF. STILL began investigating fuel cells back in 2003 and has gained in-practice experience of using them over the course of several projects. A STILL fuel-cell powered truck has been used by HHLA Logistics at the Port of Hamburg since 2008, and two STILL fuel-cell powered tow tractors have been deployed to transport baggage at Hamburg Airport since the end of 2006.

At the CeMAT trade fair in May 2011, Linde will present a new series of electric lift trucks with load capacities of two to five tonnes. This new series incorporates more than a dozen technological innovations aimed at reduced energy consumption, high productivity, driver safety and comfort. The unusual twin-motor front-wheel drive gives the trucks the highest installed output in their class. The two AC motors drive the truck at 9kW and 11.9kW respectively, enabling it to reverse quickly and reach its maximum speed of 20 km/h in a short space of time. Another major performance feature is the active steering assistance plus the articulated combined axle, which gives the four-wheeled truck the turning radius and manoeuvrability of a three-wheeled truck. The truck rotates centrally on the front axle. This is achieved using a steering angle sensor that, when the rear wheels are turned by more than a certain angle, instructs the motor on the inside of the turn to drive the relevant front wheel in the opposite direction. The active steering means that the truck does not move over its rear wheels and instead rotates within its own dimensions. This results in extremely good manoeuvrability, a high level of stability against tipping when cornering, a low level of tyre wear, little damage caused by bumping into racks and economical energy consumption.

Sustainability is one of the most important research and development topics for the KION Group. Environmentally friendly products and economical processes are therefore assigned the highest priority. KION brand trucks' resource-efficient technology and ease of operation are designed to improve customers' handling capacities.

For example, Linde trucks have three settings for drive control, which gives users the choice between maximum performance and minimum energy consumption. The standard setting enables the truck to operate at full handling capacity. 'Eco light mode' saves energy when negotiating ramps and driving in reverse gear. 'Eco mode' was developed specifically for manoeuvring in tight spaces at low speed and enables fuel savings of up to 30 per cent. The similar Blue-Q concept used in STILL trucks enables individual energy consumers, such as headlamps, to be used as required, which in turn saves energy and thereby consumption. Both brands are pioneers in energy efficiency and technologies for the future.

To remain at the cutting edge of research and development, the KION Group is continuing its traditional university partnerships, which focus on workplace design and drive technology projects.

## 7 Capital expenditures

To ensure efficient management of capital expenditures, there is a two-stage process for approving capital expenditures throughout the Group. The first step, which is part of the annual planning process, covers capital expenditures planning for major projects, including individual descriptions of them. Projects involving capital expenditures of more than €250 thousand also go through a second step, in which they are assessed individually. This involves examining the feasibility of the individual project using the discounted cash flow method. The projects are assessed on the basis of the internal rate of return and the payback period. Capital expenditures projects are generally only approved if they will earn a higher internal rate of return than the cost of capital for the KION Group and will therefore contribute to increasing shareholder value. Projects involving capital expenditures of more than €250 thousand generally have to be approved first by the Management Board of the relevant brand and then by the KION Group's Executive Board.

Against the backdrop of the reduced capacity utilisation resulting from the economic crisis, the KION Group's capital expenditure (excluding equity investments and additions to leased assets) was targeted at support for restructuring projects as part of the KIARA performance enhancement programme and at investment in products and IT. In view of the market recovery that began in 2010, capital expenditures was increased by 14 per cent to €123 million. Expenditures on development projects for new products and facelifts as well as design-to-cost activities were maintained at a high level. At the same time, investment in leaner production processes enabled the Group to leverage potential for efficiency. The Group also committed an appropriate level of replacement investment to modernise some of its machinery.

**Capital expenditures by segment**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| LMH | 70 | 66 | 6,1% |
| STILL | 30 | 24 | 25,0% |
| OM | 4 | 5 | -20,0% |
| Other | 19 | 13 | 46,2% |
| **Total** | **123** | **108** | **13,9%** |

One of the key areas of capital expenditures in 2010 was the relocation of production facilities from Basingstoke to Aschaffenburg and the relocation of the affected product lines from Reutlingen to Hamburg, which was all completed by the end of the year. These relocation activities necessitated construction work in Aschaffenburg and Hamburg last year to ensure that the right infrastructure was in place (e.g. alterations to the buildings and setting up a test site).

The Group pushed ahead with key development projects, especially in the electric lift trucks (387/388 series) and reach trucks (1120 series) segments. A rigorous cross-divisional product development process is shortening the time it takes to develop new trucks and optimising the cost of products before they go into series production. This is paving the way for Linde Material Handling and STILL to rapidly extend their product range for the North American, Asian and eastern European markets. Last year, the STILL brand introduced an IC truck with torque converter specifically to meet demand in eastern Europe. Other innovations in this and other product areas (e.g. hybrid technology) are planned.

In 2010, the KION Group continued to advance its IT project KION ONE Sales & Services, the aim of which is to standardise and optimise the system landscapes used in sales. This project will again be a focus of capital expenditure in 2011. The KION ONE Infrastructure project was also launched in 2010, as part of which the European data centres will be merged and the existing infrastructure hardware and software optimised.

## 8 Purchasing

The KION Group purchasing unit successfully overcame the challenges presented by the financial and economic crisis. Although many suppliers were still implementing structural measures at the start of the year in order to adjust to the reduced order level in the previous period, capacities had to be rapidly expanded again in the middle of the year as order intake shot up. This of course meant a sharp rise in the demand for input materials, causing temporary bottlenecks in supply until the end of the year, particularly for electronic components. Cooperating closely, the KION Group's operating units reached agreement with suppliers to safeguard their production programmes, which had to be repeatedly adjusted during the year in line with the rise in order intake.

The increases in raw materials prices recorded in 2010 did not fully impact on the cost of materials in the KION Group. As the KION Group mainly buys processed materials and components, fluctuations in the price of raw materials only have an impact in proportion to the amount of the overall value of those processed materials and components accounted for by raw materials. In addition, suppliers are bound by the agreed conditions for the period of time stipulated in the contract. As a result, increases in raw materials prices are only felt at a later date and only if it can be assumed that the increases will be sustained. As a rule, fluctuations in raw materials prices barely affect the cost of materials for the reasons mentioned above. In some cases, the cost of raw materials is passed directly on to end customers. Standard industry practice is to pass changes in battery prices, which are influenced significantly by the price of lead, directly on to customers.

The cost of materials in the KION Group increased by an average of 1.8 per cent in 2010 as a result of the change in commodity prices. In particular, steel, scrap and copper were more expensive than they had been in 2009. However, the KION Group still achieved cost savings of 2.4 per cent as a result of the KIARA performance enhancement programme and through close collaboration with suppliers. These suppliers form a supplier circle, in which they work with the KION Group on continuous

improvement projects. In the fourth quarter, interdisciplinary teams joined forces with eight suppliers to identify potential for improvement in all aspects of cooperation. These supplier development projects will continue to play a key role in reducing the KION Group's costs in the future.

In the year under review, the cost of materials climbed by 16 per cent to €1,714 million (2009: €1,480 million) due to the increased volume of production resulting from higher order intake and owing to higher commodity prices.

## 9 Employees

### Employee structure

On 31 December 2010, the KION Group employed 19,968 people (including trainees and apprentices), roughly 60 per cent of whom worked outside Germany in 27 countries.

The number of employees was therefore almost the same as in 2009, although there were changes between the proportion of people employed in Europe and in the high-growth markets (China, North America and South America). The KION Group is thereby responding to the rapid expansion of these markets.

**Full-time equivalents**

| 12/31/2010 | LMH | STILL | OM | Other | Total |
|---|---|---|---|---|---|
| Germany | 3,863 | 3,633 | 9 | 395 | 7,900 |
| France | 2,169 | 873 | 4 | 97 | 3,143 |
| Rest of Europe | 3,074 | 1,413 | 951 | 1 | 5,439 |
| China | 2,487 | 0 | 0 | 0 | 2,487 |
| Americas | 153 | 351 | 0 | 0 | 504 |
| Rest of World | 494 | 1 | 0 | 0 | 495 |
| **Total** | **12,240** | **6,271** | **964** | **493** | **19,968** |

| 12/31/2009 | | | | | |
|---|---|---|---|---|---|
| Germany | 3,807 | 3,692 | 8 | 290 | 7,797 |
| France | 2,277 | 863 | 6 | 100 | 3,246 |
| Rest of Europe | 3,383 | 1,449 | 1,010 | 1 | 5,843 |
| China | 2,125 | 0 | 14 | 0 | 2,139 |
| Americas | 158 | 291 | 0 | 0 | 449 |
| Rest of World | 479 | 0 | 0 | 0 | 479 |
| **Total** | **12,229** | **6,295** | **1,038** | **391** | **19,953** |

Personnel expenses increased from €925 million in 2009 to €968 million in 2010. One of the main reasons for this rise was that short-time working was suspended or ended earlier than planned.

**Personnel expenses**

| € million | 2010 | 2009 | Change |
|---|---|---|---|
| Wages and salaries | 756 | 706 | 7.1% |
| Social security contributions | 186 | 191 | -2.4% |
| Post-employment benefit costs | 26 | 28 | -8.0% |
| **Total** | **968** | **925** | **4.7%** |

In the KION Group, executives account for 294 of the total employees worldwide.

**Overcoming the crisis**

As a result of the continuing crisis, the KION Group implemented a range of measures around the globe at the start of 2010 in order to adjust the size of the workforce in line with the business conditions faced by the Company and to secure its competitiveness. To this end, it introduced other job-protection measures – where legally available – at its sites in individual countries, including short-time working, closure days and a reduction in weekly working hours.

During the year, the recovery took a firmer hold in the global market and the measures to consolidate the production sites took effect. The KION Group therefore responded in various ways, as regional circumstances allowed, particularly in the second half of 2010. In Germany especially, the KION Group was able at times to completely suspend short-time working at individual production sites or end it earlier than planned. The Company hired additional employees in high-growth countries such as China and Brazil.

As planned, the KION Group continued with the consolidation of its production sites that it had decided upon in 2009. This involved relocating products from the UK to Germany and France and closing the plant in Basingstoke. The 340 employees affected were or are being laid off with the minimum possible social impact. The Company has expanded the Reutlingen plant to become a VNA centre of competence and relocated the production of reach trucks to Hamburg. The 180 redundancies involved will be carried out as planned by mid-2011, with an interim employment company being set up for this purpose.

**Investing in the future with training**

With a total of 557 (2009: 546) trainees and apprentices at the end of 2010, the Group continued to invest in training and development at the same high level – despite the crisis – to ensure that it can continue to recruit many of the skilled workers it requires inhouse.

The proportion of trainees and apprentices in Germany, for example, was 5.3 per cent in 2010. This is at a very similar level to previous years (2009: 5.2 per cent, 2008: 5.1 per cent).

**Strategic personnel development**

In 2010, the Group's personnel development focused on two topics. The first of these was targeted continuing professional development during periods of short-time working and the second was talent and succession management. Especially at its German sites, the Company offered a range of skills training during periods of short-time working. The aim of this step was to enable employees – along with the Company – to emerge stronger from the crisis. This involved the KION Group holding more than 200 interdisciplinary and specialist training courses in Germany for more than 1,500 participants – employees affected by short-time working (it was possible to attend more than one course). As a result, the KION Group provided more than 4,800 days of training in 2010. Full-time training to obtain an officially recognised qualification as a technician was very popular at Linde Material Handling and, in the second half of the year, the first successful graduates from the course returned to Linde Material Handling to take up challenging positions there. There was also a lot of interest in part-time training offering a qualification at the end, such as courses offered by REFA on workplace design, particularly among employees in production-related units. Administrative employees also took the opportunity to participate in continuing professional development.

The second focal topic was the introduction of Group-wide talent and succession management as part of the KION Group's strategic personnel development. To safeguard its long-term success, the Company needs the right managerial staff and young professionals – in terms of quality and quantity – to meet the challenges they will face in future. In 2009, the KION Group had therefore revised the content of its annual management review to include the identification of high-potential/talented employees and succession planning. An updated process incorporating these issues was therefore able to start in 2010. A key element of the updated process is the creation of transparency across the Group about how talented employees and the next generation of managers are deployed in order to ensure that there are exchanges between the brands and countries and to identify development and

deployment opportunities throughout the Group. Some 400 employees were involved in this process in 2010. Following the 2010 management review, the KION Group designed and set up appropriate Group-wide personnel development activities and programmes.

Where necessary, systematic, focused change management support was provided to help with the changes related to the KIARA performance enhancement programme. The main support activities took the form of workshops and coaching.

**Partial retirement**

With its partial retirement model, the KION Group helps its employees transition smoothly into retirement. The model consists of two blocks: a working phase followed by a non-working phase. As at 31 December 2010, 381 employees in Germany were partially retired.

**Occupational pension scheme**

The KION Group offers its employees in Germany attractive occupational pension scheme options, including both direct insurance and a direct pension entitlement scheme.

Direct insurance comes in the form of a tax-privileged endowment insurance or pension insurance policy, which the employer takes out with an insurance company on behalf of the employee as a form of occupational pension scheme. The premiums are paid in the form of deferred compensation. This means that the employee pays part of his or her gross remuneration directly into the insurance policy. When this insurance policy matures – which will be no sooner than the employee's 60th birthday – the direct insurance policy will be paid out to the employee. The persons entitled to receive these benefits are either the employee or his or her surviving dependants.

Under the direct pension entitlement scheme, which the KION Group operates in Germany in accordance with the various pension benefit conditions and the pension plan, the employer provides occupational pension benefits directly. The KION Group does not use any external schemes (as is the case, for example, with direct insurance). In other words, the employer undertakes to provide the entitled employee with benefits in the form of a lump sum or a pension when the employee retires, dies or becomes unable to work.

The KION pension plan offers a further element to the occupational pension scheme for employees in the KION Group. It provides employees with the option of building up pension benefits by adding contributions taken from their gross income. The pension plan also offers an ideal opportunity to make use of the pension-relevant benefits available under collective pay agreements for the German metals industry. These subsidies are only available to employees if they are used in conjunction with one of the pension scheme models permitted by the collective pay agreement. The KION pension plan is eligible as one of these pension scheme models. By joining the KION pension plan, employees can enjoy relief from tax and social security contributions. As at 31 December 2010, 1,366 employees were in the KION pension plan.

**Demographic change**

Demographic change means that many companies' competitiveness is becoming increasingly dependent on older employees and on companies' ability to deal with their ageing workforce.

At the KION Group, approximately 58 per cent of the global workforce are aged between 30 and 50, and almost 24 per cent are more than 50 years old. By 2015, about a third of the workforce will be over 50. Particularly in production units, it will therefore be necessary to adapt working conditions to the ageing workforce, for example so that 60-year-old employees can still work in assembly. In previous years, the KION Group conducted preliminary studies and projects, the results of which will be incorporated into age management activities and projects in the future.

**Diversity**

Diversity is very important to the KION Group as a global company. This can be seen, for example, in the fact that the KION Group employs people of more than 40 nationalities in Germany. Globally, employees of more than 70 nationalities work for the KION Group.

Germans (37.9 per cent) make up the largest proportion of staff, followed by French (15.6 per cent) and Chinese (12.0 per cent) – which is in line with market share.

As at 31 December 2010, 14.6 per cent of the total KION Group workforce worldwide were female, which is roughly the same as in similar industrial sectors, such as the automotive industry. Almost 7 percent of top managers are female, which is not as high as the global proportion of female staff.

In this context, the KION Group took part in Girls' Day in Germany in 2010 to boost enthusiasm for technical and scientific careers among young women and to present itself to potential employees of the future.

# 10 Management

## 10.1 Key management team

The Executive Board of KION Group GmbH consists of Gordon Riske, Harald Pinger, who are Managing Directors of KION Holding 1 GmbH and KION GROUP GmbH, and Otmar Hauck, who is also Managing Director of KION GROUP GmbH.

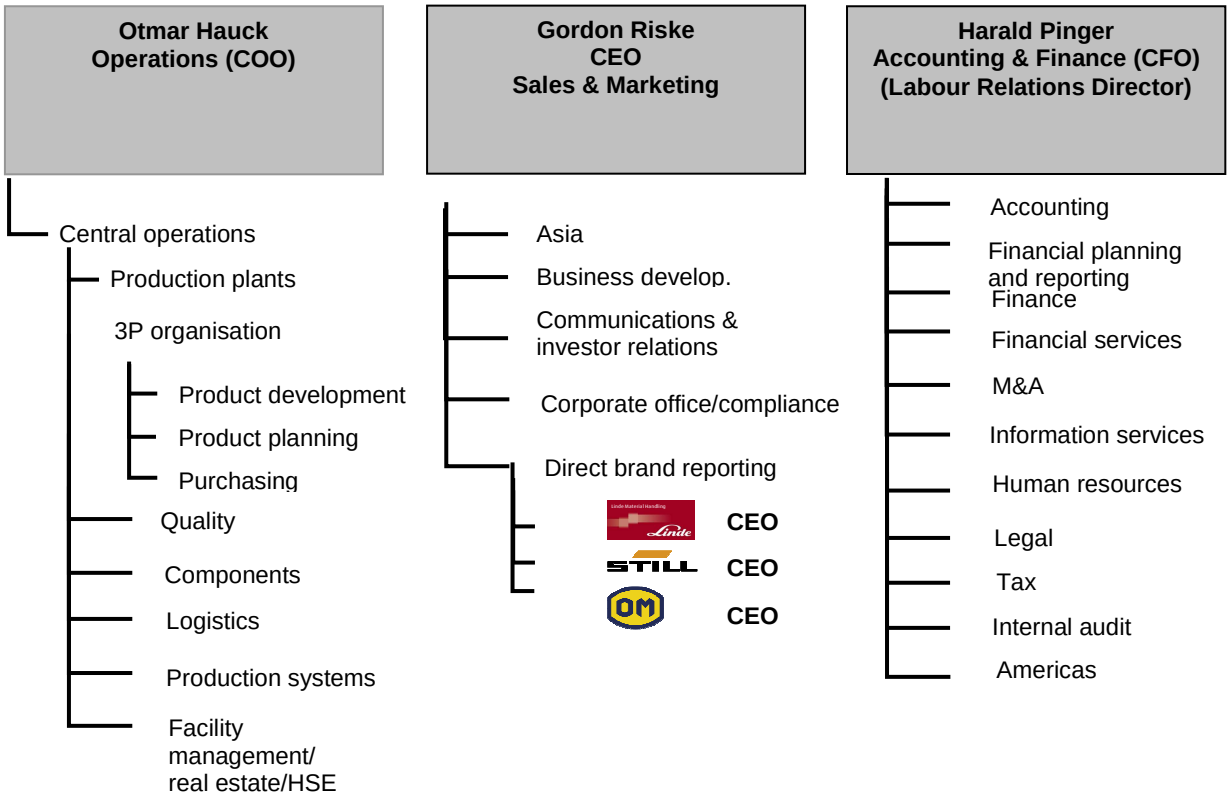
Gordon Riske has been Chief Executive Officer (CEO) since 23 April 2008 and is responsible, among other things, for the strategic management of the Group, communications, governance and compliance, and the Group's Asian business. The CEOs of the brand parent companies Linde Material Handling and STILL report to him.

Harald Pinger has been Chief Financial Officer (CFO) since 1 August 2008 and is responsible, among other things, for finance including financial services, IT activities, human resources, legal affairs, internal audit and the Americas region. On 1 January 2010, he took over the position of Labour Relations Director from Gordon Riske.

Otmar Hauck has been the Chief Operating Officer of the KION Group since 1 November 2009. He is responsible for quality and central operations (operational excellence & production control), purchasing, logistics, health & safety and environmental issues in the Group.

The Executive Board normally meets every 14 days. Apart from preparing and taking all decisions relating to the day-to-day management of the Company, the Executive Board also discusses and approves any transactions in the brand subgroups that require their consent at these meetings. A list of the transactions requiring such consent is included in the rules of procedure for the relevant Management Boards. Under its rules of procedure, the Executive Board must have certain transactions approved by other decision-making bodies such as the Supervisory Board or the shareholders' meeting.

*Diagram showing the responsibilities of the KION Group's Executive Board*




## 10.2 Supervisory Board

The Company's Supervisory Board comprises six shareholder representatives and six employee representatives in accordance with HGB requirements and those of the German Codetermination Act (MitbestG). The Supervisory Board is responsible for the tasks specified by law, the memorandum and articles of association and the rules of procedure relating to the supervision of the management of the business by the Executive Board. It also advises and supports the Executive Board in its handling of significant matters and business transactions.

Manfred Wennemer, former CEO of Continental AG, has been the chairman of the Supervisory Board since 23 September 2009. He took over as chairman from Johannes Huth, the representative of Kohlberg Kravis Roberts & Co., New York, USA.

In addition to a human resources committee and an audit committee, the Supervisory Board has set up an arbitration committee pursuant to section 27 (3) MitbestG. Shareholders and employees have equal numbers of representatives on all the Supervisory Board committees.

The Supervisory Board normally meets once during each quarter. The committees hold meetings two to three times a year, although the arbitration committee only meets if required to do so in circumstances specified by law or by the memorandum and articles of association. If required, the committees also meet between the regular scheduled meetings. The remit of the Supervisory Board and its committees is defined by law, the memorandum and articles of association and the rules of procedure for the Supervisory Board and each committee.

## 10.3 Shareholders' meeting

A meeting of the Company's shareholders is held as required by the memorandum and articles of association or if demanded by other special circumstances. Resolutions may also be adopted by shareholders using a procedure conducted in writing.

## 10.4 Corporate governance

The KION Group publishes details of its corporate governance in a separate corporate governance report on its website: www.kiongroup.com.

## 11 Sustainability

The KION Group is aware of its responsibility towards society, the environment and the economy. That is why the KION Group goes above and beyond its legal duties to specifically promote sustainable development in matters of social and environmental importance. Prevention of climate change and conservation of resources therefore take top priority – and are an integral element of the Code of Compliance. Innovative products support the KION Group's role as one of the pioneers in the use of cutting-edge environmental technologies. The Linde and STILL brands have developed ground-breaking concepts for conserving resources.

**Focus on ergonomics, the environment and efficiency**

Linde runs the PureMotion programme, which concentrates on ergonomics, the environment and efficiency. For example, ever since the first hydrostatic drive was developed in the 1960s, Linde has continually worked to improve the technology. Modern-day hydrostatic wheel motors operate at 170 revolutions per minute, instead of 3,500 as they used to do. Trucks need less fuel and produce fewer emissions, thereby enabling customers to operate more efficiently.
Linde also occupies a leading position when it comes to diesel engines. The particulate emissions of its diesel engines (H25D 392 model) are only approximately 35 per cent of those of competitors in the market. In addition, particulate filter systems are offered as optional extras. Its electric lift trucks also reflect its technology lead, with energy recovery cutting energy consumption by a quarter. The Linde brand company has also succeeded in reducing the noise levels of these trucks by 30 per cent compared to the products of other manufacturers. Moreover, the rate of wear is up to 20 per cent less for wearing parts. In short, the PureMotion programme generates benefits, not just for people but also for business and the environment.

KION's STILL brand pursues a similar strategy. BlueQ is a significant concept in which the truck's driver activates efficiency mode at the touch of a button. Energy is saved precisely where it will not impair operation of the truck by intelligently optimising the characteristics of the drive. As a result, consumption can be reduced by between 10 and 20 per cent, depending on how the truck is used and the equipment fitted. This has financial benefits for customers: an electric lift truck with a load capacity of 1.6 tonnes operating on a three-shift schedule over five years has potential cost savings of roughly €2,500. And this calculation does not include further gains resulting from reduced wear, a longer battery service life and higher usage time per load.

**Intelligent technology secures competitive edge**

Pioneering technologies such as energy recovery in trucks, biodiesel, gas-powered trucks, the use of diesel particulate filters and adjustable pumps for lift drives, plus fuel-cell powered trucks, have a long tradition at the KION Group. Current forecasts from industry experts show that innovative drive concepts are the technology of the moment. For example, the Industrial Truck Organization, which represents truck manufacturers and their suppliers in Canada, the United States and Mexico, expects that 90 per cent of all trucks worldwide will be electric in 14 years' time. A survey by the Engineering Committee of the Japanese Industrial Vehicles Association (JIVA) has similar results and states that lithium ion batteries and hybrid drives are the way forward.

STILL is responding to this trend. Its new RX 70 Hybrid truck is pursuing the twin aims of low energy consumption and low $CO_2$ emissions. Series production of the hybrid truck is scheduled for May. The

concept is derived from the RX 70 model, which itself previously earned the FLTA environment award from the UK's Fork Lift Truck Association.

The KION Group's innovative capabilities and the technological improvements it has made to its product portfolio enable it to constantly optimise the resource consumption of customers' truck fleets. Its responsible use of resources is also reflected in its use of recyclable materials, its energy-efficient products and manufacturing processes and its environmentally friendly workplaces.

One such example is the powder coating equipment used at STILL, which means that trucks only require one coat of paint. Solvents are not used in production. Any unused paint is collected and reused. Moreover, the STILL plant in Hamburg has been using just 32 per cent of its original natural gas consumption since it began using low-$CO_2$ district heating. As a certified member of Hamburg's environmental partnership, the plant is trialling the voluntary monitoring of $CO_2$. Electricity consumption has fallen considerably since 2004 due to intelligent energy management, in which electricity consumers are switched off at regular intervals. Hydraulic optimisation of the heating system has significantly cut the amount of water in circulation and reduced the return water temperature. The plant saves electricity and water by connecting the heating and ventilation systems to a control station.

Emissions checks, environmentally efficient production requirements and the need to comply with environmental and health & safety standards all result in continuous improvements to products and work processes. The recycling of a truck at the end of its lifetime is already taken into consideration when it is developed. As a result, 99 per cent of a Linde truck can be recycled. The cast iron, which accounts for 70 per cent, is used to make a new truck. Other materials, such as steel, copper, glass and service fluids, are almost 100 per cent recyclable.

**Staff development programmes safeguard the Group's future**

The KION Group's employees form the basis for its long-term success. That is why humanity lies at the heart of all processes. The corporate culture of the entire Group is characterised by mutual respect and appreciation. Managers and their staff live by these values. Their above-average loyalty to the Company shows that they appreciate this culture – and is a crucial competitive advantage for the KION Group. After all, the brands can only develop, manufacture and sell premium products if they have employees who see their work as more than just a job.

Professional training activities start with support for universities, work placements and apprenticeships, continue with professional development opportunities for the workforce and reach their apex with carefully structured programmes to support managers and talented staff. In 2010, 26 employees at Linde alone took on new managerial responsibilities. The basis for this is the 'managerial driving licence' scheme, which helps employees optimally define and exercise their managerial responsibilities in their team. A modular series of seminars teaches new managers how to improve their leadership behaviour in practice.

One advantage of KION's training and professional development models is their flexibility. This can be seen in initiatives by the brand companies to use last year's phases of short-time working for intense training and in the opportunities for working and learning in other countries. The Linde expat programme, for example, enables employees to move from headquarters in Germany to almost any partner country and vice versa.

A fundamental aspect of the Group's training activities is encouraging the next generation of young professionals. STILL is involved in a number of projects in this area, including an alliance with the Career Center Hamburg, the SMS programme (STILL moves students) and cooperation with Hamburg University of Applied Sciences (AWA), Kurt Körber High School and Helmut Schmidt University on the 'e-truck' robot construction project in Hamburg. These initiatives aim to establish ties with tomorrow's potential trainees, apprentices and employees while they are young.

When it comes to vocational training, Linde Material Handling sets standards as the largest training provider in the Aschaffenburg region. Besides professional training, other essential elements of the personal development plan for all trainees and apprentices are mutual appreciation and respect.

These values are specifically taught and developed during training sessions. Linde Material Handling has cooperated with high schools in Aschaffenburg, the Aschaffenburg Chamber of Industry and Commerce, Aschaffenburg University of Applied Sciences and the Bavarian State Government for many years and has developed a pupil/engineer academy for high schools in which topics relevant to technological and scientific careers are incorporated into the curriculum for older pupils. Work placements, discussions and school projects thereby forge links between business and schools. Support and development for the next generation of young professionals is provided by a wide range of work placement options for students at university and a close partnership with Aschaffenburg University of Applied Sciences.

The quality of the KION brands' training models has been recognised by external experts: the AGA business association awarded its 2009 training prize to a young employee who completed her training to become a technical product designer at STILL.

Safety is an important topic, and the KION Group constantly provides initial and continuing training for its employees in this area. To improve safety at its sites, the KION Group conducted 486 training courses in Germany alone during 2010. The courses focused on issues such as risk assessment and hazardous materials. In-depth analyses of accidents and detailed action plans are used to reduce risks in the workplace. Training for managers heightens awareness for safety at all levels.

**Brands and employees support society**

Recognising their social responsibility, both the Executive Board and employees personally support numerous charities. Employees in the USA, for example, have been regularly donating blood to the American Red Cross for the past nine years. At the 2010 anniversary party, STILL employees and their families donated almost €20,000. The donations went to a Hamburg-based charity that supports children with cancer and to Switch, which is an initiative run by an organisation in Hamburg that carries out intercultural projects to help eliminate prejudice against people from immigrant backgrounds. Linde Material Handling employees provided financial support of around €38,000 to victims of the earthquake in Haiti by converting credit from their time accounts; Linde rounded this amount up to €45,000. During the year, Linde donated a further €5,000 to flood victims in Pakistan.

Immediately after a severe earthquake at the end of February, which left large areas of Chile completely devastated, the 'Linde helps Linde' initiative was started and employees in Santiago were quickly able to organise the transportation of food to Concepción using the company's own vans. KION donated approximately €100,000 to support the people of Chile in the sustainable reconstruction of the devastated areas.

A number of sites in various countries have stopped giving gifts to customers at Christmas and use the budget instead to donate to people in need.
As truck manufacturers, the KION Group brands are predetermined to help in places where aid needs to be delivered quickly, reliably and without bureaucracy. That is why Linde and STILL provided 15 industrial trucks to various relief organisations in 2010.

# 12 Opportunities and risks report

## 12.1 Opportunities report

**Strategic focus on opportunities**

Identifying and acting on opportunities is an integral element of strategic corporate management in the KION Group. To identify and evaluate these opportunities, the Company systematically monitors and analyses developments in its relevant markets and tracks overall and sectoral economic trends. Once it has analysed and evaluated the opportunities, the Company draws up strategic initiatives that are aimed at profitable growth and a sustained increase in shareholder value.

Various developments in the national and international markets have an impact on the KION Group as one of the world's leading providers of industrial trucks. The economic conditions described in this report, as well as the current market trends and business performance, create a multitude of potential opportunities. Using and building on its existing strengths and competitive edge, the KION Group endeavours to exploit the potential opportunities that arise to the best of its abilities.

The following developments open up significant potential opportunities:

**Growth opportunities in an attractive market**

The KION Group occupies an outstanding position in an attractive market. The market for industrial trucks is strongly correlated with industrial output – and therefore also with macroeconomic trends. Strong growth in the global economy and, in particular, the recovery in world trade in 2010 are having a correspondingly positive effect on demand for industrial trucks. This growth trend is expected to continue in the coming years. Greater division of labour and rising inventory turnover rates in the major industrialised nations will increase the degree of mechanisation in logistics. This, in turn, will increase demand for efficient warehouse equipment and comprehensive intralogistics solutions. In the next few years, market growth in the industrialised world will be reinforced by the gradual release of pent-up demand caused by the postponement of replacement investment in industrial trucks that was seen during 2009 and 2010. In fast-growing markets such as eastern Europe, South America and Asia, sales of industrial trucks will continue to benefit from more rapid overall economic growth and associated expansion investment. The KION Group is excellently placed to participate in this trend. Although customers in these countries generally have lower technological requirements and are more price-sensitive, there are also signs that demand for trucks based on high-quality, reliable technology is rising in these regions.

KION can seize the opportunities presented by market growth and, during the crisis for example, it actually expanded its market share in Europe. From this position, the KION Group is set to benefit from the continued recovery in the industrial trucks markets.

**Successful multi-brand strategy meets specific market needs**

The needs of customers in the market for industrial trucks are very wide-ranging and, with its five brands – Linde, Fenwick, STILL, OM and Baoli – the KION Group covers the entire spectrum of industrial trucks from basic warehouse equipment to container handlers. Linde/Fenwick and STILL/OM operate in growth markets such as ergonomics and intelligent intralogistics. By virtue of their technological and solutions-oriented competencies, they are widely regarded as leaders in technology and innovation. Baoli targets the economy segment, where customers have different priorities in terms of technology and pricing, and it also meets the needs of rapidly developing high-growth markets. The KION Group's broad-based structure enables it to benefit from growth in all market and product segments, using its expertise to develop new solutions and to build market share.

**Continued expansion of service business**

Service-related business offers an opportunity for growth that is largely independent of market cycles. With a fleet of over one million trucks in use worldwide, the KION Group has a broad platform from which to generate lucrative service business. It uses this business as a tool for maintaining long-term customer relationships and for tapping into profitable income streams. Services such as financing solutions, maintenance and repairs, spare parts, and efficient end-to-end solutions for fleet management play an increasingly important differentiation role. The KION Group will apply its expertise to expanding its range of efficient service solutions, adapting them to local needs and thereby increase its market share.

**Expansion supported by selective opportunities for growth by acquisition**

Despite the consolidation that has taken place within the sector, the market for industrial trucks is highly fragmented. Some providers only sell their products in certain regions. The KION Group can bolster its organic growth by making selective acquisitions – including in the area of sales and service structures – as a quick and effective way of strengthening its position in specific markets.

**Trend for 'green' logistics and efficient technology**

Economics and ecology are the mega-trends in the market for industrial trucks. That is why the KION Group as a driver of innovation is already ahead of the game in terms of environmentally-friendly trucks and fuel-saving technologies. The advantage for customers is the low total cost of ownership of products, which includes the cost of maintenance and repairs, consumption and labour costs in addition to the purchase cost. Examples include Linde's PureMotion programme – in which Linde Material Handling is using its expertise to protect people and the environment – and STILL's extremely fuel-efficient forklift trucks that have been developed thanks to its leading position in hybrid technology. Going forward, the KION Group will focus on exploiting its technological lead to develop new products that benefit its customers – innovations that provide opportunities for growth.

**Consolidation in the sector**

The KION Group has many small competitors, especially in the high-growth markets of Asia. However, past trends in the industrialised markets indicate that not all of these market participants will be able to establish themselves on a permanent basis. Regulatory requirements, such as in the area of environmental protection, are one reason for this. The KION Group's technology leadership enables it to use consolidation processes to expand its own market share.

In other markets, existing regulations act as a significant barrier to entry for international providers, such as Asian manufacturers in the economy segment. One example is EU Directive 2002/44/EC on vibration, This Directive obliges companies to protect their employees against noise and vibration, for which it sets mandatory limits. The KION Group possesses technologically advanced products that comfortably comply with these limits – a quality advantage that opens up further sales opportunities.

**Additional potential synergies in the KION Group**

The Group's organisational structure offers further potential for synergies. Even after the initial successes of the new 'One KION' organisational structure, there are more opportunities for savings in the overarching functions in KION and the brand companies, including in purchasing, development, production and logistics. The KION Group will exploit any as yet untapped potential synergies, which will give it opportunities for improving its competitiveness and efficiency.

## 12.2 Risk management

The KION Group encounters business risks that may jeopardise its business objectives. Its risk management systems therefore form an integral part of its day-to-day management. To ensure that these risk management systems are fully integrated into the KION Group's overall financial planning and reporting process, they are located in the Group Accounting & Finance function. The procedures governing the KION Group's risk management activities are laid down in internal risk guidelines. For certain types of risk, such as financial risk or risks arising from financial services, the relevant departments also have guidelines that are specifically geared to these types of risk and describe how to deal with inherent risks.

The organisational structure of risk management corresponds directly to the structure of the Group itself. Consequently, risk officers supported by risk managers have been appointed for each company and each division. A central Group risk manager is responsible for the implementation of risk management processes in line with procedures throughout the entire Group. His or her remit includes the definition and implementation of standards to ensure that risks are uniformly captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a Group-wide risk catalogue is used to capture the risks attaching to each company. Each risk must be captured individually to ensure that no information is lost. If the losses caused by a specific risk or the likelihood of this risk occurring exceed a defined limit, an ad-hoc report is sent to the KION Group's Executive Board and to its Accounting & Finance function. A specially developed module within the internet-based reporting system used for the entire planning and reporting process is used to document each risk.

The risks reported by the individual companies are combined to form divisional risk reports as part of a rigorous reporting process. To this end, minuted risk management meetings are held once a quarter. Material risks are discussed at the quarterly business review meetings. The divisional risk reports are then used to compile an overall risk portfolio for the KION Group as a whole. The Executive Board and the Supervisory Board's audit committee are informed of the KION Group's risk position at least once a quarter.

**Material features of the internal control and risk management system pertaining to the (Group) accounting process**

**Principles**

The primary objective of the special accounting-related internal control system is to avoid the risk of material misstatements in financial reporting, to identify material mismeasurement and to ensure compliance with the applicable regulations. Nevertheless, an internal control system – irrespective of the form that it takes – cannot give absolute certainty that this objective will be achieved.

**Material processes and controls in the (Group) accounting process**

For its (Group) accounting process, the KION Group has defined suitable structures and processes within its internal control and risk management system and implemented them in the organisation. Changes to the law, accounting standards and other pronouncements are continually analysed with regard to their relevance and effect on the consolidated financial statements; the relevant changes are then incorporated into the Group's internal policies and systems.

Besides defined control mechanisms, this special accounting-related internal control system includes, for example, system-based and manual reconciliation processes, separation of functions, the double-checking principle and adherence to policies and instructions.

The employees involved in the Group's accounting process receive regular training in this field. Throughout the accounting process, the local companies are supported by central points of contact. The consolidated accounts are drawn up centrally using data from the consolidated subsidiaries. A consolidation department with specially trained employees carries out the consolidation activities, reconciliations and monitoring of the stipulated deadlines and processes. Employees monitor the system-based controls and supplement them with manual checks. The entire accounting process contains a number of specific approval stages. Employees with the relevant expertise provide support on specialist questions and complex issues.

The central Internal Audit department also checks, among other things, the reliability of the accounting work by the subsidiaries in Germany and abroad. It focuses primarily on the following aspects:

- Compliance with legal requirements, directives from the Executive Board, other policies and internal instructions
- Integrity and effectiveness of the internal control systems for avoiding financial losses
- Correct performance of tasks and compliance with business principles
- Formal and material correctness of the accounting and of the financial reporting that is based on the accounting.

## 12.3 Types of risk

### 12.3.1 Risks arising from the economic crisis

Even though the markets recovered considerably in 2010, risk management continued to examine the impact of risks resulting from the financial and economic crisis on the KION Group's financial position and financial performance. In addition to ongoing screening and monitoring, the risk report therefore includes a separate assessment of the risks arising from the receding crisis in financial and product markets. The economic problems in Greece, Spain, Portugal and Ireland, plus the EU rescue packages, highlight the fact that the financial and economic crisis has not yet ended. Risk management is also focusing once more on the risks associated with market recovery (e.g. potential

supply bottlenecks). However, demand for industrial trucks remains significantly below its pre-crisis level. The KION Group has continued to systematically implement its KIARA performance enhancement programme and has significantly lowered costs.

Government action to support economies and the financial system resulted in a rise in government indebtedness worldwide. In Greece, Spain, Portugal and Ireland, debt repayments and the consolidation of national budgets restrict future flexibility and increase the pressure on governments to take appropriate action in terms of both income and expenditure. It is impossible to predict the implications for the material handling market and therefore also for the KION Group.

### 12.3.2 Market risks

Fluctuations in the business cycle in the relevant markets result in a risk to the KION Group's performance. In particular, sales of new trucks depend to a large degree on economic growth. The KION Group's distribution of sales over a variety of industries and regions as well as its limited dependency on big-ticket customers serve to mitigate the risk. Market risk is reduced by close monitoring of markets and competitors as well as any resulting necessary adjustments to production capacities. The KION Group takes measures to boost its sales and expand less cyclical businesses such as services to counteract economic downturns.

Times of crisis allow premium manufacturers, such as the KION Group, that have their own sales and service networks to benefit from the tendency of customers to opt for high-quality products. With its current brand and product portfolio, the KION Group is in an outstanding market position.

Market risk persists despite the positive outlook for all the major economies. The weak economic performance of Greece, Ireland and Portugal is a sign that the market environment remains susceptible to exogenous shocks. An escalation of the euro crisis and an associated adverse impact on the industrial trucks markets of the countries affected cannot be ruled out. Outside the euro zone, the UK and US economies are also affected by measures to consolidate their budget deficits. Depending on the scope of these measures and/or the ability of these countries to raise funds in the capital markets, negative effects could also be felt in their industrial trucks markets. The KION Group is also monitoring the political situation in North African and Middle Eastern countries as well as the impact on their industrial trucks markets, although these markets only play a minor role in a global context. The oil price and any consequences for global trade are also being closely observed. The KION Group therefore closely monitors macroeconomic and market conditions so that it is ready to promptly step up action already implemented or initiate additional measures if required.

### 12.3.3 Competition risks

Manufacturers from Asia, especially those from China and Korea, have an advantage in the production of lower-priced equipment due to the weakness of the euro and also because Asian labour costs are low. Providers from Asia can create competitive pressures for the KION Group, especially in the low-price segment. However, customers' high quality expectations and performance needs form a barrier to growth for many of these manufacturers, and their lack of an established distribution and service network in Europe makes it more difficult for them to gain a foothold in this market.

### 12.3.4 Procurement and sales risks

The KION Group is exposed to risks in its procurement and sales activities. In 2010, the Group rigorously maintained its more intensive management of receivables and procurement as a result of the economic crisis.

Procurement activities constitute a potential risk for the KION Group in terms of the lack of availability and rising cost of raw materials, energy, base products and intermediate products. While the financial situation of suppliers was a significant source of risk during the general financial and economic crisis, availability of components came to the fore as a risk in 2010 because our suppliers experienced a surge in demand. The KION Group was directly affected by supply problems and also indirectly via its suppliers, particularly in the case of electronic components. Supplier-related processes have since

improved again. At the same time, the KION Group has taken additional steps to further increase the availability of production parts.

While the KION Group benefited from stable, relatively low prices in the commodity markets at the beginning of 2010, prices shot up from the second quarter onwards as a result of the aforementioned rise in demand in the supplier markets. However, there is still a risk of significant volatility in procurement prices in the future owing to the economic situation remaining benign.

The ongoing screening of suppliers from a risk perspective is proving to be highly effective. Only one of the selected suppliers initiated insolvency proceedings during 2010, but this did not lead to any significant interruption to supplies or to the ability of the KION Group to deliver its own products.

As far as its sales are concerned, the KION Group is now exposed to stiffer competition and downward pressure on prices as a result of increasing globalisation and greater market transparency. The KION Group ensures that it sustains a profitable level of pricing, and in 2010 it was able to withstand pricing pressures in a competitive environment, particularly in western Europe, while at the same time improving its market share. At the same time it is optimising its cost structures and business processes. The measures initiated in 2009 have made a major contribution to reducing costs. The KION Group's brand companies are also continually enhancing the services they provide. Important aspects of this work include expanding the sales force, improving spare-parts logistics processes and ensuring 24/7 availability.

The Baoli brand enables the KION Group to supply customers in low-price market segments who were previously difficult to reach. Baoli also provides the KION Group with a platform on which to meet demand for basic products, particularly in developing markets.

### 12.3.5 Production risks

Because the Company has a closely integrated manufacturing network, operational disruptions or lengthy periods of production downtime at individual sites present a potential risk to its ability to deliver goods on time. To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers.

The Company has taken out a commercially appropriate level of insurance cover against loss. So that it can manage quality-related risks arising from the products and services it provides, the KION Group attaches considerable importance to quality assurance right from the start of the value chain. It mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the entire process chain and maintaining close contact with its customers and suppliers.

### 12.3.6 Financial risks

The main types of financial risk managed by Group Treasury, including risks from funding instruments, are liquidity, exchange-rate, interest-rate and counterparty risk. Risk management procedures issued by Group Treasury stipulate how to deal with these risks. Counterparty risk consists only of risks related to financial institutions. The individual Group companies manage counterparty risks involving customers.

The restructuring of the existing acquisition finance during 2009 continued to provide the Group with the flexibility needed to meet the requirements of the financial covenants. Accordingly, the KION Group has secured acquisition finance in the form of committed credit lines (with maturities up to 2016). At the end of 2010, the capex facility (approximately €29 million) was reduced as agreed and the drawn portion of the RCF facility (€125.4 million) was also repaid. However, this credit line can be re-drawn if required. The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. Deposits are also restricted to the limits covered by the deposit protection fund run by the Federal Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken).

The KION Group only uses derivatives to hedge underlying operational transactions. It does not use them for speculation. Records are kept of the type of financial instruments used, the limits governing their use and the group of banks acting as counterparties. Group Treasury rigorously complies with and monitors the strict separation of functions between the front, middle and back offices.
Each Group company's liquidity planning is broken down by currency and incorporated into the KION Group's financial planning and reporting process. Group Treasury checks the liquidity planning and uses it to determine the funding requirements for each company. Normally, at least 50 per cent of the exchange-rate risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline.

The KION Group uses interest-rate and currency-related derivatives – primarily interest-rate swaps and currency swaps, but also interest-rate and currency options – to hedge the interest-rate and currency risks arising in connection with the acquisition finance. The currency risk arising from the US dollar tranche (excluding PIK interest) is fully hedged by a combination of forwards and options within a USD/EUR exchange-rate range of 1.5139 to 1.1825 (the USD/EUR rate to be hedged within this range is around 1.375). These derivative contracts expire in September 2011. When the hedges expire, there may be a material outflow of funds, depending on the US dollar exchange rate. At the end of 2010, approximately 40 per cent of the Group's interest-rate exposure was hedged by interest-rate swaps; a further 44 per cent of its interest-rate exposure was hedged against one-month Euribor rising above 1.75 per cent per annum by means of interest-rate caps. The need to replace hedging instruments that expire is reviewed on an ongoing basis.

The funds raised for the acquisition of the KION Group also give rise to risks in terms of compliance with certain financial covenants specified in the loan agreement. However, these covenants were restructured in 2009 and the Company complied with them comfortably at the end of 2010. Despite the abatement of the economic crisis, there is still a risk of non-compliance with the covenants, although KION mitigates this risk with its comprehensive action plan instigated in 2009 and by including sufficient headroom in the revised covenants. The KION Group complied with all the financial covenants in the past financial year.

### 12.3.7 Risks from financial services

The funding terms and conditions faced by the lenders themselves (manifested, for example, in the payment of liquidity premiums on interbank lending) may result in a future shortage of lines of credit and/or increased financing costs for companies. However, the Group currently does not expect any further changes in its lines of credit or any excessive increases in margins.

The KION Group's leasing activities mean that it may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. The brand companies therefore constantly monitor and forecast residual values in the markets for used trucks.

KION regularly assesses its overall risk position arising from financial services, recognising write-downs, valuation allowances or provisions to cover the risks it identifies. Any change in residual values is immediately taken into account when calculating new leases.

The risk-mitigating measures taken by the KION Group include managing used trucks on an international basis, steadily increasing the number of used trucks remarketed to end customers and extending lease terms more frequently, which stabilises the residual values of its industrial trucks. It has also increased the proportion of leases with an underlying remarketing agreement because these leases transfer any residual-value risk to the leasing company. Group-wide standards to ensure that residual values are calculated conservatively reduce risk and provide the basis on which to create the transparency required. KION has also refined its management of residual values and implemented an IT system for residual-value risk management.

The KION Group mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and funding loans have matching maturities. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the Group has

sufficient liquidity. These risks do not exist in cases where the KION Group offers financial services indirectly via selected funding partners.

In order to exclude exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. The Group has not identified any material changes between 2009 and 2010. KION's losses from defaults are also mitigated by its receipt of the proceeds from the sale of repossessed trucks. The Company is not generally exposed to counterparty risk in cases where the KION Group offers financial services indirectly via selected financing partners. The KION Group's credit risk management system takes into account the current economic conditions. KION has tightened the requirements that need to be satisfied prior to the signing of new leases as part of a more restrictive authorisation process for avoiding potential future risks.

### 12.3.8 Human resources

For KION to secure its long-term success, it is vital that managerial staff and young professionals of sufficient quality and quantity to meet its future challenges are retained within the Company for a long period, particularly in key functions.

One of its critical challenges is to promote suitable staff who already work for the Company and retain them over the long term, whilst also identifying talented young professionals, developing them as managers and drawing up succession plans for key roles across the entire Group. KION must also identify and recruit suitable candidates in the external market as strategic additions to the portfolio of existing staff. In this way, the risk of possibly losing expertise and staff to competitors is countered in advance.

Neither the KION Group nor any of its brand companies is currently ranked as an 'employer of choice' by graduates, so increasing the Company's appeal as an employer is crucial, alongside targeted succession planning and strategic management of new talent.

### 12.3.9 IT

In order to process and manage its business transactions, the Group needs a system landscape that is expandable and flexible enough to be adjusted in line with the requirements of the market. Complexity must be reduced so that differentiation is restricted only to those functions where it is absolutely required. This allows the KION Group to share existing expertise between the brands (on the basis of best practice) and strengthen its competitive position.

The rationalisation of the current brand-specific systems is being driven forward under the auspices of the 'KION ONE' project, which has three modules: 'KION ONE Factory', 'KION ONE Sales & Service' and 'KION ONE Infrastructure Consolidation'. Internal and external specialists with the necessary skills are implementing these action plans without impairing the day-to-day running of the business.

For this project, KION is using its internal IT service provider KION Information Management Services (KIM), which was established in 2007 as a private limited company in Germany (GmbH). KIM pools internal IT resources and makes them available throughout the Group. It is also gradually bringing contracts that had previously been outsourced back into the Group, thereby securing inhouse expertise. The Group was and remains able to monitor risk via the Group-wide portfolio management and project planning & control system. Independent external audits are conducted to provide additional quality assurance.

Various technical and organisational measures protect the Company's data against unauthorised access, misuse and loss. The technical protection measures include virus scanners, firewall systems and access controls. Access to the Group's infrastructure is also validated and recorded.

### 12.3.10 Legal risks

The legal risks for the KION Group arising from its business are typical of those faced by any company operating in this sector. The Company is a party in a number of pending lawsuits in various countries. It cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the Company is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were faulty or the Company failed to comply with contractual obligations. The KION Group has taken measures to prevent it from incurring financial losses as a result of these risks.

In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. Within the KION Group, these issues are also monitored by teams whose members come from a variety of functions. The aim of the teams is to identify and minimise risks, for example the risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure that the various departments comply with mandatory laws, regulations and contractual arrangements.

Although legal disputes with third parties have been insignificant both currently and in the past, the Company is in the process of establishing a centralised reporting system to record and assist pending lawsuits.

### 12.3.11 External risks

External risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, the KION Group is exposed to the consequent risk of government regulation, capital controls and expropriations. Although fairly unlikely, natural disasters and terrorist attacks constitute a further risk to the KION Group's financial position and financial performance.

## 12.4 Overall risk

In 2010, the KION Group continued to analyse the risks arising from the waning financial and economic crisis in addition to its normal quarterly risk reporting. Particular attention was paid to the potential impact of financial instability in some economies. Risk prevention measures were initiated at an early stage where risks were identified. Despite the incipient market recovery in 2010, the industrial trucks sector as a whole remains well below its 2008 market level. The KION Group is maintaining its rigorous pursuit of the KIARA performance enhancement programme, which was initiated in 2009 as a basis to ensure the Company has sufficient means to counter further unforeseeable market developments. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.

## 13 Events after the balance sheet date

No events of any importance occurred after the balance sheet date.

# 14 Outlook

The forward-looking statements and information given below are based on the Company's current expectations and assessments (as at 31 December 2010). Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of the KION Group, affect the Group's business activities and profitability. Any unexpected developments in the global economy would result in the KION Group's performance and profits differing significantly from those forecast below. The KION Group does not undertake to update forward-looking statements to reflect subsequently occurring events or circumstances. Furthermore, the KION Group cannot guarantee that future performance and actual profits generated will be consistent with the stated assumptions and estimates and can accept no liability in this regard.

## 14.1 Outlook for the global economy

### Uncertainty lingers

There is currently great uncertainty about the future performance of the global economy. The financial sector has been badly shaken. Problems in the real-estate sector and the risk of some countries defaulting on their debts threaten to heighten the pressure once more in 2011. Furthermore, it is difficult to foresee the consequences that the main industrial countries' efforts to consolidate their public debt will have on the economy in the medium to long term. The central banks in the emerging markets are likely to switch to slightly more restrictive monetary policies in view of their extremely high growth levels, and also to slow down the pace of growth. Depending on the scale of these restrictions, the industrialised countries may also experience a downturn in their rate of economic growth. Additionally, the extremely expansionary monetary policies pursued by the central banks in the industrialised countries will result in higher inflation and also in higher commodity prices and interest rates over the medium term. Because the upturn in 2010 bypassed the labour market in many industrialised countries, the private sector has so far proved incapable of providing much stimulus.

### Global economic growth continues at a slower pace

In this context, slightly more moderate expansion is forecast for 2011, following the sharp rise in economic output in 2010 in many industrialised nations. Among the euro-zone economies, Germany remains the engine of growth although it is only likely to achieve a growth rate of 2.5 per cent, which is below its 2010 rate. For the first time since the start of the recession, Spain's GDP will return to slight growth. Overall, the pace of growth in the euro zone will decelerate a little and economic output will rise by 1.6 percent. The pace of growth in the euro zone is likely to be the same in 2012, when it will again be 1.6 per cent.

In the USA, a number of the economic stimulus packages approved in 2008 and 2009 will come to an end in 2011 – an indication that the growth rate is likely to slow down. However, the US government has renewed or extended the term of temporary tax cuts for employees, lower social security contributions and special unemployment benefits. The USA has also created an incentive programme for corporate investment. These measures are equivalent to 2.5 per cent of the GDP forecast for 2011 and 2012. The Federal Reserve's expansionary monetary policy is likely to continue largely unchanged. However, not all of the measures that have been approved will take full effect, because there are still high levels of consumer debt as well as structural problems in the real-estate market. Given the current conditions, the US economy is likely to grow by 3.2 per cent in 2011. The rate of growth could even rise to 3.3 per cent in 2012.

The Chinese economy was the first to benefit from the recovery and it grew strongly in 2010. The monetary and financial policy measures introduced in China to prevent its economy overheating will take effect in 2011 and, as a result, growth will fall back to between 8.1 and 8.5 per cent in 2012, a lower level than in recent years. The slight slowdown in Chinese economic activity is highly likely to decrease demand for raw materials from Latin America. The cycle of inventory building has also largely come to an end, and support from this quarter is declining. As a result, the upturn in the Brazilian economy is expected to be slightly smaller than it was in 2010, and growth will fall to 4.5 per

cent. The economy is likely to grow at a similar pace in 2012, fuelled by a more robust global economy and capital expenditure in conjunction with the 2014 FIFA World Cup and the 2016 Olympic Games.

## 14.2 Market outlook

The market for industrial trucks is correlated with macroeconomic conditions. The statements below should therefore be read in the context of the conditions described above. If the performance of the global economy is adversely impacted by unforeseen exogenous factors, the consequences will also affect the industrial trucks market. From the current perspective, it is not possible to determine the extent, the timing or the likelihood of these exogenous factors.

**Market upturn set to continue worldwide in 2011**

The upturn in the global market for industrial trucks will continue in 2011. Despite its slower pace compared with 2010, the economic recovery will spill over into the markets.

The level achieved in western Europe in 2010 remains significantly below that experienced in the past, despite a rise of 23 per cent. Because the level is well below that needed to meet replacement requirements, there is certainly pent-up demand in this area – particularly as capacity utilisation and use of the trucks in the market are expected to continue to rise in 2011. The KION Group therefore expects the market in western Europe to improve again in 2011 and to approach the level that has been calculated as necessary to meet replacement needs. Eastern Europe will also maintain its growth trend, particularly as it is driven by the recovery in the Russian market.

The rapidly growing markets in China and Brazil, which are already far ahead of their 2008 levels, will enter a phase of normalisation in 2011. The KION Group believes both markets will slightly improve on the levels they achieved in 2010 but they will not achieve the high growth rates of 2010 again.

Given the recovery of the markets described above and the growth in other key regions such as North America and Japan, the global market is expected to expand by 9 per cent to more than 860,000 units in 2011. The KION Group believes the improvement will be even greater in 2012 as a result of the continued positive forecasts for the world's economies.

## 14.3 Outlook for the KION Group

In 2011, the KION Group will benefit substantially from the upward trend in the markets as well as from the cost-saving measures initiated in 2009 under the KIARA performance enhancement programme. Capacity utilisation in the plants will continue to rise. The full integration of products following the relocation of production from the Basingstoke plant and some areas of production from the Reutlingen plant have helped to raise the large-scale plants in Aschaffenburg and Hamburg to a more efficient level of production. In 2011, the KION Group will be implementing more measures to further enhance the performance and efficiency of its plants. The five brands in the KION Group represent a strong, global product portfolio that it will continue to use in 2011 to meet the specific local needs and different requirements profiles of its customers in different regions around the world. As the operational improvements made in 2010 were greater than originally planned in 2010, the KION Group will remain below the threshold values defined its financial covenants in 2011. As a result, the interest terms will be slightly more favourable.

**Further improvement to the margin**

At the start of 2011, the KION Group is optimistic that the further improvement in the market environment will enable it to increase its revenue by around 10 per cent. Growth will mainly be achieved by generating new business, but it will also be driven by all other product categories. The Company's profitability will increase substantially on the back of long-term structural improvements coupled with economies of scale. In late 2010/early 2011, the brand companies in the KION Group also responded to the rise in commodity prices and staff costs by raising their gross list prices. The KION Group believes its adjusted EBIT margin will increase significantly in 2011 but will be below its pre-crisis level (2008: 7.9 per cent). Further restructuring costs aimed at improving future operational

performance mean the KION Group will again make a net loss, although the loss will be smaller than in 2010 due to ongoing improvements to operations.

Provided the market continues to improve, the KION Group is expecting a further rise in revenue, a higher adjusted EBIT margin and, therefore, a further improvement in its net income in 2012.

Wiesbaden, 17 March 2011

Gordon Riske Harald Pinger