all of the payment obligations under the new SFA. The SFA is not collateralised, as is typical in the current market environment for companies that are on the cusp of an investment-grade rating.

As a result of the drawdown of the bridge loan, the liabilities to banks amounted to €2,546.3 million (31 December 2015: €0.0 million). After deduction of cash and cash equivalents, net debt amounted to €2,489.6 million (31 December 2015: €0.0 million).

Employees

The average number of employees at KION GROUP AG was 172 in 2016 (2015: 138). KION GROUP AG employed 185 people as at 31 December 2016 (31 December 2015: 139).

NON-FINANCIAL PERFORMANCE INDICATORS

The KION Group's enterprise value is determined not only by financial KPIs but also by non-financial influencing factors. These are based on the Company's relations with its customers and employees, on its technological position and on environmental considerations. The KION Group can only achieve the targets that it has formulated for itself in the Strategy 2020 if it is an attractive and responsible employer that can retain competent and committed employees at all sites, if it develops products and solutions that are closely tailored to customers' needs and environmental requirements now and in future, if it continually increases the customer benefits provided by its products and services and if it designs production processes in such a way that resources are conserved and emissions are avoided as far as possible.

The KION Group firmly believes that these aspects are important to its positioning as a pioneering company in a highly competitive environment.

Employees

HR strategy

The KION Group's success is founded on the capabilities and commitment of its employees. The ultimate objective of the KION Group's HR strategy is to provide the best possible support to the targeted implementation of the KION Group Strategy 2020. To this end, the KION Group draws on a wide range of measures to ensure that there is always a sufficient number of highly qualified, hard-working employees at all levels of its operations. Attractive working conditions and the opportunities for career progression afforded by working for an international group of companies play an important role in this and provide a solid basis for meeting the manifold challenges presented by demographic change.

The KION Group has maintained and continued to strengthen the high value of its employer brands, particularly those of Linde and STILL. In 2016, STILL was recognised as one of Germany's best employers for the fifth year in succession by the Top Employers Institute, an international certification organisation. It also received a 'Germany's Top Employers' award from the CRF Institute.

Headcount

The average number of employees (full-time equivalents (FTEs), including trainees and apprentices) in the KION Group was 24,957 in 2016 (2015: 23,129 FTEs). As at 31 December 2016, the KION Group companies employed 30,544 FTEs, 7,038 more than a year earlier.

The increase was predominantly attributable to the acquisition of Dematic. > TABLE 034

Personnel expenses amounted to €1,520.3 million. The main reason for this increase of 12.5 per cent compared with 2015 was the rise in average headcount for 2016 and changes to collective bargaining agreements. > TABLE 035

Employees (full-time equivalents)*

TABLE 034

31/12/2016	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
Western Europe	16,005	1,931	670	18,606
Eastern Europe	2,103	52	0	2,155
Middle East and Africa	241	0	0	241
North America	187	2,910	0	3,097
Central and South America	442	944	0	1,386
Asia-Pacific	4,086	973	0	5,059
Total	**23,064**	**6,810**	**670**	**30,544**
31/12/2015				
Western Europe	15,707	262	545	16,515
Eastern Europe	1,921	0	0	1,921
Middle East and Africa	229	0	0	229
North America	154	54	0	208
Central and South America	485	0	0	485
Asia-Pacific	4,141	7	0	4,148
Total	**22,637**	**323**	**545**	**23,506**

* Number of employees (full-time equivalents) as at balance sheet date; allocation according to the contractual relationship

Personnel expenses

TABLE 035

in € million	2016	2015	Change
Wages and salaries	1,198.3	1,058.1	13.3%
Social security contributions	258.4	237.8	8.7%
Post-employment benefit costs and other benefits	63.6	55.9	13.8%
Total	**1,520.3**	**1,351.7**	**12.5%**

Diversity

The KION Group sees itself as a global manufacturer with strong intercultural awareness: as at 31 December 2016, people from 83 different countries were employed across the KION Group.

One of the ways in which the Company promotes international collaboration between employees is the KION expat programme, which gives employees the opportunity to transfer to different countries where the KION Group is represented.

The KION Group tackles the challenges of demographic change by providing working conditions that are suited to employees' age-related requirements and organising healthy-living programmes so that it can continue to benefit from older employees' experience. As at 31 December 2016, 26.5 per cent of employees were over the age of 50 (31 December 2015: 25.1 per cent). A total of 299 employees were participating in partial retirement models as at the reporting date (31 December 2015: 258).

Compared with the previous year, the proportion of the KION Group's total workforce made up of women was virtually unchanged in 2016, at 16.3 per cent (2015: 16.1 per cent). To help increase the proportion of management positions occupied by women, the Executive Board set targets that are published in the corporate governance report. Going forward, the KION Group intends to fill more management positions with employees from outside Germany in order to better reflect the Company's international make-up.

The KION Group offers flexible working-time models that promote a good work-life balance. In addition, Linde Material Handling has implemented a company agreement about 'teleworking/home office', which stipulates the terms on which employees can work at home on a mutually agreed and voluntary basis.

Development of specialist workers and executives

In 2016, the longer-term HR strategy was revised in order to ensure even better and more targeted development for employees with high potential.

In addition to the development activities geared specifically to high-potential employees, greater priority will be given to succession planning for key positions in the KION Group in future and a robust process will be implemented for this purpose.

Finding highly qualified people to fill specialist and executive positions is crucial to the KION Group's success. As a result, one of the focuses of HR work across the Group in 2016 was, as in the previous years, the recruitment and development of suitable young talent.

The KION Group endeavours to offer its employees interesting career opportunities and flexible, family-friendly working-time models. The Group companies also collaborate closely on areas such as talent management and training & development programmes. This helps to systematically identify and support staff with potential, high performers and experts in key functions. The STILL Academy offers subject-specific and interdisciplinary training courses. There is also an academy at Linde Material Handling that develops employees' skills, particularly in sales and service.

Training and professional development

The companies in the KION Group currently offer training for 22 professions in Germany. They employed a total of 580 trainees and apprentices as at 31 December 2016 (31 December 2015: 571). Besides providing dual vocational training schemes, KION Group companies offer work placements for students combining vocational training with a degree course in cooperation with various universities.

Sharing in the Company's success

Having successfully floated on the stock exchange, the KION Group launched the KION Employee Equity Programme (KEEP) in 2014. Initially limited to Germany, the programme was rolled out to more countries in 2015 and 2016. Around 1,100 employees participated in this share matching programme in 2016, roughly 6 per cent of the total number who are eligible to do so.

The total participation rate for KEEP since its inception is around 17 per cent.

The plan for 2017 is to give employees in other countries the opportunity to share in the company's success by participating in KEEP.

In 2016, the remuneration of the approximately 300 top executives was updated by continuing the long-term remuneration components that had been introduced in 2014, thereby aligning it with the remuneration of the Executive Board. A third

allocation under the long-term incentive plan (LTI) was made in the year under review.

Employee commitment

The KION Group's products and services destined for its customers are produced by committed and motivated employees. That is why all KION companies aim to ensure a high level of employee commitment.

Based on the manager survey conducted in 2015 and the action plan derived from it, a package of measures was defined and implemented in 2016 as part of the newly defined 'Lift up' corporate initiative, in particular to ensure the new organisational structure is firmly embedded.

Alongside this objective, collaboration was further improved by holding a number of team workshops.

Health and safety in the workplace

The KION Group has a corporate policy setting out its obligations in respect of health, safety and the environment (HSE). These include taking comprehensive precautions to create a safe working environment and ensuring employees know how to avoid risks and accidents.

HSE activities centre on an internal audit programme, which covers all of the KION Group's production facilities as well as sales and service. The aim is to systematically document existing HSE measures and processes and to provide specific ideas for how they can be developed further. Last year, nine central HSE audits were carried out within the KION Group.

In 2016, an assessment of possible HSE risks was introduced for all sites. The starting point was a survey developed in the reporting year that ascertains the risk situation at each location.

The KION Safety Championship, which was introduced in 2014, provides additional motivation for employees to continually engage with HSE matters. Based on regular reporting from the individual units and a set of four defined evaluation criteria, a panel of judges awards prizes to those units that have shown special dedication or considerable progress in an area of HSE. In 2016, LMH EMEA's FMO 5 shipping and logistics team in Aschaffenburg was crowned champion.

HSE managers at the KION Group's production facilities and in its sales and service units have the opportunity to meet and talk with one another at an annual international summit.

The health rate for 2016 stood at the high level of 97.0 per cent (2015: 96.4 per cent). Details of the other HSE key performance indicators and of the measures initiated and implemented in 2016 will be included in the KION Group's separate sustainability report, which is expected to be published in the third quarter of 2017.

Research and development

Strategic focus of research and development

The focus of research and development (R&D) is determined by the Strategy 2020. The KION Group pursues the primary objective of increasing the customer benefits in all price segments and sales regions and, by adhering to modular and platform strategies, offering high quality as well as high-performance products at competitive prices. This involves structuring R&D cost-effectively, reducing the complexity and diversity of products and shortening development times for new products. R&D essentially works on a cross-brand and cross-region basis, which ensures that research findings and technological know-how are shared across the Group. In addition, specialist product development teams working for the individual brand companies and regions develop customer-specific solutions.

In the Industrial Trucks & Services segment, the focus for premium products remains on total cost of ownership for customers. The objective is to minimise these costs, which include the purchase price, maintenance and repair costs and energy use, while complying with environmental targets and regulatory requirements in order to create highly efficient and competitive products for customers. In the volume and economy segments, the KION Group is establishing shared, cross-brand and cost-efficient platforms that enable low-cost production yet allow a strong degree of regional differentiation in the industrial trucks. The development centre in the southern Chinese city of Xiamen plays a particularly crucial role here.

The Supply Chain Solutions segment focuses, on the one hand, on refining its central software solution, Dematic iQ. This includes optimising the standard package and making customer-

specific and region-specific modifications. On the other hand, the manual and automated supply chain solutions, including their components, are being constantly enhanced in order to achieve even faster processes, seamless integration of all production and logistics steps and even greater productivity while using the same amount of space.

Across the segments, brand companies, and regions, the KION Group has brought together the technical functions – research and development, procurement, quality and production processes – in the new CTO organisation in order to make its operating units more competitive. Uniform standards and global coordination of technical activities should enable the KION Group to offer more product variants with less effort and shorter development processes in future.

Key R&D figures

Total spending on research and development came to €147.1 million in 2016 (2015: €130.5 million), which equates to 2.6 per cent of revenue. Total R&D expenditure included €50.6 million in capitalised development costs (2015: €40.9 million). These expenses were offset by depreciation and amortisation of €57.0 million (2015: €53.3 million) (see note [17] in the notes to the consolidated financial statements).

The number of full-time jobs in R&D teams grew by 39.8 per cent to 1,477. A total of 451 R&D employees were added as a result of the Dematic and Retrotech acquisitions. > TABLE 036

The KION Group takes comprehensive measures to protect the products it develops against imitations and pursues a specific patent strategy. In 2016, the KION companies (including Dematic) registered a total of 93 patents (2015: 70). As at 31 December 2016, the companies of the KION Group held a total of 2,689 patent applications and issued patents (31 December 2015: 1,641 patent applications and issued patents). The marked increase is predominantly attributable to the first-time consolidation of Dematic.

Focus of R&D in 2016

Automation and connectivity

As a result of acquiring Dematic, Egemin and Retrotech, the KION Group offers the full spectrum of solutions for Intralogistics 4.0. These range from intelligent industrial trucks and fleet management solutions (Industrial Trucks & Services segment) to fully integrated, automated intralogistics systems (Supply Chain Solutions segment), in which self-driving trucks can be included as a component. The KION Group has also strengthened its CTO organisation with the R&D teams from Dematic and Egemin, thereby laying the foundations for success in a digital future and building on a whole host of product innovations in industrial trucks and supply chain solutions.

Industrial Trucks & Services

In 2016, STILL launched the first self-driving order picker, the iGo neo CX 20, on the market. The truck interacts with its operator and automatically follows him or her during the picking process. This can mean time savings of up to 30 per cent and a faster pick rate because the operator does not have to keep getting in and out of the truck. In addition, STILL unveiled the LiftRunner tugger train system, an automated forklift-free solution for on-site transporting materials.

Research and development (R&D) TABLE 036

in € million	2016	2015	Change
Research and development costs (P&L)	96.5	89.7	7.6%
Capitalised development costs	50.6	40.9	23.7%
Total R&D spending	**147.1**	**130.5**	**12.7%**
R&D spending as percentage of revenue	2.6%	2.6%	–

Linde Material Handling added further models to its innovative robotics series, Linde-MATIC. In the medium term, Linde is aiming for all of the major product series to include an automated version.

The KION premium brands also continued to enhance their fleet management solutions. STILL introduced the new 'neXXt fleet' software, which intelligently merges data sets from different applications and areas so that customers can analyse their fleets accurately and comprehensively. The tool comprises a variety of web applications (apps) that can be accessed easily and conveniently from anywhere. In the medium term, STILL neXXt fleet will replace the STILLReport and STILL FleetManager applications.

LMH added the 'pre-op check' app to its 'connect:' fleet management system. A smartphone or tablet can now be very easily used to carry out the check that is required each time before a truck is used, as stipulated by the rules of the DGUV (German Social Accident Insurance organisation). In addition, LMH developed a new localisation technology that pinpoints the location of trucks and transport containers to within centimetres in real time. In the service business, LMH tested a mobile service manager app that sends requests, together with the truck's QR code and a photo of the defective function, directly to the LMH service organisation.

Supply Chain Solutions

Dematic has, on the one hand, further enhanced its Multishuttle storage systems. The flexible and scalable Dematic Multishuttle 2 can significantly increase speed, accuracy and throughput in warehouses, production plants or distribution centers. The ergonomically optimized high performance order picking station RapidPick, with its revolutionary delivery system and fully automated feeding, allows for rates of 1.000 order lines respectively 1.400 picks per hour. A newly introduced modular sorting system increases performance for numerous applications in production and distribution. The enhanced RapidStore UL 1200-1 for the automation of pallet warehouses was particularly developed to modify previously manual processes under difficult spatial conditions.

Dematic's automated guided vehicle (AGV) systems have been fully updated: in the past three years, the automated very narrow aisle trucks (VNAs) and the Flexfork 900, 1600 and 2500 counterbalance trucks have been completely redesigned and switched over to the FlexTruck universal mobile platform. The new FlexTruck can include a robot arm, pallet lifter or conveyor, enabling it to pick the correct units from a pallet containing a single type of item in order to load up a stable, mixed-order pallet. This new Dematic model series also comprises several modular, interchangeable components, such as cable harnesses and lithium-ion/hydrogen fuel cell options, as well as all of the new reflectorless navigation features.

Egemin Automation launched the E'tow® Easy Loop, a new standardised in-floor chain conveyor system that can be delivered and installed particularly quickly thanks to its predefined components. The supply chain solution's automatic chain lubrication and self-cleaning capability enable it to run continuously with virtually no maintenance, making it particularly appealing to logistics service providers.

Software development

The KION Group's software expertise was strengthened considerably by the acquisition of Dematic as well as the related implementation of agile structures and strategic research partnerships for visualising and simulating supply chain solutions. The Dematic iQ and Dematic iQ Analytics software offers customers in the warehousing and distribution industry a host of functions for planning, optimising and executing orders plus comprehensive insights into the data that they collect. This enables them to automate their facilities efficiently, regardless of whether they are automating individual process steps for the first time or already have extensive experience of automation. Dematic iQ solutions are developed and thoroughly tested by highly qualified, dedicated R&D software development teams; new functions and releases usually come onto the market several times a year. The solutions are then configured, adapted and optimised for the individual products by equally experienced teams of software engineers. This ensures that every customer receives a bespoke solution that is tailored specifically to their automation requirements. The new Dematic iQ 2.3 release, for example, offers even faster picking, and versions of it for different customer segments have been successfully implemented. The on-demand fulfilment function enables urgent orders to be processed as a matter of priority at the nearest picking station.

Drive technology

The development of new drive technologies in the Industrial Trucks & Services segment is focused on lithium-ion batteries. STILL and Linde are using technology developed by the CTO Organisation in order to establish a lithium-ion standard for various electric forklift trucks and warehouse trucks and to gain a competitive edge in this important future market.

In 2016, Linde and STILL unveiled the first counterbalance trucks with lithium-ion batteries. Both manufacturers already have a number of li-ion warehouse technology models and tow tractors in their portfolios. The first Linde trucks with lithium-ion technology in the 1.4 – 1.8 tonne load capacity range went on sale in November 2016. STILL intends to offer lithium-ion batteries in 90 per cent of its trucks by the end of 2017.

The focus of development work at Baoli was the upgrading of its trucks fitted with diesel engines, which must meet the new China 3 emissions standard but also remain very affordable. In parallel, Baoli is working on new electric counterbalance trucks and warehouse trucks in order to expand these product lines.

Linde added new IC trucks in the 5 – 8 tonne load capacity range to its EVO series. The new trucks consume up to 20 per cent less fuel than their predecessors and feature extensive exhaust aftertreatment.

Modular and platform strategy

The KION Group is establishing shared, cross-brand platforms for product development and production that are geared to the volume and economy segments. The platforms enable the industrial trucks to be adapted to different regions cost-efficiently. Development for the volume and economy segments is managed from China, where around one third of the R&D staff are based.

The premium brands, Linde and STILL, have shared platforms for the Asia-Pacific and Americas regions, whereas their products for western Europe are developed using different platforms in order to maintain the defining characteristics of the brands.

All platforms are part of a global module strategy that enables products to be developed more cost-effectively and at a higher quality because of the growing number of common parts. The Group is therefore able to achieve high levels of synergy even in western Europe with its different platforms. Wherever possible, local suppliers are used for regional product features.

Customers

The KION Group's industrial trucks and automation solutions are deployed in all kinds of industries.

The Industrial Trucks & Services segment has a very broadly diversified customer base, ranging from large key accounts with global operations to small and medium-sized enterprises that typically order just a few trucks each year.

The Supply Chain Solutions segment benefits from long-standing customer relationships with major players in the e-commerce and logistics sectors. They influence the performance of the segment's new business and service business. The Dematic operating unit's focus industries also include general merchandise, grocery wholesale and retail, fashion, food and beverages, and parcel and courier services. Together with Dematic, KION already counts among the global market leaders in most of these sectors and enjoys excellent relationships with its customers. It has been able to strengthen these relationships through joint development projects and other initiatives.

The KION brand companies again exhibited at the sector's leading trade fairs LogiMAT, CeMAT and MODEX in various regions in 2016 in order to intensify their relationships with customers and partners. In the United States, Dematic again hosted the Material Handling & Logistics Conference in Park City, Utah, which featured a distinguished line-up of participants. More than 50 expert discussions gave existing and prospective customers the opportunity to find out about the latest supply chain trends. The Dematic Sprocket User Conference was also held during the event, focusing primarily on the automation of processes in facilities management. In Europe, STILL organised a customer day while LMH held its World of Material Handling customer event, which was attended by over 7,000 customers, dealers and business partners.

In September, Dematic opened its new Imagination Center in Heusenstamm, Germany, in which complex intralogistics processes can initially be configured in a virtual environment. This enables customers to look at a number of bespoke solutions in detail before deciding which concept to implement. Dematic is one of the first companies in Germany to offer this type of product presentation. Moreover, the KION brand companies attracted attention once again in 2016 by collecting a number of awards. In July 2016, for example, STILL received the Red Dot Award:

Product Design 2016 for the EXV-SF pallet stacker. The Red Dot Award: Product Design is a mark of quality awarded only to products that clearly stand out from the rest of the field. The self-driving picking system iGo neo CX 20 was one of the winners of an award decided upon by readers of trade journal LOGISTRA in recognition of technical, business and intellectual innovations in intralogistics and commercial vehicles.

Sustainability

Acting responsibly has always been one of the principles by which the KION Group and its brand companies operate. They strive for a balance between environmental, economic and social considerations in their business activities. This focus on sustainability is reflected in the Group's eco-friendly and safe products that help customers to conserve energy, reduce emissions and comply with strict workplace safety standards (see the 'Research and development' section). Furthermore, the KION Group ensures that its production processes have as minimal an impact on the environment as possible and that it offers safe and discrimination-free working conditions.

Sustainability management

In 2016, the KION Group continued to work on the groupwide sustainability management system that it had begun to establish the previous year. To this end, the reporting system introduced as part of a pilot project for Linde Material Handling was rolled out to the other departments and brand companies, although the new subsidiary Dematic is not yet included.

Specifically, a groupwide structure for sustainability was developed and a corresponding management structure was implemented in 2016. In addition, the preparations for a groupwide internal reporting system were completed, the relevant key performance indicators were defined and the preliminary work on organisational structures and content were carried out in preparation for publishing a separate sustainability report. All of the fully consolidated units of the KION Group are included in the sustainability reporting system.

The Group Executive Committee decides on the strategy, objectives and reporting process for sustainability. In addition, the CFO chairs the Sustainability Steering Committee, whose members include the sustainability managers in the individual operating units, the head of sustainability for the entire KION Group and the people responsible for the various sustainability-related action areas.

For each action area, an individual programme has been, or will be, created that sets out objectives and measures for refining the sustainability activities on an ongoing basis. Responsibility for implementing these measures lies with the person in charge of the action area.

The sustainability objectives define the minimum standard that applies to the entire KION Group. Individual units are permitted to achieve higher standards in their sustainability activities or to tailor them to their needs as appropriate.

The development of the sustainability strategy and related objectives builds on existing groupwide standards and rules of conduct, such as the KION Group Code of Compliance. This defines clear rules, including on the correct way for employees to interact with each other as well as with customers, partners and the public. All other standards and initiatives, e.g. relating to health, safety and the environment (HSE), are derived from the code. It is available to the public on the KION Group website.

The corporate policy on workplace safety, health and the environment defines a number of requirements for the KION Group companies including compliance with, as a minimum, all relevant national laws, codes of conduct and industry standards, ensuring safe working conditions and providing employees with the necessary training. Adverse effects on the environment must also be avoided as far as possible.

The KION Group's objective is to gradually establish a certified system for quality, environmental and occupational health and safety management at all sites. Further sites obtained such certification in 2016, including the Indaiatuba production facility in Brazil, which became certified in all three areas for the first time in 2016.

Social aspects

Minimum standards for employment apply at Group level that are based on the fundamental conventions drawn up by the International Labour Organization (ILO). These include freedom of association, the right to collective bargaining, elimination of forced and

child labour, and a ban on discrimination in respect of employment and occupation. Furthermore, the KION Group is committed to ensuring health and safety standards in the workplace and to paying its employees remuneration that is appropriate to the industry in the particular country and, at the very least, provides a living wage.

Information on the KION Group's major projects and developments in the area of health and safety can be found in the relevant part of the 'Employees' section.

Environmental protection

Furthermore, the release of pollutants, discharge and emissions into the environment should be avoided as far as possible and the volume of waste should be reduced by making better use of raw materials and using recyclable materials. Materials, products and processes that comply with best environmental practice should be deployed; resources, energy and raw materials should be used efficiently.

In the year under review, the KION Group set itself the medium-term objective of eliminating components that are manufactured using chromium trioxide (chromium VI). Aspects of sustainability are enshrined in the KION Group's purchasing terms, which must be adhered to by suppliers and service providers. Sustainability – particularly protection of the environment, conservation of resources and workplace safety – is an important consideration when developing new products and enhancing existing ones.

Transparent reporting on sustainability

The first groupwide sustainability report is planned for publication in the third quarter of 2017. As well as comprehensively describing the strategy, management approach and structures for sustainability, the report will contain data on relevant key performance indicators and details of the KION Group's success in its endeavours to develop sustainable products. For this reason, the KION Group has not provided information on individual sustainability KPIs in the 2016 annual report.