

Notes to the condensed consolidated interim financial statements

BASIS OF PRESENTATION

General information on the Company

KION GROUP AG, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, is entered in the commercial register at the Wiesbaden local court under reference HRB 27060.

The condensed consolidated interim financial statements and the interim group management report were prepared by the Executive Board of KION GROUP AG on 26 October 2016.

Basis of preparation

The condensed consolidated interim financial statements of the KION Group for the nine months ended 30 September 2016 have been prepared in line with International Accounting Standard (IAS) 34 'Interim Financial Reporting' and other International Financial Reporting Standards (IFRSs) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council concerning the application of international accounting standards for interim financial statements. A condensed scope of interim reporting has been prepared in accordance with IAS 34.

All of the IFRSs and the related interpretations (IFRICs/SICs) of the IFRS Interpretations Committee (IFRS IC) that had been issued by the reporting date and that were required to be applied for financial years commencing on or after 1 January 2016 have been applied in preparing these condensed consolidated interim financial statements. These condensed consolidated interim financial statements do not contain all the information and disclosures required of a set of consolidated annual financial statements and should therefore be read in conjunction with the consolidated financial statements prepared for the year ended 31 December 2015.

The reporting currency is the euro. All amounts are disclosed in millions of euros (€ million) unless stated otherwise. The addition of the totals presented may result in minor rounding differences. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros.

FINANCIAL REPORTING STANDARDS TO BE ADOPTED FOR THE FIRST TIME IN THE CURRENT FINANCIAL YEAR

The following financial reporting standards were adopted for the first time with effect from 1 January 2016:

- Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures': clarification relating to application of the exception to the consolidation obligation for investment entities
- Amendments to IFRS 11 'Joint Arrangements': clarification relating to the acquisition of interests in joint operations
- Amendments to IAS 1 'Presentation of Financial Statements': amendments in connection with the initiative to improve disclosure requirements
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets': clarification relating to revenue-based depreciation and amortisation
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture': amendments relating to the financial reporting for bearer plants
- Amendments to IAS 19 'Employee Benefits': defined benefit plans: employee contributions
- Amendments to IAS 27 'Separate Financial Statements': amendments relating to the application of the equity method for subsidiaries, joint ventures and associates in separate financial statements
- Annual Improvements to IFRSs (2010–2012)
- Annual Improvements to IFRSs (2012–2014).

The first-time adoption of these amendments to standards has had no significant effect on the financial performance, financial position or notes to the interim financial statements of the KION Group.

FINANCIAL REPORTING STANDARDS RELEASED BUT NOT YET ADOPTED

In its condensed consolidated interim financial statements for the nine months ended 30 September 2016, the KION Group has not applied – besides the standards and interpretations reported on as

at 31 December 2015 – the following standards and amendments to standards, which have been issued by the IASB but are not yet required to be applied in 2016:

- Amendments to IFRS 2 'Share-based Payment': amendments relating to the classification and measurement of share-based payment transactions
- Amendments to IFRS 4 'Insurance Contracts': exempting provisions relating to the adoption of IFRS 9 'Financial Instruments' before the effective date of the new version of IFRS 4
- Clarifications to IFRS 15 'Revenue from Contracts with Customers': amendments relating to the identification of performance obligations, classification as principal or agent, revenue from licenses and transition relief.

These standards are expected to be applied by the entities included in the KION Group only from the date on which they must be adopted for the first time. The effects on the financial performance and financial position of the KION Group resulting from the first-time adoption of IFRS 9 'Financial Instruments', IFRS 16 'Leases' and IFRS 15 'Revenue from Contracts with Customers' (including the clarifications to IFRS 15), particularly with regard to multiple-element arrangements and contracts for indirect end customer finance, are still being analysed. The effects of the first-time adoption of the other standards and interpretations on the presentation of the financial position and financial performance of the KION Group are expected to be insignificant.

Basis of consolidation

A total of 22 German (31 December 2015: 22) and 85 foreign (31 December 2015: 80) subsidiaries were fully consolidated in addition to KION GROUP AG as at 30 September 2016.

In addition, nine joint ventures and associates were consolidated and accounted for using the equity method as at 30 September 2016, which was the same number as at 31 December 2015.

50 (31 December 2015: 55) subsidiaries with minimal business volumes or no business operations and other equity investments were not included in the consolidation.

Sale and purchase agreement signed

On 21 June 2016, the KION Group reached agreement with funds managed by AEA Investors and the Ontario Teachers' Pension Plan to acquire 100 per cent of the capital and voting shares in DH Services Luxembourg Holding S.à r.l., Luxembourg. Closing of the transaction is subject to the usual conditions and is likely to take place during the fourth quarter of 2016.

DH Services Luxembourg Holding S.à r.l. is the parent company of the Dematic Group. The acquisition of Dematic, a leading specialist for automation and optimisation of supply chains, is expected to be closed in the fourth quarter and will make the KION Group one of the world's top suppliers of solutions for Intralogistics 4.0. The enlarged Company's sales and service network, technology and resources will enable it to offer customers of all sizes and in all industries worldwide a complete range of material handling products and services. The KION Group is thus strengthening its position as a full-service provider of intelligent supply chain and automation solutions and can benefit from megatrends, such as digitalisation and the growing e-commerce business. Dematic has engineering centres and manufacturing facilities located around the world and operates more than 100 sites in 22 countries.

The provisional purchase price for the net assets acquired is the equivalent of around €1.9 billion. In addition, debt instruments will be redeemed. Dematic, which employs almost 6,000 skilled professionals, generated revenue of roughly €1.6 billion and adjusted EBIT of around €150.0 million in the 2015 calendar year.

An agreement has been reached with a group of banks for a bridge loan of originally €3.0 billion as financing for the acquisition of Dematic. This bridge loan is to be refinanced partly by long-term capital-market and bank debt and partly by equity. For this reason, KION GROUP AG completed a capital increase in July 2016 that generated gross proceeds of €459.3 million (please see the disclosures on equity in these notes to the condensed consolidated interim financial statements). The agreed funding volume was reduced by the amount of the proceeds from the issue of shares and now stands at just over €2.5 billion.

Acquisitions

RETROTECH INC.

On 8 February 2016, the KION Group reached agreement on the acquisition of Retrotech Inc., a US systems integrator of automated warehouse and distribution solutions. The transaction was closed on 1 March 2016. The purchase price for the 100 per cent stake in Retrotech Inc., which is headquartered in Rochester, New York State, was €25.0 million.

The incidental acquisition costs incurred by this business combination amounted to €0.7 million. They have been recognised as an expense for the current period and reported as administrative expenses in the consolidated income statement. The impact of this acquisition on the consolidated financial statements of

KION GROUP AG based on the figures available at the acquisition date is shown in > **TABLE 24**.

As part of this transaction, receivables in a gross amount of €8.8 million were acquired, of which €5.3 million constituted gross amounts due from customers for contract work that have not yet been invoiced. At the acquisition date, it was assumed that the amount of irrecoverable trade receivables was insignificant. Consolidated revenue rose by €13.3 million as a result of the acquisition. The net income reported for the first nine months of 2016 contains a loss totalling €2.1 million attributable to the entity acquired. If this business combination had been completed by 1 January 2016, this would have had no material impact on either the revenue or the net income reported by the KION Group for the first nine months of this year.

Impact of the acquisition of Retrotech Inc. on the financial position of the KION Group

TABLE 24

in € million	Fair value at the acquisition date
Goodwill	24.3
Other intangible assets	15.4
Trade receivables	8.8
Cash and cash equivalents	1.7
Other assets	3.0
Total assets	53.2
Financial liabilities	9.6
Trade payables	7.5
Other current liabilities	5.0
Other liabilities	6.2
Total liabilities	28.3
Total net assets	25.0
Cash payment	25.0
Consideration transferred	25.0

In the second quarter of 2016, the change in measurement within the measurement period mainly concerned a change of the measurement of other intangible assets. In addition to the increase in other intangible assets, this adjustment also caused a countervailing increase in the deferred tax liabilities recognised thereon, which caused the goodwill recognised to reduce by a total of €2.0 million.

Goodwill constitutes the strategic and geographical synergies that the KION Group expects to derive from this business combination plus the highly trained workforce. The goodwill arising from this acquisition is currently not tax deductible.

The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated statement of cash flows contains a net cash outflow of €23.2 million for the acquisition of Retrotech Inc.

OTHER ACQUISITIONS

In October 2015, 100.0 per cent of the shares in the dealer Moden Diesel S.p.A. (formerly MODEN DIESEL S.R.L.), Modena, Italy, were acquired. At the end of October 2015, 100.0 per cent of the shares in LR Intralogistik GmbH, Wörth an der Isar, Germany, a specialist in intralogistics concepts that eschew forklift trucks in favour of tugger trains, were also acquired. These two subsidiaries were included in the KION Group's basis of consolidation for the first time in January 2016 because they had become more financially important.

With effect from 1 September 2016, 100.0 per cent of the shares in the dealer Roara AS, Heimdal, Norway, were acquired. The purchase consideration for these shares is €0.7 million.

The impact of these acquisitions on the consolidated financial statements of KION GROUP AG based on the figures available at their acquisition dates is shown in > TABLE 25.

Impact of other acquisitions on the financial position of the KION Group

TABLE 25

in € million	Fair value at the acquisition date
Goodwill	12.0
Other intangible assets	4.6
Leased/Rental assets	13.6
Trade receivables	5.8
Cash and cash equivalents	2.6
Other assets	9.4
Total assets	48.0
Financial liabilities	2.7
Trade payables	8.4
Other liabilities	16.6
Total liabilities	27.7
Total net assets	20.3
Cash payment	13.9
Contingent consideration	6.4
Consideration transferred	20.3

In the second and third quarters of 2016, there were changes in the measurement within the measurement period in respect of the Italian dealer Moden Diesel S.p.A., which mainly concerned a change of the measurement of rental/leased assets. Analysis of the acquired leases resulted in additional capitalisation of rental/leased assets in an amount of €5.5 million and an increase in other liabilities of €5.7 million. Goodwill constitutes the strategic, technological and geographical synergies that the KION Group expects to derive from these business combinations. None of the goodwill arising from the other acquisitions is currently tax deductible.

The contingent considerations in connection with the acquisition of LR Intralogistik GmbH contractually oblige the KION Group to make additional payments to the previous shareholders that are mainly dependent on the usability of certain intangible assets. The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated statement of cash flows contains a cash outflow totalling €4.1 million that relates to these contingent considerations.

The purchase price allocation for the acquisition of Roara AS was only provisional as at 30 September 2016 because some details, particularly in the area of intangible assets and leasing, had not yet been fully evaluated. The contingent considerations in connection with the acquisition of Roara AS (€0.5 million) contractually oblige the KION Group to make additional payments to the previous shareholders that are mainly dependent on the achievement of defined EBIT targets for the years 2017 to 2019.

Accounting policies

With the exception of the new and amended IFRSs described above, the accounting policies applied in these condensed consolidated interim financial statements are fundamentally the same as those used for the year ended 31 December 2015. These condensed consolidated interim financial statements are based on the interim financial statements of the parent company and its consolidated subsidiaries prepared in accordance with the standard accounting policies applicable throughout the KION Group.

ASSUMPTIONS AND ESTIMATES

The preparation of these condensed IFRS consolidated interim financial statements requires the use of assumptions and estimates for certain line items that affect recognition and measurement in the statement of financial position and the income statement. The actual amounts realised may differ from estimates. Assumptions and estimates are applied in particular:

- in assessing the need for and the amount of impairment losses on intangible assets, property, plant and equipment, and inventories;
- in determining the useful life of non-current assets;
- in classifying leases;
- in recognising and measuring defined benefit pension obligations and other provisions;
- in recognising and measuring current and deferred taxes;
- in recognising and measuring assets acquired and liabilities assumed in connection with business combinations.

The estimates may be affected, for example, by deteriorating global economic conditions or by changes in exchange rates, interest rates or commodity prices. Production errors, the loss of key customers and changes in financing can also impact on the Company's performance going forward. Changes are recognised in profit or loss when they become known and assumptions are adjusted accordingly.

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

Net financial income/expenses

Financial expenses rose by €17.8 million year on year. This increase was attributable to one-off expenses in connection with the repayment of the syndicated loan dated 23 December 2006 that took the form of a revolving credit facility of €1,243.0 million and the €450.0 million corporate bond, which had been issued in 2013 and was due to mature in 2020. An amount of €5.4 million representing the deferred borrowing costs relating to the corporate bond at the time of early repayment and a cash payment of €15.2 million representing early repayment charges were recognised as financial expenses. In addition, an amount of €5.1 million representing the deferred borrowing costs relating to the previous syndicated loan at the time of early repayment was included in financial expenses. There was a counter-vailing effect from the savings on interest payments resulting from the optimised funding structure.

Income taxes

In the consolidated interim financial statements, income taxes for the current reporting period are calculated on the basis of the expected income tax rate for the full year.

Earnings per share

Basic earnings per share are calculated by dividing the net income (loss) accruing to the KION GROUP AG shareholders by the weighted average number of shares outstanding during the reporting period (Q1–Q3 2016: 101,444,877 no-par-value shares; Q1–Q3 2015: 98,733,926 no-par-value shares; Q3 2016: 104,753,429 no-par-value shares; Q3 2015: 98,728,983 no-par-value shares). In the first three quarters of 2016, the KION Group generated net income accruing to the shareholders of KION GROUP AG of €161.8 million (Q1–Q3 2015: €142.5 million). Information about determining the net income (loss) accruing to the KION GROUP AG shareholders can be found in the

consolidated income statement. Basic earnings per share for the reporting period came to €1.59 (Q1–Q3 2015: €1.44). The 210,050 no-par-value treasury shares repurchased by KION GROUP AG were not included in this figure as at 30 September 2016 (30 September 2015: 233,562).

Diluted earnings per share are calculated by adding the potential dilutive no-par-value shares that employees can obtain for free under the employee share option programme to the weighted average number of shares outstanding during the reporting period. The calculation of diluted earnings per share was based on a weighted average for the first three quarters of 2016 of 101,478,992 no-par-value shares issued (Q1–Q3 2015: 98,749,594 no-par-value shares; Q3 2016: 104,788,501 no-par-value shares; Q3 2015: 98,745,013 no-par-value shares). Diluted earnings per share for the reporting period came to €1.59 (Q1–Q3 2015: €1.44).

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Goodwill and other intangible assets

The change in goodwill in the first nine months of 2016 resulted from a number of acquisitions, from which goodwill totalling €36.3 million arose, and from currency effects.

The total carrying amount for technology and development assets as at 30 September 2016 was €188.7 million (31 December 2015: €194.1 million). Development costs of €12.9 million were capitalised in the third quarter of 2016 (Q3 2015: €9.1 million); the corresponding figure for the first three quarters of 2016 was €33.1 million (Q1–Q3 2015: €28.7 million). Total research and development costs of €33.0 million were expensed in the third quarter of 2016 (Q3 2015: €35.4 million), while €105.0 million was expensed in the first nine months of 2016 (Q1–Q3 2015: €106.1 million). Of these respective amounts, €12.5 million related to amortisation in the third quarter of 2016 (Q3 2015: €13.6 million) and €37.1 million to amortisation in the first nine months of 2016 (Q1–Q3 2015: €39.7 million).

Inventories

The rise in inventories compared with 31 December 2015 was largely attributable to the increase in work in progress (up by 24.1 per cent) and finished goods (up by 23.7 per cent). Impairment losses of €4.2 million were recognised on inventories in the third quarter of 2016 (Q3 2015: €2.8 million) and of €13.2 million in the first nine months of 2016 (Q1–Q3 2015: €6.8 million). No reversals of impairment losses had to be recognised in the third quarter of 2016 (Q3 2015: €0.9 million). In the first nine months of 2016, reversals of impairment losses had to be recognised in the amount of €1.1 million (Q1–Q3 2015: €2.7 million) because the reasons for impairment no longer existed.

Trade receivables

The rise in trade receivables compared with 31 December 2015 was largely due to the increase of €65.3 million in receivables due from third parties and the increase of €11.2 million in gross amounts due from customers for contract work. Receivables due from non-consolidated subsidiaries, equity-accounted investments and other equity investments fell by €5.9 million. Valuation allowances of €44.9 million (31 December 2015: €38.5 million) were recognised for trade receivables.

Equity

With the consent of the Supervisory Board, the Executive Board of KION GROUP AG decided on 18 July 2016 to fully utilise the authorised capital that has existed since the 2014 Annual General Meeting. This capital increase is to be used to partly fund the acquisition of Dematic. The Company's share capital was increased by 10.0 per cent against cash contributions; shareholders' subscription rights were excluded. The share capital rose from €98.9 million to €108.79 million as a result of issuing 9.89 million new no-par-value bearer shares. An amount of €449.4 million was paid into the capital reserves. The capital increase was entered in the commercial register on 20 July 2016.

Directly attributable transaction costs of €2.7 million were incurred in connection with the capital increase. The transaction costs were – after subtraction of a tax benefit of €0.8 million – deducted directly from the capital reserves.

The total number of shares outstanding as at 30 September 2016 was 108,579,950 no-par-value shares (31 December 2015: 98,739,950 no-par-value shares). Between 12 September 2016 and 27 September 2016, a further 50,000 treasury shares were repurchased via the stock exchange at an average price of €55.54 in order to provide the shares for employees' own investments and the free shares under the planned KEEP 2016. The total cost was €2.8 million. At the reporting date, KION GROUP AG held 210,050 treasury shares (31 December 2015: 160,050 treasury shares).

The distribution of a dividend of €0.77 per share (Q1–Q3 2015: €0.55 per share) to the shareholders of KION GROUP AG resulted in an outflow of funds of €76.0 million (Q1–Q3 2015: €54.3 million).

Retirement benefit obligation

For the purposes of the interim report, a qualified estimate of the defined benefit obligation was made based on the change in actuarial parameters in the period under review.

The retirement benefit obligation was higher than it had been at the end of 2015 owing, above all, to actuarial losses resulting from lower discount rates in connection with the generally volatile situation in the capital markets and the UK referendum. The present value of the defined benefit obligation was calculated on the basis of the discount rates shown in > TABLE 26.

Discount rate TABLE 26

	30/09/2016	31/12/2015
Germany	1.35%	2.35%
UK	2.25%	3.75%
Other (weighted average)	0.84%	1.61%

The change in estimates in relation to defined benefit pension entitlements resulted in a decrease of €175.1 million in equity as at 30 September 2016 (after deferred taxes). The net defined benefit obligation increased to €1,051.5 million (31 December 2015: €767.8 million).

In connection with the valuation of the pension plans for the employees of the KION Group's UK companies as at 1 January 2015, the Company and the trustees of the pension funds agreed on certain assumptions relevant to the valuation in March 2016, according to which the deficit for the two pension plans amounted to €11.1 million as at 1 January 2015. On this basis, the KION Group agreed with the trustees that it would pay approximately the equivalent of €4.3 million in 2016 and €3.8 million in 2017 in order to reduce the deficit. However, these payments are subject to the condition that the annual review of the pension plans' funding position continues to reveal a deficit. If a payment would result in the pension plans being overfunded, the KION Group would be exempt from its payment obligation in that year.

In addition, collateral in rem in the form of charges on the real estate of Group companies in the UK and flexible collateral in respect of the rental fleets of UK dealers within a maximum overall limit of approximately €20.8 million were extended for the benefit of the pension funds. The term of this collateral is limited to five years (1 July 2021), and the overall limit will not be reduced by payments made by the KION Group.

Financial liabilities

KION GROUP AG signed a new syndicated loan agreement (senior facilities agreement) totalling €1,500.0 million with a syndicate of international banks on 28 October 2015. The senior facilities agreement enables the KION Group to obtain finance on far more favourable terms than has been possible in the past. On 25 January 2016, the Executive Board of KION GROUP AG decided to overhaul the funding structure of the KION Group by repaying the syndicated loan dated 23 December 2006 that took the form of a revolving credit facility of €1,243.0 million and the KION Group corporate bond of €450.0 million that was issued in 2013 and was due to mature in 2020. The associated repayment was made on 15 February 2016 using funds drawn down under the new senior facilities agreement.

The new senior facilities agreement comprises a revolving credit facility of €1,150.0 million maturing in February 2021 and a fixed-term tranche of €350.0 million maturing in February 2019 that has been fully drawn down. Both the revolving credit facility and the fixed-term tranche have a variable interest rate. The proceeds from the capital increase implemented in July 2016 have temporarily been used to repay current financial liabilities under the revolving credit facility until they can be put towards the funding of the Dematic acquisition in the fourth quarter. Consequently, an amount of only €13.6 million was drawn down from the revolving credit facility as at 30 September 2016 and relates to contingent liabilities.

Arrangement of the revolving credit facility of €1,150.0 million resulted in directly attributable transaction costs of €3.9 million. The transaction costs are recognised as prepaid expenses under current financial assets and expensed over the term of the credit facility. Arrangement of the fixed-term tranche of €350.0 million resulted in directly attributable transaction costs of €0.8 million. The transaction costs were deducted from the fair value of this tranche in the first period in which they were recognised and will be amortised as an expense in subsequent periods.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the new senior facilities agreement. Unlike the previous syndicated loan and the repaid corporate bond, the new syndicated loan agreement is not collateralised. Following repayment of the syndicated loan from 23 December 2006, all collateral furnished under the previous loan agreement has now been released.

Among other stipulations, the contractual terms of the senior facilities agreement require compliance with certain covenants. They also contain a financial covenant that requires adherence to a maximum level of leverage (the ratio of financial liabilities to EBITDA). Non-compliance with the covenants may, for example, give lenders the right to terminate the new syndicated loan agreement. All the covenants, including the financial covenant, were complied with as at the reporting date.

OTHER DISCLOSURES

Information on financial instruments

The carrying amounts and fair values of financial assets and liabilities in accordance with IFRS 7 are shown in > **TABLE 27**.

Whereas lease liabilities arising from sale and leaseback transactions stood at €945.6 million (31 December 2015: €855.6 million), lease receivables arising from sale and leaseback transactions amounted to €633.0 million (31 December 2015: €592.0 million) and leased assets under sale and leaseback transactions totalled €339.1 million (31 December 2015: €285.9 million).

The finance lease obligations reported in other financial liabilities comprise liabilities arising from the financing of industrial trucks for short-term rental of €419.8 million (31 December 2015: €403.2 million). They are mainly allocated to the Financial Services segment and result from the intra-group financing provided by the Financial Services segment for the short-term rental business of the Linde Material Handling and STILL brand segments. Within other financial liabilities, the KION Group has also recognised finance lease obligations amounting to €18.9 million (31 December 2015: €18.1 million) arising from procurement leases, which are classified as finance leases due to their terms and conditions.

The non-consolidated subsidiaries and other equity investments that are shown as at 30 September 2016 in > **TABLE 27** are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted measurement techniques. At present there is no intention to sell these financial instruments. At the end of 2015, non-consolidated subsidiaries and other equity investments had also included the shares, measured at fair value, in Moden Diesel S.p.A. (formerly MODEN DIESEL S.R.L.) and LR Intralogistik GmbH, which were fully consolidated on 1 January 2016.

Carrying amounts and fair values broken down by class

TABLE 27

in € million	30/09/2016		31/12/2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Non-consolidated subsidiaries and other investments	22.1	22.1	42.4	42.4
Loans receivable	1.9	1.9	2.7	2.7
Financial receivables	20.2	20.2	15.4	15.4
Non-current securities	0.4	0.4	0.8	0.8
Lease receivables ¹	704.0	709.2	653.7	658.4
Trade receivables	734.7	734.7	670.5	670.5
thereof gross amount due from customers for contract work ²	12.8	12.8	1.5	1.5
Other financial receivables	50.4	50.4	43.0	43.0
thereof non-derivative receivables	40.2	40.2	37.7	37.7
thereof derivative financial instruments	10.2	10.2	5.3	5.3
Cash and cash equivalents	230.2	230.2	103.1	103.1
Financial liabilities				
Liabilities to banks	421.3	421.3	225.9	225.9
Corporate bond	–	–	444.5	469.5
Other financial liabilities to non-banks	6.4	6.4	6.2	6.2
Lease liabilities ¹	945.6	950.9	855.6	860.0
Trade payables	615.4	615.4	574.6	574.6
Other financial liabilities	536.6	539.1	510.1	512.2
thereof non-derivative liabilities	35.4	35.4	58.6	58.6
thereof liabilities from finance leases ¹	455.6	458.1	439.0	441.2
thereof derivative financial instruments	45.6	45.6	12.4	12.4

1 as defined by IAS 17

2 as defined by IAS 11

FAIR VALUE MEASUREMENT AND ASSIGNMENT TO CLASSIFICATION LEVELS

The following tables show the assignment of fair values to the individual classification levels as defined by IFRS 13 for financial instruments measured at fair value. > TABLES 28–29

Financial instruments measured at fair value

TABLE 28

in € million	Fair Value Hierarchy			30/09/2016
	Level 1	Level 2	Level 3	
Financial assets				10.6
thereof non-current securities	0.4			0.4
thereof derivative instruments		10.2		10.2
Financial liabilities				45.6
thereof derivative instruments		45.1	0.5	45.6

Financial instruments measured at fair value

TABLE 29

in € million	Fair Value Hierarchy			31/12/2015
	Level 1	Level 2	Level 3	
Financial assets				25.7
thereof investments in non-consolidated subsidiaries and other investments			19.6	19.6
thereof non-current securities	0.8			0.8
thereof derivative instruments		5.3		5.3
Financial liabilities				12.4
thereof derivative instruments		11.9	0.6	12.4

Level 1 comprises long-term securities for which the fair value is calculated using prices quoted in an active market.

All currency forwards are classified as Level 2. The fair value of the currency forwards is calculated by the system using the discounting method based on forward rates on the reporting date. The default risk for the Group and for the counterparty is taken into account on the basis of gross figures.

The currency forwards at Level 2 include deal contingent currency forward contracts taken out in June 2016 that are used to hedge currency risk arising on the planned acquisition of the Dematic Group. The notional amount of these currency forwards totals US\$ 2.5 billion. Currency forwards with a total notional amount of US\$ 2.1 billion serve to hedge the purchase price obligation for the shares and are accounted for as hedges. The fair value of the currency forwards designated as cash flow hedging instruments was minus €26.9 million as at 30 September 2016 and was recognised in other comprehensive income (loss).

The financial liabilities allocated to Level 3 relate to a call option of Weichai Power on 10.0 per cent of the shares in Linde Hydraulics. The unobservable inputs that were significant to fair value measurement as at the reporting date were unchanged compared with the end of 2015.

At 30 September 2016, the changes in fair value and the impact on the income statement for the first nine months of the year were as follows. > **TABLE 30**

In order to eliminate default risk to the greatest possible extent, the KION Group only ever enters into derivatives with investment-grade counterparties.

If events or changes in circumstances make it necessary to reclassify financial instruments as a different level, they are reclassified at the end of a reporting period. No financial instruments were transferred between Levels 1, 2 or 3 in the first nine months of 2016.

Change in financial assets/liabilities classified as level 3

TABLE 30

in € million	Q1 – Q3 2016	Q1 – Q3 2015
Value as at 01/01/	–0.6	31.7
Gains recognised in net financial income/expenses	0.1	2.3
Disposals	0.0	–34.7
Value as at 30/09/	–0.5	–0.7
Gains for the period relating to financial assets/liabilities classified as Level 3	0.1	2.3
Change in unrealised gains/losses for the period relating to financial assets/liabilities held as at 30/09/	0.1	–0.1

Variable remuneration

KEEP EMPLOYEE SHARE OPTION PROGRAMME

As at 30 September 2016, KION Group employees held options on a total of 52,275 no-par-value shares (31 December 2015: 53,220). The total number of bonus shares granted therefore declined by 945 forfeited bonus shares in the first nine months of 2016. A pro-rata expense of €0.5 million for nine months was recognised for bonus shares under functional costs in the first three quarters of 2016 (Q1 – Q3 2015: €0.2 million).

KION PERFORMANCE SHARE PLAN (PSP) FOR MANAGERS

In March 2016, the 2016 tranche of the long-term, variable remuneration component (the KION Long-Term Incentive Plan) with a defined period (three years) was introduced retrospectively from 1 January for the managers in the KION Group. At the beginning of the performance period on 1 January 2016, the managers were allocated a total of 0.1 million virtual shares for this tranche with a specific fair value. The allocation was based on a particular percentage of each manager's individual gross annual remuneration at the time of grant.

The total carrying amount for liabilities in connection with share-based remuneration as at 30 September 2016 was €18.0 million (31 December 2015: €8.5 million). Of this amount, €9.8 million related to the 2014 tranche (31 December 2015: 5.7 million), €6.2 million to the 2015 tranche (31 December 2015: €2.7 million) and €1.9 million to the 2016 tranche.

KION PERFORMANCE SHARE PLAN (PSP) FOR THE EXECUTIVE BOARD

As part of the KION GROUP AG performance share plan, the Executive Board members are allocated virtual shares over a fixed period (three years). At the beginning of the performance period on 1 January 2016, the Executive Board members were allocated a total of 0.1 million virtual shares for this tranche with a specific fair value. The shares were allocated on the basis of an allocation value in euros specified in each Executive Board member's service contract.

In April 2016, the first payment from the 2013 tranche was made on the basis of the achievement of the long-term targets that were defined in 2013 at the start of the performance period.

The total carrying amount for liabilities in connection with share-based remuneration relating to the current tranches as at 30 September 2016 was €15.0 million (31 December 2015: €7.5 million). Of this amount, €8.5 million related to the 2014 tranche (31 December 2015: €5.3 million), €5.1 million to the 2015 tranche (31 December 2015: €2.2 million) and €1.4 million to the 2016 tranche.

Segment report

The Executive Board divides the KION Group into financial services activities, the activities grouped in the Other segment and the Linde Material Handling (LMH) and STILL brands for management purposes. Segment reporting follows the same breakdown, taking into account the relevant organisational structures of the KION Group. Retrotech Inc. has been included in the Other segment under Egemin Automation since completion of the acquisition on 1 March 2016.

The KPIs used to manage the brand segments are order intake, revenue and adjusted EBIT. Segment reporting therefore includes a reconciliation of externally reported consolidated earnings before interest and tax (EBIT) – including KION acquisition items and non-recurring items – to the adjusted EBIT for the segments ('adjusted EBIT').

Earnings before tax (EBT) and return on equity (ROE) are the KPIs used to manage the Financial Services segment. ROE is calculated on the basis of average equity employed excluding net income (loss) for the current period. As at 30 September 2016, ROE – earnings before tax as a percentage of average equity – was 12.8 per cent (31 December 2015: 13.1 per cent).

The tables below show information on the KION Group's operating segments for the third quarter of 2016 and 2015 and for the first nine months of 2016 and 2015. > TABLES 31 – 34

Segment report for Q3 2016

TABLE 31

in € million	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	734.9	399.2	117.2	31.9	–	1,283.2
Intersegment revenue	96.2	107.4	58.1	64.9	–326.7	–
Total revenue	831.1	506.7	175.4	96.8	–326.7	1,283.2
Earnings before taxes	91.9	33.3	1.3	18.8	–49.2	96.1
Financial income	2.7	–1.5	17.4	2.5	–11.3	9.7
Financial expenses	–6.6	–7.2	–14.5	–9.7	12.0	–26.0
= Net financial expenses/income	–3.9	–8.8	2.9	–7.2	0.7	–16.4
EBIT	95.9	42.1	–1.5	26.0	–49.9	112.4
+ Non-recurring items	1.1	–0.7	0.0	7.3	–	7.7
+ KION acquisition items	5.1	1.5	0.0	0.0	–	6.6
= Adjusted EBIT	102.1	42.9	–1.5	33.3	–49.9	126.8
Profit from equity-accounted investments	0.3	0.0	0.0	0.0	–	0.3
Capital expenditure ¹	21.1	12.0	0.0	3.5	–	36.6
Amortisation and depreciation ²	22.5	11.2	0.0	5.8	–	39.5
Order intake	863.6	512.2	174.5	107.7	–331.3	1,326.6

1 Capital expenditure including capitalised development costs, excluding leased and rental assets

2 On intangible assets and property, plant and equipment excluding leased and rental assets

Segment report for Q3 2015

TABLE 32

in € million	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	724.5	386.8	108.3	16.9	–	1,236.5
Intersegment revenue	88.3	84.1	84.6	50.8	–307.8	–
Total revenue	812.8	470.9	192.9	67.7	–307.8	1,236.5
Earnings before taxes	85.0	23.1	1.3	7.0	–32.6	83.8
Financial income	3.2	0.2	16.1	4.1	–12.4	11.2
Financial expenses	–6.7	–10.3	–14.2	–17.4	12.4	–36.1
= Net financial expenses/income	–3.5	–10.1	1.9	–13.3	–0.0	–24.9
EBIT	88.5	33.1	–0.6	20.3	–32.6	108.8
+ Non-recurring items	2.1	1.6	0.0	2.2	–	5.9
+ KION acquisition items	5.1	1.5	0.0	0.0	–	6.6
= Adjusted EBIT	95.7	36.3	–0.6	22.5	–32.6	121.2
Profit from equity-accounted investments	1.4	0.0	0.0	0.0	–	1.4
Capital expenditure ¹	16.4	10.0	0.0	4.3	–	30.7
Amortisation and depreciation ²	23.2	11.6	0.0	4.7	–	39.5
Order intake	818.4	485.7	190.8	65.1	–306.7	1,253.3

¹ Capital expenditure including capitalised development costs, excluding leased and rental assets

² On intangible assets and property, plant and equipment excluding leased and rental assets

Segment report Q1 – Q3 2016

TABLE 33

in € million	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,259.2	1,186.9	313.5	88.1	–	3,847.7
Intersegment revenue	278.5	310.7	230.4	165.6	–985.3	–
Total revenue	2,537.7	1,497.6	543.9	253.8	–985.3	3,847.7
Earnings before taxes	281.5	75.6	3.9	–35.7	–86.7	238.6
Financial income	8.0	4.8	50.7	13.7	–33.9	43.2
Financial expenses	–20.1	–30.2	–43.3	–64.4	35.2	–122.8
= Net financial expenses/income	–12.2	–25.4	7.4	–50.7	1.3	–79.6
EBIT	293.7	101.0	–3.5	15.0	–88.0	318.2
+ Non-recurring items	2.3	0.8	0.0	24.6	–	27.7
+ KION acquisition items	15.5	4.7	0.0	0.0	–	20.2
= Adjusted EBIT	311.5	106.5	–3.5	39.6	–88.0	366.1
Segment assets	5,259.9	2,430.8	1,725.4	850.1	–3,349.0	6,917.2
Segment liabilities	1,903.3	1,588.4	1,680.8	2,955.8	–3,365.0	4,763.2
Carrying amount of equity-accounted investments	51.4	4.2	21.7	0.0	–	77.3
Profit from equity-accounted investments	5.2	1.6	3.0	0.0	–	9.9
Capital expenditure ¹	55.8	33.8	0.0	11.4	–	100.9
Amortisation and depreciation ²	67.5	33.3	0.0	16.7	–	117.4
Order intake	2,645.7	1,550.2	544.0	296.8	–986.4	4,050.4
Number of employees ³	14,740	8,208	64	1,172	–	24,184

¹ Capital expenditure including capitalised development costs, excluding leased and rental assets

² On intangible assets and property, plant and equipment excluding leased and rental assets

³ Number of employees (full-time equivalents) as at 30/09/2016; allocation according to the contractual relationships

Segment report Q1 – Q3 2015

TABLE 34

in € million	LMH	STILL	Financial Services	Other	Consolidation/ Reconciliation	Total
Revenue from external customers	2,199.8	1,138.9	292.8	25.8	–	3,657.2
Intersegment revenue	263.3	277.6	229.5	150.4	–920.7	–
Total revenue	2,463.0	1,416.5	522.3	176.1	–920.7	3,657.2
Earnings before taxes	235.5	58.6	4.0	–22.8	–53.3	222.0
Financial income	9.8	0.8	47.6	15.2	–36.6	36.8
Financial expenses	–20.5	–27.5	–42.7	–51.5	37.3	–105.0
= Net financial expenses/income	–10.7	–26.6	4.8	–36.4	0.7	–68.2
EBIT	246.2	85.3	–0.8	13.5	–54.0	290.2
+ Non-recurring items	6.0	2.2	0.0	21.3	–9.0	20.5
+ KION acquisition items	15.6	4.7	0.0	0.1	–	20.3
= Adjusted EBIT	267.8	92.1	–0.8	34.9	–63.0	331.0
Segment assets	5,162.2	2,216.7	1,510.4	623.7	–2,973.6	6,539.4
Segment liabilities	1,760.0	1,349.5	1,466.4	3,190.5	–2,993.1	4,773.2
Carrying amount of equity-accounted investments	52.0	4.2	19.5	0.0	–	75.8
Profit from equity-accounted investments	3.2	1.8	2.9	0.0	–	7.8
Capital expenditure ¹	45.5	33.1	0.0	11.9	–	90.5
Amortisation and depreciation ²	69.2	34.6	0.0	13.2	–	117.0
Order intake	2,579.3	1,478.3	525.2	173.5	–937.7	3,818.5
Number of employees ³	14,560	8,085	58	857	–	23,560

¹ Capital expenditure including capitalised development costs, excluding leased and rental assets

² On intangible assets and property, plant and equipment excluding leased and rental assets

³ Number of employees (full-time equivalents) as at 30/09/2015; allocation according to the contractual relationships

The non-recurring items mainly comprise consultancy costs – primarily relating to the planned Dematic acquisition – and expenses in connection with severance payments. In addition, write-downs and other expenses in relation to hidden reserves/liabilities identified in the process of acquiring equity investments are eliminated. Non-recurring items resulted in an overall net expense of €27.7 million in the first nine months of 2016 (Q1–Q3 2015: €20.5 million).

The KION acquisition items relate to the acquisition of the KION Group, which was formed at the end of 2006 when it was spun off from Linde AG, Munich. These items comprise net write-downs and other expenses in relation to the hidden reserves identified as part of the purchase price allocation.

Related party disclosures

In addition to the subsidiaries included in the condensed consolidated interim financial statements, the KION Group has direct or indirect business relationships with a number of non-consolidated subsidiaries, joint ventures and associates in the course of its ordinary business activities. According to IAS 24, related parties include entities that have control or significant influence over KION GROUP AG. An entity is usually assumed to have control (parent) if it holds more than 50 per cent of the shares in another entity. Significant influence generally exists if an entity holds between 20 per cent and 50 per cent of the shares in another entity.

The related parties that are solely or jointly controlled by the KION Group or over which significant influence can be exercised are included in the list of shareholdings as at 31 December 2015. Another related party is Weichai Power Co. Ltd., Weifang, China, which indirectly holds 40.2 per cent of the shares in KION GROUP AG (31 December 2015: 38.3 per cent) and is thus the largest single shareholder.

The revenue generated by the KION Group in the first nine months of 2016 and in the third quarter of 2016 from selling goods and services to related parties is shown in > **TABLE 35** along with the receivables that were outstanding at the reporting date. The receivables include a loan that the KION Group has granted to Linde Hydraulics GmbH & Co. KG, Aschaffenburg. The total commitment is €5.3 million, of which €4.0 million had been disbursed up to 30 September 2016. The loan has a variable interest rate. No valuation allowances for receivables from related parties had been recognised as at the reporting date, a situation that was unchanged on 31 December 2015.

The goods and services obtained from related parties in the first nine months of 2016 and the third quarter of 2016 are shown in > **TABLE 36** along with the liabilities that were outstanding at the reporting date.

Related party disclosures: receivables and sales

TABLE 35

in € million	Receivables		Sales of goods and services			
	30/09/2016	31/12/2015	Q3 2016	Q3 2015	Q1–Q3 2016	Q1–Q3 2015
Non-consolidated subsidiaries	19.2	24.9	5.1	3.4	16.4	8.3
Equity-accounted associates	21.9	19.3	36.9	26.0	121.7	89.3
Equity-accounted joint ventures	1.8	1.3	6.9	11.7	32.5	32.0
Other related parties*	4.0	4.3	3.0	1.2	9.5	7.7
Total	46.9	49.8	51.9	42.3	180.2	137.3

* 'Other related parties' include, among others, transactions with Weichai and its affiliated companies

Related party disclosures: liabilities and purchases

TABLE 36

in € million	Liabilities		Purchases of goods and services			
	30/09/2016	31/12/2015	Q3 2016	Q3 2015	Q1–Q3 2016	Q1–Q3 2015
Non-consolidated subsidiaries	10.5	13.6	4.8	3.9	21.7	8.3
Equity-accounted associates	12.9	8.2	26.5	29.9	88.7	91.1
Equity-accounted joint ventures	55.1	53.7	18.4	25.5	56.8	42.0
Other related parties*	1.3	0.2	4.1	8.2	12.6	9.3
Total	79.9	75.7	53.7	67.5	179.8	150.7

* 'Other related parties' include, among others, transactions with Weichai and its affiliated companies

Material events after the reporting date

Between the reporting date of these interim financial statements and 26 October 2016, there were no events or developments that led to a material change in the recognition or measurement of the individual assets and liabilities reported as at 30 September 2016 or that it would be necessary to disclose.

Wiesbaden, 26 October 2016

The Executive Board



Gordon Riske



Dr Eike Böhm



Ching Pong Quek



Dr Thomas Toepfer