

Fundamentals of the KION Group

PROFILE OF THE KION GROUP

Organisational structure

The KION Group is one of the world's leading suppliers of integrated supply chain solutions. Its portfolio encompasses forklift trucks, warehouse technology and supply chain solutions, including the related services. Across more than 100 countries worldwide, the KION Group designs, builds and supports logistics solutions that optimise material and information flow within factories, warehouses and distribution centres. The Group is the largest manufacturer of industrial trucks in Europe, the second-largest producer of forklifts globally and a leading provider of automation technology.

The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks at the lower end of the volume segment and in the economy segment. Among KION's regional industrial truck brand companies, Fenwick is the largest supplier of material handling products in France, OM STILL is a market leader in Italy and OM Voltas is a leading provider of industrial trucks in India. Dematic is a leading global supplier of integrated automation technology, software and services for optimising supply chains. More than 1.3 million industrial trucks and over 6,000 installed systems are deployed by customers in all industries and of all sizes on six continents.

The KION Group comprises the parent company KION GROUP AG, which is a public limited company under German law, and its subsidiaries. The KION Group's strategic management holding company, KION GROUP AG, is listed on the Frankfurt Stock Exchange and is part of the MDAX, the STOXX Europe 600 and the FTSE Euro Mid Cap. Details of treasury shares (pursuant to section 160 (1) no. 2 of the German Stock Corporation Act (AktG)) are provided in note [28] 'Equity' in the notes to the consolidated financial statements.

The parent company of KION GROUP AG is Weichai Power (Luxembourg) Holding S.à.r.l., Luxembourg, a subsidiary of Weichai Power Co. Ltd., Weifang, China, which held 43.3 per cent of the shares at the end of 2017 as far as the Company is aware. The free float accounted for 56.6 per cent of the shares, while the remaining 0.1 per cent were treasury shares.

Management and control

Corporate governance

The KION Group follows generally accepted standards of sound, responsible corporate governance. The German Corporate Governance Code (DCGK) provides the framework for management and control. As required by section 289f and section 315d of the German Commercial Code (HGB), the corporate governance standards that the Group applies are set out in the declaration on corporate governance. This declaration also contains the comply-or-explain statement pursuant to section 161 AktG, which was issued by the Executive Board and Supervisory Board of KION GROUP AG on 13/18 December 2017, and the corporate governance report pursuant to section 3.10 of the German Corporate Governance Code, which also provides information about the compliance standards in the Group. The declaration on corporate governance can be viewed and downloaded on the Company's website. It also forms part of this annual report and is a component of the combined management report.

The essential features of the remuneration system are described in the remuneration report, which is part of the 2017 combined management report and can be found in the 'Remuneration report' section of this annual report. The total amounts for Executive Board remuneration and Supervisory Board remuneration are reported in the notes to the consolidated financial statements (note [45]).

Disclosures relevant to acquisitions

The disclosures relevant to acquisitions (pursuant to section 315a and section 289a HGB) together with the explanatory report form an integral part of the combined management report and can be found in the 'Disclosures relevant to acquisitions' section of this annual report.

Non-financial declaration

A separately published sustainability report provides detailed information on the sustainable management of the KION Group. The report for the year under review contains, for the first time, the KION Group's non-financial declaration as required under the

German law to implement the corporate social responsibility (CSR) directive. The declaration focuses on targets, action steps and due diligence processes relating to the key environmental, social and employee-related aspects of the KION Group's business model, the observation of human rights and the fight against corruption and bribery.

In accordance with the statutory disclosure deadlines defined in section 325 HGB, the KION Group publishes its annual sustainability report (including the non-financial report) by no later than the end of April each year on its website, where it will remain available for at least ten years.

Executive Board

The Executive Board of KION GROUP AG is responsible for the operational management of the KION Group. As before, it had four members at the end of 2017. As at 31 December 2017, the responsibilities of the Executive Board members were as follows:

- Gordon Riske, Chief Executive Officer (CEO), was responsible for the LMH EMEA and STILL EMEA Operating Units in the Industrial Trucks & Services segment and the Dematic Operating Unit. He also remained in charge of the following group functions: corporate strategy, corporate communications, corporate office, internal audit and corporate compliance. In addition, he took on responsibility for the Digitalization@KION initiative.
- Dr Eike Böhm, in his role as Chief Technology Officer (CTO), had groupwide responsibility for research and development (R&D) in the areas of industrial trucks and supply chain solutions including modules & components, for software development, procurement and quality.
- Ching Pong Quek, Chief Asia Pacific Officer, headed up the KION APAC Operating Unit and thus the entire Asia business within the Industrial Trucks & Services segment.
- Dr Thomas Toepfer was Chief Financial Officer (CFO) and his responsibilities included corporate accounting & tax, financial services, corporate finance, corporate controlling, corporate HR/Labour Relations Director, legal affairs, KION Group IT, data protection, health, safety & environment and logistics/Urban. He also took over responsibility from Mr Riske for

the KION Americas Operating Unit in the Industrial Trucks & Services segment.

In November 2017, KION GROUP AG announced that Dr Thomas Toepfer would be leaving the Company on 31 March 2018 in order to take on a new role outside the KION Group.

The Group Executive Committee (GEC) advises the Executive Board of KION GROUP AG and provides input from the Operating Units. The committee comprises the Executive Board members as well as the presidents of the Operating Units.

The Executive Board maintains a relationship of trust with, and is monitored by, the Company's Supervisory Board.

Supervisory Board

The Supervisory Board, which was formed in accordance with the German Codetermination Act (MitbestG), comprises 16 people. It advises the Executive Board in its handling of significant matters and business transactions. To increase the efficiency of its work, the Supervisory Board is supported by four standing committees: the Nomination Committee, the Executive Committee, the Audit Committee and the Mediation Committee.

The term of office of the members of the Supervisory Board ended at the Annual General Meeting on 11 May 2017. All of the existing shareholder representatives were re-elected by the Annual General Meeting for a further five years. Dr Frank Schepp and Stefan Casper were elected as employee representatives, replacing Holger Brandt and Joachim Hartig. At the constitutive meeting held after the Annual General Meeting, the Supervisory Board re-elected Dr John Feldmann as chairman.

Business model and organisational structure

The KION Group's business model is designed so that customers of all sizes and from all kinds of industries can obtain the full spectrum of material handling products and services from a single source. Thanks to its broad technology base, diversified product portfolio and worldwide service network, the KION Group has the most comprehensive portfolio of such products and services in the market.

The KION Group's market activities are divided into five Operating Units: LMH EMEA, STILL EMEA, KION APAC, KION Americas

and Dematic. LMH EMEA and STILL EMEA each concentrate on Europe, the Middle East and Africa. KION APAC and KION Americas hold cross-brand responsibility for industrial truck business in the Asia-Pacific region and the Americas respectively. Dematic is the global supply chain solutions business. While the Operating Units have full operational and commercial responsibility within their markets, KION GROUP AG is the strategic management holding company and is responsible for the groupwide strategy and groupwide business standards.

For internal management purposes, the KION Group has divided its operating business into two segments that correspond to the segments as required by international financial reporting standards (IFRS 8). The industrial truck business, including the supporting financial services, is shown in the Industrial Trucks & Services segment, while activities focusing on end-to-end solutions make up the Supply Chain Solutions segment. The two operating segments complement each other because they both have a strong market position and regional presence. The Corporate Services segment comprises the other activities and holding functions of the KION Group. These include service companies that provide services such as IT and logistics across all segments. > **TABLE 011**

Industrial Trucks & Services segment

The Industrial Trucks & Services segment encompasses the activities of the international brand companies Linde, STILL and Baoli, the local brand companies Fenwick, OM STILL and OM Voltas plus the financial services business.

Linde is an international premium brand and technology leader that meets customers' most sophisticated requirements regarding technology, efficiency, functionality and design. In France, Linde products are sold under the Fenwick brand.

STILL is predominantly an international premium provider of trucks with electric and diesel-electric drives. It mainly focuses on the European and Latin American markets, with the national brand OM STILL serving the Italian market.

Baoli is the international brand for the lower end of the volume segment and the economy segment.

OM Voltas is the national brand company for the Indian market, through which the KION India Pvt. Ltd. subsidiary manufactures and sells electric and IC forklift trucks and warehouse trucks.

Segment overview

TABLE 011

in € million	Revenue		Adjusted EBIT ¹		Employees ²	
	2017	2016	2017	2016	2017	2016
Industrial Trucks & Services	5,630.9	5,202.6	640.1	586.9	24,090	23,064
Supply Chain Solutions	2,006.3	366.0	181.4	6.0	6,820	6,810
Corporate Services	266.6	242.0	530.7	305.9	698	670
Consolidation/reconciliation	-250.3	-223.4	-586.5	-361.5	-	-
Total	7,653.6	5,587.2	765.6	537.3	31,608	30,544

¹ Adjusted for PPA items and non-recurring items

² Number of employees (full-time equivalents) as at balance sheet date 31/12/

KION Financial Services (FS) is an internal funding partner for the Industrial Trucks & Services segment, providing finance solutions to support sales. Its activities comprise the financing of long-term leasing business for external customers, the internal financing of the short-term rental business and the related risk management. In the large sales markets with a high volume of financing and leasing, legally independent FS companies handle this business. So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers key steps of the value chain: product development, manufacturing, sales and logistics, spare parts business, truck rental and used truck businesses, fleet management and financial services that support the core industrial truck business.

The segment earns just over half of its revenue by selling industrial trucks. The product portfolio includes counterbalance trucks powered by an electric drive or internal combustion engine, warehouse trucks (ride-on and hand-operated) and towing vehicles for industrial applications. It covers all load capacities, from one to 18 tonnes. Worldwide research and development activities enable the Industrial Trucks & Services segment to consolidate its technology leadership, which it is extending in the areas of innovative, energy-efficient and low-emission drive technologies and hydrostatic and diesel-electric drive systems. In this field, the KION Group operates a total of 16 production facilities for industrial trucks and components in eight countries. So that it can ensure security of supply and the availability of spare parts for important components in order to meet customers' specific requirements, the segment manufactures major components itself – notably lift masts, axles, counterweights and safety equipment. Other components – such as hydraulic components, electronic components, rechargeable batteries, engine components and industrial tyres – are purchased through the global procurement organisation.

As a rule, industrial trucks are built according to the customer's individual specifications. Advantages for customers in terms of total cost of ownership (TCO) underpin the international Linde and STILL brands' premium positioning. The trucks' hallmarks are cost-efficiency, high productivity and high residual values. The international Baoli brand serves the lower end of the volume segment and the economy segment.

The segment is underpinned by an extensive sales and service network comprising around 1,400 outlets in over 100 countries

and staffed by approximately 17,800 service employees. Just under half of them are employed by the KION Group. In other cases, the Operating Units rely on external dealers.

The worldwide vehicle fleet, which comprised more than 1.3 million industrial trucks at the end of 2017, provides a stable basis for the spare parts, maintenance and repair business. The service business, which includes financial services, helps to smooth out fluctuations in the segment's revenue and reduces dependency on market cycles. This business also strengthens customer relationships, thereby helping to generate sales of new trucks. Extensive supplementary services are offered, mainly for premium products. However, the proportion of service business is continually increasing in the other price segments too.

There are also individual orders for repairs and maintenance work as well as for spare parts. In addition, the segment looks after entire customer fleets, using special software to monitor the trucks in the fleets and to enable customers to efficiently manage their fleets.

The Operating Units also have extensive rental truck and used truck businesses, allowing peaks in capacity requirements to be met and customers to be supported after their leases have expired.

Financial services support new truck business in many markets, forming another pillar of the service business. About half of all new trucks are financed via the KION Group itself or via external banks and financing partners. Offering financial services is therefore part of the truck sales process. End customer finance is generally linked to a service contract throughout the term of the finance agreement. In the main sales markets with a high volume of financing and leasing, financial activities are handled by legally independent financial services companies. These activities include long-term leasing to customers and internal financing of the Operating Units' short-term rental fleets.

Supply Chain Solutions segment

The Supply Chain Solutions segment is a leading global supplier of integrated automation technology, software and services for optimising supply chains. Since the start of 2018, all solutions have been marketed under the central Dematic brand, including those previously sold under the Egemin Automation and NDC Automation product brands.

Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking, automated palletising and automated guided vehicle systems. Picking equipment controlled by radio, voice or light is available for nearly all goods and packaging types, whether it is used for case, individual item, split-case or pallet picking. Automated storage and retrieval systems (ASRS) such as RapidStore and high-performance picking stations (RapidPick) can be used to achieve very fast throughput times and picking rates. In 2017, an ultracompact order picking system was added under a global partnership with AutoStore® that enables significantly more inventory to be stored within the same floor space. At the same time, cross-docking solutions increase the efficiency of the system as a whole by eliminating the unnecessary handling and storage of goods.

Real-time management of the supply chain solutions is based on the proprietary, software platform Dematic iQ, which can be easily integrated into customers' existing application landscape. Dematic iQ offers much more than traditional warehouse management systems, helping with the data-based optimisation of all processes to ensure seamless order processing. It also supports performance management functions for measuring and controlling performance.

The segment is primarily involved in customer-specific, longer-term project business. With global resources, ten production facilities worldwide and regional teams of experts, Dematic is able to plan and implement logistics solutions with varying degrees of complexity anywhere in the world.

The (new) project business (business solutions) covers every phase of a new installation: analysis of the customer's needs and the general parameters, provision of appropriate advice, computer simulation of bespoke intralogistics solutions in the customer's individual environment, technical planning and design of the system, implementation of the control technology and its integration into the customer's existing IT infrastructure, site and project management, plant monitoring and support for the customer during implementation of the system, including training for the workforce.

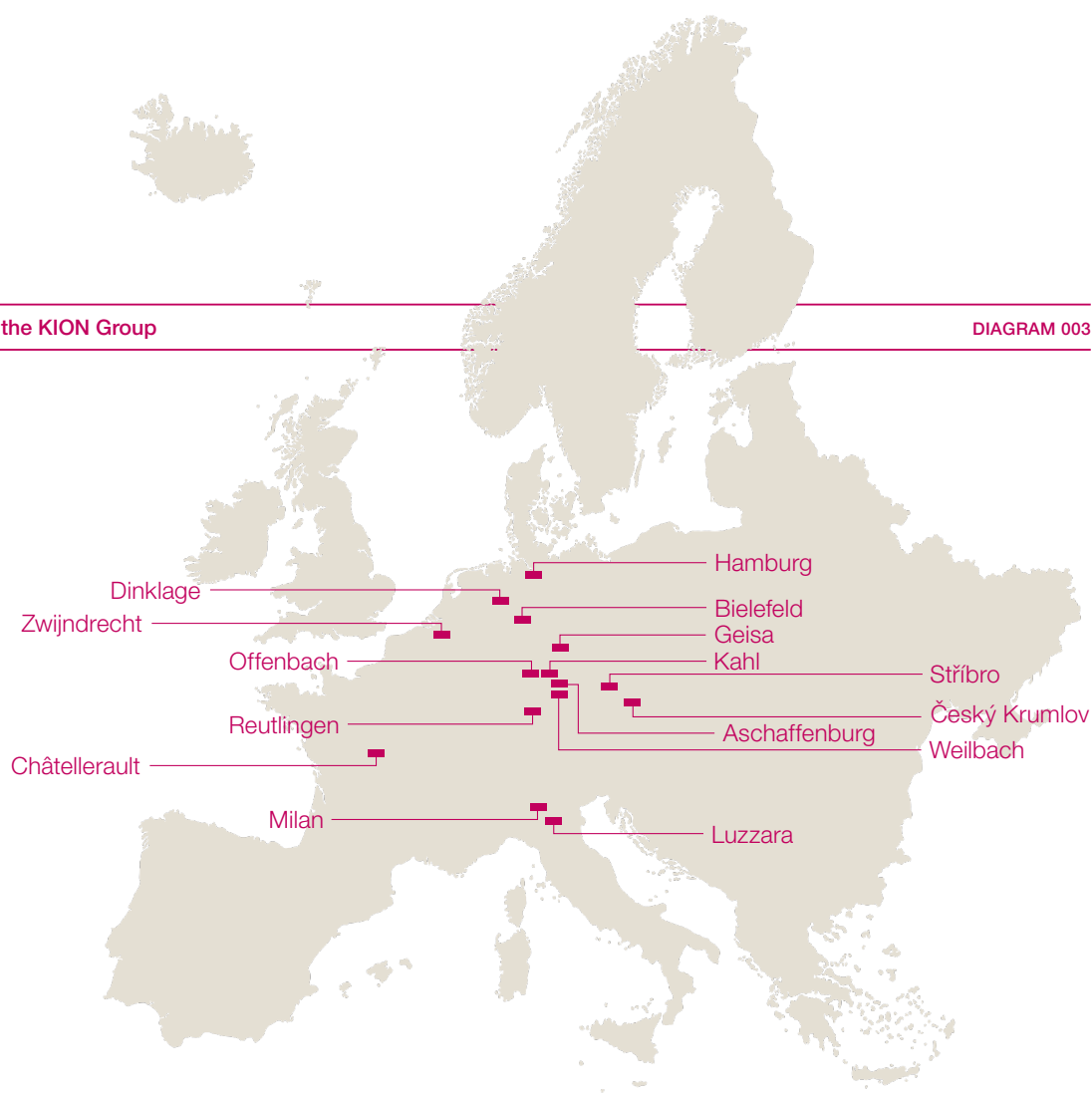
The system components, which are specified in detail for each customer project, such as automatic guided vehicles, palletisers, storage and picking equipment including automated storage and retrieval systems, sorters and conveyors,

are manufactured inhouse at ten production facilities or, in some cases, by quality-assured third parties.

The breadth of this offering allows the segment to offer a one-stop shop for modernisation work and services (customer services), which usually cover the entire lifetime of an installation. The installed base of more than 6,000 systems provides significant potential for this business, including on-site support provided by approximately 1,300 employees (not including back-office staff) in over 20 countries. > **DIAGRAM 003**

Production sites of the KION Group

DIAGRAM 003



Industrial Trucks & Services

Brazil

Indaiatuba/São Paulo: Counterbalance trucks with electric drive or IC engine, warehouse technology

China

Jingjiang: Counterbalance trucks with electric drive or IC engine, warehouse technology

Xiamen: Counterbalance trucks with electric drive or IC engine, heavy trucks, warehouse technology

Germany

Aschaffenburg: Counterbalance trucks with electric drive or IC engine

Dinklage: Counterweights for forklift trucks, construction equipment and cranes, component production

Geisa: Component production

Hamburg: Counterbalance trucks with electric drive or IC engine, warehouse technology, components

Kahl: Spare parts center, component production

Reutlingen: Very narrow aisle trucks

Weilbach: Component production

France

Châtelleraut: Warehouse technology

India

Pune: Counterbalance trucks with electric drive or IC engine, warehouse technology

Italy

Luzzara: Warehouse technology

Czech Republic

Český Krumlov: Component production

Stříbro: Warehouse technology

United States

Summerville: Counterbalance trucks with electric drive or IC engine, warehouse technology

Supply Chain Solutions

Australia

Sydney: Conveyor and sortation systems, automated guided vehicle systems, system components and racking

Belgium

Zwijndrecht: Automated guided vehicle systems

China

Suzhou: Conveyor, sortation, storage and retrieval systems

Germany

Bielefeld: Sortation systems**Offenbach:** Conveyor, sortation, storage and retrieval systems

Italy

Milan: Sortation systems

Mexico

Monterrey: Conveyor, sortation, storage and retrieval systems

United States

Grand Rapids: Conveyor, sortation, storage and retrieval systems, system components**Holland:** Automated guided vehicle systems**Salt Lake City:** Conveyor, sortation, storage and retrieval systems, automated guided vehicle systems, system components

Holland

Grand Rapids

Salt Lake City

Summerville

Monterrey

Indaiatuba

Jingjiang

Suzhou

Xiamen

Pune

Sydney

Market and influencing factors

According to the KION Group's estimates, the material handling market – comprising forklift trucks, warehouse technology and supply chain solutions – has expanded at a faster rate than global economic growth over the past five years. The value of the market has increased at an average annual rate of more than 6 per cent.

Of the relevant market volume, almost 60 per cent is estimated to be attributable to industrial trucks and related services, which are essential elements in the production and logistics processes of many manufacturers as well as in the wholesale and retail sectors. The remaining market volume is accounted for by supply chain solutions, the growth of which is fuelled in no small part by the increasing automation and digitalisation of production and logistics processes in various industries. The main overarching growth drivers are the advancing interconnectivity of the global economy and additional transport services between ever-more fragmented value chains and supply chains, which necessitate decentralised warehouse and logistics capacity. The strong growth of e-commerce and the increasing prevalence of multi-channel approaches in all kinds of industries are boosting capital expenditure on the reconfiguration of supply chains. Stimulus also comes from the growing use of electric industrial trucks and new drive solutions, such as lithium-ion technology.

The market as a whole is exposed to cyclical fluctuations. Economic conditions in the different regions and the rates of growth in global trade therefore have a major influence on customers' willingness to invest. Nevertheless, there are cyclical differences between the segments. Historically, new business in the ITS segment has shown a very strong correlation with the performance of broad economic indicators, such as industrial output. By contrast, the SCS segment tends to be less cyclical owing to longer projects that often last several years. In both segments, the service business is generally more stable as it is linked to the installed base of trucks and systems. The economic situation is also affected by competition levels, exchange rates and changes in commodity prices. Economic trends within individual customer segments are another important factor. The most significant of these are manufacturing, the food industry, general merchandise and grocery wholesale and retail, logistics services and e-commerce, which has the highest growth rates.

Regulatory frameworks have a major impact on the business model, both in the Industrial Trucks & Services segment and in the Supply Chain Solutions segment. The products and services of companies in the KION Group have to comply with the specific legal requirements in their respective markets. Compliance with the different requirements has to be verified or certified. Many of the legal requirements are enshrined in product-specific standards and other norms (e.g. EN, ISO and DIN).

Legal requirements also apply to the construction and operation of production facilities, including in relation to air pollution avoidance, noise reduction, waste production & disposal and health & safety. The KION Group fulfils all of these requirements as well as all the legal provisions pertaining to exports and financing business.

Influencing factors in the Industrial Trucks & Services segment

In recent years, the value of the global market for industrial trucks has increased by around 4 to 5 per cent per year. This is due in equal measure to the growth in the volume of new truck business and the overall rise in the contribution from the service business.

Measured in terms of units ordered, 38 per cent of the global market was attributable to IC counterbalance trucks in 2017, while electric forklift trucks accounted for 17 per cent and warehouse trucks for 45 per cent. IC trucks continue to make up a comparatively high proportion of the total volume in growth regions. However, the most dynamic growth in the new truck business in recent years has been for forklift trucks and warehouse trucks powered by an electric motor. Much of the additional volume is attributable to the electrification of manual hand pallet trucks, which have been replaced by entry-level trucks in the lower weight categories. The use of new drive technologies, such as lithium-ion drive systems, is also rising steadily. Moreover, driverless transport solutions developed by automating standard warehouse trucks are becoming more and more appealing to customers.

The upper price segment continues to benefit from customers' growing requirements regarding the quality, efficiency and eco-friendliness of industrial trucks and from higher expectations in terms of service, availability of spare parts and flexible rental solutions. In this segment, customers are much more focused than before on optimising total cost of ownership and,

increasingly, on the ability to integrate the trucks into fully automated intralogistics solutions. At the same time, there is mounting competitive pressure worldwide as some manufacturers in the economy segment based in emerging markets are pursuing an international expansion strategy. In mature markets and, increasingly, in growth regions, the large number of trucks in use also provides a strong base for replacement business and rising demand for services.

Influencing factors in the Supply Chain Solutions segment

According to the KION Group's estimates, the market for supply chain solutions has expanded at twice the rate of the market for industrial trucks and services over the past five years owing to growing demand in the main customer industries. Both the project business (business solutions) and downstream services (customer services) contributed to this expansion. The service business benefits from the ever-larger installed base and the trend towards the outsourcing of logistics processes.

The growth of e-commerce has a major influence on demand for supply chain solutions, including warehouse automation and solutions for sorting and for automated goods transport. According to market analysis by the Ecommerce Foundation, global online trading (B2C) expanded at an average rate of around 15 per cent between 2013 and 2017. Increasing complexity, cost pressures and shifting customer expectations require shorter lead times, a more efficient flow of goods, a wider product range and process reliability. This is pushing up demand for decentralised warehouse and logistics capacity that enables faster deliveries and, due to automated processes, keeps down personnel expenses and required space. The digitalisation and automation of industrial production and supply chains and the multichannel strategies being adopted in traditional industries – e.g. supermarket chains, grocery wholesale and retail, fashion, food and beverage manufacturing, and parcel and courier services – are also contributing to this. At the same time, the focus of technological progress is increasingly shifting towards software and robotics solutions.

Market position

In 2017, the Industrial Trucks & Services segment achieved a 14.4 per cent share of the global market based on unit sales (2016: 15.0 per cent) and is thus the second-largest manufacturer of industrial trucks. At the same time, the KION Group is the world's leading producer of electric forklift trucks. It remained the market leader in Europe. In China, it is still the leading foreign manufacturer and number three overall. The KION Group is also among the leading providers in Brazil and India.

In a ranking compiled by Modern Materials Handling, the Supply Chain Solutions segment (Dematic) is among the three largest suppliers. Dematic has a global presence and is a leading provider of automated technology for supply chains, automated warehouse systems and automated guided vehicle systems.

STRATEGY OF THE KION GROUP

Strategic activities in 2017

The focus in the 2017 reporting year was on implementing strategic measures under the Strategy 2020.

In the context of its overarching growth initiatives, the KION Group made improvements to its production operations and its sales and brand strategies in order to support joint business development. As part of this process, the Stříbro site in the Czech Republic is being expanded to include a new plant for Dematic's automated conveyor systems. This capital expenditure project, which began in March 2017, will enable multishuttles and modular conveyor systems to be built at the plant from 2018 to support the SCS segment's strategy for growth in Europe. Baoli raised its profile as an international brand for the lower end of the volume segment and the economy segment by founding KION Baoli EMEA. This business is being expanded in central and eastern Europe, and elsewhere, using the infrastructure of Baoli's sister brand STILL. This will also improve the opportunities for joint business development by ITS and SCS. Business was stepped up significantly in North America by introducing five new trucks, the development of which was

decided upon under the Strategy 2020. KION North America, along with its truck brands, is now listed as an official supplier for numerous customers of Dematic. This collaboration also included joint appearances at trade fairs (see the 'Customers' section). Once the product launch of warehouse trucks scheduled for 2018 has taken place, KION will have a complete product portfolio tailored to the American market. Electric forklift trucks and warehouse trucks are an extremely important element in the implementation of integrated supply chain solutions. In 2017, the SCS segment laid the foundations for a one-brand strategy. Bringing together the full SCS range – including the automated guided vehicle systems – under the global Dematic brand and dropping the existing Egemin Automation and NDC Automation brands will make it easier to position the range in a customer-focused way in all markets. As part of this, Egemin was integrated into Dematic, thereby creating benefits both for innovation management and customer management.

Both segments have also made further improvements to their product range. In the ITS segment, Linde Material Handling began selling electric forklift trucks with more powerful lithium-ion batteries in the fast-growing two to three tonne load capacity range. A new solution for pallet handling and order picking in narrow aisles was also brought to the market. Virtually all warehouse logistics activities can now be carried out with a lithium-ion variant. STILL expanded its product range with new ride-on pallet trucks and pallet stackers that will increase handling capacities. In addition, it launched new picking trucks on the market and now also offers a broad portfolio of products featuring lithium-ion technology. In September, Dematic signed a global agreement with the Norwegian warehouse systems provider AutoStore®, thereby expanding its range of integrated omnichannel solutions with an ultracompact goods-to-person warehouse order picking system. Around the world, Dematic will be offering a system solution as well as extensive services. Version 2.5, introduced in July 2017, of the Dematic iQ software platform includes a new system solution for material flow analysis.

The steps taken to increase efficiency included, in particular, the redesign of the plant structure at LMH in Aschaffenburg and the elimination of ramp-up problems at Dematic's site in Monterrey, Mexico. Following the transfer of warehouse truck production to the Střibro plant and the relocation of Linde Hydraulics, the focus in Aschaffenburg is now on electric forklift trucks and diesel

trucks. This means production processes can be structured more efficiently in future. Moreover, Dematic realised its first cost synergies through the shared use of corporate services at the level of the KION Group.

Refinement of the strategy: "KION 2027"

In the year under review, the KION Group further developed its Strategy 2020 to create "KION 2027", which it began implementing at the start of 2018 once the Supervisory Board had given its approval. "KION 2027" builds on the success of the Strategy 2020 (formulated before the acquisition of Dematic), under which profitable growth, efficient use of capital and a high level of resilience to economic fluctuation have been achieved over the past five years. The strong position achieved with the Strategy 2020, particularly in the ITS segment, is to be consolidated. Another objective of "KION 2027" is to unlock the potential of all the companies in the Group and to focus even more on a joint customer-centric strategy for innovation, sales and branding. The main emphasis in this regard will be the overarching development and marketing of integrated, automated supply chain solutions and mobile automation solutions. Overall, the KION Group is striving to steadily increase its share of the global material handling market and to continue to have the highest profitability in the industry. The other aims are to ensure the Group remains crisis-resistant and maintains an adequate return on capital employed.

Strategic fields of action in the "KION 2027" strategy

"KION 2027" provides guidance on the strategic direction to be taken by the KION Group over the next decade. The strategy is aligned with the KION Group's vision: "We are the best company in the world at understanding our customers' material handling needs and providing the right solutions." The KION Group is much more than the sum of its brands and regions.

At the core of the strategy lies the range of material handling solutions offered to customers. The KION Group wants to evolve more towards being a solution provider in both segments. In the

ITS segment, consultancy and project work are increasingly being added to the traditional portfolio of products and services. And in the SCS segment, the range of solutions for customers is being expanded through partnerships, such as with AutoStore®.

Five strategic fields of action have been defined for the “KION 2027” strategy:

- **Energy:** In the material handling market, the KION Group wants to lead the way in terms of efficient energy use by its products and solutions. Thanks in no small part to the high energy-efficiency of its premium brands' products, the KION Group is a global market leader for electric forklift trucks and warehouse trucks. A focus of the strategy will be to develop and commercialise new energy sources for industrial trucks and related services, such as the provision of advice on energy matters.
- **Digital:** The KION Group will transform its business in an increasingly digital world. The digitalisation of customer solutions, which will even include fully automated warehouses incorporating robotics solutions, will be accompanied by the digitalisation of internal processes. Digital solutions will be developed for customers to improve the efficiency of their intralogistics. The KION Group will digitalise its inhouse processes so that they are more effective. It will not only integrate software into solutions but also increasingly market it to customers as a separate product. New internal organisational structures will enable the KION Group to cater to the high expectations regarding the speed at which solutions are created and adapted. This will pave the way for agile development and embed it across the KION Group.
- **Automation:** The KION Group's solutions will enable customers to use automated technologies effectively and will help them on their journey to a 'lights-out' warehouse. Today, the KION Group and its two segments cover the complete spectrum, from customers with just one forklift truck to those with fully automated large-scale warehouses. It will develop different solutions so that it can offer all customers a scalable automation solution that is suited to their particular requirements and to which extra components can be added.
- **Innovation:** The KION Group is driving innovation in the material handling market with an effective innovation ecosystem and cutting-edge, rapid development processes. It is developing new technologies into innovative products for use in both segments. To this end, it enters into strategic partnerships with research institutes, universities and innovative companies so that it can go to market quickly with new products and solutions.
- **Performance:** The KION Group is continually improving its internal efficiency and the performance of its products from a customer perspective. It is continuing to fully leverage its synergies as a strategic management holding company.

MANAGEMENT SYSTEM

Core key performance indicators

The KION Group's strategy, which centres on value and growth, is reflected in how the Company is managed. It uses five core key performance indicators (KPIs), which remained unchanged in the reporting year, to continuously monitor market success, profitability, financial strength and liquidity. The performance targets of the Group and the segments are based on selected financial KPIs, as is the performance-based remuneration paid to managers. As a rule, the KPIs are measured and made available to the Executive Board in a comprehensive report each month. This enables the management team to take prompt corrective action in the event of variances compared with target figures. > **TABLE 012**

KPIs related to business volume

Order intake and revenue

Order intake and revenue are broken down by segment, region and product category in the KION Group's management reporting so that growth drivers and pertinent trends can be identified and analysed at an early stage. Order intake is a leading indicator for revenue. The length of time between receipt and invoicing of an order varies between business units and product groups.

Earnings-related KPI

Adjusted EBIT

The key figure used for operational management and analysis of the KION Group's financial performance is adjusted earnings before interest and tax (EBIT). It is calculated in the same way as EBIT, except that it does not take account of purchase price allocation effects or any non-recurring items.

Liquidity-related KPI

Free cash flow

Free cash flow is the main KPI for managing leverage and liquidity. It is determined by the KION Group's operating activities and investing activities. Free cash flow does not include interest arising from financing activities. Carefully targeted management of working capital and detailed planning of capital expenditure are used to help in controlling the level of free cash flow.

Profitability-related KPI

ROCE

Return on capital employed (ROCE) is another core KPI. It is the ratio of adjusted EBIT to capital employed. ROCE is measured annually. > **TABLE 013**

Key performance indicators

TABLE 012

in € million	Order intake	Revenue	Adjusted EBIT*	Free cash flow	ROCE
2017	7,979.1	7,653.6	765.6	378.3	9.9%
2016	5,833.1	5,587.2	537.3	-1,850.0	6.9%
2015	5,215.6	5,097.9	482.9	332.7	11.9%

* Adjusted for PPA items and non-recurring items

Return on capital employed (ROCE)

TABLE 013

in € million	2017	2016
Total assets	11,228.4	11,297.0
– less selected assets ¹	– 1,443.3	– 1,460.5
– less selected liabilities ²	– 2,086.3	– 2,003.5
Capital employed	7,698.8	7,833.1
Adjusted EBIT	765.6	537.3
ROCE	9.9%	6.9%

1 Lease receivables, income tax receivables, cash and cash equivalents, PPA items and several items of other financial assets respectively other assets

2 Sundry other provisions, trade payables, a major part of other liabilities as well as several items of other financial liabilities

Other key performance indicators

Besides the aforementioned core KPIs, the KION Group uses a wealth of additional financial KPIs. The main ones are net debt, which is used to manage the capital structure, and the EBIT margin, which together with ROCE is relevant as a component of remuneration and as a target in the Strategy 2020. There are also non-financial KPIs, which primarily relate to customers, employees, sustainability and technology. Some of them are used operationally as leading indicators for the financial KPIs.

The KPIs used to manage the segments are order intake, revenue and adjusted EBIT.