

KION GROUP AG

Business activities

KION GROUP AG is the strategic management holding company in the KION Group. KION GROUP AG holds all the shares in DH Services Luxembourg Holding S.à r.l. and thus all the shares in the subsidiaries in the Supply Chain Solutions segment. Furthermore, KION GROUP AG is the sole shareholder of Linde Material Handling GmbH, Aschaffenburg, which holds almost all the shares of the companies in the Industrial Trucks & Services segment.

The annual financial statements of KION GROUP AG have been prepared in accordance with the provisions in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report has been combined with the group management report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the additional provisions in section 315e HGB. Differences between the accounting policies in accordance with HGB and those in accordance with IFRSs arise primarily in connection with the accounting treatment of financial instruments, provisions and deferred taxes.

Management system, future development and risk position

As a holding company without any operating activities of its own, KION GROUP AG is indirectly dependent on the earnings and economic performance of its subsidiaries. The management system, expected development and the opportunities and risks of the KION Group are described in detail in the 'Management system' and 'Outlook, risk report and opportunity report' sections of this combined management report.

Business performance in 2017

The business performance and position of KION GROUP AG are largely determined by the business performance and success of

the Group. Detailed reports in this regard are set out in the 'Business performance' and 'Financial position and financial performance of the KION Group' sections.

By contract dated 13 March 2017, KION Holding 2 GmbH was merged into KION GROUP AG; the merger cut-off date was defined as 1 January 2017. The merger took effect when it was entered in the commercial register on 22 June 2017. As the impact on the financial performance and financial position of KION GROUP AG is not material, no further disclosures are provided.

Financial performance

KION GROUP AG does not have any operating activities itself. The reported revenue largely arises from the performance of services for affiliated companies.

Other operating income went up by €2.5 million to €22.4 million and includes, in particular, gains on the measurement of bank accounts and cash pools in foreign currencies.

The cost of materials is related to the revenue from the provision of services and mostly consists of expenses for consultancy services.

Personnel expenses fell to €42.4 million (2016: €43.9 million) due to a smaller addition to the provisions for performance share plans and bonuses. There was a countervailing effect from the increase in the number of employees, resulting in a rise in salaries.

Other operating expenses rose by €16.8 million to €68.3 million owing to losses on the measurement of bank accounts and cash pools in foreign currencies. Costs for external services and consultancy are another substantial component of other operating expenses.

The main changes in net financial income/expenses were as follows:

- Of the total income from profit-transfer agreements, €500.6 million related to Linde Material Handling GmbH. In 2016, KION Holding 2 GmbH (now merged into KION GROUP AG) had transferred its profit of €361.3 million to KION GROUP AG; this figure included the amount for Linde Material Handling GmbH.
- Interest expenses and similar charges, which amounted to €48.8 million (2016: €27.0 million), arose mainly from the

external financing of the KION Group via the promissory note and the loan facilities as well as, to a smaller extent, from interest charged on intercompany liabilities and the unwinding of the discount on pension provisions (2016: from the provision of credit facilities).

- Other interest and similar income in the amount of €28.6 million (2016: €4.6 million) consisted for the most part of interest income on intercompany receivables. This rise is attributable to KION GROUP AG taking over the management of the cash pool in 2017, resulting in an increase in intercompany receivables.
- KION GROUP AG incurred tax expenses of €79.4 million as a result of its role as the parent company of the tax group in 2017 (2016: €23.1 million). The use of tax loss and interest carryforwards had reduced tax expenses in 2016.

A total net income of €335.5 million was generated in the year under review (2016: €258.3 million). > **TABLE 033**

Net assets

At the end of 2017, the total assets of KION GROUP AG had increased by approximately 38.8 per cent year on year to €7,643.9 million. This was attributable, in particular, to KION GROUP AG having taken over the management of the cash pool for all KION Group companies in 2017. All consolidated companies use the cash pool to make their liquidity available to KION GROUP AG.

The financial assets largely comprise the carrying amounts of the equity investments in DH Services Luxembourg Holding S.à r.l. (€2,862.2 million) and Linde Material Handling GmbH (€1,368.4 million).

The receivables mainly consist of loans and cash pool receivables due from other Group companies and the Company's entitlement to the transfer of profits from Linde Material Handling GmbH of €500.6 million (2016: transfer of profits from KION Holding 2 GmbH of €361.3 million). There are long-term loans of €224.5 million.

Financial performance

TABLE 033

in € million	2017	2016	Change
Revenue	24.3	17.6	38.3%
Other operating income	22.4	19.9	12.4%
Material expenses	-0.5	-0.7	25.0%
Personnel expenses	-42.4	-43.9	3.3%
Other operating expenses	-68.3	-51.5	-32.7%
Depreciation expense	-0.2	-0.1	<- 100%
Operating loss	-64.8	-58.7	-10.5%
Net financial income	479.7	340.0	41.1%
Income taxes	-79.4	-23.1	<- 100%
Net income	335.5	258.3	29.9%

Net assets

TABLE 034

in € million	2017	2016	Change
Assets			
Property, plant and equipment	2.9	0.1	> 100%
Financial assets	4,231.2	4,474.4	-5.4%
Receivables and other assets	3,389.3	974.0	> 100%
Cash and cash equivalents	20.5	56.7	-63.8%
Total assets	7,643.9	5,505.3	38.8%
Equity and liabilities			
Equity	3,692.9	2,842.5	29.9%
Retirement benefit obligation	32.1	20.3	58.2%
Tax provisions	27.6	4.1	> 100%
Other provisions	35.7	38.4	-7.0%
Liabilities	3,855.6	2,599.9	48.3%
Deferred income	-	0.1	-100.0%
Total equity and liabilities	7,643.9	5,505.3	38.8%

As a result of the capital increase of €602.9 million implemented in May 2017, the €1.1 million increase in the volume of treasury shares and the higher net income (€335.5 million), and after taking into account the payment of the dividend of €86.9 million, equity rose to €3,692.9 million (31 December 2016: €2,842.5 million). The equity ratio was 48.3 per cent as at the reporting date (31 December 2016: 51.6 per cent).

Provisions increased by €32.6 million to €95.4 million; this was mainly attributable to changes in pension provisions and tax provisions. Pension provisions include provisions of €3.3 million (31

December 2016: €3.1 million) for former members of the Executive Board. KION GROUP AG recognised tax provisions of €27.6 million in connection with its role as the parent company of the tax group.

Liabilities mainly consist of liabilities to banks of €2,214.8 million (31 December 2016: €2,546.3 million) as well as loan liabilities and cash pool liabilities to other Group companies. The liabilities to banks comprise the financing via the promissory note, the bridge loan (acquisition facilities agreement, AFA) and the syndicated loan agreement (senior facilities agreement, SFA).

> TABLE 034

Financial position

By pursuing an appropriate financial management strategy, the KION Group – through KION GROUP AG – makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. KION GROUP AG is a publicly listed company and therefore ensures that its financial management takes into account the interests of shareholders and banks. For the sake of these stakeholders, KION GROUP AG makes sure that it maintains an appropriate ratio of internal funding to borrowing.

On 4 July 2016, KION GROUP AG entered into an agreement for a bridge loan of originally €3.0 billion to finance the acquisition of Dematic. This bridge loan has been refinanced in several ways, which means that the liabilities under the AFA as at 31 December 2017 consisted solely of a floating-rate loan of €1.0 billion that is due to mature in 2021. The funds for repaying the AFA were essentially generated by two financing measures. In the first quarter of 2017, a promissory note with a nominal value totalling €1,010.0 million was issued. The promissory note is divided into several tranches that mature between 2022 and 2027 and have floating-rate or fixed coupons. KION GROUP AG entered into a number of interest-rate derivatives in order to hedge the interest-rate risk resulting from the floating-rate tranches. In May 2017, it implemented a capital increase that generated gross proceeds of €602.9 million.

On 28 October 2015, KION GROUP AG signed a syndicated loan agreement totalling €1.5 billion with a syndicate of international banks. Following early repayment of the fixed-term tranche of €350 million, the SFA consisted solely of the revolving credit facility of €1,150.0 million as at 31 December 2017. It has a variable interest rate and is due to mature in 2022. As at 31 December 2017, an amount of €184.7 million had been drawn down from the revolving credit facility.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the AFA and SFA. Neither loan is collateralised.

As at 31 December 2017, liabilities to banks amounted to €2,214.8 million (31 December 2016: €2,546.3 million). After deduction of cash and cash equivalents, net debt amounted to €2,194.3 million (31 December 2016: €2,489.6 million).

Employees

The average number of employees at KION GROUP AG was 190 in 2017 (2016: 172). KION GROUP AG employed 195 people as at 31 December 2017 (31 December 2016: 185).

Final declaration to the report on relationships with affiliated entities („Abhängigkeitsbericht“) pursuant to section 312 (3) sentence 3 of the German Stock Corporation Act (AktG)

With respect to the legal transactions and other measures mentioned in the report on relationships with affiliated entities, we hereby declare that in each case the Company received appropriate consideration in accordance with the circumstances of which we were aware at the time when the legal transactions were concluded or the measures were taken or omitted and that it did not suffer any disadvantages as a result of such measures having been taken or omitted.

Frankfurt am Main, 21 February 2018

The Executive Board



Gordon Riske



Dr Eike Böhm



Ching Pong Quek



Dr Thomas Toepfer