

Statement of cash flows

In the case of obligations not covered by external assets, payments to beneficiaries are made directly by the Company and therefore have an impact on cash flow from operating activities. If the benefit obligations are backed by external assets, the payments are made from existing plan assets and have no effect on the Company's cash flow. Instead, any contributions made to the external pension fund by the Company result in a cash outflow for operating activities.

During the reporting year, pension benefits of €46.2 million (2016: €41.8 million) were paid in connection with the main pension entitlements in the KION Group, of which €17.9 million (2016: €13.9 million) was paid directly by the Company and €28.3 million (2016: €27.9 million) was paid from plan assets. Cash contributions to plan assets in 2017 amounted to €10.0 million (2016: €6.6 million). Furthermore, pension benefit payments totalling €0.3 million (2016: €0.1 million) were transferred to external pension funds.

Income statement

In accordance with IAS 19, actuarial computations are performed for benefit obligations in order to determine the amount to be expensed in each period in accordance with fixed rules. The expenses recognised in the income statement for pensions and similar obligations consist of a number of components that must be calculated and disclosed separately.

The service cost is the new pension entitlement arising in the financial year and is recognised in the income statement. It is calculated as the present value of that proportion of the expected defined benefit obligation when the pension is paid attributable to the year under review on the basis of the maximum length of service achievable by each employee.

Past service cost arises if there is a change to the pension entitlement and it is recognised immediately in full.

The net interest expense/income, which is calculated by multiplying the net liability (present value of the defined benefit obligation minus plan assets) or the net assets (if the plan assets exceed the present value of the defined benefit obligation) at the start of the year by the discount rate, is also recognised in the income statement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2017 is shown in > **TABLE 083**.

Funded status and net defined benefit obligation

TABLE 081

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Present value of the funded defined benefit obligation	-564.5	-547.0	-428.9	-448.5	-202.6	-210.3	-86.6	-90.2	-1,282.6	-1,295.9
Fair value of plan assets	93.8	86.3	448.7	455.7	165.0	167.0	78.4	81.4	785.9	790.4
Surplus (+)/deficit (-)	-470.7	-460.7	19.8	7.3	-37.6	-43.3	-8.1	-8.7	-496.7	-505.5
Present value of the unfunded defined benefit obligation	-436.9	-427.7	-0.0	-0.0	-7.3	-7.9	-37.6	-37.7	-481.8	-473.2
Net liability (-)/net asset (+) as at 31/12/	-907.5	-888.3	19.8	7.3	-45.0	-51.2	-45.8	-46.4	-978.5	-978.7
Reported as "retirement benefit obligation"	-907.5	-888.3	-4.4	-5.0	-45.0	-51.2	-45.8	-46.4	-1,002.7	-991.0
Reported as "Other non-current assets"	-	-	24.2	12.3	-	-	-	-	24.2	12.3

Overall, the funding ratio (ratio of plan assets to the present value of the defined benefit obligation) in the KION Group was 44.5 per cent (2016: 44.7 per cent).

The changes in the retirement benefit obligations reported in the statement of financial position are shown in > TABLE 082.

Changes in retirement benefit obligation

TABLE 082

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Balance as at 01/01/	888.3	749.9	5.0	3.6	51.2	0.4	46.4	44.3	991.0	798.0
Group changes	0.5	38.3	-	-	-	58.8	-	2.0	0.5	99.1
Exchange differences	-	-	-0.2	-0.6	-6.3	2.5	-0.8	0.1	-7.3	2.1
Total service cost	35.5	30.4	0.0	0.0	0.1	0.1	3.9	3.8	39.5	34.3
Net interest expense	16.5	17.4	0.1	0.1	2.1	0.4	0.6	0.8	19.3	18.7
Pension benefits directly paid by company	-15.6	-12.8	-	-	-0.4	-	-1.9	-1.1	-17.9	-13.9
Employer contributions to plan assets	-0.9	-0.9	-0.3	-0.3	-3.9	-0.0	-1.3	-1.3	-6.4	-2.5
Liability transfer out to third parties	-0.4	-0.2	-	-	-	-	0.1	-	-0.3	-0.2
Remeasurements	-16.4	66.2	-0.3	2.2	2.4	-11.0	-1.3	-2.1	-15.6	55.3
Balance as at 31/12/	907.5	888.3	4.4	5.0	45.0	51.2	45.8	46.4	1,002.7	991.0

Changes in plan assets

TABLE 080

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fair value of plan assets as at 01/01/	86.3	79.8	455.7	467.2	167.0	–	81.4	79.4	790.4	626.4
Group changes	–	–	–	–	–	156.0	–	–	–	156.0
Exchange differences	–	–	–17.9	–65.7	–21.9	8.3	–3.9	0.6	–43.6	–56.7
Interest income on plan assets	1.6	1.9	11.1	15.5	5.6	1.0	0.8	1.1	19.1	19.5
Employee contributions	3.5	2.9	–	–	–	–	1.0	1.0	4.5	4.0
Employer contributions	0.9	0.9	3.9	4.3	3.9	0.0	1.3	1.3	10.0	6.6
Pension benefits paid by funds	–1.2	–2.3	–16.6	–18.5	–7.7	–1.2	–2.7	–5.9	–28.3	–27.9
Liability transfer out to third parties	–0.1	–0.1	–	–	–	–	–	–	–0.1	–0.1
Remeasurements	2.9	3.1	12.4	52.8	18.0	2.9	0.6	4.0	33.9	62.8
Fair value of plan assets as at 31/12/	93.8	86.3	448.7	455.7	165.0	167.0	78.4	81.4	785.9	790.4

The payments expected for 2018 amount to €26.1 million (2017: €28.5 million), which includes expected employer contributions of €6.8 million to plan assets (2017: €10.1 million) and expected direct payments of pension benefits amounting to €19.3 million (2017: €18.4 million) that are not covered by corresponding reimbursements from plan assets. The expected employer contributions for 2018 include payments of €5.1 million for one plan in the US.

The reconciliation of funded status and net defined benefit obligation to the amounts reported in the consolidated statement of financial position as at 31 December is shown in > TABLE 081.

Statement of financial position

The change in the present value of the defined benefit obligation (DBO) is shown in > **TABLE 079**.

The DBO in the other countries was predominantly attributable to subsidiaries in Switzerland (2017: €50.2 million; 2016: €53.7 million) and the Netherlands (2017: €35.7 million; 2016: €36.2 million).

The change in the fair value of plan assets is shown in > **TABLE 080**.

Employees in Germany paid a total of €3.5 million (2016: €2.9 million) into the KION pension plan in 2017.

In 2017, employer contributions in the United Kingdom, which amounted to €3.9 million, included one-off payments of €3.6 million (2016: €4.2 million) into pension funds on the basis of contractual agreements. In Germany, one-off payments of €0.5 million (2016: €0.4 million) were also made to a German CTA for the other members of the KION GROUP AG Executive Board.

Changes in defined benefit obligation

TABLE 079

	Germany		UK		USA		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Present value of defined benefit obligation as at 01/01/	974.7	829.7	448.5	440.5	218.1	0.4	127.8	123.6	1,769.1	1,394.2
Group changes	0.5	38.3	–	–	–	214.8	–	2.0	0.5	255.1
Exchange differences	–	–	–17.4	–62.7	–28.2	10.9	–4.6	0.7	–50.2	–51.1
Current service cost	35.5	30.4	1.0	0.9	0.1	0.1	4.0	3.9	40.6	35.3
Past service cost (+) and income (–)	–	–	–	–	–	–	–0.1	–0.1	–0.1	–0.1
Interest expense	18.0	19.4	10.9	14.5	7.7	1.3	1.4	1.9	38.1	37.1
Employee contributions	3.5	2.9	–	–	–	–	1.0	1.0	4.5	4.0
Pension benefits directly paid by company	–15.6	–12.8	–	–	–0.4	–	–1.9	–1.1	–17.9	–13.9
Pension benefits paid by funds	–1.2	–2.3	–16.6	–18.5	–7.7	–1.2	–2.7	–5.9	–28.3	–27.9
Liability transfer out to third parties	–0.5	–0.2	–	–	–	–	0.1	–	–0.4	–0.2
Actuarial gains (–) and losses (+) arising from										
changes in demographic assumptions	–	–	–0.4	–	5.0	–	–0.0	–0.7	4.6	–0.7
changes in financial assumptions	–11.8	80.4	2.8	83.3	14.2	–8.1	–0.7	5.2	4.5	160.7
experience adjustments	–1.7	–11.1	0.1	–9.5	1.2	–0.0	0.0	–2.6	–0.5	–23.2
Present value of defined benefit obligation as at 31/12/	1,001.4	974.7	428.9	448.5	210.0	218.1	124.2	127.8	1,764.4	1,769.1
thereof unfunded	436.9	427.7	0.0	0.0	7.3	7.9	37.6	37.7	481.8	472.6
thereof funded	564.5	547.0	428.9	448.5	202.6	210.3	86.6	90.2	1,282.6	1,296.5

Assumptions underlying pensions expenses

TABLE 078

	Germany		UK		USA		Other	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate	1.90%	2.35%	2.55%	3.75%	4.05%	3.80%	1.35%	1.61%
Salary increase rate	2.75%	2.75%	4.12%	4.25%	–	–	2.51%	2.50%
Pension increase rate	1.75%	1.75%	3.47%	3.13%	–	–	0.28%	0.42%

an asset for an excess of plan assets is only permitted if the company concerned, in its function as the employer, gains economic benefits in the form of reductions in future contributions to the plan or in the form of refunds from the plan. If the present value of the defined benefit obligation is not covered by the plan assets, the net obligation is reported under the retirement benefit obligation.

In two defined benefit plans in the United Kingdom, plan assets exceed the present value of the defined benefit obligation. Stipulations limiting the asset to be recognised in the statement of financial position do not apply.

Assumptions underlying provisions for pensions and other postemployment benefits

TABLE 077

	Germany		UK		USA		Other	
	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate	1.95%	1.90%	2.35%	2.55%	3.60%	4.05%	1.41%	1.35%
Salary increase rate	2.75%	2.75%	4.12%	4.12%	–	–	1.49%	2.51%
Pension increase rate	1.75%	1.75%	3.37%	3.47%	–	–	0.27%	0.28%

The assumed discount rate is determined on the basis of the yield as at the reporting date on AA-rated, fixed-interest senior corporate bonds with maturities that match the expected maturities of the pension obligations. Pension obligations in foreign companies are calculated on a comparable basis taking into account any country-specific requirements.

Future increases in salaries are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The biometric mortality rates used in the calculation are based on published country-specific statistics and empirical values. Since 31 December 2009, the modified Heubeck 2005 G mortality tables have been used in Germany as the biometric basis; the modified tables include a somewhat higher life expectancy for males than the unmodified tables. The S1NA CMI 2013 tables (standard mortality tables for self-administered pension schemes ('SAPS') based on normal health) with a long-term trend of 1.25 per cent p.a. are applied to the two defined benefit plans in the United Kingdom. In the US, calculations use the modified RP-2014 mortality tables with the generational projection from the Mortality Improvement Scale MP-2016.

The actuarial assumptions not listed in > TABLE 077, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts in the companies concerned.

The significant weighted-average assumptions shown in > TABLE 078 were applied to the calculation of the net interest cost and the cost of benefits earned in the current year (current service cost).

Differences between the forecast and actual change in the defined benefit obligation and changes in related assets (known as remeasurements) are recognised immediately in other comprehensive income (loss) in accordance with IAS 19. This serves to ensure that the pension liability in the statement of financial position is the present value of the defined benefit obligation.

In the case of externally funded pension plans, this present value of the defined benefit obligation is reduced by the fair value of the assets of the external pension fund (plan assets). If the plan assets exceed the present value of the defined benefit obligation (net assets), a corresponding asset is recognised in accordance with IAS 19. IAS 19.64 in conjunction with the supplementary explanatory information in IFRIC 14 states that the recognition of

which oversees the running of the plan as well as its funded status and the investment strategy. The members of the board of trustees comprise people appointed by the company involved and selected plan beneficiaries.

Under UK law, the board of trustees is obliged to have a valuation of the plan carried out at least every three years. 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 in March 2016 on certain assumptions relevant to the valuation, 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 €3.6 million in 2017 in order to reduce the deficit. The trustees and the Company are currently assessing the valuation of the pension plans as at 1 January 2018.

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 €20.3 million were extended for the benefit of the pension funds. The term of this collateral is limited to four years (1 July 2021), and the overall limit will not be reduced by payments made by the KION Group. The likelihood of the guarantee being used is deemed low in view of the position of the individual companies with regard to their current and future financial and earnings situations.

United States

Following the acquisition of Dematic, the KION Group maintains three main defined benefit pension plans in the US. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits.

Unionised employees receive pension entitlements on the basis of fixed amounts for each month of service. Salaried employees receive benefits that generally depend on their period of service and on their average final salary fixed on the date the plan concerned was frozen. These defined benefit plans have been frozen for some time now in relation to future periods of service.

Two of the plans are subject to statutory minimum funding provisions that specify a certain coverage ratio and provide for annual payments amounting to approximately the equivalent of €5.3 million to maintain the required ratio.

Other countries

Furthermore, significant asset volumes are invested in external pension funds with restricted access in Switzerland and the Netherlands. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. They also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

Measurement assumptions

In accordance with IAS 19 'Employee Benefits', pension provisions are recognised to cover obligations arising from the current and future pension entitlements of active and (after the vesting period has expired) former employees of the KION Group and their surviving dependants. The discount rate used to calculate the defined benefit obligation at each reporting date is determined on the basis of current capital market data and long-term assumptions about future salary and pension increases in accordance with the best estimate principle. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations.

Benefit obligations are calculated on the basis of current biometric probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service and about the probability of retirement. The defined benefit obligation is calculated on the basis of the significant weighted-average assumptions as at the reporting date shown in > TABLE 077.

(31 December 2016: 92.8 per cent) – are in Germany, the United Kingdom and the US.

Germany

In Germany, the pension benefits granted under the 2001 pension benefit conditions and 2002 pension benefit conditions depend on employees' length of service and gross annual remuneration (pension component entitlement). The pension component is calculated by multiplying a certain percentage by an age-dependent annuitisation factor. The contribution rate is 3.4 per cent (2001 pension benefit conditions) or 2.0 per cent (2002 pension benefit conditions) of the gross remuneration that an employee earns in the computation period. Employees receive the pension entitlement that they have earned in the form of a monthly retirement pension or invalidity benefit or, in the event of their death, the entitlement is paid to their surviving dependants in the form of a widow's/widower's pension or orphans' pension. Members of the Executive Board and other executives are predominantly covered by individual pension plans. For details of the pension entitlements of KION GROUP AG Executive Board members, please refer to the information in note [45]. The amount of the benefits paid to executives depends on the type of entitlement. Under the 'old' individual pension plans, executives were entitled to a certain percentage of income as their pension benefit. By contrast, the employer-funded entitlement under the 'new' individual pension plans consists of two components: a fixed basic pension and a variable top-up pension through which annual components are earned within a defined contribution system. Both components depend on the seniority of the executive. The existing employer-funded company pension schemes for employees covered by collective pay agreements and those not subject to such agreements (2001 pension benefit conditions, 2002 pension benefit conditions, KION pension plan) was closed to new entrants with effect from 1 January 2018. From this date, the 2018 pension benefit conditions apply to new entrants at participating companies.

On 1 January 2018, the KION pension plan was replaced by the 2018 KION pension plan for all employees covered by collective pay agreements and those not subject to such agreements at participating companies. The new pension plans are also designed as defined contribution plans. The contributions are

invested on the capital markets and, at the same time, entitlement to a guaranteed pension benefit is granted.

In addition, employees in Germany are able to pay part of their salary into a company pension plan, for which KION provides a defined minimum rate of return to enable employees to build up their personal pension provision. The pension benefits consist of retirement, invalidity and surviving dependants' benefits. Each contribution made is converted into a capital component on the basis of a guaranteed minimum rate of return of 3.0 per cent and depending on the age of the employee. The capital components acquired each calendar year are added up to give the pension capital. When an insured event occurs, the pension capital is converted into an ongoing life-long pension or a one-off capital payment.

In Germany, the KION Group also helps employees to build up their own pension provision with an additional matching contribution for those employees who pay part of their salary into the KION pension plan. The additional matching contribution received by executives is 50.0 per cent of the amount they defer in a calendar year, although the absolute amount of this contribution is limited to a certain percentage of income (ranging from 2.5 per cent to a maximum of 5.0 per cent). All other employees who participate in the company pension scheme receive up to 0.4 per cent of their gross remuneration.

Some of the KION Group's pension obligations in Germany are financed by way of contractual trust arrangements (CTAs), which qualify as plan assets within the meaning of IAS 19. The trustees are required to follow a defined investment strategy and guidelines. There are no statutory minimum funding requirements. In the event of the Company's insolvency, the company pension scheme in Germany is to a large extent protected by law by the insolvency protection scheme (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit, PSVaG).

United Kingdom

In the United Kingdom, defined benefit pension obligations predominantly relate to two plans. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits. The amount of the pension depends on employees' length of service and final salary.

The two plans were closed to new employees more than ten years ago. Each plan is monitored by its own board of trustees,

Accumulated other comprehensive income (loss)

The breakdown of accumulated other comprehensive income (loss) is shown in > **TABLE 044**.

The currency translation adjustment contains the exchange differences arising from the financial statements prepared in a foreign currency of foreign subsidiaries, associates and joint ventures.

The gains/losses on the defined benefit obligation are the result of remeasuring defined benefit pension obligations (see also note [29]).

The gains/losses on hedge reserves are the effective portion of the changes in the fair value of the hedging instruments for cash flow hedges and net investment hedges. The gains/losses on available-for-sale financial instruments relate to the remeasurement of the equity investment in Balyo SA at fair value.

The gains/losses from equity-accounted investments contain the share of other comprehensive income (loss) from associates and joint ventures accounted for under the equity method.

Non-controlling interests

Non-controlling interests in companies in the KION Group amounted to €4.4 million (31 December 2016: €5.7 million).

[29] RETIREMENT BENEFIT OBLIGATION

The retirement benefit obligation is recognised for obligations to provide current and future post-employment benefits. Post-employment benefit plans are classified as either defined benefit plans or defined contribution plans, depending on the substance of the plan as derived from its principal terms and conditions.

Defined contribution plans

In the case of defined contribution pension plans, the Group pays contributions to government or private pension insurance providers based on statutory or contractual provisions, or on a voluntary basis. The Group does not enter into any obligations above and beyond the payment of contributions to an external pension fund. The amount of future pension benefits is based solely on the amount of the contributions paid by the employer (and in some cases the beneficiaries themselves) to the external pension fund, including income from the investment of these contributions. The total expense arising from defined contribution plans amounted to €92.9 million in 2017 (2016: €84.5 million). Of this total, contributions paid by employers into government-run schemes came to €72.8 million (2016: €75.0 million). The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

In the case of defined benefit plans, the beneficiaries are granted a specific benefit by the Group or an external pension fund. Due to future salary increases, the benefit entitlement at the retirement age of the beneficiary is likely to be higher than the amount granted as at the reporting date. Pensions are often adjusted after an employee reaches retirement age. The amount of the Group's obligation, which is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary, is expressed as the present value of the defined benefit obligation (DBO) including adjustments for future salary and pension increases.

The KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees. These pensions consist of fixed benefit entitlements and are therefore reported as defined benefit plans in accordance with IFRS. As at 31 December 2017, the KION Group had set up defined benefit plans in 13 countries. For all of the significant defined benefit plans within the Group, the benefits granted to employees are determined on the basis of their individual income, i.e. either directly or by way of intermediate benefit arrangements. The largest of the KION Group's defined benefit plans – together accounting for 93.0 per cent of the global defined benefit obligation

[28] EQUITY

Subscribed capital and capital reserves

As at 31 December 2017, the Company's share capital amounted to €118.1 million (31 December 2016: €108.8 million) and was fully paid up. It was divided into 118.1 million no-par-value shares (31 December 2016: 108.8 million).

The Annual General Meeting on 11 May 2017 voted to create new authorised capital that will enable the KION Group to continue to meet its funding needs quickly and flexibly. Subject to the consent of the Supervisory Board, the Executive Board is authorised until 10 May 2022 to increase the Company's share capital by up to €10.879 million by way of an issue of up to 10,879,000 new no-par-value bearer shares (2017 Authorised Capital).

With the consent of the Supervisory Board, the Executive Board of KION GROUP AG decided on 22 May 2017 to utilise the authorised capital created by the 2017 Annual General Meeting. The purpose of the capital increase was to partly refinance the bridge loan taken out for the acquisition of Dematic. The Company's share capital was increased by 8.55 per cent in return for cash contributions; shareholders' pre-emption rights were disapplied. The share capital was increased by issuing 9.3 million new no-par-value bearer shares. The gross proceeds from the capital increase came to €602.9 million. An amount of €593.6 million was paid into the capital reserves. The capital increase was entered in the commercial register on 23 May 2017.

The costs associated with the capital increase amounting to €3.0 million (net) were recognised directly in equity.

The total number of shares outstanding as at 31 December 2017 was 117,929,171 no-par-value shares (31 December 2016: 108,625,514 no-par-value shares). Between 10 October 2017 and 30 October 2017, a further 60,000 treasury shares were repurchased via the stock exchange at an average price of €72.15 in order to provide the shares for employees' own investments and the free shares under the KEEP 2017 employee share option programme. The total cost was €4.3 million. Due to the issue of 27,363 bonus shares under KEEP 2014 and 36,294 no-par-value shares (2016: 45,564 no-par-value shares) under KEEP 2017, KION GROUP AG held 160,829 treasury shares at the reporting

date (31 December 2016: 164,486). These treasury shares are not dividend-bearing and do not confer any voting rights. Further details on the KEEP employee share option programme can be found in note [44].

As at 31 December 2017, KION Group employees held options on a total of 50,166 no-par-value shares (31 December 2016: 67,106 no-par-value shares). The share options granted under the employee share option programme are not dividend-bearing and do not confer any voting rights.

Retained earnings

The changes in retained earnings are shown in the consolidated statement of changes in equity in > TABLE 044. The retained earnings comprise the net income (loss) for the financial year and past contributions to earnings by the consolidated entities, provided they have not been distributed.

The distribution of a dividend of €0.80 per share (2016: €0.77 per share) to the shareholders of KION GROUP AG resulted in an outflow of funds of €86.9 million in May 2017 (2016: €76.0 million).

Appropriation of profit

The Executive Board and the Supervisory Board propose to the Annual General Meeting to be held on 9 May 2018 that an amount of €116.7 million be appropriated from the distributable profit of KION GROUP AG for the 2017 financial year of €168.1 million for the payment of a dividend of €0.99 per dividend-bearing share. It is also proposed that a further sum of €51.2 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. If the net income is adjusted for remeasurement of deferred tax assets and liabilities in connection with the lowering of the corporate income tax rate in the United States, this equates to a dividend payout rate of around 35 per cent of the net income accruing to the shareholders of the KION Group.

Construction contracts

TABLE 075

in € million	2017	2016
Contract costs incurred and		
recognised profits (less recognised losses)	2,300.1	2,247.8
less progress billings	-2,469.4	-2,445.4
Total	-169.3	-197.6
thereof gross amount due from customers for contract work	94.7	103.1
thereof gross amount due to customers for contract work	-264.0	-300.7

Construction contracts with a net credit balance due from customers are included in trade receivables. Construction contracts with a net debit balance due to customers are reported under other current liabilities (see note [35]). Advances received in respect of construction contracts for which no work had yet been carried out amounted to €19.2 million as at 31 December 2017 (31 December 2016: €28.3 million). Customer retentions relating to construction contracts came to €0.3 million (31 December 2016: €0.6 million).

[27] CASH AND CASH EQUIVALENTS

The change in cash and cash equivalents is shown in the consolidated statement of cash flows. For more detailed information, please also refer to note [37]. > TABLE 076

Cash and cash equivalents

TABLE 076

in € million	2017	2016
Balances with banks, cash and cheques	172.8	276.0
Pledged cash	0.4	3.5
Total cash and cash equivalents	173.2	279.6

[25] INVENTORIES

The reported inventories break down as follows: > **TABLE 073**

The year-on-year expansion in inventories was largely attributable to increases in materials and supplies (17.2 per cent), work in progress (3.5 per cent) and finished goods (15.8 per cent). In 2017, write-downs of €18.0 million were recognised on inventories (2016: €17.8 million). Reversals of write-downs had to be recognised in the amount of €7.5 million (2016: €3.2 million) because the reasons for the write-downs no longer existed.

[26] TRADE RECEIVABLES

The trade receivables break down as follows: > **TABLE 074**

Valuation allowances of €51.1 million (31 December 2016: €40.4 million) were recognised for trade receivables.

The breakdown of construction contracts that had not been completed by the reporting date is presented in > **TABLE 075**.

Inventories

TABLE 073

in € million	2017	2016
Materials and supplies	185.2	158.0
Work in progress	109.0	105.3
Finished goods and merchandise	459.0	396.5
Advances paid	15.4	12.6
Total inventories	768.6	672.4

Trade receivables

TABLE 074

in € million	2017	2016
Receivables from third parties	958.5	863.6
thereof receivables from third parties before valuation allowances	1,009.6	904.0
thereof valuation allowances for overdue receivables > 90 days ≤ 180 days	-10.0	-4.8
thereof valuation allowances for overdue receivables > 180 days	-25.8	-24.7
thereof other valuation allowances for receivables	-15.3	-11.0
Trade receivables from non-consolidated subsidiaries	13.2	13.2
Trade receivables from equity-accounted investments and other investments	27.7	19.1
Construction contracts with a net credit balance due from customers	94.7	103.1
Total trade receivables	1,094.1	998.9

[24] OTHER ASSETS

Other assets of €108.5 million (31 December 2016: €98.5 million) comprise the following: > **TABLE 072**

Pension assets relate to asset surpluses from two defined benefit plans in the United Kingdom (31 December 2016: two), in which plan assets exceed the present value of the defined benefit obligation (see note [29]).

Other assets

TABLE 072

in € million	2017	2016
Pension assets	24.2	12.3
Other non-current assets	24.2	12.3
Deferred charges and prepaid expenses	40.2	49.5
Sundry tax receivables	44.0	36.6
Other current assets	84.3	86.2
Total other assets	108.5	98.5

[23] OTHER FINANCIAL ASSETS

The breakdown of other financial assets of €176.1 million (31 December 2016: €129.4 million) is shown in > **TABLE 071**.

The non-consolidated subsidiaries and other equity investments include the equity investment in Balyo SA in an amount of €11.7 million (31 December 2016: €2.7 million), which is measured at fair value due to Balyo's IPO in 2017.

Other financial assets

TABLE 071

in € million	2017	2016
Investments in non-consolidated subsidiaries and other investments	36.0	22.2
Loans receivable	2.2	4.6
Other financial investments	18.9	20.7
Other non-current financial assets	57.1	47.5
Derivative financial instruments	30.0	10.3
Financial receivables	30.3	21.3
Sundry other financial assets	58.7	50.3
Other current financial assets	119.0	82.0
Total other financial assets	176.1	129.4

[22] LEASE RECEIVABLES

In the case of leases under which KION Group entities lease assets directly to customers as part of the Group's financial services activities, the Group's net investment in the lease is reported as a lease receivable.

The amounts recognised as lease receivables are based on the following data: > **TABLE 070**

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €715.2 million (31 December 2016: €648.4 million).

Lease receivables include unguaranteed residual values of €107.3 million (31 December 2016: €87.6 million).

Lease receivables

TABLE 070

in € million	2017	2016
Gross investments	962.2	807.9
due within one year	262.5	225.6
due in one to five years	655.6	552.0
due in more than five years	44.1	30.2
Present value of outstanding minimum lease payments	875.8	731.5
due within one year	228.0	200.3
due in one to five years	605.3	503.3
due in more than five years	42.4	27.9
Unrealised financial income	86.5	76.3

[21] EQUITY-ACCOUNTED INVESTMENTS

The KION Group reported equity-accounted investments with a total carrying amount of €80.3 million as at 31 December 2017 (31 December 2016: €72.7 million).

The carrying amount of the equity-accounted investments mainly resulted from the shares (10.0 per cent) in Linde Hydraulics GmbH & Co. KG, Aschaffenburg ('Linde Hydraulics'), the shares (45.0 per cent) in Linde Leasing GmbH, Wiesbaden, and the shares (50.0 per cent) in JULI Motorenwerk s.r.o, Moravany, Czech Republic. The associates and joint ventures can be seen in the list of shareholdings (see note [47]). Their financial information is summarised below. > TABLES 068–069

Summarised financial information associates

TABLE 068

in € million	2017	2016
Total carrying amount	43.8	42.5
Profit (+)/loss (–) from continuing operations	5.2	0.2
Other comprehensive income	–0.7	0.3
Total comprehensive income	4.5	0.5

Summarised financial information joint ventures

TABLE 069

in € million	2017	2016
Total carrying amount	36.4	30.1
Profit (+)/loss (–) from continuing operations	8.5	6.3
Other comprehensive income	1.3	0.1
Total comprehensive income	9.7	6.4

The amounts in the tables are based on the share held by the KION Group in the relevant associate or joint venture.

[20] OTHER PROPERTY, PLANT AND EQUIPMENT

The changes in the carrying amounts of other property, plant and equipment are shown in > TABLE 067.

Land and buildings in the amount of €18.3 million (31 December 2016: €18.3 million) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

Plant & machinery and office furniture & equipment include assets from procurement leases (finance leases) amounting to €27.6 million (31 December 2016: €17.2 million). Depreciation on these assets came to €9.9 million in 2017 (2016: €5.6 million). The corresponding liabilities are reported as other financial liabilities.

Other property, plant and equipment

TABLE 067

in € million	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
Balance as at 01/01/2016	305.7	174.1	29.0	508.8
Group changes	69.1	80.9	10.7	160.7
Currency translation adjustments	-2.2	-0.3	-0.1	-2.6
Additions	10.0	59.7	24.8	94.5
Disposals	-0.3	-3.9	-2.3	-6.5
Depreciation	-13.9	-62.3	-	-76.2
Reclassification	5.8	18.7	-24.9	-0.4
Balance as at 31/12/2016	374.2	266.8	37.3	678.3
Gross carrying amount as at 31/12/2016	727.9	1,059.6	37.3	1,824.7
Accumulated depreciation	-353.7	-792.8	-	-1,146.4
Balance as at 01/01/2017	374.2	266.8	37.3	678.3
Group changes	1.4	2.0	0.3	3.7
Currency translation adjustments	-12.2	-10.0	-1.1	-23.3
Additions	9.7	90.2	37.2	137.0
Disposals	-1.5	-2.8	-6.0	-10.3
Depreciation	-18.3	-84.2	-	-102.4
Impairment	-0.5	-5.8	-	-6.2
Reclassification	3.0	18.0	-20.9	0.1
Balance as at 31/12/2017	355.9	274.3	46.7	676.9
Gross carrying amount as at 31/12/2017	714.6	1,091.5	46.7	1,852.8
Accumulated depreciation	-358.7	-817.2	-	-1,175.9

[19] RENTAL ASSETS

The changes in rental assets in 2017 and 2016 were as follows:

> TABLE 065

Rental assets		TABLE 065
in € million		
	2017	2016
Balance as at 01/01/	575.3	544.0
Group changes	0.5	6.1
Currency translation adjustments	-9.8	-2.9
Additions	347.2	286.1
Disposals	-77.0	-91.8
Depreciation	-185.2	-169.1
Reclassification	0.4	2.8
Balance as at 31/12/	651.4	575.3
Gross carrying amount as at 31/12/	1,114.7	990.0
Accumulated depreciation	-463.3	-414.6

Rental assets are allocated solely to the Industrial Trucks & Services segment. The breakdown of rental assets by contract type is shown in the following table: > TABLE 066

The rental assets item comprises assets resulting from short-term rentals ('operating leases as lessor') and assets in relation to which significant risks and rewards remain with the KION Group although they were sold ('sale with risk').

Rental assets broken down by contract types						TABLE 066
	Operating leases as lessor		Sale with risk		Total	
	2017	2016	2017	2016	2017	2016
in € million						
Industrial trucks	586.3	514.4	63.2	57.9	649.5	572.3
Truck equipment	1.9	3.0	0.0	0.0	1.9	3.0
Total rental assets	588.2	517.4	63.2	57.9	651.4	575.3

[18] LEASED ASSETS

The changes in leased assets in 2017 and 2016 were as follows:

> **TABLE 063**

Leased assets are attributable to the Industrial Trucks & Services segment and relate to industrial trucks in the amount of €522.3 million (31 December 2016: €429.7 million) that are leased to external customers under operating leases.

Leased assets include assets leased over the long term with a residual value of €420.8 million (31 December 2016: €367.5 million) that are funded by means of sale and leaseback transactions with leasing companies and leased assets with a residual value of €101.5 million (31 December 2016: €62.2 million) that are funded internally or by means of bank loans.

Leased assets resulted in non-cancellable minimum lease payments under operating leases with customers amounting to €514.3 million (31 December 2016: €402.7 million).

The following table shows the maturity structure of these future payments: > **TABLE 064**

Leased assets		TABLE 063
in € million	2017	2016
Balance as at 01/01/	429.7	334.4
Group changes	0.5	7.4
Currency translation adjustments	-2.2	-2.8
Additions	327.9	290.3
Disposals	-116.7	-103.0
Depreciation	-116.4	-94.2
Reclassification	-0.5	-2.4
Balance as at 31/12/	522.3	429.7
Gross carrying amount as at 31/12/	897.2	747.3
Accumulated depreciation	-374.9	-317.6

Minimum lease payments		TABLE 064
in € million	2017	2016
Cash receipts from future minimum lease payments	514.3	402.7
due within one year	185.2	144.7
due in one to five years	317.3	248.5
due in more than five years	11.8	9.6

Intangible assets

TABLE 062

in € million	Goodwill	Brand names	Technology & development	Sundry intangible assets	Total
Balance as at 01/01/2016	1,548.1	604.1	194.1	106.2	2,452.5
Group changes	1,961.8	353.5	519.1	824.3	3,658.7
Currency translation adjustments	63.0	-3.0	17.0	30.0	107.1
Additions	-	-	50.6	22.1	72.6
Disposals	-	-	-0.0	-0.1	-0.1
Amortisation	-	-0.3	-57.0	-57.9	-115.2
Balance as at 31/12/2016	3,572.9	954.3	723.7	924.6	6,175.6
Gross carrying amount as at 31/12/2016	3,572.9	956.2	933.1	1,154.7	6,616.8
Accumulated amortisation	-	-1.9	-209.3	-230.0	-441.2
Balance as at 01/01/2017	3,572.9	954.3	723.7	924.6	6,175.6
Group changes	9.5	-	-	0.1	9.6
Currency translation adjustments	-199.8	-0.9	-59.8	-86.0	-346.5
Additions	-	-	75.4	24.8	100.2
Disposals	0.0	-	-	3.7	3.7
Amortisation	-	-0.2	-69.0	-148.2	-217.5
Impairment	-	-8.6	-	-	-8.6
Balance as at 31/12/2017	3,382.5	944.6	670.3	719.0	5,716.4
Gross carrying amount as at 31/12/2017	3,382.5	955.2	917.2	1,049.5	6,304.3
Accumulated amortisation	-0.0	-10.6	-246.9	-330.5	-587.9

The total carrying amount for technology and development assets as at 31 December 2017 was €670.3 million (31 December 2016: €723.7 million). Development costs of €75.4 million were capitalised in the reporting year (2016: €50.6 million). Research and development costs totalling €137.0 million (2016: €96.5 million) were expensed. Furthermore, amortisation expenses of €69.0 million were recognised (31 December 2016: €57.0 million); these expenses are reported under cost of sales.

Other intangible assets relate in particular to licences, patents, software and customer relationships.

The change to the basis of consolidation in 2016 had been due almost entirely to the acquisition of the Dematic Group.

Notes to the consolidated statement of financial position

[17] GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is broken down by segment as follows: > **TABLE 061**

Goodwill broken down by segment

TABLE 061

in € million	2017	2016
Industrial Trucks & Services	1,511.0	1,504.9
LMH EMEA	817.7	813.4
STILL EMEA	549.7	546.5
KION Americas	23.5	23.5
KION Asia Pacific	120.1	121.6
Supply Chain Solutions	1,871.5	2,068.0
Dematic	1,871.5	2,068.0
Total goodwill	3,382.5	3,572.9

The change in goodwill in 2017 mainly resulted from currency effects. There was also an impact from the acquisitions of Eisengiesserei Dinklage GmbH and Nordtruck AB, from which goodwill totalling €9.5 million arose. In 2016, the change in goodwill was mainly due to the acquisition of Dematic and other businesses, from which goodwill totalling €1,949.1 million arose.

The Group intends to retain and further strengthen the Linde, STILL, OM STILL and KION brand names on a long-term basis. Brand names worth €466.2 million are assigned to the LMH EMEA CGU (31 December 2016: €466.3 million) and brand names worth €114.8 million to the STILL EMEA CGU (31 December 2016: €115.0 million). These assets are not amortised as they have an indefinite useful life. As at 31 December 2017, the brand names allocated to the KION APAC CGU had a residual value of €7.8 million (31 December 2016: €8.3 million) and had an indefinite useful life. In 2016, a value of €349.7 million was attributed to the Dematic brand name and allocated to the Supply Chain Solutions segment as part of the purchase price allocation. A value of €8.6 million was attributed to the Egemin Automation brand name

and allocated to the Supply Chain Solutions segment as part of the original purchase price allocation. In 2017, impairment losses of €8.6 million were recognised due to the Egemin Automation brand name being subsumed within the Dematic brand name. As a result, the brand names allocated to the Supply Chain Solutions segment decreased to a carrying amount of €350.6 million as at 31 December 2017 (31 December 2016: €359.6 million), of which €349.7 million was attributable to brand names with an indefinite useful life (31 December 2016: €358.3 million). The KION brand name is allocated to the Corporate Services segment and had a carrying amount as at 31 December 2017 of €5.1 million (31 December 2016: €5.1 million). This asset is not amortised as it has an indefinite useful life. > **TABLE 062**

[16] EARNINGS PER SHARE

Basic earnings per share is 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 (2017: 114,328,999 no-par-value shares; 2016: 103,241,256 no-par-value shares). The net income accruing to the shareholders of KION GROUP AG was €424.8 million (2016: €245.5 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 €3.72 (2016: €2.38). The 160,829 no-par-value treasury shares repurchased by KION GROUP AG were not included in this figure as at 31 December 2017 (31 December 2016: 164,486).

Diluted earnings per share is calculated by adding the potential dilutive no-par-value shares that employees can obtain for free under the employee share option programme (KEEP) 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 of 114,356,934 no-par-value shares issued (2016: 103,278,542 no-par-value shares). Diluted earnings per share for the reporting period came to €3.71 (2016: €2.38).

[15] OTHER INCOME STATEMENT DISCLOSURES

The cost of materials rose by €904.6 million in the reporting year to €3,573.7 million (2016: €2,669.1 million). The figure for 2016 only includes Dematic for two months because it was acquired on 1 November 2016.

Personnel expenses went up by €469.4 million to €1,989.7 million in 2017 (2016: €1,520.3 million). These personnel expenses included wages and salaries of €1,590.4 million (2016: €1,198.3 million), social security contributions of €320.8 million (2016: €258.4 million) and expenses for pensions of €78.5 million (2016: €63.6 million). The interest cost from the unwinding of the discount on estimated pension obligations is not recognised under personnel expenses and is instead reported under financial expenses as a component of interest cost of the defined benefit

obligation. Pension expenses essentially comprised the pension entitlements of €40.6 million vested in 2017 (2016: €35.3 million) and unrecognised past service income of €0.1 million (2016: €0.1 million) arising from plan amendments and curtailments.

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expenses on intangible assets amounted to €636.4 million in the reporting year (2016: €454.7 million). Inventories were written down by €18.0 million (2016: €17.8 million).

The breakdown of rental and lease payments expensed in the period and arising in connection with operating leases in which KION Group entities are lessees is as follows: > **TABLE 060**

The expenses in connection with sub-leases relate to leases and rental agreements in which KION Group entities are both lessors and lessees. These expenses were offset by income of €37.3 million in 2017 (2016: €43.8 million).

Lessee: Expenses recognised for operating lease payments

TABLE 060

in € million	2017	2016
Procurement lease contracts	126.4	89.6
Sublease contracts	35.9	36.3
Total recognised expenses for lease payments	162.4	125.9

Deferred taxes are recognised on tax loss carryforwards and interest carryforwards to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. The total amount of unrecognised deferred tax assets relating to loss carryforwards is therefore €124.5 million (2016: €139.6 million), of which €120.9 million (2016: €130.1 million) concerns tax losses that can be carried forward indefinitely.

The KION Group's corporation-tax loss carryforwards in Germany as at 31 December 2017 amounted to €109.1 million (31 December 2016: €126.1 million), while trade-tax loss carryforwards stood at €88.6 million (31 December 2016: €97.3 million). There were also foreign tax loss carryforwards totalling €481.1 million (31 December 2016: €547.8 million).

The interest that can be carried forward indefinitely in Germany as at 31 December 2017 amounted to €185.0 million (31 December 2016: €206.1 million).

The table below shows the reconciliation of expected income tax expense to effective income tax expense. The Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates, taking into account consolidation effects recognised in income. The expected tax rate applied in the reconciliation is 30.82 per cent (2016: 30.85 per cent). > **TABLE 059**

Income taxes

TABLE 059

in € million	2017	2016
Earnings before taxes	468.3	339.2
Anticipated income taxes	-144.3	-104.6
Deviations due to the trade tax base	-2.6	-4.0
Deviations from the anticipated tax rate	3.2	17.3
Losses for which deferred taxes have not been recognised	-27.9	-6.5
Change in tax rates and tax legislation	92.2	1.1
Non-deductible expenses	-5.8	-5.4
Non-taxable income/tax-exempt income	34.7	8.7
Taxes relating to other periods	16.2	-0.3
Deferred taxes relating to prior periods	3.7	5.0
Non-creditable withholding tax on dividends	-9.8	-
Other	-1.4	-4.4
Effective income taxes (current and deferred taxes)	-41.9	-93.1

Deferred tax liabilities are allocated to the following items in the statement of financial position: > **TABLE 058**

Deferred tax liabilities**TABLE 058**

in € million	2017	2016
Intangible assets and property, plant and equipment *	854.9	1,052.8
Financial assets	3.0	5.7
Current assets	296.9	214.8
Deferred charges and prepaid expenses	0.7	0.8
Provisions	16.6	15.5
Liabilities	60.1	36.9
Deferred income	5.5	4.4
Offsetting	-572.5	-448.4
Total deferred tax liabilities	665.2	882.5

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

The deferred tax liabilities essentially related to the purchase price allocation in the acquisition of the KION Group and Dematic, particularly for intangible assets and property, plant and equipment.

In 2017, deferred taxes – not including currency effects – of minus €10.5 million were recognised in other comprehensive income (loss), resulting in a decrease in equity (2016: €17.2 million, resulting in an increase in equity). Of this amount, deferred taxes of minus €8.0 million (2016: €16.7 million) arose from the remeasurement of the defined benefit obligation. Furthermore, deferred taxes of minus €2.4 million (2016: €0.4 million) were recognised in connection with realised and unrealised changes in the fair value of derivatives in cash flow hedges (minus €1.7 million; 2016: €1.1 million) and net investment hedges (minus €0.7 million; 2016: minus €0.7 million). In 2017, deferred taxes of minus €0.1 million were recognised for the first time on the remeasurement of available-for-sale financial instruments, resulting in a decrease in equity.

The deferred taxes recognised in the statement of financial position also rose as a consequence of the purchase price allocation in connection with the other acquisitions (2017: rise in deferred tax assets of €1.5 million; 2016 primarily in relation to the

Dematic acquisition: rise in deferred tax assets of €104.8 million and rise in deferred tax liabilities of €601.2 million). In addition, currency translation as at the reporting date led to deferred taxes of €33.9 million (2016: minus €18.0 million) that were predominantly attributable to the first-time consolidation of Dematic. These currency effects were recognised in other comprehensive income (loss) under cumulative translation adjustment, resulting in an increase in equity (2016: resulting in a decrease in equity).

In 2017, the parent company and subsidiaries that reported losses for 2017 or 2016 recognised net deferred tax assets on temporary differences and on loss carryforwards totalling €24.2 million (2016: €29.4 million). The assets were considered to be unimpaired because these companies are expected to generate taxable income in future.

No deferred tax assets have been recognised on tax loss carryforwards of €526.0 million (2016: €509.3 million) – of which €13.0 million (2016: €29.4 million) can only be carried forward on a restricted basis –, on interest carryforwards of €185.0 million (2016: €193.5 million) or on other temporary differences of €5.2 million (2016: €4.7 million).

(2016: expense of €0.3 million) relating to previous financial years. The deferred tax income included income of €92.2 million, which relates to the decision taken on 22 December 2017 to lower the corporate income tax rate in the United States from 35.0 per cent to 21.0 per cent.

At the reporting date, there were income tax assets of €14.4 million receivable from tax authorities (2016: €35.2 million) and income tax liabilities of €82.6 million (2016: €63.0 million).

Deferred taxes are recognised for temporary differences between the tax base and IFRS carrying amounts. Deferred taxes are determined on the basis of the tax rates that will apply at the recovery date, or have been announced, in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent plus the solidarity surcharge (5.5 per cent of corporate income tax). Taking into account the average trade tax rate of 15.00 per cent (2016:

15.03 per cent), the combined nominal tax rate for entities in Germany was 30.82 per cent (2016: 30.85 per cent). The income tax rates for foreign companies used in the calculation of deferred taxes were between 9.0 per cent and 34.0 per cent (2016: between 9.0 per cent and 40.0 per cent).

No deferred taxes have been recognised on temporary differences of €231.4 million (2016: €78.7 million) between the net assets reported in the consolidated financial statements for the Group companies and the tax base for the shares in these Group companies (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to dispose of investments in the foreseeable future.

Deferred tax assets are allocated to the following items in the statement of financial position: > **TABLE 057**

Deferred tax assets

TABLE 057

in € million	2017	2016
Intangible assets and property, plant and equipment*	143.9	109.9
Financial assets	1.0	1.0
Current assets	67.7	53.5
Deferred charges and prepaid expenses	2.3	1.7
Provisions	229.8	216.5
Liabilities	430.5	395.5
Deferred income	29.1	37.5
Tax loss carry forwards, interest carry forwards and tax credits	38.7	52.6
Offsetting	-572.5	-448.4
Total deferred tax assets	370.5	419.8

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

[13] FINANCIAL EXPENSES

Financial expenses break down as follows: > **TABLE 056**

Financial expense		TABLE 056
in € million	2017	2016
Interest expense from loans	29.6	16.0
Interest expense from corporate bond	–	18.9
Interest expense from promissory note	12.2	–
Interest cost of leases	47.6	50.8
Net interest expense from defined benefit plans	19.3	18.7
Amortisation of finance costs	8.8	7.9
Foreign currency exchange rate losses (financing)	66.6	45.6
Compounding of non-current financial liabilities	0.0	1.6
Other interest expenses and similar charges	29.2	25.1
Total financial expense	213.3	184.5

In 2017, financial expenses rose by €28.8 million year on year. This increase stemmed largely from the rise in the current interest expense on loans and the promissory note in connection with the acquisition of Dematic and from exchange rate losses (see note [12] for details of the countervailing exchange rate gains).

At the time of the early repayment of certain financial liabilities (see also note [30]), deferred borrowing costs of €3.5 million were reclassified as financial expenses. The prior-year figure included one-off financial expenses of €25.7 million, which were also incurred in connection with the optimisation of the financing structure.

The interest cost of leases relates to the interest portion of lease payments in financial services transactions in which the material risks and rewards are borne by KION Group entities as lessees (finance leases). Sale and finance leaseback operating sub-leases (SALB-FL-OL) incurred interest expenses of €27.7 million (2016: €28.3 million). The income from corresponding customer agreements is, according to IAS 17, a component of the

rental and lease payments received and is therefore reported within revenue rather than as interest income.

Net interest expense from defined benefit plans relates to the net interest cost of the net liability of pension plans applying the discount rate for plans in which pension obligations exceed plan assets.

[14] INCOME TAXES

The income tax expense of €41.9 million (2016: expense of €93.1 million) consisted of €184.9 million in current tax expense (2016: current tax expense of €86.2 million) and €143.0 million in deferred tax income (2016: deferred tax expense of €6.9 million). The current tax expense included income of €16.2 million

[12] FINANCIAL INCOME

Financial income breaks down as shown in > **TABLE 055**.

The increase in financial income in 2017 mainly resulted from gains in connection with foreign currency positions in internal financing and from the related hedging transactions. These gains were offset by corresponding exchange rate losses (see note [13]).

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group entities operate as lessors (finance leases).

The line item 'Net interest income from defined benefit plans' relates to the net interest income on the net assets of two pension plans in the United Kingdom in which plan assets exceed pension obligations.

Financial income

TABLE 055

in € million	2017	2016
Interest income from leases	36.2	36.4
Foreign currency exchange rate gains (financing)	87.5	42.2
Net interest income from defined benefit plans	0.4	1.1
Other interest and similar income	8.2	9.1
Total financial income	132.2	88.9

[10] OTHER EXPENSES

The breakdown of other expenses is as follows: > **TABLE 054**

Other expenses		TABLE 054
in € million	2017	2016
Foreign currency exchange rate losses	40.1	25.1
Losses on disposal of non-current assets	3.3	3.0
Impairment of non-current assets	14.8	–
Sundry expenses	12.8	13.8
Total other expenses	71.1	41.9

Gains arising from operational foreign currency positions recognised under foreign currency exchange rate gains (see note [9]) were offset by losses shown under foreign currency exchange rate losses. These arose partly in connection with the hedging of foreign currency positions in the operating business for which the hedge instruments in question do not form part of a documented hedging relationship. Of the total amount recognised as impairment of non-current assets, €8.6 million resulted from giving up the Egemin brand. The remaining amount was attributable to buildings, plant & machinery and office furniture & equipment.

[11] SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS

The share of profit (loss) of equity-accounted investments in the reporting year amounted to a profit of €13.6 million (2016: €6.5 million). Further details on equity-accounted investments can be found in note [21].

[9] OTHER INCOME

The breakdown of other income is as follows: > **TABLE 053**

Other income		TABLE 053
in € million	2017	2016
Foreign currency exchange rate gains	34.5	22.0
Income from reversal of provisions	2.5	6.0
Gains on disposal of non-current assets	3.3	2.4
Rental income	1.2	1.2
Sundry income	34.3	56.0
Total other income	75.7	87.7

The rise in foreign currency exchange rate gains was largely attributable to gains arising in the course of the Group companies' operating activities. This line item also contains gains on hedges that were entered into in order to hedge currency risk arising from the operating business but do not form part of a documented hedging relationships. Sundry income also included income from non-consolidated subsidiaries and other equity investments amounting to €2.1 million (2016: €3.0 million).

Notes to the consolidated income statement

[8] REVENUE

The revenue generated by the KION Group in the year under review broken down by product category is as follows: > **TABLE 052**

Revenue with third parties by product category

TABLE 052

in € million	2017	2016
Industrial Trucks & Services	5,626.9	5,200.5
New business	3,126.0	2,860.2
Service business	2,500.9	2,340.2
– Aftersales	1,429.5	1,363.8
– Rental business	619.3	558.3
– Used trucks	306.6	285.8
– Other	145.5	132.4
Supply Chain Solutions	2,001.8	364.7
Business Solutions	1,509.1	263.9
Service business	492.7	100.7
Corporate Services	24.8	22.1
Total revenue	7,653.6	5,587.2

The 'Supply Chain Solutions' line item includes revenue from construction contracts amounting to €1,725.6 million (2016: €325.4 million). The figure for 2016 only includes Dematic for two months because it was acquired on 1 November 2016.

Detailed information on the geographical breakdown of revenue is provided in note [41].

growth rates for the period thereafter. Any material changes to these and other factors might result in the recognition of impairment losses. Further information on goodwill can be found earlier in this note and in note [17].

Information on leases can be found in the sections on leases/short-term rentals, leased assets, rental assets and other property, plant and equipment in this note.

Defined benefit pension obligations are calculated on the basis of actuarial parameters. As differences due to remeasurements are taken to other comprehensive income (loss), any change in these parameters would not affect the net profit for the current period. For further details about sensitivity analysis in relation to the impact of all significant assumptions, please refer to the information about the retirement benefit obligation in note [29].

The recognition and measurement of other provisions is based on an estimate of the probability of the future outflow of resources, supplemented by past experience and the circumstances known to the Group at the reporting date. Accordingly, the actual outflow of resources for a given event may be different from the amount recognised in other provisions. Further details can be found in note [32].

Significant estimates are involved in calculating income taxes. These estimates may change on the basis of new information and experience (see also note [14]). In the year under review, this new information concerns the future tax rates in the US, which have a direct impact on the level of deferred taxes. Deferred tax assets on tax loss carryforwards and interest carryforwards are recognised on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carryforwards can be utilised. The actual amount of taxable income in future periods, and hence the actual utilisation of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognised.

On first-time consolidation of an acquisition, all identifiable assets and liabilities are recognised at their fair value at the acquisition date. The fair values of identifiable assets are determined using appropriate valuation techniques. These measurements are based, for example, on estimates of future cash flows, expected growth rates, exchange rates, discount rates and useful lives. In the event of material changes to assumptions or circumstances, estimates must be reassessed and this can lead to the recognition of an impairment loss for the asset concerned. For further information on acquisitions, see note [5].

Construction contracts are accounted for using the percentage-of-completion method based on management estimates of the contract costs incurred. If estimates change, or if there are differences between planned and actual costs, this is directly reflected in the profit or loss from construction contracts. The Operating Units continually review the cost estimates and adjust them as appropriate. Further information on construction contracts can be found earlier in this note.

Where necessary, the KION Group's accounting departments receive assistance from external advisors when making the estimates required.

The carrying amounts of the affected line items can be found in the relevant notes/the consolidated statement of financial position.

The impact of a change to an estimate is recognised prospectively when it becomes known and assumptions are adjusted accordingly.

plan has raised the valid expectation in those affected that the entity will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring and not associated with the ongoing activities of the entity concerned.

Share-based payments

IFRS 2 distinguishes between equity-settled and cash-settled share-based payment transactions.

Equity-settled share-based payment transactions are recognised at their fair value at the date of grant. The fair value of the obligation is recognised as an expense under functional costs over the vesting period and offset against capital reserves.

The portion of the fair value of cash-settled share-based payments that is attributable to service provided up to the valuation date is recognised as an expense under functional costs and is also reported as a liability. The fair value is recalculated on each reporting date until the end of the performance period. Any change in the fair value of the obligation must be recognised (pro rata temporis) under expenses.

Financial liabilities and other financial liabilities

The KION Group differentiates between financial liabilities held for trading at fair value through profit or loss (FLHfT) and financial liabilities at amortised cost using the effective interest method (FLaC).

The FLHfT category contains derivative financial instruments that do not form part of a formally documented hedge. These are reported under other financial liabilities and must be carried at fair value through profit or loss. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories.

All other financial liabilities reported under financial liabilities or other financial liabilities must be categorised as FLaC. These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted. These liabilities are then measured at amortised

cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

Trade payables

Trade payables are categorised as FLaC and, in the first period in which they are recognised, are carried at fair value net of the directly attributable transaction costs. In subsequent periods, these liabilities are measured at amortised cost using the effective interest method. Low-interest or non-interest-bearing liabilities due in more than one year are carried at their present value.

Assumptions and estimates

The preparation of the IFRS consolidated 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, and
- in evaluating the stage of completion in the case of long-term construction contracts.

Goodwill is tested for impairment annually at the level of the cash-generating units to which goodwill is allocated, applying the budget for 2018 and the medium-term planning for 2019 to 2020 combined with the growth predicted in the market forecasts for the projections for 2021 to 2022 and assuming division-specific

Derivative financial instruments

Derivative financial instruments are measured at their fair value and are reported as financial assets or financial liabilities as at the reporting date. They are initially recognised and derecognised in the financial statements on their settlement dates.

Currently, derivative financial instruments in the KION Group mainly comprise currency forwards and interest-rate swaps that are used for hedging purposes to mitigate currency risk and interest-rate risk.

In accordance with IAS 39, all derivative financial instruments must be measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. The KION Group currently uses cash flow hedges for currency risk and interest-rate risk.

In the case of cash flow hedges, derivatives are employed to hedge future cash flow risks from existing hedged items, planned transactions and firm obligations not reported in the statement of financial position. The effective portion of changes in the fair value of derivatives is initially recognised in other comprehensive income (loss) and is subsequently reclassified to the income statement when the corresponding hedged item is also recognised. The ineffective portion of the changes in fair value is recognised immediately in the income statement.

If the criteria for hedge accounting are not satisfied, changes in the fair value of derivative financial instruments are recognised in the income statement.

Further information on risk management and accounting for derivative financial instruments can be found in notes [39] and [40].

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the

plan assets used to cover the Group's benefit obligations. Plan assets are measured at fair value.

Remeasurements, including deferred taxes, are recognised in other comprehensive income (loss). It is not permitted to reclassify remeasurements recognised in other comprehensive income (loss) to profit or loss in future periods. The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the interest income from plan assets are netted and reported in net financial income/expenses. Further details can be found in note [29].

Other provisions

Other provisions are recognised when the Group has a legal or constructive obligation to a third party as the result of a past event that is likely to lead to a future outflow of resources and that can be reliably estimated. Where there is a range of possible outcomes and each individual point within the range has an equal probability of occurring, a provision is recognised in the amount of the mean of the individual points. Measurement is at full cost. Provisions for identifiable risks and contingent liabilities are recognised in the amount that represents the best estimate of the cost required to settle the obligations. Recourse claims are not taken into account. The settlement amount also includes cost increases identifiable as at the reporting date. Provisions with a maturity of more than twelve months are discounted using the standard market interest rate. The discount rate is a before-tax rate that reflects current market expectations for the time value of money and the specific risks inherent in the liability. The interest cost from unwinding the discount is recognised in interest expenses.

Warranty provisions are recognised on the basis of past or estimated future claim statistics. The corresponding expense is recognised in cost of sales at the date on which the revenue is recognised. Individual provisions are recognised for claims that are known to the Group.

Provisions for expected losses from onerous contracts and other business obligations are measured on the basis of the work yet to be performed.

A restructuring provision is recognised when a KION Group entity has prepared a detailed, formal restructuring plan and this

pletion method). The percentage of completion is the proportion of contract costs incurred up to the reporting date compared to the total estimated contract costs as at the reporting date (cost-to-cost method). Under the percentage-of-completion method, construction contracts are measured at the amount of the contract costs incurred to date plus the pro rata profit earned according to the percentage of completion. If it is probable that the total contract costs will exceed the contract revenue, the expected loss is immediately recognised as an expense in the financial year in which the loss becomes apparent. If the contract costs incurred and the profit and loss recognised exceed the progress billings, the excess is recognised as an asset under trade receivables (see note [26]). If the progress billings exceed the capitalised costs and recognised profit and loss, the excess is recognised as a liability under other liabilities (see note [35]).

If the outcome of a construction contract cannot be reliably estimated, the likely achievable revenue is recognised up to the amount of the costs incurred. Contract costs are recognised as an expense in the period in which they are incurred. Variations in the contract work, claims and incentive payments are recognised if they are likely to result in revenue and their amount can be reliably estimated.

Trade receivables

In the first period in which they are recognised, trade receivables categorised as loans and receivables (LaR) are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Cash and cash equivalents

Cash and cash equivalents comprise cash, credit balances with banks and current financial assets that can be transformed into cash at any time and are only subject to a minor level of volatility.

Other financial assets

Primary financial assets are initially recognised and derecognised in the financial statements on their settlement dates.

The KION Group differentiates between financial assets held for trading at fair value through profit or loss (FAHfT), available for sale financial assets (AfS) and financial assets classified as loans and receivables (LaR).

The FAHfT category contains derivative financial instruments that do not form part of a formally documented hedge. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories.

Available-for-sale financial assets (AfS) are carried at fair value. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised. Equity investments for which no market price is available are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted valuation techniques. At present there is no intention to sell these financial instruments.

In the first period in which they are recognised, financial assets categorised as loans and receivables (LaR) are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Carrying amounts of financial assets are tested for impairment on every reporting date and whenever indications of impairment arise. If there is an objective indication of impairment (such as a borrower being in significant financial difficulties), an impairment loss must be recognised directly in the income statement.

If objective facts in favour of reversing impairment losses are present on the reporting date, reversals are carried out to an appropriate extent. The recognition of reversals must not result in a carrying amount greater than the amortised cost that would have arisen if the impairment loss had not been recognised. In the case of debt instruments classified as available-for-sale financial assets (AfS), reversals of impairment losses are recognised in the income statement.

subject to a limit such that the carrying amount of the asset is no higher than its amortised cost. This does not apply to goodwill.

Equity-accounted investments

In accordance with the equity method, associates and joint ventures are measured as the proportion of the interest in the equity of the investee. They are initially carried at cost. Subsequently, the carrying amount of the equity investment is adjusted in line with any changes to the KION Group's interest in the net assets of the investee. The KION Group's interest in the profit or loss generated after acquisition is recognised in income. Other changes in the equity of associates and joint ventures are recognised in other comprehensive income (loss) in the consolidated financial statements in proportion to the Group's interest in the associate or joint venture.

If the Group's interest in the losses made by an associate or joint venture exceeds the carrying amount of the proportionate equity attributable to the Group, no additional losses are recognised. Any goodwill arising from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associate or joint venture.

If there is evidence that an associate or joint venture may be impaired, the carrying amount of the investment in question is tested for impairment. The carrying amount of the asset is compared with its recoverable amount. If the carrying amount is greater than the recoverable amount, an impairment loss is recognised for the equity investment.

Income taxes

In the consolidated financial statements, current and deferred taxes are recognised on the basis of the tax laws of the jurisdictions involved. Deferred taxes are recognised in other comprehensive income (loss) if they relate to transactions also recognised in other comprehensive income (loss).

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the IFRS carrying amounts and the tax base, as well as for temporary consolidation measures.

Deferred tax assets also include tax refund claims that arise from the expected utilisation of existing tax loss carryforwards and interest carryforwards in subsequent years and whose utilisation is reasonably certain according to current forecasts. On the basis of this estimate, deferred tax assets have been recognised on some loss carryforwards and interest carryforwards.

Deferred taxes are determined on the basis of the tax rates that will apply at the recovery date, or have been announced, in accordance with the current legal situation in each country concerned. In accordance with the provisions in IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets are offset against deferred tax liabilities to the extent that they have the same maturity and relate to the same taxation authority.

Inventories

Inventories are carried at the lower of cost and net realisable value. The acquisition costs of raw materials and merchandise are calculated on the basis of an average. The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overheads and production-related depreciation directly attributable to the production process. Administrative costs and social insurance/employee benefits are included to the extent that they are attributable to the production process. The amount recognised is an average value or a value determined in accordance with the FIFO method.

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated costs necessary to make the sale.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability, etc. If the reasons for the recognition of the write-downs no longer apply, they are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its cost.

Construction contracts

Receivables and revenue from construction contracts are recognised according to the stage of completion (percentage-of-com-

Other property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overheads. This includes production-related depreciation and proportionate costs for administration and social insurance/employee benefits.

The cost of property, plant and equipment is reduced by the amount of any government grants received, provided the relevant requirements are met. Expenses for maintenance and repairs are recognised in income to the extent that they are not required to be capitalised. Borrowing costs are capitalised for certain items of property, plant and equipment whose acquisition or production exceeds one year as soon as the definition of a qualifying asset is met. As was the case in the previous year, there were no qualifying assets in 2017.

Depreciation of property, plant and equipment is recognised on a straight-line basis and reported under functional costs. The useful lives and depreciation methods are reviewed annually and adjusted to reflect changes in conditions.

The useful lives below are applied in determining the carrying amounts of items of property, plant and equipment. > **TABLE 051**

KION Group companies also lease property, plant and equipment for their own use through finance leases, which are recognised as other property, plant and equipment. In this case, the lower of the fair value and present value of future lease payments is recognised at the inception of the lease. A corresponding liability to the lessor is recognised under other financial liabilities in the statement of financial position.

Property, plant and equipment covered by finance leases is depreciated over the shorter of its useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the property, plant and equipment is depreciated and the other financial liabilities are reversed over the useful life of the leased assets.

The difference between total finance lease liabilities and the fair value of the financed leased assets represents the finance charge which is recognised in the income statement over the term of the lease at a constant rate of interest on the outstanding balance in each period. At the end of the lease term, the leased assets are returned or purchased, or the contract is extended.

If there are certain indications of impairment of the property, plant and equipment, the assets are tested for impairment by comparing the residual carrying amount of the assets with their recoverable amount, which is defined as the higher of value in use and fair value less costs to sell. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for an asset. The impairment losses on property, plant and equipment are reported under other expenses.

If the recoverable amount is calculated on the basis of value in use, the expected future cash flows are discounted using a risk-adjusted discount rate, taking into account the current and future level of earnings and segment-specific, technological, economic and general trends.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer applies, the relevant impairment losses are reversed, but

Useful life of other property, plant and equipment

TABLE 051

	Years
Buildings	10–50
Plant and machinery	3–15
Office furniture and equipment	2–15

Leases/short-term rentals

KION Group entities lease industrial trucks and related items of equipment to their customers in order to promote sales. The leases may be of a short-term nature (short-term rental) or long-term nature (leasing).

Entities in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, these contracts are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased/rental asset are transferred to the lessee. All other rentals and leases are classified as operating leases, again in accordance with IAS 17.

If a KION Group entity enters into a finance lease as the lessor, the future lease payments to be made by the customer are recognised as lease receivables at an amount equal to the net investment in the lease. Interest income is allocated to each reporting period in order to ensure a constant return on the outstanding net investment in the lease.

Leased assets

If the beneficial ownership of leased assets remains with a KION Group entity as the lessor under an operating lease, the assets are reported as leased assets in a separate item in the statement of financial position. The leased assets are carried at cost and depreciated on a straight-line basis over the term of the underlying leases.

To fund leases, industrial trucks are generally sold to leasing companies. The industrial trucks are then leased back to entities in the Industrial Trucks & Services segment (head lease), who sub-lease them to external end customers (described below as 'sale and leaseback sub-leases'). If, in the case of sale and leaseback sub-leases, the risks and rewards incidental to the head lease are substantially borne by entities in the Industrial Trucks & Services segment, the corresponding assets are reported as leased assets within non-current assets. These leased assets are reported in the statement of financial position at the lower of the present value of the minimum lease payments and fair value. However, if substantially the risks and rewards incidental to the head lease are transferred to the end customer, a corresponding lease receivable is recognised. In both cases, the funding items

for these long-term customer leases, which are funded for terms that match those of the leases, are recognised as lease liabilities.

Rental assets

Rental assets are assets resulting from short-term rentals as well as industrial trucks in relation to which significant risks and rewards remain with the KION Group despite the trucks having been sold ('sale with risk').

In the case of short-term rentals, entities in the Industrial Trucks & Services segment rent industrial trucks to end customers directly. Short-term rental agreements usually have a term of one day to one year. The risks and rewards remain substantially with the entities in the Industrial Trucks & Services segment. The industrial trucks are carried at cost and depreciated on a straight-line basis over the normal useful life of between five and seven years, depending on the product group. If a sale-and-leaseback arrangement is in place for refinancing purposes, the assets are reported in the statement of financial position at the lower of the present value of the minimum rental payments and fair value.

In an indirect end customer finance arrangement, industrial trucks are sold to finance partners who enter into leases with end customers. If entities in the Industrial Trucks & Services segment provide residual value guarantees on a significant scale or provide a customer default guarantee ('sale with risk'), these transactions, which are classified as sale agreements under civil law, are recognised in accordance with the provisions relating to lessors with operating leases in conjunction with the IFRS principles for revenue recognition. In this case, the trucks are recognised as assets in the statement of financial position at their cost on the date of the sale and written down to their guaranteed residual value, or zero, on a straight-line basis over the period until the residual value guarantee or the customer default guarantee expires. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under other financial liabilities.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at historical cost less all accumulated amortisation and all accumulated impairment losses. If events or market developments suggest impairment has occurred, impairment tests are carried out on the carrying amount of items classified as other intangible assets with a finite useful life. The carrying amount of an asset is compared with its recoverable amount, which is defined as the higher of its value in use and its fair value less costs to sell. If the reasons for recognising impairment losses in the past no longer apply, the relevant impairment losses are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its amortised cost.

Other intangible assets with an indefinite useful life are carried at cost and are capitalised brand names. Brand names are not amortised because they have been established in the market for a number of years and there is no foreseeable end to their useful life. In accordance with IAS 36, they are tested for impairment at least once a year or whenever there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill and uses the same assumptions. Assessments of indefinite useful life are carried out in every period.

Development costs are capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset,
- the intention to complete the intangible asset and use or sell it,
- the ability to use or sell the intangible asset,

- the likelihood that the intangible asset will generate future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Capitalised development costs include all costs and overheads directly attributable to the development process. Once they have been initially capitalised, these costs and internally generated intangible assets – particularly internally generated software – are carried at cost less accumulated amortisation and accumulated impairment losses. Internally generated intangible assets are not qualifying assets so finance costs are not capitalised. All non-qualifying development costs are expensed as incurred and reported in the income statement under research and development costs together with research costs.

Amortisation of intangible assets with a finite useful life is recognised on a straight-line basis and, with the exception of the amortisation expense on capitalised development costs, is reported under functional costs. The impairment losses on intangible assets are reported under other expenses.

The useful lives shown in > TABLE 050 are applied in determining the carrying amounts of other intangible assets.

Useful life of other intangible assets

TABLE 050

	Years
Customer relationships/client base	4–15
Technology	10–15
Development costs	5–7
Patents and licences	3–15
Software	2–10

Goodwill

Goodwill has an indefinite useful life and is therefore not amortised. Instead, it is tested for impairment in accordance with IAS 36 'Impairment of Assets' at least once a year, and more frequently if there are indications that the asset might be impaired.

Impairment testing for goodwill is performed at the level of the individual cash-generating units (CGUs) or groups of CGUs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. CGUs are generally based on the lowest level of an entity at which – for internal management purposes – the management systematically monitors and controls goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments. The 2017 forecast, the budget for 2018, the medium-term planning for 2019 to 2020 and the KION Group's internal projections for 2021 to 2022 were drawn up on the basis of this reporting structure.

The CGUs identified for the purposes of testing goodwill and brand names for impairment equate to the Operating Units LMH EMEA, STILL EMEA, KION APAC, KION Americas in the segment Industrial Trucks & Services and Dematic in the segment Supply Chain Solutions.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows forecast for the next five years are included in the calculation for the impairment test in accordance with IAS 36.33(b). The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. Cash flows beyond the five-year planning horizon were extrapolated for the LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic CGUs using a growth rate of 0.5 per cent (2016: 0.5 per cent).

CGU cash flows are discounted using a weighted average cost of capital (WACC) that reflects current market assessments of the specific risks to individual CGUs.

Yield curve data from the European Central Bank (three-month average, rounded) was used to determine the risk-free interest rate; as at 1 November 2017, the rate was 1.25 per cent (1 November 2016: 0.6 per cent). The market risk premium derived from empirical studies of the capital markets was set at 6.75 per cent (2016: 7.0 per cent) and was within the band recommended by the technical committee for business valuation and administration (FAUB) of the German Institute of Auditors (IDW), which is 5.5 per cent to 7.0 per cent.

The implied return on equity was 8.0 per cent, which was slightly higher than in the previous year (2016: 7.6 per cent). The mark-up for the assumed country risk was 0.16 per cent for the LMH EMEA CGU (2016: 0.16 per cent), 0.19 per cent for the STILL EMEA CGU (2016: 0.21 per cent), 0.85 per cent for the KION APAC CGU (2016: 0.78 per cent), 1.62 per cent for the KION Americas CGU (2016: 1.67 per cent) and 0.11 per cent for the Dematic CGU (2016: 0.15 per cent).

The underlying capital structure for the LMH EMEA, STILL EMEA, KION APAC and KION Americas CGUs is determined by comparing peer group companies in the same sector. The beta factor derived from this peer group was 1.05 (2016: 1.00). A leverage ratio of 26.8 per cent (2016: 25.8 per cent) was calculated based on the capital structure determined for the peer group. Based on a sector-specific peer group, a leveraged beta of 0.89 (2016: 0.88) and a leverage ratio of 0.0 per cent (2016: 1.8 per cent) were used for the Dematic CGU.

The WACC before tax, which is used to discount the estimated cash flows, was calculated at 9.3 per cent for LMH EMEA, 9.3 per cent for STILL EMEA, 8.9 per cent for KION APAC, 11.7 per cent for KION Americas and 9.8 per cent for Dematic. The WACC after tax was 6.6 per cent for LMH EMEA, 6.7 per cent for STILL EMEA, 7.6 per cent for KION APAC, 7.8 per cent for KION Americas and 7.6 per cent for Dematic.

The impairment test carried out in the fourth quarter of 2017 did not reveal any need to recognise impairment losses for the existing goodwill recognised for the LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic CGUs. Using sensitivity analysis, it was determined that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits, in particular variations in WACC of plus or minus 100 basis points.

that a future economic benefit will accrue to the entity and that it can be reliably measured. Other criteria may arise, depending on each individual transaction, such as:

Sale of goods

Revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the risks and rewards incidental to the ownership of the goods sold are substantially transferred to the customer and the flow of benefits to the Group is considered to be sufficiently probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Appropriate provisions are recognised for risks relating to the sale of goods.

Rendering of services

Revenue from the rendering of services is recognised in the year in which the services are rendered. For services provided over several periods, revenue is recognised in accordance with the proportion of the total services rendered in each period (stage of completion). Revenue from long-term service agreements is therefore recognised on the basis of the average term of the service agreements and in line with progressive costs (constant margin).

Revenue from financial service transactions is recognised in the amount of the sale value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. If industrial trucks are first sold to and then leased back from a finance partner to refinance leases, the selling margin in connection with an operating lease sub-lease is deferred and recognised as revenue in profit or loss over the term of the refinancing. In addition, as part of the financial services provided by the Group, industrial trucks are sold to finance partners who enter into leases directly with the end customer ('indirect end customer finance'). If significant risks and rewards remain with KION Group companies as a result of an agreed residual value guarantee that accounts for more than 10 per cent of the asset's value or as a result of an agreed customer default guarantee ('sale with risk'), the proceeds from the sale are deferred and recognised as revenue on a straight-line basis over the term until the residual value guarantee or the default guarantee expires.

Construction contracts

Revenue from construction contracts is recognised according to the stage of completion (percentage-of-completion method).

Interest income and royalties

Interest income is recognised pro rata temporis in accordance with the effective interest method. Income from royalties is deferred in accordance with the substance of the relevant agreements and recognised pro rata temporis.

Cost of sales

The cost of sales comprises the cost of goods and services sold and includes directly attributable material and labour costs as well as directly attributable overheads, including depreciation of production equipment, amortisation expense on capitalised development costs and certain intangible assets, and write-downs of inventories. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Financial income and expenses

Financial income and expenses mainly consist of interest expenses on financial liabilities, interest income from financial receivables, interest income from leases and the interest cost on leases, exchange rate gains and losses on financial activities and the net interest cost of the defined benefit obligation.

Interest income and expenses are recognised in profit and loss in accordance with the effective interest method. The effective interest method is used for calculating the amortised cost of a financial asset or financial liability and the allocation of interest income and interest expenses over the relevant periods.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the consolidated income statement under other income, provided they are dividends from subsidiaries carried at cost.

[6] CURRENCY TRANSLATION

Financial statements in foreign currencies are translated in accordance with the functional currency concept (IAS 21 'The Effects of Changes in Foreign Exchange Rates'). The functional currency is the currency of the primary economic environment in which an entity operates. The modified closing-rate method is used for currency translation.

The assets and liabilities of foreign subsidiaries, including goodwill, are translated at the middle spot exchange rate, i.e. at the average of the bid or offer rates on the reporting date. Income and expenses are translated at the average rate. With the exception of income and expenses recognised as other comprehensive income (loss), equity is recognised at historical rates. The resulting translation differences are not taken to income and are recognised in other comprehensive income (loss) until subsidiaries are disposed of.

The financial statements of foreign equity-accounted investments are also translated using the method described above.

Transactions of the consolidated entities in foreign currencies are translated into the relevant company's functional currency at the rate prevailing on the transaction date. On the reporting date, monetary items are translated at the closing rate and non-monetary items at the rate prevailing on the transaction date. Currency

translation differences are taken to income and recognised in other income/expenses or in net financial income/expenses.

The translation rates used for currencies that are material to the financial statements are listed in > **TABLE 049**.

[7] ACCOUNTING POLICIES

The accounting policies applied in these consolidated financial statements are, besides the aforementioned accounting policies to be adopted for the first time in 2017, fundamentally the same as those used for the year ended 31 December 2016. These consolidated financial statements are based on the financial statements of the parent company and its consolidated subsidiaries prepared in accordance with the standard accounting policies applicable throughout the KION Group.

Revenue recognition

Revenue is the fair value of the consideration received for the sale of products and services and rental and lease income (excluding VAT) after deduction of trade discounts and rebates. In accordance with IAS 18, revenue is recognised when it is sufficiently probable

Major foreign currency rates in €

TABLE 049

	Average rate		Closing rate	
	2017	2016	2017	2016
Australia (AUD)	1.4734	1.4884	1.5372	1.4597
Brazil (BRL)	3.6090	3.8560	3.9785	3.4288
China (CNY)	7.6292	7.3501	7.8024	7.3382
United Kingdom (GBP)	0.8764	0.8193	0.8881	0.8535
U.S.A. (USD)	1.1300	1.1069	1.2005	1.0517

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

TABLE 048

in € million	Fair value at the acquisition date
Goodwill	9.5
Other property, plant and equipment	3.7
Leased/Rental assets	1.0
Lease receivables	7.3
Trade receivables	3.8
Cash and cash equivalents	0.3
Other assets	5.2
Total assets	30.7
Financial liabilities	4.0
Lease liabilities	7.9
Trade payables	3.6
Other liabilities	4.1
Total liabilities	19.6
Total net assets	11.1
Cash payment	7.2
Consideration transferred	7.2
Previously held share of equity	4.0
Total	11.1

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 048.

The 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 goodwill derived from Nordtruck AB is assigned to the LMH EMEA Operating Unit, while that derived from Eisengiesserei Dinklage GmbH is assigned to the STILL EMEA Operating Unit.

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 totalling €6.9 million for these transactions.

The purchase price allocations for the other acquisitions presented were considered provisional as at 31 December 2017 because some details, particularly the measurement of intangible assets, provisions and leases, had not yet been fully evaluated. In addition, the deferred taxes should be considered provisional.

[5] ACQUISITIONS

Dematic purchase price allocation

The purchase price allocation for the acquisition of DH Services Luxembourg Holding S.à r.l., Luxembourg, on 1 November 2016 that was recognised in the consolidated financial statements of KION GROUP AG as at 31 December 2016 was provisional.

As part of the finalisation of the purchase price allocation (PPA) for the acquisition of Dematic in the third quarter of 2017, the intangible assets were allocated to individual companies. This adjustment resulted in a reduction of deferred tax liabilities and a corresponding decline of €13.1 million in goodwill.

As a result of the retrospective restatement of the purchase price allocation as at 1 November 2016, adjustments were also made to the carrying amounts as at 31 December 2016. These adjustments are presented in > TABLE 047.

Currency translation effects as at 31 December 2016 fell by a total of €39.4 million because goodwill and other intangible assets had been allocated to individual companies for the purposes of foreign currency translation. The retrospective adjustments to

the purchase price allocations did not have a material impact on the KION Group's consolidated income statement.

Other acquisitions

With effect from 3 October 2017, the remaining share capital and voting rights (75.0 per cent) in Nordtruck AB, Örnsköldsvik, Sweden, were acquired. The purchase consideration for these shares was €4.8 million. Remeasurement of the investment of 25.0 per cent previously held, which had been recognised at cost, resulted in a fair value of €1.6 million. The difference of €1.5 million resulting from remeasurement was taken to income and recognised in the consolidated income statement under other income.

Furthermore, the remaining share capital and voting rights (50.0 per cent) in Eisengiesserei Dinklage GmbH, Dinklage, Germany, were acquired with effect from 15 November 2017. The purchase consideration for these shares was €2.4 million. Remeasurement of the investment of 50.0 per cent previously held, which had been recognised at cost, resulted in a fair value of €2.4 million. The difference of €0.9 million resulting from remeasurement was taken to income and recognised in the consolidated income statement under other income.

Consolidated statement of financial position

TABLE 047

in € million	31/12/2016 Before Adjustments	Adjustment Purchase price allocation Dematic	Effects from exchange differences	31/12/2016 After Adjustments
Assets				
Goodwill	3,605.8	-13.1	-19.8	3,572.9
Other intangible assets	2,630.9	0.0	-28.2	2,602.7
Other property, plant and equipment	679.1	-	-0.8	678.3
Deferred taxes	420.2	-0.3	-0.1	419.8
Equity and liabilities				
Accumulated other comprehensive income	-207.0	-	-39.4	-246.4
Deferred taxes	905.3	-13.3	-9.5	882.5

German entities exempted from disclosure requirements

TABLE 046

Entities exempted	Head office
BlackForxx GmbH	Stuhr
Eisenwerk Weilbach GmbH	Wiesbaden
Fahrzeugbau GmbH Geisa	Geisa
KION Financial Services GmbH	Wiesbaden
KION Information Management Services GmbH	Frankfurt am Main
KION Warehouse Systems GmbH	Reutlingen
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Linde Material Handling GmbH	Aschaffenburg
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg
LR Intralogistik GmbH	Wörth an der Isar
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
STILL Financial Services GmbH	Hamburg
STILL Gesellschaft mit beschränkter Haftung	Hamburg
Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim

Shareholdings by categories

TABLE 045

	01/01/2017	Additions	Disposals	31/12/2017
Consolidated subsidiaries	139	7	8	138
Domestic	25	1	2	24
Foreign	114	6	6	114
Equity-accounted associates and joint ventures	9	–	–	9
Domestic	5	–	–	5
Foreign	4	–	–	4
Non-consolidated subsidiaries and other investments	60	3	7	56
Domestic	13	3	1	15
Foreign	47	–	6	41

A total of 24 German (2016: 25) and 114 foreign (2016: 114) subsidiaries were fully consolidated in addition to KION GROUP AG as at 31 December 2017.

In connection with the integration of Egemin and Retrotech into Dematic, a total of five subsidiaries were merged into other subsidiaries and were therefore no longer included in the basis of consolidation. KION Supply Chain Solutions Czech, s.r.o., Český Krumlov, Czech Republic, was founded in January 2017 and will start manufacturing modules for Dematic's automated conveyor systems from early 2018.

As had been the case a year earlier, nine joint ventures and associates were accounted for under the equity method as at 31 December 2017. In each case, the last available annual financial statements were used as the basis for measurement.

Equity investments in 56 (2016: 60) companies with minimal business volumes or no business operations were generally recognised at amortised cost. This includes the start-up Comnovo GmbH, which was acquired by Linde Material Handling GmbH in July 2017. The financial investment in Balyo SA is measured at fair value due to Balyo's IPO in 2017.

These non-consolidated subsidiaries and other equity investments (joint ventures and associates that are not accounted for using the equity method, plus financial investments) are of minor importance to the presentation of the financial position and financial performance of the KION Group, both individually and as a whole.

Where other requirements are met, the fully consolidated companies listed in > TABLE 046 are exempt from the obligation to disclose annual financial statements and to prepare notes to the financial statements and management reports in accordance with sections 264 (3) and 264b HGB on account of their inclusion in the consolidated financial statements. In the case of STILL Financial Services GmbH, it has been decided solely not to disclose the annual financial statements.

A detailed overview of all the direct and indirect shareholdings of KION GROUP AG is shown in the list of shareholdings (note [47]).

In the case of business combinations in stages, previously held equity interests are recognised at their fair value at the acquisition date. The difference between their carrying amount and fair value is recognised in the consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are likely to benefit from the business combination.

Transaction costs are immediately taken to income. Contingent consideration elements are included at fair value at the date of acquisition when determining the purchase consideration. Contingent consideration elements may consist of equity instruments or financial liabilities. Depending on the category, changes in their fair value are included in subsequent measurements.

The consolidated financial statements include all of the parent company's material subsidiaries. Intragroup balances, transactions, income and expenses, and gains and losses on intercompany transactions are eliminated in full. Deferred taxes are recognised on temporary differences arising from consolidation transactions.

Transactions with non-controlling interests are treated as transactions with the Group's equity providers. Differences between the consideration paid for the acquisition of a non-controlling interest and the relevant proportion of the carrying amount of the subsidiary's net assets are recognised in equity. Gains and losses arising from the sale of non-controlling interests are also recognised in equity, provided there is no change in control.

Associates and joint ventures that are of material importance to the presentation of the financial position and financial performance of the KION Group are accounted for using the equity method.

[4] BASIS OF CONSOLIDATION

KION GROUP AG's equity investments include subsidiaries, joint ventures, associates and financial investments.

In addition to KION GROUP AG, the consolidated financial statements of the KION Group include, using the acquisition method, all material subsidiaries over which KION GROUP AG exercises control. KION GROUP AG controls a subsidiary if it has decision-making power over the main activities of the entity and can use this power to affect the amount of the variable returns to which it is exposed as a result of the equity investment. Subsidiaries acquired in the course of the financial year are consolidated from the date on which control is obtained. Companies sold in the course of the financial year are deconsolidated from the date on which control is lost.

A joint venture is an equity interest in which the entity is jointly managed by companies in the KION Group and one or more partners on the basis of a contractual agreement, and these parties have rights to the net assets of the joint venture.

Associates are entities in which companies in the KION Group are able to exercise significant influence, either directly or indirectly, over the financial and operating policies of the entity concerned. Significant influence is assumed when KION GROUP AG holds between 20 per cent and 50 per cent of the voting rights.

Equity interests over which KION GROUP companies are unable to exercise control or a significant influence, or that are not jointly controlled by them, are classified as financial investments.

The number of equity investments broken down by category is shown in > **TABLE 045**.

For the majority of financial assets, the new classification rules in IFRS 9 do not require any change to the respective measurement model. However, the first-time adoption of IFRS 9 primarily results in changes to the subsequent measurement of financial assets. The KION Group applies the simplified impairment approach of IFRS 9 for the majority of financial assets and thus recognises life-time expected losses. As a result of the new impairment model, which is based on expected losses, the KION Group expects the loss allowance recognised for counterparty risks to be reduced by between €25.0 million and €35.0 million. The KION Group is adopting IFRS 9 for the first time from 1 January 2018; as permitted under the applicable transitional provisions, the prior-year figures will not be restated. Furthermore, it is expected that all existing hedging relationships will also satisfy the requirements in IFRS 9 regarding hedge accounting. The amended hedge accounting requirements are applied prospectively.

Based on the analysis of the implications of the first-time adoption of IFRS 15 as at the transition date, it is expected that the revenue recognition pattern (point in time vs. over time) for the vast majority of today's new business and service business contracts as well as construction contracts will not change. In the Supply Chain Solutions segment, KION expects that revenue will have to be recognised later for only a few, individual construction contracts currently accounted for by the percentage-of-completion method in accordance with IAS 11, because the IFRS 15 criteria for revenue recognition over time are not met. The resulting effect on the financial position of the KION Group is expected to be less than €50.0 million and for the financial performance insignificant. The KION Group is adopting IFRS 15 retrospectively for the first time with effect from 1 January 2018 and is restating the prior-year figures accordingly. Overall, there is no material impact on retained earnings as at 1 January 2017.

Analysis of the first-time adoption of IFRS 16 indicates that, as at the transition date, all off-balance procurement leases that were previously recognised as operating leases must in future be recorded in the statement of financial position as a right of use asset plus a corresponding lease liability. This will result in additional right of use assets of between €240.0 million and €280.0 million as well as liabilities from procurement leases of between €260.0 million and €300.0 million. Moreover, in relation to indirect end customer financing, the application of IFRS 15 and IFRS 16 is expected to result in a not insignificant proportion

of such transactions – previously regarded as sales transactions – being categorised as leases in future. In particular, this will cause leased assets to rise by between €660.0 million and €720.0 million. Correspondingly, there will be additional residual-value liabilities of between €290.0 million and €350.0 million as well as deferred revenues of between €520.0 million and €580.0 million. The KION Group is adopting IFRS 16 retrospectively for the first time with effect from 1 January 2018; it will restate the prior-year figures in accordance with the pertinent transitional provisions. As a result of retrospective adoption, the decrease in retained earnings as at 1 January 2017 is likely to be in the region of €145.0 million to €195.0 million.

The effects of the first-time adoption of the other aforementioned standards and interpretations on the presentation of the financial position and financial performance of the KION Group are expected to be immaterial.

[3] PRINCIPLES OF CONSOLIDATION

Acquisitions are accounted for using the acquisition method. In accordance with IFRS 3, the identifiable assets and the liabilities assumed on the acquisition date are recognised separately from goodwill, irrespective of the extent of any non-controlling interests. The identifiable assets acquired and the liabilities assumed are measured at their fair value.

The amount recognised as goodwill is calculated as the amount by which the acquisition cost, the amount of non-controlling interests in the acquiree and the fair value of all previously held equity interest at the acquisition date exceeds the fair value of the acquiree's net assets. If the cost of acquisition is lower than the fair value of the acquiree's net assets, the difference is recognised in income.

For each acquisition, the Group decides on a case-by-case basis whether the non-controlling interest in the acquiree is recognised at fair value or as a proportion of the net assets of the acquiree. KION GROUP AG recognises non-controlling interests at the proportionate value of the net assets attributable to them excluding goodwill.

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 in 2017:

- Amendments to IFRS 12 'Disclosure of Interests in Other Entities': amendments in connection with the annual improvements to IFRSs (2014–2016)
- Amendments to IAS 7 'Statement of Cash Flows': amendments in connection with the disclosure initiative
- Amendments to IAS 12 'Income Taxes': amendments relating to the recognition of deferred tax assets for unrealised losses on available-for-sale financial assets.

The first-time adoption of these amendments to standards has had no significant effect on presentation of the financial performance, financial position or notes to the financial statements of the KION Group. To provide a more detailed overview of the KION Group's financing-related incoming and outgoing payments, a reconciliation of liabilities arising from financing activities in the current reporting period has been added in note [37] in connection with improvements to the disclosure requirements.

Financial reporting standards released but not yet adopted

In its consolidated financial statements for the year ended 31 December 2017, the KION Group has not applied the following standards and interpretations, which have been issued by the IASB but were not yet required to be adopted in 2017:

- 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
- IFRS 9 'Financial Instruments'

- Amendments to IFRS 9 'Financial Instruments': amendments relating to the classification of particular prepayable financial assets
- IFRS 15 'Revenue from Contracts with Customers'
- Clarifications to IFRS 15 'Revenue from Contracts with Customers': amendments relating to the identification of performance obligations, classification as principal or agent, revenue from licences and transition relief
- IFRS 16 'Leases'
- IFRS 17 'Insurance Contracts'
- Amendments to IAS 19 'Employee Benefits': amendments in connection with the remeasurement of net defined benefit liabilities resulting from plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures': amendments in connection with the annual improvements to IFRSs (2014–2016)
- Amendments to IAS 28 'Investments in Associates and Joint Ventures': clarification relating to the accounting treatment of long-term interests that form part of the net investment in the associate or joint venture
- Amendments to IAS 40 'Investment Property': clarification in relation to transfers of property to, or from, investment property
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- IFRIC 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to IFRSs (2015–2017).

These standards and interpretations are expected to be applied by the entities included in the KION Group only from the date of mandatory initial application. An exception is IFRS 16 'Leases', which because of its interactions with IFRS 15 'Revenue from Contracts with Customers' is being adopted early, on 1 January 2018.

Notes to the consolidated financial statements

Basis of presentation

[1] GENERAL INFORMATION ON THE COMPANY

KION GROUP AG, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, is entered in the commercial register at the Wiesbaden local court under reference HRB 27060. The Company has had a new business address since November 2017: Thea-Rasche-Strasse 8, 60549 Frankfurt am Main, Germany.

Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China, is the company that prepares the global consolidated financial statements for the largest number of affiliated companies. These consolidated financial statements are not publicly available.

Weichai Power Co., Ltd., Weifang, People's Republic of China, is the company that prepares the global consolidated financial statements for the smallest number of affiliated companies. These are available in English on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the company (www.weichaipower.com).

The KION Group is a global leader in industrial trucks, warehouse technology, related services and supply chain solutions. In 2017, the Group's approximately 32,000 highly skilled employees generated €7,653.6 million in revenue (2016: €5,587.2 million).

The consolidated financial statements and the combined group management report and management report of the Company were prepared by the Executive Board of KION GROUP AG on 21 February 2018.

[2] BASIS OF PREPARATION

The consolidated financial statements of the KION Group for the financial year ended 31 December 2017 have been prepared in accordance with section 315e of the German Commercial Code (HGB) in conjunction with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) 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. All of the IFRSs and IFRICs that had been enacted by the reporting date and that were required to be applied in the 2017 financial year have been applied in preparing the consolidated financial statements.

In order to improve the clarity of presentation, certain items are aggregated in the statement of financial position and the income statement. The items concerned are disclosed and explained separately in the notes. Assets and liabilities are broken down into current and non-current items in accordance with IAS 1.60. The consolidated income statement is prepared in accordance with the cost of sales (function-of-expense) method.

The consolidated financial statements are prepared in euros, which is the Group's functional currency and reporting currency. 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. The separate financial statements of the subsidiaries included in the consolidation were prepared as at the same reporting date as the annual financial statements of KION GROUP AG.

TABLE 044

Accumulated other comprehensive income (loss)							
Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on hedge reserves	Gains/losses on available-for-sale financial instruments	Gains/losses from equity-accounted investments	Equity attributable to shareholders of KION GROUP AG	Non-controlling interests	Total
-11.4	-251.9	-0.2	0.0	-2.0	1,841.0	7.7	1,848.7
					245.5	0.5	246.1
71.0	-50.1	-1.7		-0.1	19.1	-0.6	18.5
71.0	-50.1	-1.7	0.0	-0.1	264.6	-0.1	264.6
					-76.0	0.0	-76.0
					459.3	0.0	459.3
					-2.0	0.0	-2.0
					0.0	-2.1	-2.1
					-2.8	0.0	-2.8
					3.2	0.0	3.2
					0.0	0.2	0.2
					2.6	0.0	2.6
59.7	-302.0	-1.9	0.0	-2.2	2,490.0	5.7	2,495.7
59.7	-302.0	-1.9	0.0	-2.2	2,490.0	5.7	2,495.7
					424.8	1.6	426.4
-314.8	18.7	3.7	8.4	1.6	-282.4	-0.5	-282.8
-314.8	18.7	3.7	8.4	1.6	142.5	1.1	143.6
					-86.9	0.0	-86.9
					602.9	0.0	602.9
					-3.0	0.0	-3.0
					0.0	-2.7	-2.7
					-4.3	0.0	-4.3
					3.3	0.0	3.3
					0.0	0.2	0.2
-255.1	-283.3	1.8	8.4	-0.6	3,144.4	4.4	3,148.8

Consolidated statement of changes in equity

Consolidated statement of changes in equity

in € million	Note	Subscribed capital	Capital reserves	Retained earnings
Balance as at 01/01/2016		98.7	1,996.6	11.3
Net income for the year				245.5
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		0.0	0.0	245.5
Dividend of KION GROUP AG	[28]			-76.0
Capital increase	[28]	9.9	449.4	
Transaction costs	[28]		-2.0	
Dividends paid to non-controlling interests				
Acquisition of treasury shares	[28]	-0.1	-2.7	
Changes from employee share option programme	[28]	0.0	3.2	
Effects from the acquisition/disposal of non-controlling interests	[28]			
Other changes				2.6
Balance as at 31/12/2016		108.6	2,444.4	183.4
Balance as at 01/01/2017		108.6	2,444.4	183.4
Net income for the year				424.8
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		0.0	0.0	424.8
Dividend of KION GROUP AG	[28]			-86.9
Capital increase	[28]	9.3	593.6	
Transaction costs	[28]		-3.0	
Dividends paid to non-controlling interests	[28]			
Acquisition of treasury shares	[28]	-0.1	-4.3	
Changes from employee share option programme	[28]	0.1	3.2	
Effects from the acquisition/disposal of non-controlling interests	[28]			
Balance as at 31/12/2017		117.9	3,034.0	521.3

Consolidated statement of cash flows (continued)

TABLE 043

in € million	Note	2017	2016
Capital contribution from shareholders for the carried out capital increase	[37]	598.6	456.7
Capital increase from issuing of employee shares	[28]	2.3	3.2
Acquisition of treasury shares		-4.3	-2.8
Dividend of KION GROUP AG		-86.9	-76.0
Dividends paid to non-controlling interests		-2.7	-2.1
Cash receipts/payments for changes in ownership interests in subsidiaries without change of control		0.5	0.3
Financing costs paid	[37]	-7.4	-23.2
Proceeds from borrowings	[37]	2,425.3	4,362.5
Repayment of borrowings	[37]	-3,340.0	-2,618.5
Interest received		7.5	8.0
Interest paid	[37]	-58.1	-76.3
Cash receipts/payments from other financing activities		-7.3	-5.5
Cash flow from financing activities	[37]	-472.5	2,026.3
Effect of foreign exchange rate changes on cash and cash equivalents		-12.2	0.2
Change in cash and cash equivalents		-106.4	176.5
Cash and cash equivalents at the beginning of the year	[37]	279.6	103.1
Cash and cash equivalents at the end of the year	[37]	173.2	279.6

* Net working capital comprises inventories, trade receivables and unbilled construction contracts (net) less trade payables and advances received

Consolidated statement of cash flows

Consolidated statement of cash flows

TABLE 043

in € million	Note	2017	2016
Earnings before interest and taxes		549.4	434.8
Amortisation, depreciation and impairment charges of non-current assets	[15]	636.4	454.7
Other non-cash income (-)/expenses (+)		24.6	45.0
Gains (-)/losses (+) on disposal of non-current assets		-0.2	1.7
Changes in leased assets (excluding depreciation) and lease receivables/liabilities	[18], [22], [31]	-143.6	-120.4
Change in rental assets (excluding depreciation) and liabilities for Finance Leases	[19], [34]	-205.8	-158.2
Change in net working capital*		-109.6	-28.6
Cash payments for defined benefit obligations	[29]	-28.2	-20.6
Change in other provisions	[32]	-4.0	4.7
Change in other operating assets/liabilities		33.2	-90.0
Taxes paid		-136.3	-108.7
Cash flow from operating activities	[37]	615.8	414.3
Cash payments for purchase of non-current assets	[37]	-218.3	-166.7
Cash receipts from disposal of non-current assets	[37]	4.0	6.4
Dividends received		9.3	9.6
Acquisition of subsidiaries (net of cash acquired) and other equity investments	[5], [37]	-13.3	-2,118.7
Cash receipts/payments for sundry assets		-19.3	5.0
Cash flow from investing activities	[37]	-237.6	-2,264.3

Consolidated statement of financial position – Equity and liabilities

TABLE 042

in € million	Note	2017	2016
Subscribed capital		117.9	108.6
Capital reserve		3,034.0	2,444.4
Retained earnings		521.3	183.4
Accumulated other comprehensive loss*		-528.8	-246.4
Non-controlling interests		4.4	5.7
Equity*	[28]	3,148.8	2,495.7
Retirement benefit obligation	[29]	1,002.7	991.0
Non-current financial liabilities	[30]	2,024.8	2,889.1
Lease liabilities	[31]	798.2	722.0
Other non-current provisions	[32]	95.6	92.3
Other financial liabilities	[34]	407.8	349.3
Other liabilities	[35]	235.7	202.8
Deferred taxes*	[14]	665.2	882.5
Non-current liabilities*		5,230.0	6,128.9
Current financial liabilities	[30]	243.9	293.9
Trade payables	[33]	923.9	802.2
Lease liabilities	[31]	332.9	285.2
Income tax liabilities	[14]	82.6	63.0
Other current provisions	[32]	149.0	163.4
Other financial liabilities	[34]	296.7	222.6
Other liabilities	[35]	820.7	842.1
Current liabilities		2,849.6	2,672.5
Total equity and liabilities*		11,228.4	11,297.0

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated statement of financial position

Consolidated statement of financial position – Assets

TABLE 041

in € million	Note	2017	2016
Goodwill *	[17]	3,382.5	3,572.9
Other intangible assets *	[17]	2,333.9	2,602.7
Leased assets	[18]	522.3	429.7
Rental assets	[19]	651.4	575.3
Other property, plant and equipment *	[20]	676.9	678.3
Equity-accounted investments	[21]	80.3	72.7
Lease receivables	[22]	647.8	531.3
Other financial assets	[23]	57.1	47.5
Other assets	[24]	24.2	12.3
Deferred taxes *	[14]	370.5	419.8
Non-current assets *		8,746.9	8,942.4
Inventories	[25]	768.6	672.4
Trade receivables	[26]	1,094.1	998.9
Lease receivables	[22]	228.0	200.3
Income tax receivables	[14]	14.4	35.2
Other financial assets	[23]	119.0	82.0
Other assets	[24]	84.3	86.2
Cash and cash equivalents	[27]	173.2	279.6
Current assets		2,481.5	2,354.6
Total assets *		11,228.4	11,297.0

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

TABLE 040

in € million	Note	2017	2016
Net income		426.4	246.1
Items that will not be reclassified subsequently to profit or loss		19.7	-50.4
Gains/losses on defined benefit obligation	[29]	18.7	-50.1
thereof changes in unrealised gains and losses		26.7	-66.9
thereof tax effect		-8.0	16.7
Changes in unrealised gains and losses from equity-accounted investments		1.0	-0.2
Items that may be reclassified subsequently to profit or loss		-302.5	68.9
Impact of exchange differences*		-315.2	70.5
thereof changes in unrealised gains and losses		-315.2	70.5
Gains/losses on hedge reserves	[40]	3.7	-1.7
thereof changes in unrealised gains and losses		11.6	21.8
thereof realised gains (-) and losses (+)		-5.5	-24.0
thereof tax effect		-2.4	0.4
Gains/losses on available-for-sale financial instruments		8.4	-
thereof changes in unrealised gains and losses		8.5	-
thereof tax effect		-0.1	-
Gains/losses from equity-accounted investments		0.6	0.1
thereof changes in unrealised gains and losses		0.6	0.1
Other comprehensive loss (income)		-282.8	18.5
Total comprehensive income		143.6	264.6
Attributable to shareholders of KION GROUP AG		142.5	264.6
Attributable to non-controlling interests		1.1	-0.1

* Prior-year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic, for details see note [5] to the consolidated financial statements

Consolidated income statement

Consolidated income statement

TABLE 039

in € million	Note	2017	2016
Revenue	[8]	7,653.6	5,587.2
Cost of sales		-5,699.1	-4,034.6
Gross profit		1,954.5	1,552.6
Selling expenses		-829.6	-662.4
Research and development costs		-137.0	-96.5
Administrative expenses		-456.8	-411.2
Other income	[9]	75.7	87.7
Other expenses	[10]	-71.1	-41.9
Profit (loss) from equity-accounted investments	[11]	13.6	6.5
Earnings before interest and taxes		549.4	434.8
Financial income	[12]	132.2	88.9
Financial expenses	[13]	-213.3	-184.5
Net financial expenses		-81.1	-95.7
Earnings before taxes		468.3	339.2
Income taxes	[14]	-41.9	-93.1
Current taxes		-184.9	-86.2
Deferred taxes		143.0	-6.9
Net income		426.4	246.1
Attributable to shareholders of KION GROUP AG		424.8	245.5
Attributable to non-controlling interests		1.6	0.5
Earnings per share according to IAS 33 (in €)	[16]		
Basic earnings per share		3.72	2.38
Diluted earnings per share		3.71	2.38

CONSOLIDATED FINANCIAL STATEMENTS

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The KION Group's medium- to long-term strategic opportunities in the Supply Chain Solutions segment arise, in particular, from

- further consolidation of its position in the market for intralogistics solutions based on the growing acceptance of automation concepts,
- the advancing digitalisation and automation of production and supply chains, and
- strengthening of the market position in the EMEA region – above all, central and eastern Europe – by using the sales structures of Industrial Trucks & Services.

Business-performance opportunities

Business-performance opportunities arise firstly from ongoing activities to modernise and streamline the KION Group's production facilities and from the worldwide integration of the production network. By investing in new locations and expanding existing ones, products can be assembled nearer to the markets in which they are to be sold, economies of scale can be achieved across the Group and synergies can be leveraged. Secondly, activities are carried out under the KION strategy aimed at improving operational excellence in logistics, technology & product development and production and at lowering material and quality costs, for example by reducing the complexity of the product range.

The following may lead to an increase in profitability in the medium term:

- Ongoing efficiency increases at production sites may boost sales and improve the gross margin.
- Effective use of global development capacities may create synergies and economies of scale.
- Activities to improve operational excellence and lower costs may help the KION Group to achieve future growth with a disproportionately small rise in costs.

Opportunity situation

Market opportunities

The economy as a whole may perform better than expected in 2018. In addition, circumstances may occur in the wider market at any time – such as quality problems at competitors or the effects of consolidation – that increase demand for products from the KION Group brands. New, unforeseen regulatory initiatives could be launched, for example the tightening of health and safety regulations or emissions standards, that would push up demand for products offered by the KION Group brands. Average prices for procuring commodities over the year may be cheaper than anticipated. Medium- to long-term market opportunities are presented, in particular, by:

- growing demand for intralogistics products, solutions and services as a consequence of globalisation, industrialisation and fragmentation of supply chains as well as efficiency increases that are needed due to limited warehouse space and changing consumer requirements
- high demand for replacement investments, especially in developed markets
- the trend towards outsourcing service functions, particularly in the market for industrial trucks, and growth in demand for finance solutions
- increased use of industrial and warehouse trucks powered by electric motors – one of the KION Group's particular strengths
- growing demand for automation solutions and fleet management solutions in connection with the rapidly expanding e-commerce sector and the implementation of Industry 4.0 projects

Strategic opportunities

The positive impact of the strategic activities under the KION strategy is already largely reflected in the expectations regarding the KION Group's financial performance in 2018. Nevertheless, the individual activities could create positive effects that exceed expectations. There is also a possibility that new strategic opportunities that were not part of the planning may arise over the course of the year, for example in the form of acquisitions and strategic partnerships.

The KION Group's medium- to long-term strategic opportunities in the Industrial Trucks & Services segment arise, in particular, from:

- achievement of a leading global market and technology position with regard to truck automation and innovative drive technologies as an integral element of automated warehouse solutions
- a greater presence in the economy and volume price segments, particularly as a result of the systematic implementation of the segment-wide platform strategy
- further strengthening of its market-leading position in the EMEA region and achievement of a significant position in the Americas region, in particular by boosting its technological expertise, making greater use of shared modules and harnessing potential for cross-selling
- expansion of the service portfolio, including financial services, at every stage of the product lifecycle, taking advantage of the high number of trucks in use and the installed base of supply chain solutions

several times in the past, this risk is contained by collaborating closely with employee representatives and, if job losses are necessary, taking comprehensive steps to ensure they are achieved with the minimum possible social impact.

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The Group companies are a party in a number of pending lawsuits in various countries. The individual companies cannot assume with any degree of certainty that they will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION Group is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were allegedly faulty or the Company allegedly failed to comply with contractual obligations. Further legal risk may arise as a result of the environmental restoration of sites that have been shut down in recent years, for example work required due to contamination. Any damage to the environment may lead to legal disputes and give rise to reputational risk.

The Company has taken measures to prevent it from incurring financial losses as a result of these risks. Although legal disputes with third parties have been insignificant both currently and in the past, the Company has a centralised reporting system to record and assist pending lawsuits. In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. In addition, interdisciplinary teams work on the avoidance of risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure compliance with mandatory laws, regulations and contractual arrangements at all times.

Owing to the KION Group's export focus, legal risk and reputational risk arise due to the numerous international and local export controls that apply. The Company mitigates these risks with a variety of measures. Consequently, export controls are an important part of the compliance activities carried out by the Group companies.

OPPORTUNITY REPORT

Principles of opportunity management

Opportunity management, like risk management, forms a central part of the Company's day-to-day management. In 2017, the aggregate opportunity position was largely unchanged compared with the previous year. Individual areas of opportunity are identified within the framework of the strategy process. Opportunities are determined and managed on a decentralised basis in line with the Group strategy.

There are monthly reports on the opportunity situation as part of the regular Group reporting process. As a result, the KION Group is in a position to ascertain at an early stage whether market trends, competitive trends or events within the Group require individual areas of opportunity to be re-evaluated. This may lead to reallocation of the budgets earmarked for the realisation of opportunities. Such decisions are made on the basis of the potential of the opportunity, drawing on empirical values. There is no management system for the evaluation of opportunities comparable to the system for risk management.

Categorisation of opportunities

'Opportunities' are understood as positive deviations from the expectations set out in the outlook relating to the economic situation and the KION Group's position. Opportunities are divided into three categories:

- Market opportunities describe the potential resulting from trends in the market and competitive environment and from the regulatory situation.
- Strategic opportunities are based on implementation of the Group's strategy. They may lead to positive effects that exceed planning assumptions.
- Business-performance opportunities arise in connection with operational activities along the value chain, such as restructuring or cost-cutting measures.

the liquidity planning and uses it to determine the funding requirements of each company.

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

Goodwill and brand names represented 38.5 per cent of total assets as at 31 December 2017 (31 December 2016: 40.1 per cent). Pursuant to IFRS, these assets are not amortised and their measurement depends, above all, on future expectations. If these future expectations are not fulfilled, there is a risk that impairment losses will have to be recognised on these assets.

The individual Group companies directly manage counterparty risks involving customers. These counterparty risks did not change significantly in 2017. Each individual Group company has established a credit management system for identifying customer-related counterparty risks at an early stage and initiating the necessary countermeasures. Analysis of the maturity structure of receivables is an integral element of monthly reporting.

Risks arising from financial services

The leasing activities of the Industrial Trucks & Services segment mean that the KION Group may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast. The KION Group regularly assesses its aggregate risk position arising from financial services.

The risks identified are immediately taken into account by the Company in the costing of new leases by recognising writedowns or valuation allowances and adjusting the residual values. Risk-mitigating factors include the demand for used trucks, which stabilises the residual values of the KION Group's industrial trucks. In many cases, the residual values are based on remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the financial results in 2017. Groupwide standards to ensure that residual values are calculated conservatively, combined with an IT system for

residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

The KION Group mitigates its liquidity risk and interest-rate risk attaching to financial services by ensuring that most of its transactions and funding loans have matching maturities and by constantly updating its liquidity planning. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

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

Because of low default rates, counterparty risk has not been significant to date in the Group. The KION Group has not identified any material changes between 2016 and 2017. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. Furthermore, receivables management and credit risk management are refined on an ongoing basis. Besides the design of the business processes, these refinements also encompass the risk management and risk control processes.

Moreover, the KION Group mostly offers financial services indirectly via selected financing partners that bear the risks of the finance transaction. As far as these financial services are concerned, the KION Group bore the counterparty risk in under 3 per cent of cases (2016: 3 per cent).

Human resources risks and legal risks

The KION Group relies on having highly qualified managers and experts in key roles. If they left, it could have a long-term adverse impact on the Group's prospects.

That is why the KION Group actively engages in HR work aimed at identifying and developing young professionals with high potential who already work for the Company and retaining them over the long term, thereby enabling succession planning for key roles across the Group. The KION Group also positions itself in the external market as an employer of choice. This will enable it to make strategic additions to its portfolio of existing staff and, in this way, avert the risk of possibly losing expertise and thereby becoming less competitive.

Any restructuring measures may result in a risk of strikes and reactions of other kinds by the workforce. As demonstrated

The potential risks that may arise in the project realisation phase are analysed in every individual project using detailed continuous reviews based on the individual items of work that make up the project. This keeps potential risks to a minimum.

Sales risks

The main sales risks – besides a drop in revenue caused by market conditions – result from dependence on individual customers and sectors. For example, it is possible that customers would postpone or cancel orders during a period of economic difficulty. There have not been any significant cancellations in previous years, however. It is also conceivable that customers would face a liquidity shortfall and therefore be unable to fulfil their payment obligations immediately or even at all. Because of its customer project business, the Supply Chain Solutions segment generally has a greater dependence on individual sectors and individual customers than the Industrial Trucks & Services segment. Nevertheless, the concentration risk for the KION Group overall is still considered to be low. The business is highly diversified from a regional perspective. In addition, the KION Group supplies companies of all sizes. Experience has shown that the KION Group's exposure to the risk of possible payment defaults is low, but this risk can be further mitigated by recovering any collateral.

IT risks

A high degree of interconnectedness between sites and with customers and other companies means that the KION Group also relies on its IT systems working flawlessly. The KION Group undertakes ongoing further development of a reliable, extendable and flexible IT system environment with the aim of countering any IT-related risks that may arise from the failure of IT systems and IT infrastructure. Internal IT resources are pooled in the cross-segment KION IT function, which has well-established processes for portfolio management and project planning and control. Independent external audits are conducted to provide additional quality assurance. Various technical and organisational measures protect the data of the KION Group and the Group companies against unauthorised access, misuse and loss. These measures include procedures to validate and log access to the Group's infrastructure.

Financial risks

Group Treasury is responsible for ensuring that sufficient financial resources are always available for the KION Group's international growth. The main types of financial risk managed by Group Treasury, including risks arising from funding instruments, are liquidity risk, currency risk, interest-rate risk and counterparty risk. Counterparty risk consists solely of credit risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks.

Non-current financial liabilities fell by €864.3 million from their level at 31 December 2016 to reach €2,024.8 million at the end of 2017. As at 31 December 2017, the main financial liabilities classified as non-current were a promissory note with a volume of €1,010.0 million plus the amount of €1,000.0 million still outstanding under the bridge loan (AFA) following substantial repayments. The unused, unrestricted SFA loan facility stood at €965.3 million as at 31 December 2017. Risk arising out of the lending and promissory note conditions that have been agreed was not regarded as material as at 31 December 2017. It relates in particular to the restrictions in respect of compliance with financial covenants and upper limits for certain transactions and in respect of the obligation to submit special regular reports. The KION Group complied with all the obligations in this regard in the reporting year. Some of the Group's financing takes the form of floating-rate financial liabilities. Interest-rate swaps were entered into in 2017 in order to hedge the resultant interest-rate risk.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution. The KION Group only uses derivatives to hedge underlying operational and financial transactions; they are not used for speculative purposes. It is exposed to currency risk because of the high proportion of its business conducted in currencies other than the euro. Normally, at least 75 per cent of the currency risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline. Group Treasury rigorously complies with and monitors the strict separation of functions between the front, middle and back offices. Each Group company's liquidity planning is broken down by currency and incorporated into the KION Group's financial planning and reporting process. Group Treasury checks

including the growing use of digital technologies in value chains – and has to quickly bring new products to market. If the Company does not succeed in doing this, its technological and competitive position could be compromised in the long term.

The innovations developed by the KION Group are comprehensively protected by intellectual property rights, in particular patents. Nevertheless, there is always the possibility that products or product components will be imitated. There is also a risk that patent applications will not be successful. The KION Group mitigates research and development risk by focusing firmly on customer benefit in its development of products and solutions. Customer needs are incorporated into the development process on an ongoing basis by ensuring close collaboration between sales and development units and taking account of all region-specific requirements.

Procurement risks

Procurement activities constitute a potential risk for the KION Group in terms of the general lack of availability of parts and components and the rising cost of raw materials, energy, inputs and intermediate products. In particular, restricted capacity in a tight supplier market could result in the KION Group facing backlogs in the supply of individual raw materials and components. The KION Group obtains some of its key components from a limited number of core suppliers. Key components in the Industrial Trucks & Services segment include internal combustion engines, tyres and high-performance forged and electronic parts.

The risk of supply bottlenecks – for example in the event of a shortage of raw materials or financial difficulties at core suppliers – cannot be ruled out in future. The KION Group mitigates this risk through appropriate diversification of its supplier structure in the context of a global procurement organisation. In addition, the supplier development department, which focuses on improving suppliers' production processes, helps suppliers to ensure that their processes are cost-efficient and offer excellent quality.

Price changes present another procurement-related risk. In 2017, around 25 per cent of the cost of materials for new trucks was directly influenced by changes in commodity prices (2016: around 25 per cent). Moreover, conditions in the commodity markets typically affect component prices after a delay of three to six months. The KION Group endeavours to pass on price increases to customers but cannot always do so entirely due to market pressures.

Production risks

Production risks are largely caused by quality problems, possible disruptions to operational procedures or production downtime at individual sites. In such cases, the KION Group's closely integrated manufacturing network presents a heightened risk to its ability to deliver goods on time. There is also a risk that structural measures and reorganisation projects will not be implemented owing to disruption of production or strikes. Delays in delivery or a rise in the number of complaints could harm the KION Group's positioning in the price segments and sales markets that it serves and, as a result, could harm its financial situation.

To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers. The Company has taken out a commercially appropriate level of insurance cover against loss. Quality assurance is a high priority throughout the value chain and reduces possible quality-related risks arising from the products and services provided. The KION Group mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the process chain and maintaining close contact with customers and suppliers.

Risks arising from customer project business

In the customer project business, risks can arise from deviations from the schedule originally agreed with the customer, potentially leading to revenue and profit being recognised in subsequent years or, in isolated cases, contractual penalties having to be paid. Another possible risk is that the technology deviates from the promised specifications, which may result in additional completion costs. The long-term nature of individual projects can lead to cost increases over the term of the project that were not anticipated in the project costing and cannot be passed onto the customer.

To mitigate these risks in the Supply Chain Solutions segment, project management includes a comprehensive process of risk management. This involves detailed evaluation of the risks when defining the technical aspects of quotations plus financial risk provisioning based on the individual project specifications when preparing quotations. A multistage approval process based on an extensive list of criteria ensures that financial, country-specific, currency-specific and contractual risks are largely avoided.

growth in the material handling market. The market risks referred to could be heightened by geopolitical risk, including protectionist measures and possible currency crises. However, it is not currently foreseeable whether these risks will become relevant and then have a material effect on the business situation and financial performance. The geopolitical situation is monitored closely.

Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities, leveraging of cost synergies and the platform strategy – help to contain the earnings risk arising from reductions in revenue caused by economic conditions. Diversification of the customer base in terms of industry and region as well as expansion of service activities also play a role in mitigating risk. Moreover, the KION Group closely monitors the market and its competitors so that it can identify market risks at an early stage and adjust its production capacities in good time. Besides global economic growth and other data, the KION Group also analyses exchange rates, price stability, the consumer and investment climate, foreign trade activity and political stability in its key sales markets, constantly monitoring the possible impact on its financial performance and financial position. Other risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, the KION Group is exposed to the consequent risk of government regulation, changes to customs rules, capital controls and expropriations. The KION Group mitigates such strategic risks by, for example, carrying out in-depth market research, conducting thorough evaluation procedures to assess political and economic conditions and drafting contracts appropriately.

Competition risks

Competition risk describes the risk that growing competitive pressure will prevent the KION Group from achieving its predicted margins and market share. The markets in which the KION Group operates are characterised by strong competition, often price-driven. Price competition is compounded by some manufacturers having cost advantages in production, sometimes due to the currency situation and sometimes because local labour costs are lower. This mainly affects the Industrial Trucks & Services segment, where competition is fierce, particularly in the economy and volume price segments, and the impact is especially strong in emerging markets. Building on their local competitive strength,

manufacturers in emerging markets are also looking for opportunities to expand. Although the high quality expectations and service needs of customers in developed markets present a barrier to growth for many of these manufacturers, this situation is likely to intensify competitive pressures in future.

It is also conceivable that competitors will join forces and their resulting stronger position will be detrimental to the KION Group's sales opportunities. Moreover, predictions of higher volumes and margins may lead to overcapacity, which would put increased pressure on prices.

Although the excellent customer benefits provided by its products have enabled the KION Group to charge appropriate prices until now, it is taking a variety of steps to contain competition risk. Alliances, partnerships, acquisitions and other measures are increasingly playing a role in improving the KION Group's competitiveness in terms of resources, market access and product range. The steps that the KION Group is taking to mitigate its competition risk also include making its plants more efficient and securing low-cost sources of supply.

The KION Group also continually evaluates its options for strengthening and consolidating its position in emerging markets, in particular through proactive cross-selling by the two operating segments, strategic partnerships, the creation of joint ventures or acquisition of local manufacturers. One of the risks of such alliances and acquisitions is that the expected benefits will materialise only partly or not at all. For example, the organisational integration of new units can harm financial performance for a variety of reasons. It is also possible that a partner will collaborate with competitors if exclusivity agreements are not in place.

Risks along the value chain

Research and development risks

The KION Group's market position and business performance depend to a large extent on its ability to build on its leading technological position in respect of individual products and system solutions in order to become the leading supplier of automated supply chain solutions and mobile automation solutions. This requires the Group to continually develop products that meet customer expectations and comply with changing regulatory and technological requirements. To this end, the KION Group must anticipate customers' needs and changing market conditions –

Risk

Aggregate risk

The aggregate risk position was largely unchanged compared with the end of 2016. With regard to 2018, the risks in the risk matrix below will be continually observed and evaluated in terms of their extent and probability of occurrence. For example, the KION Group considers the probability of market risk materialising as low because of the generally positive market expectations. However, the possible impact of market risk continues to be rated at a medium risk level because of the importance of the market for the KION Group's business situation and financial performance. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern. > **DIAGRAM 005**

The market risks and competition risks described, the risks along the value chain, the human resources risks and the legal risks largely relate to the Industrial Trucks & Services and Supply Chain Solutions segments. Risks arising from financial services mainly affect the Industrial Trucks & Services segment, while financial risks would predominantly impact on the Corporate Services segment.

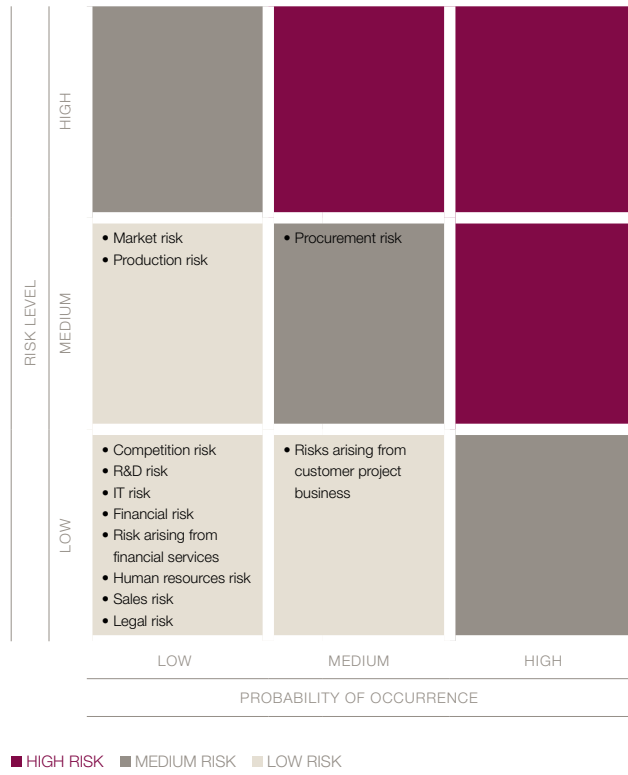
Market risks and competition risks

Market risks

Market risk can arise when the economy as a whole or a particular sector does not perform as well as had been anticipated in the outlook. Cyclical fluctuations in macroeconomic activity affect both the market for industrial trucks and the market for automated supply chain solutions. Customers' decisions on whether to invest depend to a large degree on the macroeconomic situation and conditions in their particular sector. During an economic downturn, or even just periods of heightened economic uncertainty, customers tend to postpone their capital expenditure plans. Although demand for services is less cyclical, it correlates with the degree of utilisation of the trucks and systems – which usually declines during difficult economic periods. As the KION Group can only adjust its fixed costs to fluctuations in demand to a limited extent, reductions in revenue impact on earnings.

Risk matrix

DIAGRAM 005



Despite the increase in the proportion of revenue generated outside the eurozone (due in part to the strong North American business of the Supply Chain Solutions segment), the bulk of revenue continues to be billed in euros. As a result, the market conditions that prevail in the eurozone impact significantly on the KION Group's financial performance. In view of the continued stabilisation of economic growth, even – and especially – in countries that were hit hard by the financial and economic crisis, the direct market risk arising from a downturn in the economy has further reduced for the eurozone. However, any weakening of economic growth affecting major trading partners, e.g. China, might reduce eurozone customers' willingness to invest and consequently the demand for the KION Group's products.

Any loss of momentum in the emerging markets could also have a negative effect on global trade volumes and thus on

Board's Audit Committee are informed of the Group's risk position once a quarter. The Internal Audit department audits the risk management system at regular intervals.

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

Principles

The main objectives of the accounting-related internal control system are to avoid the risk of material misstatements in financial reporting, to identify material mismeasurement and to ensure compliance with the applicable regulations and internal instructions. This includes verifying that the consolidated financial statements and combined management report comply with the relevant accounting standards.

Material processes and controls in the (Group) accounting process

For its (Group) accounting process, the KION Group has defined suitable structures and processes within its internal control and risk management system and implemented them in the organisation.

Changes to the law, accounting standards and other pronouncements are continually analysed with regard to their relevance and effect on the consolidated financial statements and group management report; the relevant changes are then incorporated into the Group's internal policies and systems.

All consolidated entities must follow the KION GROUP IFRS Accounting Manual when preparing their IFRS reporting packages. This manual contains the recognition, measurement and disclosure rules to be applied in the KION Group's accounting in accordance with IFRS. The accounting guidelines primarily explain the financial reporting principles specific to the KION Group's business. In addition, all companies must adhere to the schedule defined by head office for preparing the consolidated financial statements and group management report.

The accounting-based internal control and risk management system encompasses defined control mechanisms, automated and manual reconciliation processes, separation of

functions, the double-checking principle and adherence to policies and instructions.

The employees involved in the (Group) accounting process receive regular training in this field. Throughout the accounting process, the local companies are supported by central points of contact. The consolidated accounts are drawn up centrally using data from the consolidated subsidiaries. A consolidation department with specially trained employees carries out the consolidation activities, reconciliations and monitoring of the stipulated deadlines and processes. Monthly checklists have been drawn up for the consolidation process and are worked through in a standardised manner. All postings are managed centrally and documented. This team also monitors the system-based controls and supplements them with manual checks. The entire accounting process contains a number of specific approval stages, for which extensive plausibility checks have been set up. Employees with the relevant expertise provide support on specialist questions and complex issues.

Internal control mechanisms and ongoing analysis of the regulatory framework enable any risks that might jeopardise the compliance of the consolidated financial statements and group management report with accounting standards to be identified as soon as possible so that appropriate countermeasures can be taken. Such risks form part of the KION Group's aggregate risk profile and are classified as operational risk.

The Internal Audit department evaluates governance, risk management and the control processes by following a systematic and structured process, thus helping to bring about improvements. It focuses primarily on the following aspects:

- appropriateness and effectiveness of the internal control systems for avoiding financial losses
- compliance with legal requirements, directives from the Executive Board, other policies and internal instructions
- correct performance of tasks and compliance with business principles

Expected financial position of the KION Group

Having significantly reduced its borrowing in the reporting year, the KION Group intends to use free cash flow to achieve a further moderate decrease in net debt.

Overall statement on expected performance

The KION Group believes it will continue along its path of profitable growth and aims to further improve its market position worldwide in 2018.

RISK REPORT

Risk strategy

The business activities of the KION Group necessarily involve risk. Dealing responsibly with risk and managing it in a comprehensive manner is an important element of corporate management. The overarching aim is to fully harness business opportunities while ensuring that risk always remains under control. Using its group-wide risk management system, the KION Group contains all identified risks by implementing suitable measures and takes appropriate precautions. This ensures that the losses expected if these risks arise will be largely covered and therefore will not jeopardise the Company's continuation as a going concern.

Risk management is embedded in the corporate controlling function and plays an active and wide-ranging role due to the strategic focus of corporate controlling. The Operating Units' business models, strategic perspectives and specific plans of action are examined systematically. This ensures that risk management is fully integrated into the KION Group's overall planning and reporting process.

Principles of risk management

The procedures governing the KION Group's risk management activities are laid down in internal risk guidelines. For certain types of risk, such as financial risk or risks arising from financial services, the relevant departments also have guidelines that are specifically geared to these matters and describe how to deal with inherent risks. Risk management is organised in such a way that it directly reflects the structure of the Group itself. Consequently, risk officers supported by risk managers have been appointed for each company and each division. A central Group risk manager is responsible for the implementation of risk management processes in line with procedures throughout the Group. His or her remit includes the definition and implementation of standards to ensure that risks are captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a groupwide risk catalogue is used to capture the risks attaching to each company. Each risk must be captured individually. If the losses caused by a specific risk or the likelihood of this risk occurring exceed a defined limit, the KION Group's Executive Board and its corporate controlling function are notified immediately. Each risk is documented in an internet-based reporting system designed specifically for the requirements of risk management. Risks affecting more than one Group company, such as market risks, competition risks, financial risks and risks arising from financial services, are not recorded individually but are instead evaluated at Group level. Consequently, such risks are not quantified.

The scope of consolidation for risk management purposes is the same as the scope of consolidation for the consolidated financial statements. The risks reported by the individual companies are combined to form divisional risk reports as part of a rigorous reporting process. To this end, minuted risk management meetings are held once a quarter. Moreover, material risks are discussed with the segments at the business review meetings. The divisional risk reports are then used to compile an aggregate risk portfolio for the KION Group as a whole. To support this, the relevant departments of the holding company are consulted each quarter in order to identify and assess risk – particularly Company-wide, cross-brand risk affecting areas such as treasury, purchasing, tax, human resources and financial services. The Executive Board of KION GROUP AG and the Supervisory

Following very strong growth in the global market for new industrial trucks in 2017, growth rates are predicted to normalise, returning closer to the long-term trend of around 4 per cent. Europe and North America are expected to register further moderate increases in orders. The KION Group anticipates continued growth in demand in China, with a rise in the proportion of electric forklift trucks and warehouse trucks. The constantly increasing number of trucks in operation worldwide provides a sustainable customer base for the service business.

Demand for supply chain solutions is likely to be underpinned by the strong inclination to invest seen in the main customer industries in connection with multichannel and e-commerce strategies. In the years ahead, market growth of around 10 per cent per year is predicted.

Expected business situation and financial performance of the KION Group

In 2018, the KION Group aims to build on its successful performance in 2017 and, based on the forecasts for market growth, achieve further increases in order intake, revenue and adjusted EBIT.

The order intake of the KION Group is expected to be between €8,050 million and €8,550 million. The target figure for consolidated revenue is in the range of €7,700 million to €8,200 million. The target range for adjusted EBIT is €770 million

to €835 million. Free cash flow is expected to be in a range between €410 million and €475 million; the cash payment for the planned acquisition of a non-controlling interest in the Chinese company EP Equipment has already been factored in. The target figure for ROCE is in the range of 8.7 per cent to 9.7 per cent. The outlook for free cash flow and ROCE reflects the impact of applying the new IFRS accounting standards for the first time. Further details can be found in the 'Basis of preparation' section of the notes to the consolidated financial statements.

Order intake in the Industrial Trucks & Services segment is expected to be between €5,950 million and €6,150 million. The target figure for revenue is in the range of €5,700 million to €5,900 million. The target range for adjusted EBIT is €650 million to €685 million.

Order intake in the Supply Chain Solutions segment is expected to be between €2,100 million and €2,400 million. The target figure for revenue is in the range of €2,000 million to €2,300 million. The target range for adjusted EBIT is €180 million to €215 million.

The outlook is based on the current exchange rate environment and the assumption that material prices will hold steady.

> TABLE 038

Outlook

TABLE 038

	KION Group		Industrial Trucks & Services		Supply Chain Solutions	
in € million	2017 Actual	2018 Outlook	2017 Actual	2018 Outlook	2017 Actual	2018 Outlook
Order intake*	7,979.1	8,050–8,550	5,859.5	5,950–6,150	2,099.2	2,100–2,400
Revenue*	7,653.6	7,700–8,200	5,630.9	5,700–5,900	2,006.3	2,000–2,300
Adjusted EBIT	765.6	770–835	640.1	650–685	181.4	180–215
Free cash flow	378.3	410–475	–	–	–	–
ROCE	9.9%	8.7%–9.7%	–	–	–	–

* Disclosures for the segments Industrial Trucks & Services and Supply Chain Solutions include also intra-group cross-segment order intake and revenue (Total revenue)

Outlook, risk report and opportunity report

OUTLOOK

Forward-looking statements

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

Actual business performance may deviate from our forecasts due, among other factors, to the opportunities and risks described here. Performance particularly depends on macroeconomic and industry-specific conditions and may be negatively affected by increasing uncertainty or a worsening of the economic and political situation.

Outlook for 2017

The overall assessment of the financial situation of the KION Group compares the outlook included in the 2016 combined management report and the adjusted outlook in the Q3 2017 quarterly statement with actual performance in 2017.

Assumptions

The forecasts in this section are derived from the KION Group's multiple-year market, business and financial plan, which is based on certain assumptions. Market planning takes into account macroeconomic and industry-specific performance, which is described below. Business planning and financial planning are based on expected market performance, but also draw on other assumptions, such as those relating to changes in the cost of materials, the KION Group's ability to command higher prices from customers and movements in exchange rates.

Expected macroeconomic conditions

In its outlook for 2018 published in January, the International Monetary Fund (IMF) predicts global output growth of 3.9 per cent, which is slightly higher than the rate for the past year. Besides the sustained upturn in Europe and Asia, stimulus from the US tax reforms approved in late 2017 is having a positive effect. At 4.6 per cent, the worldwide volume of trade is expected to be close to its 2017 level.

The outlook for macroeconomic conditions is based, in particular, on the assumption that conditions in financial markets will continue to be favourable and that market sentiment will remain upbeat. These factors will support further growth of demand, particularly in terms of capital expenditure. Furthermore, it is expected that trading partners of the United States will also benefit from the US tax reforms.

Expected sectoral conditions

Going forward, the overall market for industrial trucks and warehouse systems will continue to depend heavily on the strength of the economy in the main sales markets. In past years, the market's growth – measured by the number of new trucks sold and the revenue of the largest system manufacturers – has consistently exceeded the growth rates for global gross domestic product (GDP). In view of the generally positive macroeconomic prospects, the KION Group anticipates that the worldwide market for industrial trucks and warehouse systems will continue to expand in 2018.

Customers

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

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

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

The KION brand companies again exhibited at the sector's leading trade fairs in various regions in 2017 in order to intensify their collaboration with customers and partners.

The KION Group's full range of products in the Industrial Trucks & Services and Supply Chain Solutions segments was represented for the first time at ProMat, which was held in Chicago in April 2017. Numerous new products were unveiled. For example, the market launch of new Linde and Baoli counterbalance trucks in North America was announced. Dematic demonstrated its Dematic iQ warehouse execution system, robotics order picking and other products. The KION brands also showcased the full spectrum of solutions at Movimat in São Paulo in October 2017. At the Hannover Messe trade fair (CeMat preview), STILL highlighted the latest topics and solutions. The KION Group also participated in various other trade fairs, including Logistica in Utrecht, where Dematic exhibited innovative technologies for the storage and retrieval of small parts, and Logimat in Stuttgart, at which not only Linde and STILL but also Baoli presented their portfolios for the EMEA region. In addition, numerous customer and dealer events as well as training courses were held.

Once again, the KION brand companies attracted attention by collecting a number of accolades in 2017. STILL, for example, was again among the winners at the International Forklift Truck of the Year (IFOY) awards.

Sustainability

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

The first groupwide sustainability report was published in the year under review. As well as comprehensive information on strategy, the management approach and structures for sustainability, the report contains data on relevant key performance indicators. The report to be published in 2018 (see: <http://reports.kiongroup.com/2017/sr>) will also include the KION Group's non-financial declaration as required under the German law to implement the CSR directive. For this reason, the KION Group has not provided detailed information in the 2017 combined management report.