

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].

[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).

[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].

[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

[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

(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

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).

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

[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

[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).