

Report on the economic position

MACROECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Macroeconomic conditions

The global economy is experiencing an upturn and, in 2017, expanded at a much stronger rate than in previous years. Significant stimulus came from the economic recovery in the European Union (EU), robust growth in the United States and generally resurgent expansion in emerging markets. The world's economy was also boosted by increasing investment activity and the growth of foreign trade in Asia. This in turn benefited global trade, which boomed. Demand from consumers remained robust, which also had a positive effect.

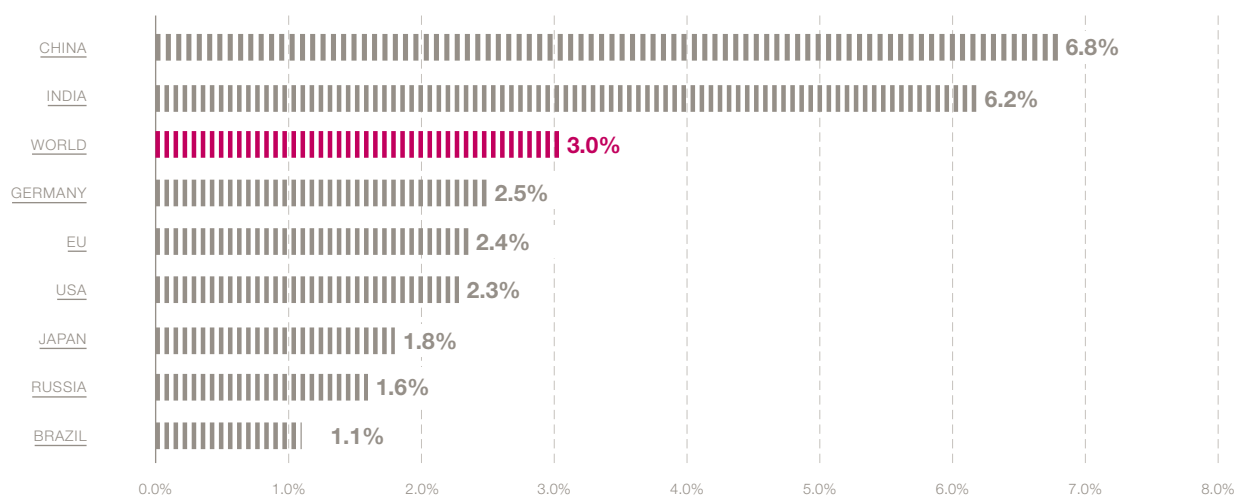
Overall, the growth of economies in the EU was markedly higher than in the previous year but also broader and stronger. Receding political risks – despite the UK's approaching departure from the EU – provided support for domestic demand. The EU countries also benefited from the revival of global trade and the related increase in export business.

In the United States, economic growth was much faster than in 2016. This expansion was driven by a robust job market, rising consumer spending, corporate capital expenditure and foreign trade.

China's growth held steady at the prior-year level, supported by an increase in public-sector investment. The inhibiting effect on growth of the continued sharp rise in debt levels was more than offset by the country's expansionary economic policy. > **DIAGRAM 004**

Gross domestic product in 2017 – real year-on-year change

DIAGRAM 004



Source: Oxford Economics (as at 16/01/2018)

Sectoral conditions

The global material handling market, which comprises industrial trucks and supply chain solutions, again grew at a faster rate than the global economy in 2017. The main driving forces, besides the worldwide rise in the trade of goods, were growing demand for industrial trucks in China and the automation of warehousing and logistics combined with an increasing volume of warehouse capacity.

Industrial Trucks & Services

Measured in terms of the number of new trucks ordered, the global market for industrial trucks expanded at the exceptionally strong rate of 17.9 per cent in 2017, compared with 7.5 per cent in the previous year. Orders were up across all product categories and sales regions, reaching a total of 1.4 million trucks. IC trucks made a particularly strong gain (up by 20.8 per cent), primarily driven by significant growth of over 30 per cent in the Chinese market. The rates of increase for electric forklift trucks (up by

14.3 per cent) and warehouse trucks (up by 16.8 per cent) were also into double digits.

At 9.7 per cent, the rate of growth in western Europe was down slightly on the previous year, although this remains a fast-moving and by far the biggest market for warehouse trucks. In eastern Europe, orders were up by 21.6 per cent, which was roughly the same as the growth rate in 2016. Overall, the EMEA region (western Europe, eastern Europe, Middle East and Africa) generated growth of 11.1 per cent. The Americas region (North, Central and South America) recovered in the year under review, having been subdued in the previous year, and saw a rise of 12.3 per cent; while North America recorded generally good growth of 10.2 per cent, catch-up effects meant that Central and South America generated a disproportionately strong increase of 29.8 per cent. Brazil, the largest individual market in South America, expanded by 45.4 per cent. Boosted by the marked rise in China, Asia-Pacific as a whole (APAC region) was the fastest-growing region worldwide with an increase in orders of 28.5 per cent. The share of the overall market accounted for by this region rose from 37.5 per cent to 40.9 per cent. > **TABLE 014**

Global industrial truck market (order intake)

TABLE 014

in thousand units	2017	2016	Change
Western Europe	395.5	360.6	9.7%
Eastern Europe	78.4	64.5	21.6%
Middle East and Africa	36.4	34.3	6.1%
North America	277.7	251.9	10.2%
Central and South America	37.7	29.0	29.8%
Asia-Pacific	571.4	444.8	28.5%
World	1,397.2	1,185.2	17.9%

Source: WITS/FEM

Supply Chain Solutions

The market for supply chain solutions also sustained its growth trend in 2017 thanks again to customers reconfiguring their logistics processes and supply chains. According to a survey by the Peerless Research Group, multichannel approaches and e-commerce continued to gain ground in all kinds of industries, resulting in higher requirements regarding the speed and precision with which warehouses and distribution centres can be managed. The survey found that capital expenditure on enlarging and modernising warehouses and on the related technologies was expected to increase by around 9 per cent in 2017. There was also greater use of warehouse management systems than in 2016.

The Ecommerce Foundation's outlook for the global e-commerce market (B2C) anticipated growth of 17 per cent in 2017. Improved internet access and increased use of social media for buying goods are contributing to this trend. Of the total market volume, around 50 per cent is attributable to the APAC region. This region includes China, which is the world's largest individual market and also leads the way in terms of mobile e-commerce.

The Logistics and Real Estate series of studies published by bulwiengesa AG shows that demand for logistics premises in Germany remained high last year, with construction activity and capital expenditure reaching record levels. According to the study, there was 12 per cent more logistics space in 2017 than in the previous year. Demand for space rose at a similar rate in China and the United States, driven mainly by the steady increase in e-commerce.

Procurement markets

On the whole, prices for the commodities used by the KION Group rose sharply over the course of 2017. The average price of steel, the most important commodity, was far higher in the reporting year than in 2016. Copper became more expensive too. The oil price rallied significantly, also rising a long way above the average for 2016. Following a sharp price increase in the first half of the year, the amount spent on rubber in 2017 was higher than in the previous year.

Financial markets

The KION Group bills a large part of its revenue in euros. However, the consolidation of Dematic – which generates a high volume of revenue in North America – for the whole of the year meant that the proportion of revenue billed in euros fell significantly, from 60.8 per cent to 52.0 per cent. The remaining 48.0 per cent of revenue was billed in foreign currencies, the most important of which for the KION Group were the US dollar, China's renminbi and pound sterling.

Overall, currency effects had a negative impact on the KION Group's business situation in 2017. Compared with 2016, the euro was approximately 4 per cent higher on average against the Chinese renminbi and around 7 per cent higher against pound sterling. Against the US dollar, the euro appreciated by roughly 2 per cent. > **TABLE 015**

Currencies

TABLE 015

Average rate per Euro	2017	2016
Australia (AUD)	1.47	1.49
Brazil (BRL)	3.61	3.86
China (CNY)	7.63	7.35
United Kingdom (GBP)	0.88	0.82
USA (USD)	1.13	1.11

Source: Reuters/Bloomberg

Business performance

In 2017, the main focus was on integrating the Dematic subsidiaries acquired and on utilising shared potential for increasing revenue and efficiency. The SCS segment optimised its organisational structure by merging Egemin Automation into Dematic. This will predominantly result in cost benefits for administration and customer management going forward. Retrotech Inc. was also integrated into Dematic North America's customer service organisation, thereby expanding the aftersales business. An action plan to pool procurement activities was also initiated, and this should have an impact on costs in 2018. Originating from the period before the acquisition, the inefficiencies at the plant in Monterrey, Mexico, were completely eliminated in 2017. Work has been taking place since March of last year to extend the Střibro site to include a factory for automated conveyor systems. The new factory is due to start manufacturing modules for Dematic's automated storage and retrieval systems for the European market in 2018.

The bridge loan (acquisition facilities agreement, AFA) agreed between the KION Group and its core group of banks for the acquisition of Dematic originally had a volume of €3,000.0 million and was drawn down in an amount of €2,543.2 million. In the first quarter of 2017, it was then partly refinanced by successfully placing a promissory note with a total volume of €1,010.0 million. This note, which has a significantly extended maturity profile, is divided into several tranches that have maturity periods of five, seven and ten years and have fixed or floating-rate coupons. The capital increase in the second quarter of 2017 was another important refinancing measure. This involved KION GROUP AG issuing a total of 9,300,000 new shares at a placement price of €64.83 per share on 22 May 2017. All of the new shares were placed with institutional investors against cash contributions in an accelerated bookbuilding process; shareholders' pre-emption rights were disapplied. KION GROUP AG's share capital rose by 8.55 per cent in total. The gross proceeds from the capital increase came to €602.9 million. The Company's new no-par-value bearer shares are dividend-bearing from the 2017 financial year.

By the end of 2017, tranche A2 (€343.2 million) and tranche B (€1,200.0 million) of the bridge loan and the fixed-term tranche (€350.0 million) of the senior facilities agreement (SFA) had been repaid in full. The long-term tranche (€1,000.0 million) of the bridge loan is still outstanding and is due to mature in October 2021.

At the end of 2017, the lowering of the corporate income tax rate that was approved in the United States led to the non-cash remeasurement of the KION Group's deferred tax assets and liabilities. As a result, the KION Group's income tax position and thus its net income unexpectedly improved by a total of €92.2 million.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Overall assessment of the economic situation

The KION Group finished 2017 with strong growth, achieving the targets set in October for its KPIs. The figures for 2016 in the income statement include the contributions from Dematic in November and December, the period in which it was consolidated for the first time. The comparability between the full-year figures for 2016 and 2017 is therefore limited.

Following a strong fourth quarter, order intake for the KION Group as a whole amounted to €7,979.1 million (2016: €5,833.1 million) despite negative currency effects and was predominantly attributable to encouraging growth in the new truck business. Moreover, Dematic's customer orders were included for the full financial year for the first time. The order book expanded by 9.1 per cent year on year to reach €2,614.6 million at the end of the year (31 December 2016: €2,396.6 million). Despite negative currency effects, the KION Group generated consolidated revenue of €7,653.6 million. This was due not only to higher unit sales but also to the growth of the service business in Industrial Trucks & Services.