

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.

Total revenue in the Industrial Trucks & Services segment went up by 8.2 per cent to €5,630.9 million, with order intake rising by 8.8 per cent.

While the year-on-year increase in the value of order intake and revenue in the Industrial Trucks & Services segment was stronger than anticipated, order intake and revenue in the Supply Chain Solutions segment were less than originally expected. The reasons for this were the reluctance to invest observed in the US retail sector and delays by customers in awarding projects. The segment's total revenue amounted to €2,006.3 million. Adjusted for non-recurring items and purchase price allocation effects, the KION Group's EBIT came to €765.6 million. This improvement of €228.3 million was due, in particular, to the inclusion of Dematic for the full year. Significantly higher prices for materials adversely affected the KION Group's adjusted EBIT and could not be passed on to customers entirely. Despite the higher cost of materials and negative currency effects, the KION Group's adjusted EBIT margin improved substantially, by 0.4 percentage points, to 10.0 per cent. After taking into account purchase price allocation (PPA) effects and further non-recurring items, EBIT amounted to €549.4 million.

In total, the KION Group generated net income of €426.4 million (2016: €246.1 million). This included positive overall effects on taxes resulting from the remeasurement of deferred taxes in connection with the lowering of corporate income tax in the United States that was approved just before the end of the year. The basic earnings per share attributable to the shareholders of the KION Group amounted to €3.72, compared with €2.38 in 2016. KION GROUP AG will propose a dividend of €0.99 per share to the Annual General Meeting (2016: €0.80 per share).

Comparison between actual and forecast growth

The targets for the KION Group's core KPIs set out in the 2016 outlook were revised downward overall in October 2017 because the Supply Chain Solutions segment was not performing as well as expected. At the same time, all of the targets of the Industrial Trucks & Services segment except adjusted EBIT were revised upward because the actual results were expected to be higher

than the targets set in 2016. The revised target ranges were achieved or slightly exceeded.

The KION Group's order intake of €7,979.1 million was slightly above the upper end of the range of €7,550 million to €7,900 million (2016 outlook: €7,800 million to €8,250 million). Consolidated revenue came to €7,653.6 million, compared with the expected target range of €7,400 million to €7,700 million (2016 outlook: €7,500 million to €7,950 million). At €765.6 million, adjusted EBIT was also in line with the revised expectation of between €715 million and €765 million (2016 outlook: €740 million to €800 million). Free cash flow, which stood at €378.3 million, came in at the upper end of the range of €320 million to €380 million (2016 outlook: €370 million to €430 million), while ROCE at 9.9 per cent was within the target range of 9.0 per cent to 10.0 per cent (2016 outlook: 9.5 per cent to 10.5 per cent).

The Industrial Trucks & Services segment slightly exceeded the raised targets for order intake and revenue and the target for adjusted EBIT, while the results of the Supply Chain Solutions segment were within the new target ranges. > TABLES 016–017

Business situation and financial performance of the KION Group

Level of orders

Despite the depreciation of currencies such as the renminbi, US dollar and pound sterling against the euro, the KION Group's order intake rose by 36.8 per cent to €7,979.1 million. Whereas the performance of the Industrial Trucks & Services segment exceeded expectations, Dematic's project business was more subdued. The order book expanded by 9.1 per cent year on year to €2,614.6 million (31 December 2016: €2,396.6 million). By the end of the year, substantial customer orders had been placed, especially in the long-term project business.

Comparison between actual and forecast growth – KION Group

TABLE 016

in € million	KION Group		
	2017 Outlook	2017 Outlook adjusted	2017 Actual
Order intake	7,800–8,250	7,550–7,900	7,979.1
Revenue	7,500–7,950	7,400–7,700	7,653.6
Adjusted EBIT	740–800	715–765	765.6
Free cash flow	370–430	320–380	378.3
ROCE	9.5%–10.5%	9.0%–10.0%	9.9%

Comparison between actual and forecast growth – segments

TABLE 017

in € million	Industrial Trucks & Services			Supply Chain Solutions		
	2017 Outlook	2017 Outlook adjusted	2017 Actual	2017 Outlook	2017 Outlook adjusted	2017 Actual
Order intake*	5,450–5,600	5,650–5,800	5,859.5	2,350–2,650	1,900–2,100	2,099.2
Revenue*	5,300–5,450	5,450–5,600	5,630.9	2,200–2,500	1,950–2,100	2,006.3
Adjusted EBIT	605–630	605–630	640.1	195–230	170–195	181.4

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

The consolidated revenue of the KION Group increased by 37.0 per cent to €7,653.6 million (2016: €5,587.2 million). This significant rise in revenue was attributable to organic revenue growth in the Industrial Trucks & Services segment and to the inclusion of Dematic in the Supply Chain Solutions segment for the full reporting period. The proportion of consolidated revenue accounted for by services fell from 43.7 per cent in 2016 to 39.1 per cent in 2017 because customer orders in the project business routinely have a high value while the value of the service business is significantly lower. > TABLE 018

Revenue with third parties by product category

TABLE 018

in € million	2017	2016	Change
Industrial Trucks & Services	5,626.9	5,200.5	8.2%
New business	3,126.0	2,860.2	9.3%
Service business	2,500.9	2,340.2	6.9%
– Aftersales	1,429.5	1,363.8	4.8%
– Rental business	619.3	558.3	10.9%
– Used trucks	306.6	285.8	7.3%
– Other	145.5	132.4	9.9%
Supply Chain Solutions	2,001.8	364.7	> 100%
Business Solutions	1,509.1	263.9	> 100%
Service business	492.7	100.7	> 100%
Corporate Services	24.8	22.1	12.5%
Total revenue	7,653.6	5,587.2	37.0%

Revenue by customer location

In EMEA, an important sales region for the Industrial Trucks & Services segment, the KION Group's revenue went up by around 17 per cent. The rise in western Europe was 16.2 per cent, with Germany, France, Italy and Spain seeing particularly large increases. On the whole, the KION Group kept pace with the growth of the industrial truck market and consolidated its leading position in this region. The significant double-digit revenue growth in the Asia-Pacific (APAC) region was primarily attributable to the strong expansion of the Chinese market, which particularly benefited the Industrial Trucks & Services segment. In the Americas region (North, Central and South America), market share in the new truck business increased – especially in North America. The sharp year-on-year rise in revenue in the Asia-Pacific and Americas sales regions was influenced by the inclusion of Dematic for the whole of 2017. Overall, 20.6 per cent of consolidated revenue was accounted for by growth markets in the reporting period (2016: 23.3 per cent). The majority of revenue – 81.4 per cent – was generated outside Germany (2016: 76.4 per cent). > TABLE 019

Earnings and profitability

EBIT, EBITDA and ROCE

Earnings before interest and tax (EBIT) amounted to €549.4 million, up by 26.3 per cent on the 2016 figure of €434.8 million. EBIT included negative effects from purchase price allocations of €176.2 million (2016: €60.4 million). In 2017, EBIT was also adversely affected by non-recurring items of €40.1 million (2016: €42.2 million) that arose mainly in connection with the integration of Dematic and the start-up costs for the new plant in Monterrey, Mexico. The non-recurring items in 2016 had included transaction costs relating to the acquisition of Dematic. EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) rose to €765.6 million (2016: €537.3 million). The adjusted EBIT margin improved to 10.0 per cent (2016: 9.6 per cent). > TABLE 020

Revenue with third parties by customer location

TABLE 019

in € million	2017	2016	Change
Western Europe	4,627.8	3,982.7	16.2%
Eastern Europe	537.9	459.6	17.0%
Middle East and Africa	152.9	100.3	52.4%
North America	1,266.5	295.9	> 100%
Central and South America	163.1	148.6	9.8%
Asia-Pacific	905.5	600.1	50.9%
Total revenue	7,653.6	5,587.2	37.0%

EBIT

TABLE 020

in € million	2017	2016	Change
EBIT	549.4	434.8	26.3%
+ Non-recurring items	40.1	42.2	-4.9%
+ PPA items	176.2	60.4	> 100%
Adjusted EBIT	765.6	537.3	42.5%

Return on capital employed (ROCE) increased by 3 percentage points year on year to 9.9 per cent in 2017. This improvement was due to the fact that Dematic's earnings contributions had only been included for the months of November and December in 2016. While adjusted EBIT went up sharply, there was only a small countervailing change in capital employed.

EBITDA rose to €1,185.7 million (2016: €889.5 million). Adjusted EBITDA came to €1,223.9 million (2016: €931.6 million). The adjusted EBITDA margin decreased from 16.7 per cent in 2016 to 16.0 per cent in 2017. > TABLE 021

EBITDA

TABLE 021

in € million	2017	2016	Change
EBITDA	1,185.7	889.5	33.3%
+ Non-recurring items	36.4	42.2	-13.7%
+ PPA items	1.8	-	-
Adjusted EBITDA	1,223.9	931.6	31.4%

Key influencing factors for earnings

The cost of sales rose by 41.3 per cent to €5,699.1 million (2016: €4,034.6 million), a disproportionately strong increase compared with that of revenue. Higher prices for materials, particularly steel and lead, pushed up the cost of sales in the new truck business significantly. Negative currency effects – especially relating to pound sterling, the renminbi and the US dollar – also squeezed the gross margin. The gross margin for the Group as a whole contracted from 27.8 per cent in 2016 to 25.5 per cent in the year under review. Selling expenses and administrative expenses totalled €1,286.3 million (2016: €1,073.6 million). This increase of 19.8 per cent was disproportionately small compared with that of

revenue. The prior-year figure had been influenced by various factors, including consultancy expenses in connection with the Dematic acquisition. Research and development costs went up by 41.9 per cent to €137.0 million (2016: €96.5 million). The 'other' item came to €18.2 million (2016: €52.3 million). This included the share of profit (loss) of equity-accounted investments, which amounted to a profit of €13.6 million (2016: profit of €6.5 million), as well as gains and losses from exchange differences. The figure for the 'other' item also comprised impairment losses on assets of €14.8 million (2016: €0.0 million), of which €8.6 million related to the Egemin brand name. > TABLE 022

(Condensed) income statement

TABLE 022

in € million	2017	2016	Change
Revenue	7,653.6	5,587.2	37.0%
Cost of sales	-5,699.1	-4,034.6	-41.3%
Gross profit	1,954.5	1,552.6	25.9%
Selling expenses and administrative expenses	-1,286.3	-1,073.6	-19.8%
Research and development costs	-137.0	-96.5	-41.9%
Other	18.2	52.3	-65.2%
Earnings before interest and taxes (EBIT)	549.4	434.8	26.3%
Net financial expenses	-81.1	-95.7	15.3%
Earnings before taxes	468.3	339.2	38.1%
Income taxes	-41.9	-93.1	55.0%
Net income	426.4	246.1	73.3%

Net financial income/expenses

The net financial expenses representing the balance of financial income and financial expenses decreased to €81.1 million year on year (2016: net financial expenses of €95.7 million). The prior-year figure had included one-off financial expenses of €25.7 million incurred in connection with optimisation of the financing structure in February 2016. Overall, current interest expense on borrowing increased year on year due to the acquisition of Dematic, but exchange differences had a countervailing positive impact on net financial income/expenses. As a result of the early repayment of financial liabilities, transaction costs of €3.5 million were recognised as expenses in 2017.

Income taxes

Income tax expenses fell sharply to €41.9 million (2016: €93.1 million). The low tax rate of 8.9 per cent is attributable to the reduction of the corporate income tax rate from 35.0 per cent to 21.0 per cent that was approved in the United States. The remeasurement of deferred tax liabilities, which relate mainly to the purchase price allocation for Dematic, led to deferred tax income of €92.2 million in the Group. Adjusted for this non-recurring tax item, the tax rate was comparable with the previous year at 28.6 per cent (2016: 27.4 per cent).

Net income and appropriation of profit

Net income increased by €180.4 million to €426.4 million (2016: €246.1 million). The net income attributable to the shareholders of KION GROUP AG was €424.8 million (2016: €245.5 million). Basic earnings per share came to €3.72 based on 114.3 million (2016: 103.2 million) no-par-value shares; this was the weighted average number of shares outstanding during the reporting year. Adjusted for the non-recurring tax item of €92.2 million included in net income, basic earnings per share (pro forma) on a comparable basis with the previous year stood at €2.91 (2016: €2.38). Diluted earnings per share, which is calculated by adding the potential dilutive no-par-value shares under the employee share option programme, amounted to €3.71 based on a weighted average number of shares of 114.4 million (2016: 103.3 million) and €2.91 on a pro-forma basis (2016: €2.38). These calculations did not include around 160.8 thousand no-par-value treasury shares that were repurchased by KION GROUP AG as part of a buy-back to support employee equity programmes.

The Executive Board and the Supervisory Board will propose to the Annual General Meeting to be held on 9 May 2018 that, of the distributable profit of KION GROUP AG for the 2017 financial year amounting to €168.1 million, a dividend totalling €116.7 million be distributed. This equates to €0.99 per dividend-bearing share. It is also proposed that a sum of €51.2 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. This would give a dividend payout rate of approximately 35 per cent of adjusted net income.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

The Industrial Trucks & Services segment expanded its new truck business in all sales regions. Across all the brand companies, the number of orders for forklift trucks and warehouse trucks rose by 13.0 per cent to 201.4 thousand. The Linde brand (including Fenwick) registered a slightly higher increase and accounted for 61.6 per cent of the new truck business. STILL (including OM STILL) generated 31.7 per cent of new orders; the remaining 6.7 per cent was attributable to the Baoli and OM Voltas brands. All product categories saw their orders go up significantly, with IC trucks more than making up for their decline in the previous year. Electric forklift trucks and warehouse trucks, which are particularly important elements in integrated supply chain solutions, together accounted for 82.1 per cent of the order volume.

All the brand companies saw particularly strong increases in the APAC and EMEA regions. Eastern Europe stood out within the EMEA region, with Poland, Russia and the Czech Republic being the main contributors. In western Europe, the biggest rises in order numbers were registered in France and Italy. The KION Group returned to a path of growth in South and Central America, having reported decreases in 2016. The largest percentage increase was in North America, although the region remained at a moderate level in absolute terms.

The total value of order intake rose by 8.8 per cent to €5,859.5 million (2016: €5,383.2 million) despite negative currency effects. This included an increase in order intake in the service business.

Revenue

Total segment revenue went up by 8.2 per cent to €5,630.9 million (2016: €5,202.6 million). Revenue from new truck business with external customers rose by 9.3 per cent or €265.8 million to €3,126.0 million, while the growth in the service business was also encouraging at 6.9 per cent. Aftersales and rental business generated 81.9 per cent of the total revenue from the service business of €2,500.9 million. The proportion of the segment's external revenue accounted for by the service business came to 44.4 per cent overall and was thus virtually the same as the prior-year figure of 45.0 per cent.

Earnings

Despite the significantly higher prices for materials, particularly steel and lead, and negative exchange rate effects, especially in connection with pound sterling, the positive revenue trend pushed up adjusted EBIT by 9.1 per cent to €640.1 million

(2016: €586.9 million). At 11.4 per cent, the adjusted EBIT margin was moderately above its 2016 level of 11.3 per cent. After taking into account non-recurring items and purchase price allocation effects, EBIT amounted to €637.6 million (2016: €553.0 million).

Adjusted EBITDA stood at €1,054.1 million (2016: €958.8 million). This equated to an adjusted EBITDA margin of 18.7 per cent (2016: 18.4 per cent). > **TABLE 023**

Supply Chain Solutions segment

Business performance and order intake

In 2017, the Supply Chain Solutions segment received orders from customers with a total volume of €2,099.2 million (2016: €431.2 million, including Dematic for two months). Around 75 per cent of order intake was accounted for by project business (business solutions) and around 25 per cent by the service business (customer services). Following muted intake in the first three quarters of the year, a number of delayed customer projects were eventually officially placed with Dematic at the end of the year. Approximately a third of order intake was received in the fourth quarter of 2017.

Key figures – Industrial Trucks & Services –

TABLE 023

in € million	2017	2016	Change
Order intake	5,859.5	5,383.2	8.8%
Total revenue	5,630.9	5,202.6	8.2%
EBITDA	1,052.5	953.4	10.4%
Adjusted EBITDA	1,054.1	958.8	9.9%
EBIT	637.6	553.0	15.3%
Adjusted EBIT	640.1	586.9	9.1%
Adjusted EBITDA margin	18.7%	18.4%	–
Adjusted EBIT margin	11.4%	11.3%	–

Key figures – Supply Chain Solutions –

TABLE 024

in € million	2017	2016	Change
Order intake	2,099.2	431.2	> 100%
Total revenue	2,006.3	366.0	> 100%
EBITDA	182.3	5.1	> 100%
Adjusted EBITDA	210.3	10.8	> 100%
EBIT	-23.8	-31.7	24.7%
Adjusted EBIT	181.4	6.0	> 100%
Adjusted EBITDA margin	10.5%	3.0%	–
Adjusted EBIT margin	9.0%	1.6%	–

Revenue

Total segment revenue amounted to €2,006.3 million (2016: €366.0 million, including Dematic for two months). Project business accounted for 75.4 per cent of external revenue and the service business for 24.6 per cent. Improved efficiency at the plant in Monterrey, Mexico, resulted in a year-on-year increase in output, leading to a higher level of revenue from business solutions. The segment generated 56.9 per cent of its revenue in North America.

Earnings

The segment's adjusted EBIT amounted to €181.4 million (2016: €6.0 million, including Dematic for two months), giving an adjusted EBIT margin of 9.0 per cent (2016: 1.6 per cent). Currency effects and higher cost prices for materials had an adverse impact. After taking into account non-recurring items and purchase price allocation effects, EBIT came to minus €23.8 million (2016: minus €31.7 million).

Adjusted EBITDA amounted to €210.3 million with an adjusted EBITDA margin of 10.5 per cent (2016: 3.0 per cent).

> TABLE 024

Corporate Services segment

Business performance

The Corporate Services segment comprises holding companies and other service companies that provide services such as IT and logistics across all segments.

Revenue and earnings

Total segment revenue came to €266.6 million (2016: €242.0 million) and was predominantly derived from internal IT and logistics services.

The segment reported adjusted EBIT of €530.7 million (2016: €305.9 million). This significant increase was attributable to the strong financial performance of the subsidiaries, which resulted in higher intra-group dividend income (including profit and loss transfers) than in the previous year. Adjusted EBITDA amounted to €546.0 million (2016: €323.5 million). > TABLE 025

Key figures – Corporate Services –

TABLE 025

in € million	2017	2016	Change
Order intake	266.6	242.0	10.2%
Total revenue	266.6	242.0	10.2%
EBITDA	537.5	292.5	83.8%
Adjusted EBITDA	546.0	323.5	68.8%
EBIT	522.2	274.9	90.0%
Adjusted EBIT	530.7	305.9	73.5%

Consolidation / reconciliation

Besides the intra-group supply relationships between the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments, the main factor in the adjusted EBIT effect of minus €586.5 million (2016: minus €361.5 million) across all segments was the intra-group dividend income.

Net assets

The purchase price allocation (PPA) for the acquisition of Dematic was finalised in the reporting year, leading to the retrospective restatement of the carrying amounts as at 31 December 2016. Currency translation effects as at the end of 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 finalisation of the PPA in 2017 resulted in a reduction of deferred tax assets and liabilities and a corresponding decline of €13.1 million in goodwill retrospectively in the prior year.

Non-current assets

Non-current assets decreased to €8,746.9 million as at the reporting date (31 December 2016: €8,942.4 million). Intangible assets accounted for €5,716.4 million (31 December 2016: €6,175.6 million). The depreciation of the US dollar against the euro

particularly impacted on goodwill, which fell by €190.4 million to €3,382.5 million. The sharp drop in other intangible assets to €2,333.9 million (31 December 2016: €2,602.7 million) was largely attributable to current write-downs in connection with the purchase price allocations, especially in the Supply Chain Solutions segment.

Rental assets increased to €651.4 million, reflecting the continued expansion of the rental fleet in the Industrial Trucks & Services segment (31 December 2016: €575.3 million). Leased assets for leases with end customers that are classified as operating leases also increased owing to the higher volume of business, rising from €429.7 million to €522.3 million as at 31 December 2017. Long-term lease receivables arising from leases with end customers that are classified as finance leases swelled to €647.8 million (31 December 2016: €531.3 million).

At €370.5 million, the amount of deferred tax assets recognised in the statement of financial position as at the reporting date was lower than the figure recognised at the end of 2016 of €419.8 million. Further details regarding the change in deferred tax assets are provided in note [14] in the notes to the consolidated financial statements.

Current assets

Overall, current assets rose by 5.4 per cent to €2,481.5 million (31 December 2016: €2,354.6 million). The €96.2 million increase in inventories to €768.6 million (31 December 2016: €672.4 million) was largely attributable to the growth of the Industrial Trucks & Services segment.

Trade receivables were also up, rising by 9.5 per cent to €1,094.1 million as at 31 December 2017. Construction contracts

in the project business with a net credit balance due from customers amounted to €94.7 million as at the reporting date, which was virtually unchanged on the amount as at 31 December 2016.

The KION Group's net working capital, which comprises inventories, trade receivables and unbilled construction contracts (net) less trade payables and advances received, increased to €606.2 million as at the reporting date (31 December 2016: €495.9 million). > **TABLE 026**

Inventories

TABLE 026

in € million	2017	2016	Change
Materials and supplies	185.2	158.0	17.2%
Work in progress	109.0	105.3	3.5%
Finished goods and merchandise	459.0	396.5	15.8%
Advances paid	15.4	12.6	21.9%
Total inventories	768.6	672.4	14.3%

The groupwide optimisation of cash management (cash pooling) enabled cash and cash equivalents to be reduced to €173.2 million as at 31 December 2017 (31 December 2016: €279.6 million).

Current lease receivables from end customers increased by €27.7 million year on year to €228.0 million (31 December 2016: €200.3 million).

The condensed consolidated statement of financial position as at 31 December 2017 showing current and non-current assets and liabilities together with equity is presented in > **TABLE 027**.

(Condensed) statement of financial position

TABLE 027

in € million	2017	in %	2016	in %	Change
Non-current assets*	8,746.9	77.9%	8,942.4	79.2%	-2.2%
Current assets	2,481.5	22.1%	2,354.6	20.8%	5.4%
Total assets*	11,228.4	-	11,297.0	-	-0.6%
Equity*	3,148.8	28.0%	2,495.7	22.1%	26.2%
Non-current liabilities*	5,230.0	46.6%	6,128.9	54.3%	-14.7%
Current liabilities	2,849.6	25.4%	2,672.5	23.7%	6.6%
Total equity and liabilities*	11,228.4	-	11,297.0	-	-0.6%

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

Financial position

Principles and objectives of financial management

The KION Group pursues a conservative financial policy of maintaining a strong credit profile with reliable access to debt capital markets. By pursuing an appropriate financial management strategy, the KION Group makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. In addition, the KION Group optimises its financial relationships with customers and suppliers and mitigates the financial risk to its enterprise value and profitability, notably currency risk, interest-rate risk, price risk, counterparty risk and country risk. In this way, the KION Group creates a stable funding position from which to maintain profitable growth.

The financial resources within the KION Group are provided on the basis of an internal funding approach. The KION Group collects liquidity surpluses of the Group companies in central or regional cash pools and, where possible, covers subsidiaries' funding requirements with intercompany loans. This funding enables the KION Group to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants. The Group occasionally arranges additional credit lines for KION Group companies with local banks or leasing companies in order to comply with legal, tax and other regulations.

The KION Group is a publicly listed corporate group and therefore ensures that its financial management takes into account the interests of shareholders, promissory note investors and the banks providing its funding. For the sake of all stakeholders, the KION Group makes sure that it maintains an appropriate ratio of internal funding to borrowing. The KION Group's borrowing is based on a long-term approach. The individual tranches of this borrowing will become due for repayment in the years 2021 to 2027.

Depending on requirements and the market situation, the KION Group will also avail itself of the funding facilities offered by the public capital markets in future. The KION Group therefore seeks to maintain an investment-grade credit rating in the capital and funding markets by rigorously pursuing a value-based strategy, implementing proactive risk management and ensuring a solid funding structure. Since September 2017, rating agency Standard & Poor's has classified the KION Group as BB+ with a positive outlook, while the rating from Fitch Ratings has been BBB- with a stable outlook since January 2017. The KION Group thus has an investment-grade credit rating, helping it to secure more advantageous funding conditions in the capital markets.

The KION Group maintains a liquidity reserve in the form of unrestricted, agreed and confirmed credit lines and cash in order to ensure long-term financial flexibility and solvency. In addition, it uses derivatives to hedge currency risk. It also entered into

interest-rate swaps in 2017 in order to hedge interest-rate risk arising on floating-rate financial liabilities.

Among other stipulations, the contractual terms of the senior facilities agreement (SFA), bridge loan (AFA) and promissory note set out certain covenants. In addition, there is a financial covenant that involves ongoing testing of adherence to a defined maximum level of leverage (the ratio of financial liabilities to EBITDA). Non-compliance with the covenants or with the defined maximum level of leverage as at a particular reporting date may potentially give lenders a right of termination or lead to an increase in interest payments.

All covenants were complied with in the past financial year, as had been the case in 2016.

Main corporate actions in the reporting period

The bridge loan (AFA) agreed for the acquisition of Dematic, which was still drawn down in an amount of €2,543.2 million at the end of 2016, was significantly reduced in 2017 as a result of the successful placement of a promissory note with a nominal amount of €1,010.0 million in the first quarter of 2017. The promissory note is divided into several tranches that mature in May 2022, April 2024 and April 2027 and have floating-rate or fixed coupons. The interest-rate risk resulting from the floating-rate tranches is hedged using a number of interest-rate derivatives (cash flow hedges). Another important funding activity was the capital increase in May 2017, which generated gross proceeds of €602.9 million. 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.

In November 2017, the KION Group employees entitled to participate in KEEP were given the opportunity to buy more KION shares. By 31 December 2017, a total of 36,294 shares had been purchased by staff (31 December 2016: 45,564 shares). The number of shares held in treasury therefore stood at 160,829 as at the reporting date (31 December 2016: 164,486).

Analysis of capital structure

Current and non-current liabilities fell by €721.7 million to €8,079.6 million as at the reporting date (31 December 2016: €8,801.3 million). The main reason was the repayment of non-current liabilities following the corporate actions carried out in the year under review. Non-current liabilities also included deferred tax liabilities of €665.2 million, which were down significantly compared with the end of the previous year (31 December 2016: €882.5 million) owing to the lowering of the corporate income tax rate that was approved in the United States. This, combined with the netting of deferred tax assets, reduced the deferred tax liabilities by €92.2 million. Deferred tax assets and liabilities also decreased by €13.1 million owing to the Dematic purchase price allocation being finalised. > TABLE 027

Financial debt

By using the proceeds from the capital increase carried out in May 2017 and making other repayments, the KION Group reduced its current and non-current financial liabilities to €2,268.7 million (31 December 2016: €3,183.0 million). After deduction of cash and cash equivalents, net financial debt amounted to €2,095.5 million (31 December 2016: €2,903.4 million). This equated to 1.7 times the adjusted EBITDA on an annualised basis.

Long-term borrowing (net of borrowing costs) was reduced by €864.2 million to €2,024.8 million as at the reporting date. This sum includes the promissory note with a volume of €1,010.0 million that was issued in the first quarter of 2017. Tranche A2 of the AFA (€343.2 million), tranche B of the AFA (€1,200.0 million) and the fixed-term tranche of the SFA (€350.0 million) were repaid in full in the year under review. The long-dated tranche (€1,000.0 million) of the bridge loan is still outstanding and is due to mature in October 2021. The €50.1 million decrease in current financial liabilities compared with the end of 2016 was mainly due to the reduction in the drawdowns under the revolving credit facility.

> TABLE 028

Net financial debt

TABLE 028

in € million	2017	2016	Change
Liabilities to banks (gross)	1,259.6	3,188.6	–60.5%
Promissory note (gross)	1,010.0	–	–
Other financial liabilities to non-banks	7.7	7.2	6.6%
./. Capitalised borrowing costs	–8.6	–12.9	33.1%
Financial liabilities	2,268.7	3,183.0	–28.7%
./. Cash and cash equivalents	–173.2	–279.6	38.1%
Net financial debt	2,095.5	2,903.4	–27.8%

Retirement benefit obligation

The KION Group supports pension plans in many countries. These plans comply with legal requirements, standard local practice and thus the situation in the country in question. They are either defined benefit pension plans, defined contribution pension plans or multi-employer benefit plans. As at 31 December 2017, the retirement benefit obligation under defined benefit pension plans amounted to a total of €1,002.7 million, which was only slightly higher than the figure at the end of 2016 of €991.0 million.

The net obligation under defined benefit pension plans was almost unchanged year on year at €978.5 million (31 December 2016: €978.7 million). Changes in estimates relating to defined benefit pension entitlements resulted in an €18.7 million increase in equity (after deferred taxes).

Contributions to pension plans that are entirely or partly funded via funds are paid in as necessary to ensure sufficient assets are available and to be able to make future pension payments to pension plan participants. These contributions are determined by factors such as the funded status, legal and tax considerations, and local practice. The payments made by the KION Group in 2017 in connection with the main pension plans totalled €28.2 million, comprising €17.9 million for direct pension payments and €10.0 million for employer contributions to plan assets. This included contributions of €8.9 million that had to be paid under existing minimum funding provisions for defined

benefit pension plans in the United Kingdom and US. Transfers to external pension funds resulted in payments of €0.3 million.

The total carrying amount for liabilities in connection with share-based remuneration was €38.1 million as at 31 December 2017 (31 December 2016: €37.4 million).

Lease liabilities

Further expansion of the long-term leasing business with end customers in 2017 led to a correspondingly higher funding requirement. Lease liabilities arising from sale and leaseback transactions to fund the long-term leasing business with end customers increased to €1,131.1 million (31 December 2016: €1,007.2 million). Of this total, €798.2 million related to non-current and €332.9 million to current lease liabilities.

The liabilities from the short-term rental fleet and from procurement leases are reported under other financial liabilities (see note [34] in the notes to the consolidated financial statements). As at the reporting date, other financial liabilities included liabilities of €493.8 million (31 December 2016: €440.0 million) arising from sale-and-leaseback transactions used to finance the short-term rental fleet. This item also included liabilities from residual value guarantees amounting to €18.2 million (31 December 2016: €16.7 million). The residual-value liabilities relate to residual-value guarantees provided in connection with the sale of assets to leasing companies, where the guaranteed amount is more than 10.0 per cent of the fair value of the asset in question.

Equity

Consolidated equity was higher than at the end of 2016, rising by €653.1 million to €3,148.8 million as at 31 December 2017 (31 December 2016: €2,495.7 million). The capital increase caused a net increase of €599.9 million. Net income (€426.4 million) and actuarial effects on pensions also boosted the Group's equity. However, there was a negative impact of €315.2 million resulting from exchange differences at the reporting date, which meant that negative effects of €282.8 million were recognised overall in other comprehensive income. Finalisation of the purchase price allocation led to equity as at 31 December 2016 being retrospectively lowered by €39.4 million. The equity ratio increased from 22.1 per cent at the end of 2016 to 28.0 per cent as at 31 December 2017.

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (including capitalised development costs and excluding leased and rental assets) came to €218.3 million in the reporting year. The main areas of spending were capitalised development costs (see the 'Research and development' section) and the expansion and modernisation of production and technology sites in the Industrial Trucks & Services segment. This included a large-scale project to update Linde Material Handling's Aschaffenburg site, where a total of €60 million is being spent on optimising the material flow in production and logistics and will result in more cost-effective production processes by 2021. Capital expenditure in the Supply Chain Solutions segment related to capitalised development costs and, above all, software, licences and the new production facility in the Czech Republic.

Analysis of liquidity

Liquidity management is an important aspect of central financial management in the KION Group. The sources of liquidity are cash and cash equivalents, cash flow from operating activities and amounts available under credit facilities. Using cash pools, liquidity is managed in such a way that the Group companies can always access the cash that they need. The optimisation of cash management caused cash and cash equivalents to fall to

€173.2 million at the end of 2017 (31 December 2016: €279.6 million). Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group as at the reporting date amounted to €1,138.0 million (31 December 2016: €1,200.8 million).

Net cash provided by operating activities totalled €615.8 million, which was significantly above the prior-year figure of €414.3 million because Dematic had only made a contribution to operations for the months of November and December in 2016. Furthermore, expenses of €63.1 million in connection with the Dematic transaction had been recognised and negatively impacted cash flow from operating activities at the end of 2016. The rise in earnings and margins in 2017 was offset by a growth-related increase in net working capital and the volume of leasing, which meant cash flow was down by a total of €181.9 million year on year. The net change of minus €205.8 million arising from the expansion of the rental business (including liabilities from finance leases) was bigger than the prior-year net change of minus €158.2 million. Higher tax payments of €136.3 million resulting from improved earnings at the KION companies (2016: €108.7 million) reduced the level of cash flow from operating activities.

The net cash used for investing activities amounted to €237.6 million. This was significantly less than the prior-year figure of €2,264.3 million, which had been heavily influenced by the net cash outflow of around €2.1 billion for the acquisition of Dematic. Smaller acquisitions were carried out in 2017, the total cash payments for which came to €13.3 million net. By contrast, cash payments for development (R&D) and for property, plant and equipment were up significantly year on year at €218.3 million (2016: €166.7 million), mainly due to the inclusion of Dematic for the full year.

Free cash flow – the sum of cash flow from operating activities and investing activities – amounted to €378.3 million (2016: minus €1,850.0 million).

The net cash used for financing activities of €472.5 million was primarily due to the net repayment of financial debt in an amount of €914.7 million, which outweighed the inflows from the capital increase of €598.6 million. The gross repayment amount of €3,340.0 million included the repayment in full of tranches A2 (€343.2 million) and B (€1,200.0 million) of the bridge loan and the fixed-term tranche of the SFA (€350.0 million). The additional

gross borrowings in 2017 amounted to €2,425.3 million and included the issuance of the promissory note with a volume of €1,010.0 million in the first quarter of 2017. The net cash used for current interest payments rose to a total of €58.1 million in 2017 due to higher average net debt during the year (2016: €46.7 million excluding early repayment charges paid of €29.6 million). The non-recurring interest payments in 2016 had related to the charges for early redemption of the KION Group's corporate bond and early repayment of a bond of Dematic. The dividend paid in May 2017 of €0.80 per share resulted in an outflow of funds of €86.9 million. The acquisition of employee shares caused a cash outflow of €4.3 million (2016: €2.8 million). > **TABLE 029**

Long-term leasing business

The sales activities of the KION Group are supported by financial services in connection with direct long-term leasing business. In this business, trucks leased directly to the end customer are refinanced by the KION Group. The portfolio of the long-term leasing business, which supports the KION Group's sales activities, continued to be focused predominantly in western Europe at the end of 2017. The long-term leasing business had a positive impact on the KION Group's financial performance in 2017 (> **TABLE 030**) and also influenced its financial position (> **TABLE 031**). This information is taken from the internal reporting system and is determined using the assumption of a minimum rate of return on the capital employed. Net financial debt relating to the long-term leasing business increased to €133.9 million (31 December 2016: €106.3 million). > **TABLE 032**

(Condensed) statement of cash flows

TABLE 029

in € million	2017	2016	Change
EBIT	549.4	434.8	26.3%
Cash flow from operating activities	615.8	414.3	48.6%
Cash flow from investing activities	-237.6	-2,264.3	89.5%
Free cash flow	378.3	-1,850.0	>100%
Cash flow from financing activities	-472.5	2,026.3	<-100%
Effect of foreign exchange rate changes on cash	-12.2	0.2	<-100%
Change in cash and cash equivalents	-106.4	176.5	<-100%

Profitability of long-term leasing business

TABLE 030

in € million	2017	2016	Change
Revenue	574.3	480.5	19.5%
Adjusted EBITDA	121.0	99.7	21.3%
Adjusted EBIT	3.6	4.0	-10.5%
Earnings before taxes (EBT)	5.5	4.5	20.4%

Financial position of long-term leasing business

TABLE 031

in € million	2017	2016	Change
Liabilities to banks (gross)	133.9	106.3	25.9%
Liabilities from financial services	85.7	8.3	> 100%
Lease liabilities	1,131.1	1,007.2	12.3%
Calculatory equity	47.4	39.4	20.4%
Total	1,398.1	1,161.2	20.4%
Leased assets	522.3	429.7	21.6%
Lease receivables	875.8	731.5	19.7%
Total	1,398.1	1,161.2	20.4%

Refinancing of long-term leasing business

TABLE 032

	2017		2016	
in € million	KION Group	thereof non-current leasing business	KION Group	thereof non-current leasing business
Liabilities to banks (gross)	1,259.6	133.9	3,188.6	106.3
Promissory note – gross	1,010.0	–	–	–
Other financial liabilities to non-banks	7.7	–	7.2	–
./. Capitalised borrowing costs	–8.6	–	–12.9	–
Financial liabilities	2,268.7	133.9	3,183.0	106.3
./. Cash and cash equivalents	–173.2	–	–279.6	–
Net financial liabilities	2,095.5	133.9	2,903.4	106.3
Lease liabilities	1,131.1	1,131.1	1,007.2	1,007.2
Liabilities from financial services	85.7	85.7	8.3	8.3
Interest-bearing net liabilities	3,312.3	1,350.7	3,918.9	1,121.8
Liabilities from short-term rental financing	512.1	–	456.7	–
Liabilities from procurement leases	29.4	–	21.0	–
Liabilities from finance leases	541.4	–	477.7	–
Net operating debt	3,853.8	1,350.7	4,396.6	1,121.8