

Notes to the consolidated financial statements

Basis of presentation

[1] GENERAL INFORMATION ON THE COMPANY

By resolution of the Annual General Meeting dated 9 May 2018, KION GROUP AG's registered office was moved to Thea-Rasche-Strasse 8, 60549 Frankfurt am Main, Germany. The relocation became legally effective when it was entered in the commercial register at the Frankfurt am Main local court under reference HRB 112163 on 20 June 2018.

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 one of the world's leading suppliers of integrated supply chain solutions. In 2018, the Group and its highly skilled employees generated revenue of €7,995.7 million (2017: €7,598.1 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 20 February 2019.

[2] BASIS OF PREPARATION

The consolidated financial statements of the KION Group for the financial year ended 31 December 2018 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 2018 financial year have been applied in preparing the consolidated financial statements. Furthermore, IFRS 16 'Leases', which is required to be applied for financial years commencing on or after 1 January 2019, was adopted early with effect from 1 January 2018 because of its interactions with IFRS 15 'Revenue from Contracts with Customers'.

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 presentation currency. All amounts are disclosed in millions of euros (€ million) unless stated otherwise. Due to rounding effects, addition of the individual amounts shown may result in minor rounding differences to the totals. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros. All of 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.

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 2018:

- 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'
- IFRS 15 'Revenue from Contracts with Customers' and the 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'
- 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'
- Amendments to IAS 28 'Investments in Associates and Joint Ventures': amendments in connection with the annual improvements to IFRSs (2014–2016).

The initial application of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' resulted in changes to the presentation of the financial performance and financial position and the notes to the financial statements of the KION Group. These changes are described in detail in note [6]. The initial application of the other standards and interpretations has had no significant effects.

Financial reporting standards released but not yet adopted

In its consolidated financial statements for the year ended 31 December 2018, 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 2018:

- Amendments to IFRS 3 'Business Combinations': amendments relating to the definition of a business in order to distinguish it from a group of assets when applying IFRS 3
- Amendments to IFRS 9 'Financial Instruments': amendments relating to the classification of particular prepayable financial assets
- IFRS 17 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': clarification of the definition of materiality
- 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': clarification relating to the accounting treatment of long-term interests that form part of the net investment in an entity accounted for under the equity method
- IFRIC 23 'Uncertainty over Income Tax Treatments'
- Amendments to the Conceptual Framework: amendments to how the Conceptual Framework is referenced in IFRSs
- 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 on which they must be adopted for the first time. The effects of the initial application of these financial reporting standards on the presentation of the financial position and financial performance of the KION Group are expected to be insignificant.

[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 profit or loss.

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.

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.

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 structure.

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 disposal of 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 044.

A total of 26 (2017: 24) German and 108 (2017: 114) foreign subsidiaries were fully consolidated in addition to KION GROUP AG as at 31 December 2018.

In addition, two joint ventures and seven associates were consolidated and accounted for using the equity method as at 31 December 2018, which was the same number as at 31 December 2017. In each case, the last available annual financial statements were used as the basis for measurement.

In 2018, 58 (2017: 56) companies of minor importance were recognised at amortised cost or at fair value through other comprehensive income. The 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.

Shareholdings by categories

TABLE 044

	01/01/2018	Additions*	Disposals*	31/12/2018
Consolidated subsidiaries	138	3	7	134
Domestic	24	2	–	26
Foreign	114	1	7	108
Equity-accounted associates and joint ventures	9	–	–	9
Domestic	5	–	–	5
Foreign	4	–	–	4
Non-consolidated subsidiaries and other investments	56	5	3	58
Domestic	15	–	–	15
Foreign	41	5	3	43

* Including two cross-border changes of legal form

Where other requirements are met, the fully consolidated companies listed in > **TABLE 045** 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.

For the period ended 31 December 2018, the UK subsidiaries listed in > **TABLE 046** exercised the exemption in section 479A of the UK Companies Act 2006 that releases them from the obligation to have their annual financial statements audited. These subsidiaries are all held indirectly by KION GROUP AG.

A detailed overview of all the direct and indirect shareholdings of KION GROUP AG is shown in the list of shareholdings (note [48]).

[5] CURRENCY TRANSLATION

Financial statements in foreign currencies are translated in accordance with the functional currency concept. 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

German subsidiaries exempt from disclosure requirements

TABLE 045

Subsidiary	Head office
BlackForxx GmbH	Stuhr
Eisengießerei Dinklage GmbH	Dinklage
Eisenwerk Weilbach GmbH	Frankfurt am Main
Fahrzeugbau GmbH Geisa	Geisa
KION Financial Services GmbH	Frankfurt am Main
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

UK subsidiaries exempt from local audit

TABLE 046

Subsidiary	Head office
Dematic (Services) Ltd.	Banbury
Linde Castle Ltd.	Basingstoke
Linde Holdings Ltd.	Basingstoke
Linde Jewsbury's Ltd.	Basingstoke
Linde Material Handling East Ltd.	Basingstoke
Linde Material Handling Scotland Ltd.	Basingstoke
Linde Material Handling South East Ltd.	Basingstoke
Linde Severnside Ltd.	Basingstoke
STILL Materials Handling Ltd.	Exeter
Superlift UK Ltd.	Basingstoke

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 047.

Major foreign currency rates in €

TABLE 047

	Average rate		Closing rate	
	2018	2017	2018	2017
Australia (AUD)	1.5801	1.4734	1.6268	1.5372
Brazil (BRL)	4.3073	3.6090	4.4465	3.9785
China (CNY)	7.8066	7.6292	7.8669	7.8024
United Kingdom (GBP)	0.8848	0.8764	0.8990	0.8881
USA (USD)	1.1809	1.1300	1.1467	1.2005

Source: Bloomberg

[6] ACCOUNTING POLICIES

Initial application of IFRS 9, IFRS 15 and IFRS 16

The KION Group adopted IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' in full and retrospectively for the first time with effect from 1 January 2018. Only the amended rules on hedge accounting in accordance with IFRS 9 are being applied prospectively. The prior-year figures have not been restated for IFRS 9, whereas for IFRS 15 and IFRS 16 the prior-year figures have been restated in accordance with the transitional provisions applicable in each case.

The disclosures relating to the financial performance and financial position of the KION Group, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the segment report take into account the following effects and changes in presentation resulting from the initial application of new financial reporting standards. With the exception of the aforementioned standards applied for the first time, the accounting policies applied in these consolidated financial statements are fundamentally the same as those used for the year ended 31 December 2017. The consolidated financial statements are based on the separate financial statements of the parent and the consolidated subsidiaries, which are prepared in accordance with uniform groupwide accounting policies.

IFRS 9 'Financial Instruments'

In accordance with the new classification rules in IFRS 9, the KION Group assigns financial assets to one of three measurement categories: debt instruments measured at fair value through profit or loss (FVPL), debt instruments measured at amortised cost (AC) or equity instruments measured at fair value through other comprehensive income, without reclassification of gains and losses accumulated in other comprehensive income to profit

or loss upon disposal of these financial assets (FVOCI). Assignment to a particular measurement category depends on the type of financial instrument, the resulting cash flows and the business model used to manage the financial instruments.

For the majority of the KION Group's financial instruments, the classification rules in IFRS 9 did not lead to any change to the respective measurement model. The KION Group assigns financial investments previously designated as available for sale (AfS) under IAS 39 on an instrument-by-instrument basis to either the FVPL category or the FVOCI category. Financial investments held as at 1 January 2018 are recognised at fair value through other comprehensive income without recycling to profit or loss upon disposal (FVOCI category). By contrast, equity investments in non-consolidated subsidiaries or companies not accounted for under the equity method are now reported under other non-current assets. As the cash flows of financial instruments in the other financial investments class that were previously classified in accordance with IAS 39 as available for sale (AfS) or loans and receivables (LaR) do not solely consist of interest and principal payments, these debt instruments are recognised at fair value through profit or loss (FVPL) on the basis of the cash flow characteristics test in IFRS 9. As at 1 January 2018, trade receivables of €18.6 million were recognised at fair value through profit or loss (FVPL) on the basis of the business model test.

> **TABLE 048** contains a reconciliation of the financial assets from the categories in IAS 39 to the categories in IFRS 9 as at 1 January 2018.

Reconciliation of financial assets from IAS 39 to IFRS 9

TABLE 048

31/12/2017	Adjustments due to IFRS 9			01/01/2018	
Classes and measurement categories according to IAS 39	Carrying amount according to IAS 39	Reclassifications	Remeasurements	Classes and measurement categories according to IFRS 9	Carrying amount according to IFRS 9
in € million					
Investments in non-consolidated subsidiaries and other investments				Financial investments	
AfS	36.0	-24.3		FVOCI	11.8
Loans receivable				Financial receivables	
LaR	2.2			AC	2.2
Financial receivables				Financial receivables	
LaR	30.3		-0.1	AC	30.3
Other financial investments				Other financial investments	
AfS	0.5				
LaR	18.4	2.4		FVPL	21.3
Lease receivables				Lease receivables	
in scope of IFRS 16	875.8			in scope of IFRS 16	875.8
Trade receivables				Trade receivables	
LaR	999.4	-18.6	14.8	AC	995.6
				FVPL	18.6
Other financial receivables				Other financial receivables	
thereof non-derivative receivables				thereof non-derivative receivables	
LaR	58.7	-0.7		AC	58.0
thereof derivative financial instruments				thereof derivative financial instruments	
FAHfT	22.2			FVPL	22.2
Hedge Accounting	7.8			Hedge Accounting	7.8
Cash and cash equivalents				Cash and cash equivalents	
LaR	173.2			AC	173.2

Initial application of IFRS 9 also results in changes to the subsequent measurement of financial assets. The KION Group applies the simplified impairment model of IFRS 9 to all trade receivables, lease receivables and contract assets and thus recognises losses expected over the entire term. As a consequence of applying the simplified impairment model of IFRS 9, valuation allowances for trade receivables fell by €14.8 million. > **TABLE 049**

Overall, the initial application of IFRS 9 resulted in an increase in equity, after taking deferred taxes into account, of €14.6 million as at 1 January 2018. This transition effect was primarily due to the new impairment model based on expected losses.

Initial application of IFRS 9 has no impact on the classification and measurement of KION Group's financial liabilities.

All of the KION Group's hedges in existence as at 1 January 2018 satisfy the hedge accounting requirements in IFRS 9 and continue to be highly effective.

IFRS 15 'Revenue from Contracts with Customers'

Following the adoption of IFRS 15, the contract assets previously recognised in trade receivables are for the first time reported separately in the consolidated statement of financial position and amounted to €100.3 million as at 31 December 2017 (1 January 2017: €117.4 million). Contract liabilities, which were previously reported under other liabilities, also form a separate line item; they amounted to €324.4 million as at 31 December 2017 (1 January 2017: €376.4 million). The KION Group has used the exemption under which contracts fulfilled before 1 January 2017 do not have to be reassessed in accordance with IFRS 15. There were no further changes to the presentation of KION Group's primary financial statements.

For the vast majority of new business contracts, service business contracts and project business contracts, there has been no change in the point in time at which or the period of time over which the revenue is recognised. A shift in the timing of revenue recognition was identified only for a small number of contracts and led to an overall increase in equity, after taking deferred taxes into account, of €7.9 million as at 1 January 2017.

IFRS 16 'Leases'

Indirect leasing business transactions, which were previously recognised as sales transactions, are now recognised as leases in accordance with IFRS 15 and IFRS 16. As a result, leased assets as at 31 December 2017 increased by €724.0 million (1 January 2017: €714.2 million). On the other side of the consolidated statement of financial position, there was a €541.5 million rise in deferred revenue (1 January 2017: €532.7 million), of which €349.7 million was classified as other non-current liabilities (1 January 2017: €341.7 million) and €191.8 million as other current liabilities (1 January 2017: €191.1 million). Furthermore, the change in the reporting of indirect leasing business resulted in additional residual value obligations of €340.7 million as at 31 December 2017 being recognised under liabilities from financial services (1 January 2017: €335.9 million). As a result, non-current liabilities from financial services went up by €262.4 million (1 January 2017: €258.8 million) and current liabilities from financial services by €78.3 million (1 January 2017: €77.2 million). Liabilities from financial services have been reported as a separate line item for the first time and include liabilities from financial services used to fund the long-term leasing business, which had previously been reported under

Reconciliation of valuation allowances for trade receivables from IAS 39 to IFRS 9

TABLE 049

in € million

Valuation allowances for trade receivables as at 31/12/2017	51.1
Remeasurement to equity for the initial application of IFRS 9	- 14.8
Valuation allowances for trade receivables as at 01/01/2018	36.3

other current financial liabilities, of €85.7 million as at 31 December 2017 (1 January 2017: €8.3 million).

In accordance with IFRS 16, procurement leases that were previously recognised as operating leases but not shown in the statement of financial position are recognised as right-of-use assets under other property, plant and equipment; corresponding liabilities from procurement leases are reported under other financial liabilities. The KION Group exercises the option to recognise as an expense right-of-use assets and liabilities from procurement leases for low-value procurement leases and for procurement leases that have a lease term of less than twelve

months. Other property, plant and equipment rose by €318.0 million as at 31 December 2017 (1 January 2017: €240.8 million). Accordingly, other non-current financial liabilities increased by €267.8 million (1 January 2017: €207.0 million) and other current financial liabilities by €72.0 million (1 January 2017: €55.6 million). Overall, the initial application of IFRS 16 to the KION Group's leasing arrangements – which are the same as they were under IAS 17 – led to a reduction in equity, after taking deferred taxes into account, of €160.8 million as at 1 January 2017.

The quantitative effects are summarised in > TABLES 050–053.

Effects on the consolidated income statement 2017

TABLE 050

in € million	Annual report 2017	Adjustments new IFRS	2017 restated
Revenue	7,653.6	–55.4	7,598.1
Cost of sales	–5,699.1	55.8	–5,643.3
Gross profit	1,954.5	0.4	1,954.8
Selling expenses	–829.6	2.0	–827.5
Research and development costs	–137.0	–0.0	–137.0
Administrative expenses	–456.8	9.2	–447.5
Other income	75.7	0.1	75.7
Other expenses	–71.1	0.0	–71.1
Profit from equity-accounted investments	13.6	–	13.6
Earnings before interest and taxes	549.4	11.7	561.0
Financial income	132.2	0.6	132.8
Financial expenses	–213.3	–15.9	–229.2
Net financial expenses	–81.1	–15.2	–96.3
Earnings before taxes	468.3	–3.6	464.7
Income taxes	–41.9	–0.3	–42.2
Net income for the period	426.4	–3.9	422.5

Effects on the consolidated statement of financial position as at 01/01/2017

TABLE 051

in € million	Annual report 2016	Adjustments new IFRS	01/01/2017 restated
Leased assets	429.7	714.2	1,143.9
Rental assets	575.3	-32.3	543.0
Other property, plant and equipment	678.3	240.8	919.1
Deferred taxes	419.8	95.0	514.8
Other non-current assets	6,839.3	-0.0	6,839.3
Non-current assets	8,942.4	1,017.7	9,960.1
Contract assets	-	117.4	117.4
Trade receivables	998.9	-103.1	895.9
Other current assets	1,355.7	-	1,355.7
Current assets	2,354.6	14.3	2,368.9
Total assets	11,297.0	1,032.0	12,329.0
Retained earnings	183.4	-152.9	30.5
Other equity	2,312.3	0.0	2,312.3
Equity	2,495.7	-152.9	2,342.8
Liabilities from financial services	-	258.3	258.3
Other financial liabilities	349.3	200.5	549.8
Other liabilities	202.8	348.4	551.2
Deferred taxes	882.5	27.2	909.6
Other non-current liabilities	4,694.4	-	4,694.4
Non-current liabilities	6,128.9	834.4	6,963.2
Liabilities from financial services	-	91.4	91.4
Contract liabilities	-	376.4	376.4
Other financial liabilities	222.6	65.0	287.6
Other liabilities	842.1	-182.2	659.9
Other current liabilities	1,607.8	-	1,607.8
Current liabilities	2,672.5	350.6	3,023.0
Total equity and liabilities	11,297.0	1,032.0	12,329.0

Effects on the consolidated statement of financial position as at 31/12/2017

TABLE 052

in € million	Annual report 2017	Adjustments new IFRS	31/12/2017 restated
Leased assets	522.3	724.0	1,246.3
Rental assets	651.4	-43.0	608.4
Other property, plant and equipment	676.9	318.0	994.9
Deferred taxes	370.5	104.7	475.2
Other non-current assets	6,525.8	0.0	6,525.8
Non-current assets	8,746.9	1,103.7	9,850.6
Contract assets	-	100.3	100.3
Trade receivables	1,094.1	-94.7	999.4
Other current assets	1,387.4	-	1,387.4
Current assets	2,481.5	5.6	2,487.1
Total assets	11,228.4	1,109.3	12,337.7
Retained earnings	521.3	-156.9	364.4
Accumulated other comprehensive loss	-528.8	0.4	-528.4
Other equity	3,156.3	0.0	3,156.3
Equity	3,148.8	-156.5	2,992.3
Liabilities from financial services	-	261.0	261.0
Other financial liabilities	407.8	255.8	663.6
Other liabilities	235.7	349.7	585.4
Deferred taxes	665.2	37.2	702.4
Other non-current liabilities	3,921.4	-	3,921.4
Non-current liabilities	5,230.0	903.7	6,133.7
Liabilities from financial services	-	176.4	176.4
Contract liabilities	-	324.4	324.4
Other financial liabilities	296.7	1.9	298.6
Other liabilities	820.7	-140.7	679.9
Other current liabilities	1,732.2	-	1,732.2
Current liabilities	2,849.6	362.1	3,211.7
Total equity and liabilities	11,228.4	1,109.3	12,337.7

Effects on the consolidated statement of cash flows 2017

TABLE 053

in € million	Annual report 2017	Adjustments new IFRS	2017 restated
Cash flow from operating activities	615.8	96.0	711.9
Cash flow from investing activities	-237.6	0.0	-237.6
Cash flow from financing activities	-472.5	-96.0	-568.5
Effect of exchange rate changes on cash and cash equivalents	-12.2	0.0	-12.2
Change in cash and cash equivalents	-106.4	0.0	-106.4
Cash and cash equivalents at the beginning of the period	279.6	0.0	279.6
Cash and cash equivalents at the end of the period	173.2	0.0	173.2

As a result of initial application of the new standards, EBIT and adjusted EBIT (EBIT adjusted for non-recurring items and purchase price allocation effects) for 2017 both rose by €11.7 million to reach €561.0 million and €777.3 million respectively. Of the net income of €422.5 million, a share of €420.9 million was attributable to the shareholders of KION GROUP AG. As a result of applying the new standards for the first time, basic earnings per share went down by €0.04 to €3.68 and diluted earnings per share by €0.03 to €3.68. Furthermore, the retrospective adjustment of cash flow from operating activities shown in > TABLE 053 caused free cash flow to increase by €96.0 million to €474.3 million in the consolidated statement of cash flows for 2017.

Due to the initial application of IFRS 16, in 2018 rental and lease payments (€111.2 million) for procurement leases previously accounted for off-balance as operating leases under IAS 17 were no longer recognised as expenses in the consolidated income statement. Instead, depreciation on the recognised right-of-use assets (€97.0 million) and interest expense arising on the recognition of liabilities from procurement leases (€14.5 million) were reported. As a result of this effect, EBIT and adjusted EBIT (EBIT adjusted for non-recurring items and purchase price allocation effects) for 2018 both rose by €14.5 million to reach €642.8 million and €789.9 million respectively.

Due to the recognition of right-of-use assets, other property, plant and equipment went up by €352.0 million to €390.7 million as at 31 December 2018 and, as a result of the recognition of liabilities from procurement leases, other financial liabilities increased by €382.5 million to €421.3 million. Furthermore, initial application of IFRS 16 caused cash flow from operating activities to rise by €111.2 million to €765.5 million and thus free cash flow to rise by €111.2 million to €519.9 million in the consolidated statement of cash flows for 2018.

Revenue recognition

Revenue is the fair value of the consideration received for the sale of goods and services and rental and lease income (excluding VAT) after deduction of trade discounts and rebates. In addition to the contractually agreed consideration, the transaction price may also include variable elements such as rebates, volume discounts, trade discounts, bonuses and penalties. Revenue is recognised when control over the goods or services passes to the customer. Payment terms vary in accordance with the customary conditions in the respective countries; they are not standardised across the Group. Other criteria may arise, depending on each individual transaction, as described below:

Sale of goods

Revenue from the sale of goods is recognised at the point in time 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. In addition to the contractually agreed consideration, in the case of key-account customers the transaction price may also include variable elements such as rebates, volume discounts, trade discounts, bonuses and penalties. The revenue from these sales is recognised in the amount of the price specified in the contract less the estimated price reductions.

Rendering of services

Revenue from the rendering of services is recognised on a straight-line basis over the period of performance or in accordance with the proportion of the overall service rendered by the reporting date. By contrast, revenue from long-term service agreements is recognised on the basis of the average term of the service agreements and in line with progressive costs (constant margin).

Leases/short-term rentals

Revenue from direct leasing business 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 financing partner to finance leases, no selling margin in connection with the financing is recognised as the financing partner usually does not obtain control over the industrial truck.

In the indirect leasing business, industrial trucks are sold to vendor partners that enter into long-term leases with end customers. As the vendor partner usually does not obtain control over the industrial truck, entities in the KION Group initially treat the portion of the consideration received that exceeds the residual value obligation as deferred income and subsequently recognise the revenue in instalments over the term of the lease. If risks and rewards are substantially transferred to the vendor partner,

entities in the KION Group immediately recognise the portion of the consideration received that exceeds the residual value obligation as revenue.

Project business contracts

Receivables and revenue from the project business are recognised over a particular period according to the stage of completion (percentage-of-completion 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, project business 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 emerges. If the contract costs incurred and the profit and loss recognised exceed the progress billings, the excess is recognised as an asset under contract assets. If the progress billings exceed the capitalised costs and recognised profit and loss, the excess is recognised as a liability under contract liabilities (see note [33] for details of the amounts recognised in the statement of financial position).

If the outcome of a project business 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.

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 expense on financial liabilities, interest income from financial receivables, interest income from leases and the interest cost on leases, interest expense from financial services, the interest cost on procurement 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 non-consolidated subsidiaries.

Goodwill

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

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

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. 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 and KION Americas CGUs using a growth rate of 0.8 per cent (2017: 0.5 per cent). The growth rate used for Dematic was 1.3 per cent (2017: 0.5 per cent). The higher growth rates reflect long-term inflation trends (especially in Germany and the United States) and the expected medium-term performance of the ITS and SCS segments.

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.

> **TABLE 054** shows the significant parameters for impairment testing broken down by Operating Unit.

Significant parameters for impairment testing

TABLE 054

in %	Long-term growth rate		WACC after tax	
	2018	2017	2018	2017
Industrial Trucks & Services				
LMH EMEA	0.8%	0.5%	7.3%	6.6%
STILL EMEA	0.8%	0.5%	7.4%	6.7%
KION Americas	0.8%	0.5%	8.2%	7.8%
KION APAC	0.8%	0.5%	7.7%	7.6%
Supply Chain Solutions				
Dematic	1.3%	0.5%	8.6%	7.6%

The impairment test carried out in the fourth quarter of 2018 did not reveal any need to recognise impairment losses for intangible assets with an indefinite useful life or 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.

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 applies an income-oriented method in which fundamentally the same assumptions are used as in the impairment test for goodwill. Assessments of indefinite useful life are carried out in every period.

Development costs are capitalised if the capitalisation criteria in IAS 38 are met. 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. All non-qualifying development costs are expensed as incurred and reported in the consolidated 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 cost of sales. The impairment losses on intangible assets are reported under other expenses.

The useful lives shown in > **TABLE 055** are applied in determining the carrying amounts of other intangible assets.

Leases/short-term rentals

KION Group entities in the Industrial Trucks & Services segment conduct leasing and short-term rental business in which they lease or rent industrial trucks and related items of equipment to their customers in order to promote sales.

Entities in the KION Group enter into leases as lessors and as lessees. In line with IFRS 16, these leases are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased asset are transferred to the lessee. All other leases and short-term rentals are classified as operating leases, again in accordance with IFRS 16.

If an entity in the Industrial Trucks & Services segment 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. These are measured using the simplified impairment approach in accordance with IFRS 9. Interest income is spread over the term of the lease 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 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 finance lease contracts, industrial trucks are generally sold to leasing companies (financing partners) and immediately leased back (head lease) before being sub-leased to external end customers (described below as 'sale and leaseback sub-leases').

In accordance with the transitional provisions of IFRS 16, it was not necessary to reassess the sale and leaseback sub-lease portfolio in existence as at 31 December 2017 with regard to the transfer of control to the financing partner in the head lease. In all sale and leaseback sub-leases, risks and rewards incidental to the head lease are, in general, substantially borne by entities in the KION Group. The corresponding assets are therefore reported as leased assets within non-current assets at the lower of the present value of the lease payments and fair value. However, if risks and rewards incidental to the head lease are substantially transferred to the end customer in the sub-lease, 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.

Useful life of other intangible assets

TABLE 055

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

The accounting for contracts concluded from 1 January 2018 onwards is also determined by whether the financing partner gains control over the industrial truck. As the financing partner usually does not obtain control over the industrial truck, it is recognised as a leased asset in the statement of financial position or, if the risks and rewards have been transferred to the end customer, as a lease receivable. The industrial truck recognised as a leased asset is carried at cost, while the lease receivable is recognised at an amount equal to the net investment in the lease. The liabilities for financing the leased assets are recognised under liabilities from financial services.

In the indirect leasing business, industrial trucks are sold to leasing companies that enter into long-term leases with end customers (vendor partners). As the vendor partner usually does not obtain control over the industrial truck, it is recognised as a leased asset in the statement of financial position and carried at cost. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under liabilities from financial services. Accordingly, entities in the KION Group immediately recognise the portion of the consideration received that exceeds the residual value obligation as revenue or they initially treat that portion of the consideration received as deferred income and subsequently recognise the revenue on a pro-rata basis over the term of the lease.

Rental assets

Under short-term rental agreements, entities in the KION Group rent industrial trucks directly to end customers. Short-term rental agreements usually have a term ranging from a few hours to a year.

The industrial trucks are carried at cost and depreciated on a straight-line basis over the normal useful life of between five and eight years, depending on the product group. If a sale and leaseback sub-lease arrangement is in place for financing purposes, the assets are reported in the statement of financial position either at the lower of the present value of the rental payments and fair value or at cost, depending on the portfolio to which they belong.

In accordance with the transitional provisions of IFRS 16, it was not necessary to reassess the sale and leaseback sub-lease portfolio in existence as at 31 December 2017 with regard to the transfer of control to the financing partner in the head lease. 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 KION Group, these industrial trucks are reported as rental assets within non-current assets. The liabilities for financing this part of the short-term rental fleet are reported under other financial liabilities.

The accounting for contracts concluded from 1 January 2018 onwards is also determined by whether the financing partner gains control over the industrial truck. As the financing partner usually does not obtain control over the industrial truck, it is recognised as a rental asset in the statement of financial position and carried at cost. The liabilities for financing this part of the short-term rental fleet are reported under liabilities from financial services.

Other property, plant and equipment

Property, plant and equipment is carried at cost less 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.

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 ranges of useful life below are applied in determining the carrying amounts of items of property, plant and equipment.

> **TABLE 056**

KION Group companies also lease property, plant and equipment for their own use through leases, which are recognised as right-of-use assets under other property, plant and equipment. As a rule, the leases are entered into for defined periods, although they may contain extension and/or termination options.

The right-of-use assets are depreciated over the shorter of their 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 right-of-use asset is depreciated and the other financial liabilities are reversed over the useful life of the leased assets.

Lease instalments for procurement leases with a term of no more than twelve months and for procurement leases relating to low-value assets are expensed on a straight-line basis and reported under functional costs.

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 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 pro-rata impairment losses are reversed, but 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.

Useful life of other property, plant and equipment

TABLE 056

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

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.

Other financial assets

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

In accordance with IFRS 9, the KION Group categorises financial assets as debt instruments recognised at fair value through profit or loss (FVPL), debt instruments measured at amortised cost (AC) or equity instruments recognised at fair value through other comprehensive income (FVOCI).

Debt instruments are measured at amortised cost (AC) if they are held as part of a business model whose objective is to collect the contractual cash flows, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Upon initial recognition, these assets are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

In line with the general impairment approach for debt instruments in the AC category, both upon initial recognition and in subsequent periods the KION Group recognises expected credit losses in profit or loss by recognising valuation allowances. The valuation allowances amount to the twelve-month expected losses, provided no significant increase in credit risk (for example as a result of material changes to external or internal credit ratings) is observable at the reporting date. Otherwise, lifetime expected losses are recognised. The simplified impairment approach is applied to all trade receivables, lease receivables and contract assets and always covers the lifetime expected losses.

The expected losses are calculated using the probability of default, the exposure at default and, taking into account any collateral, the estimated loss given default. The calculation draws on observable historical loss data, information on current conditions and the economic outlook.

A default is defined as the occurrence of a loss event, such as a borrower being in considerable financial difficulties or a contract being breached. Financial assets are written off if there are no reasonable prospects of recovering the underlying cash flows in full or partly. The recoverability is assessed on the basis of different indicators (for example, the opening of insolvency proceedings over the borrower's assets) that take the relevant country-specific factors into account.

Equity instruments in the FVOCI category are recognised at fair value through other comprehensive income. Upon initial recognition at fair value, directly attributable transaction costs are included. Gains and losses accumulated in other comprehensive income are not reclassified to profit or loss upon disposal of these financial assets. Dividends are recognised in income.

The KION Group assigns the remaining financial assets to the FVPL category. They are initially recognised at fair value; directly attributable transaction costs have to be taken directly to profit or loss. In subsequent periods, financial assets in the FVPL category are recognised at fair value through profit or loss.

In 2017, in accordance with IAS 39, the KION Group differentiated between financial assets held for trading at fair value through profit or loss (FAHfT), available for sale financial assets (AFS) and loans and receivables (LaR).

Hedge accounting

Currently, derivative financial instruments in the KION Group comprise currency forwards and interest-rate swaps that are used for hedging purposes to mitigate currency risk and interest-rate risk. They are initially recognised and derecognised in the financial statements on their settlement dates.

Derivative financial instruments are measured at their fair value and are reported as other financial assets or other financial liabilities as at the reporting date. If they are not part of a formally documented hedge, derivatives are classified as held for trading and assigned to the FVPL category. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IFRS 9 measurement categories and are therefore recognised in accordance with the hedge accounting rules described below.

The KION Group currently uses cash flow hedges for currency risk and interest-rate risk.

In the case of cash flow hedges, derivatives are used 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.

In addition, the KION Group uses an interest-rate swap to hedge the fair value of a fixed-rate financial liability. The effective portion of changes in the fair value of the interest-rate swap is recognised in the income statement. They are offset by gains and losses on the change in the fair value of the hedged financial liability, which result in an adjustment in profit or loss of the carrying amount of the hedged item. The ineffective portion of the hedge is recognised immediately in the income statement.

Further information on risk management and accounting for derivative financial instruments can be found in notes [40] and [41].

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 (FIFO = "first in first out").

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.

Contract balances

Contract assets mainly relate to work performed in the project business that has not yet been billed. Contract assets are measured using the simplified impairment approach in accordance with IFRS 9. The average loss rates calculated for trade receivables are used as an approximation of the expected losses from contract assets.

A contract liability is a company's obligation to transfer goods or services to a customer for which the company has received (or will receive) consideration. Project business contracts with a net debit balance due to customers are reported under contract liabilities, as are prepayments received from customers.

Trade receivables

Trade receivables that are held in order to collect the contractual cash flows are assigned to the AC category. Upon measurement subsequent to initial recognition, the KION Group applies the simplified impairment approach of IFRS 9 and thus recognises lifetime expected losses. To determine lifetime expected losses, for purposes of the valuation allowance average loss rates are calculated on a collective basis in accordance with the past due status of the receivables. The loss rates are calculated on the basis of observable historical loss data, taking into account current conditions and the economic outlook (for example on the basis of expected probability of default for significant countries). The amount of the valuation allowance recognised is adjusted in profit or loss if there is a change in the estimate for the underlying inputs and thus in the losses to be recognised.

The reversal of an impairment loss must not result in a carrying amount greater than the amortised cost that would have arisen if the impairment loss had not been recognised.

Trade receivables that are assigned to the FVPL category on the basis of the business model test in IFRS 9 are recognised at fair value through profit or loss.

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.

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 [28].

Financial liabilities

The financial liabilities reported by the KION Group essentially comprise liabilities to banks and liabilities in connection with the promissory notes that have been issued. Upon initial recognition, they are recognised at fair value including directly attributable transaction costs. Subsequently, financial liabilities are recognised at amortised cost using the effective interest method (AC).

Liabilities from financial services

Liabilities from financial services comprise all liabilities from financing the leasing business and the short-term rental fleet on the basis of sale and leaseback sub-leases from 1 January 2018 onwards, as well as the liabilities that arise from financing the leasing business by means of lease facilities and the use of securitisations. Furthermore, liabilities from financial services arising from the leasing business include residual value obligations resulting from the indirect leasing business.

Upon initial recognition, they are recognised at fair value including directly attributable transaction costs. Subsequently, liabilities from financial services are recognised at amortised cost using the effective interest method (AC).

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 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) under expenses.

Other financial liabilities

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

The FVPL category contains derivative financial instruments that are not 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 IFRS 9 measurement categories.

All other financial liabilities of the KION Group must be assigned to the AC category. 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.

In 2017, the KION Group differentiated between financial liabilities held for trading and recognised at fair value through profit or loss (FLHfT) and financial liabilities that are recognised at amortised cost using the effective interest method (FLaC).

Trade payables

Trade payables are recognised at amortised cost using the effective interest method (AC). 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 and measuring leases and in determining the lease term
- 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 of contracts where the revenue is recognised over a period of time.

Goodwill is tested for impairment annually at the level of the cash-generating units to which goodwill is allocated, assuming division-specific growth rates for the subsequent period. 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 [16].

The classification of leases requires estimates to be made regarding the transferred and retained risks and rewards in connection with ownership of the industrial truck. When defining the lease term, senior management also takes into consideration all facts and circumstances that offer an economic incentive to exercise extension options or to not exercise cancellation options. Further 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 the relevant notes.

Defined benefit pension obligations are calculated on the basis of actuarial parameters, although the value for certain plan assets is derived from inputs that are not observable in the market. 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 [28].

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 [13]). 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.

Project business 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 project business contracts. The Operating Units continually review the cost estimates and adjust them as appropriate. Further information on project business contracts can be found earlier in this note and in note [33].

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