

Business performance in the Group

In 2018, the KION Group focused on strengthening its position in emerging markets in line with its KION 2027 strategy. Back in January 2018, the KION Group entered into an exclusive and global strategic partnership with EP Equipment, Co., Ltd., Hangzhou, People's Republic of China, a leading Chinese manufacturer of warehouse trucks. In this context, the KION Group also plans to acquire a non-controlling interest in EP Equipment, Co., Ltd., thereby expanding its product offering in the entry-level segment for lightweight warehouse trucks in the Chinese market and improving on its worldwide position as the leading supplier of electric-powered material handling equipment.

In the first quarter of 2018, the KION Group's production network was enlarged when the factory in Stříbro, Czech Republic, commenced operations and began manufacturing multishuttles and modular conveyor systems. The factory supports Dematic's growth in the European market.

Further steps were taken as part of ongoing improvements to the KION Group's funding. In January 2018, the KION Group agreed an extension, until February 2023, to the term of the revolving credit facility of €1,150.0 million arranged under the senior facilities agreement (SFA), giving it another year of flexibility in its funding. The KION Group issued a further promissory note in June 2018. It has a volume of €200.0 million and will mature in June 2025. In addition, the long-term tranche of the acquisition facilities agreement (AFA) was reduced to €600.0 million (31 December 2017: €1,000.0 million).

At the start of the 2018 financial year, the KION Group adopted the new standards IFRS 9, IFRS 15 and IFRS 16 retrospectively. As a result, some of the prior-year figures, Group KPIs and line items have been adjusted, particularly those relating to the leasing business.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Overall assessment of the economic situation

2018 was another successful year for the KION Group. The targets set for its monetary KPIs for 2018 were achieved both at Group level and in the two segments, despite a negative overall currency effect over the course of the year. It should be emphasised that the brief dip in EBIT and free cash flow in the first half of the year was largely reversed again as a result of the faster revenue growth in the second half of the year. The corrective measures taken in the Industrial Trucks & Services segment had the desired effect on the temporary bottlenecks at individual suppliers. The Supply Chain Solutions segment's strong finish to 2018 more than made up for the shortfalls in project revenue recognised in the first few months of the year. The KION Group was thus able to take full advantage of the generally favourable market conditions in both segments.

The KION Group's total order intake rose by 8.5 per cent to €8,656.7 million (2017: €7,979.1 million). The contribution from the Supply Chain Solutions segment, where order intake increased by 15.5 per cent, was exceptionally strong, but the Industrial Trucks & Services segment also saw year-on-year order growth of 6.0 per cent. Consolidated revenue improved by 5.2 per cent to €7,995.7 million (2017: €7,598.1 million). The Industrial Trucks & Services segments played a particularly strong part in this revenue growth, whereas revenue in the Supply Chain Solutions segment was only slightly higher than in 2017 due to the overall poor start to 2018.

The KION Group's EBIT adjusted for non-recurring items and purchase price allocation effects came to €789.9 million (2017: €777.3 million). This year-on-year increase of €12.6 million was achieved despite higher material prices, wage cost rises, negative currency effects and temporary bottlenecks at individual suppliers in the Industrial Trucks & Services segment. There was a moderate reduction in the adjusted EBIT margin to 9.9 per cent (2017: 10.2 per cent). After taking into account diminishing purchase price allocation (PPA) effects and non-recurring items, EBIT rose sharply to €642.8 million (2017: €561.0 million). As a result of higher tax expenses, there was a moderate decrease in net income to €401.6 million (2017: €422.5 million). Non-recurring items in both 2018 (positive item of €29.4 million) and 2017 (positive item of €92.2 million) had a positive impact on tax expenses and thus on net income. Basic earnings per share attributable to the shareholders of the KION Group came to €3.39 in 2018 (2017: €3.68) based on a weighted average of 117.9 million no-par-value shares outstanding during the reporting year (2017: 114.3 million). KION GROUP AG will propose a dividend of €1.20 per share to the Annual General Meeting (2017: €0.99 per share).

Free cash flow increased to €519.9 million (2017: €474.3 million), above all thanks to improved earnings and the lower growth in net working capital.

Comparison between actual and forecast growth

The KION Group's order intake of €8,656.7 million was above the upper end of the target range (€8,050 million to €8,550 million), while the revenue of €7,995.7 million was in the middle (target range: €7,700 million to €8,200 million). The adjusted EBIT of €789.9 million was also within the specified bounds (target range: €770 million to €835 million). Higher advance payments from customers in the project business meant that the free cash flow of €519.9 million was significantly higher than anticipated (target range: €410 million to €475 million). At 9.3 per cent, ROCE was as predicted (target range: 8.7 per cent to 9.7 per cent). In the Industrial Trucks & Services segment, order intake and revenue exceeded expectations, while adjusted EBIT was at the lower end of the target range due to the temporary supply bottlenecks during the year. The results achieved in the Supply Chain Solutions segment for revenue and adjusted EBIT were also around the lower end of their respective target range. Order intake exceeded the top end of the target range because the strong level of incoming orders for customer projects in recent quarters continued into the fourth quarter. > TABLES 008–009

Comparison between actual and forecast growth – KION Group

TABLE 008

in € million	KION Group	
	2018 Outlook	2018 Actual
Order intake	8,050 – 8,550	8,656.7
Revenue	7,700 – 8,200	7,995.7
Adjusted EBIT	770 – 835	789.9
Free cash flow	410 – 475	519.9
ROCE	8.7% – 9.7%	9.3%

Comparison between actual and forecast growth – segments

TABLE 009

in € million	Industrial Trucks & Services		Supply Chain Solutions	
	2018 Outlook	2018 Actual	2018 Outlook	2018 Actual
Order intake*	5,950 – 6,150	6,210.6	2,100 – 2,400	2,425.2
Revenue*	5,700 – 5,900	5,922.0	2,000 – 2,300	2,055.2
Adjusted EBIT*	650 – 685	655.4	180 – 215	180.2

* Disclosures for the Industrial Trucks & Services and Supply Chain Solutions segments also include intra-group cross-segment order intake, revenue and effects on EBIT

Business situation and financial performance of the KION Group

Level of orders

Order intake in the KION Group rose by 8.5 per cent year on year to €8,656.7 million (2017: €7,979.1 million). This substantial increase is attributable to new truck business in the Industrial Trucks & Services segment, project business in the Supply Chain Solutions segment and growing service activities in both segments. Although negative currency effects dissipated slightly in the fourth quarter owing to the weakness of the euro, their overall impact in 2018 as a whole still reduced the value of order intake by €186.5 million. Thanks to strong order intake, the KION Group's order book of €3,300.8 million was up by 26.2 per cent

compared with the end of 2017 (31 December 2017: €2,614.6 million) and provides an excellent basis for the future.

Revenue

The negative currency effects on revenue were comfortably outweighed by the growth in the volume of business. The consolidated revenue of the KION Group increased by 5.2 per cent to €7,995.7 million (2017: €7,598.1 million); if exchange rates had been the same as in 2017, the rise would have been 7.5 per cent. The rate of revenue growth picked up sharply in the second half of the year, predominantly due to the increase in production volume in the Industrial Trucks & Services segment once the bottlenecks at individual suppliers had largely been resolved. Overall, the Industrial Trucks & Services segment generated

total revenue of €5,922.0 million, which equated to an increase of 6.3 per cent compared with 2017. In the Supply Chain Solutions segment, revenue amounted to €2,055.2 million following a strong fourth quarter. This year-on-year rise of 2.3 per cent was

primarily attributable to the increase in revenue from the service business. Across the Group as a whole, the share of revenue attributable to the service business grew from 42.5 per cent to 43.1 per cent. > **TABLE 010**

Revenue with third parties by product category

TABLE 010

in € million	2018	2017*	Change
Industrial Trucks & Services	5,916.3	5,568.2	6.3%
New business	3,009.1	2,828.8	6.4%
Service business	2,907.2	2,739.5	6.1%
– Aftersales	1,513.9	1,429.5	5.9%
– Rental business	900.1	855.2	5.3%
– Used trucks	327.8	306.6	6.9%
– Other	165.4	148.3	11.6%
Supply Chain Solutions	2,052.1	2,005.1	2.3%
Business solutions	1,514.0	1,512.4	0.1%
Service business	538.1	492.7	9.2%
Corporate Services	27.3	24.8	10.0%
Total revenue	7,995.7	7,598.1	5.2%

* Revenue for 2017 was restated due to the initial application of IFRS 15 and IFRS 16

Revenue by sales region

In the EMEA sales region (western Europe, eastern Europe, Middle East and Africa), revenue rose by 3.6 per cent year on year. Revenue was up by 4.4 per cent in western Europe, thanks in no small part to the Industrial Trucks & Services segment's higher unit sales in the German, Italian and French markets. In eastern Europe, revenue increased by 8.0 per cent compared with the previous year. This growth was mainly driven by brisk new truck business in Poland and Russia. In the Americas region (North, Central and South America), the KION Group posted a substantial rise in revenue of 16.1 per cent – despite significant negative currency effects – and thus boosted its strong market position in North America, especially in the Supply Chain Solutions segment. The APAC region (Asia-Pacific) was affected by a

decline in revenue in Australia, resulting in an overall decrease of 2.2 per cent in spite of the ongoing momentum in the region. Emerging markets accounted for 20.3 per cent of the KION Group's revenue in the reporting year (2017: 20.9 per cent), while 80.8 per cent of consolidated revenue (2017: 81.6 per cent) was generated outside Germany. > **TABLE 011**

Revenue with third parties by customer location

TABLE 011

in € million	2018	2017*	Change
Western Europe	4,769.9	4,567.1	4.4%
Eastern Europe	592.3	548.2	8.0%
Middle East and Africa	94.5	153.6	-38.5%
North America	1,486.3	1,266.7	17.3%
Central and South America	173.5	163.1	6.4%
Asia-Pacific	879.3	899.3	-2.2%
Total revenue	7,995.7	7,598.1	5.2%

* Revenue for 2017 was restated due to the initial application of IFRS 15 and IFRS 16

Earnings and profitability

EBIT, EBITDA and ROCE

Despite negative currency effects, earnings before interest and tax (EBIT) went up by 14.6 per cent to €642.8 million in 2018 (2017: €561.0 million). The main reason was the sharp reduction, from €176.2 million in 2017 to €126.2 million in the reporting year, in the negative purchase price allocation effects included in EBIT. The non-recurring items also decreased, to €21.0 million, and mainly related to ongoing process standardisation in connection with the integration of Dematic and, in the Industrial Trucks &

Services segment, to the redirection of sales activities in South Africa. In 2017, non-recurring items (€40.1 million) had been incurred in connection with the fundamental integration of Dematic and with the start-up costs for the new plant in Monterrey, Mexico.

EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) was above the figure for the previous year at €789.9 million (2017: €777.3 million). The adjusted EBIT margin declined from 10.2 per cent to 9.9 per cent.

> TABLE 012

EBIT

TABLE 012

in € million	2018	2017*	Change
EBIT	642.8	561.0	14.6%
+ Non-recurring items	21.0	40.1	-47.7%
+ PPA items	126.2	176.2	-28.4%
Adjusted EBIT	789.9	777.3	1.6%

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to €1,540.6 million (2017: €1,457.6 million). Adjusted EBITDA came to €1,555.1 million (2017: €1,495.8 million). The adjusted EBITDA margin decreased from 19.7 per cent in 2017 to 19.4 per cent in 2018.

EBITDA for the long-term leasing business, which is derived from internal reporting and assumes a minimum rate of return on the capital employed, amounted to €321.1 million (2017: €320.9 million). > **TABLE 013**

EBITDA**TABLE 013**

in € million	2018	2017*	Change
EBITDA	1,540.6	1,457.6	5.7%
+ Non-recurring items	14.6	36.4	-59.9%
+ PPA items	-0.0	1.8	<-100%
Adjusted EBITDA	1,555.1	1,495.8	4.0%

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

Return on capital employed (ROCE) was at the same level as in 2017 at 9.3 per cent.

Key influencing factors for earnings

Whereas revenue increased by 5.2 per cent, the cost of sales was up by 4.5 per cent. Consequently, the gross margin improved slightly to reach 26.2 per cent, compared with 25.7 per cent in 2017. Higher material prices and wage cost rises in the reporting year partly negated the positive impact of reduced purchase price allocation effects. In addition, the bottlenecks at individual suppliers in the Industrial Trucks & Services segment resulted in production inefficiencies and thus an increase in the cost of sales. Furthermore, delays in the awarding of projects by customers in previous quarters led to temporary underutilisation of project-related personnel capacity and, overall, squeezed earnings in the Supply Chain Solutions segment. Despite a recovery in the fourth quarter, currency effects, primarily from the US dollar, also had a negative impact on the key financials and therefore on the KION Group's EBIT.

Selling expenses and administrative expenses increased by 6.1 per cent – virtually the same rate as for revenue growth – to reach €1,352.6 million (2017: €1,275.1 million). This rise was due to higher wage costs and, above all, the expansion of market-specific and customer-specific sales activities. The level of groupwide research and development costs held steady at €137.7 million (2017: €137.0 million), reflecting the ongoing innovation initiatives taking place in the KION Group in connection with its growth strategy. The 'other' item included, among other effects, the share of profit (loss) of equity-accounted investments, which amounted to a profit of €12.2 million (2017: profit of €13.6 million). It also included impairment losses on non-current assets of €6.4 million (2017: €14.8 million); the prior-year figure had included impairment losses of €8.6 million relating to the Egemin brand name, which has been integrated into the Dematic brand presentation. > **TABLE 014**

(Condensed) income statement

TABLE 014

in € million	2018	2017*	Change
Revenue	7,995.7	7,598.1	5.2%
Cost of sales	-5,898.1	-5,643.3	-4.5%
Gross profit	2,097.6	1,954.8	7.3%
Selling expenses and administrative expenses	-1,352.6	-1,275.1	-6.1%
Research and development costs	-137.7	-137.0	-0.5%
Other	35.4	18.3	93.6%
Earnings before interest and taxes (EBIT)	642.8	561.0	14.6%
Net financial expenses	-97.4	-96.3	-1.2%
Earnings before taxes	545.3	464.7	17.3%
Income taxes	-143.7	-42.2	<-100%
Net income	401.6	422.5	-4.9%

* (Condensed) income statement for 2017 was restated due to the initial application of IFRS 15 and IFRS 16

Net financial expenses

The net financial expenses, representing the balance of financial income and financial expenses, were virtually unchanged year on year at €97.4 million (2017: net financial expenses of €96.3 million). Current interest expense on financial liabilities decreased in 2018 due to the corporate actions carried out in 2017, whereas currency effects had improved the level of net financial expenses in the previous year. The deferred borrowing costs of €4.5 million reported within financial expenses included, among other items, expenses resulting from the early repayment of €400.0 million under the acquisition facilities agreement (AFA); previously deferred borrowing costs of €1.9 million were expensed. In 2017, borrowing costs totalling €8.8 million had been recognised as an expense.

Income taxes

Income tax expenses amounted to €143.7 million, which equates to a tax rate of 26.3 per cent. This included a positive tax effect stemming from the offsetting of losses of corporations in an amount of €29.4 million in connection with an amendment to tax law (section 8c of the German Corporation Tax Act (KStG)) at the end of the financial year 2018. The far lower level of tax

expenses of €42.2 million in 2017 had primarily been attributable to the remeasurement of deferred tax liabilities in light of the US tax reforms; the associated positive non-recurring tax effect had amounted to €92.2 million in 2017.

Net income and appropriation of profit

Net income amounted to €401.6 million (2017: €422.5 million). On a like-for-like basis, i.e. excluding the non-recurring impact of the tax effects in both years, net income was significantly higher than in the previous year. The net income attributable to the shareholders of KION GROUP AG was €399.9 million (2017: €420.9 million). Basic earnings per share came to €3.39 (2017: €3.68) based on 117.9 million (2017: 114.3 million) no-par-value shares; this was the weighted average number of shares outstanding during the reporting year. Diluted earnings per share, which is calculated by adding the potential dilutive no-par-value shares under the employee share option programme, amounted to €3.39 (2017: €3.68) based on a weighted average number of shares of 117.9 million (2017: 114.4 million). These calculations did not include 165.6 thousand (2017: 160.8 thousand) no-par-value treasury shares that were repurchased by KION GROUP AG as part of the employee equity programme.

KION GROUP AG's net profit for 2018 was €236.3 million, of which €94.8 million will be transferred to other revenue reserves. The Executive Board and the Supervisory Board will propose to the Annual General Meeting to be held on 9 May 2019 that an amount of €141.5 million be appropriated from the distributable profit of €141.7 million for the payment of a dividend of €1.20 per dividend-bearing share. It is also proposed that the remaining sum of €0.2 million be carried forward to the next accounting period. This equates to a dividend payout rate of 35 per cent of net income.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

The Industrial Trucks & Services segment registered a year-on-year increase in orders for new trucks across all sales regions of 7.6 per cent to 216.7 thousand units. The Linde brand (including Fenwick) achieved strong growth and accounted for 62.1 per cent of new truck business. STILL generated 31.8 per cent of new orders; the remaining 6.1 per cent was attributable to the Baoli and OM Voltas brands.

In line with the objectives of the KION 2027 strategy, there was a particularly sharp increase in unit sales of electric-powered trucks, which accounted for over 80 per cent of orders.

The total value of order intake rose by 6.0 per cent to €6,210.6 million (2017: €5,859.5 million), despite negative currency effects of €98.5 million. In addition to new truck orders, the expanding service business also contributed to this increase.

Revenue

Total segment revenue went up by 6.3 per cent to €5,922.0 million (2017: €5,572.2 million). Although deliveries were delayed during the course of 2018 due to temporary bottlenecks at individual suppliers, which adversely affected revenue, the level of output improved markedly in the second half of the year. Excluding negative currency effects of €97.6 million, the increase in revenue was 8.0 per cent for 2018 as a whole. The growth of 6.4 per cent in the new truck business is due to scheduled price adjustments and, above all, increasing unit sales of electric forklift trucks and warehouse trucks. Unit sales of diesel trucks were lower than in 2017. Revenue from the service business was up by 6.1 per cent year on year, which was almost the same as the rate of revenue growth in the new truck business. Aftersales business accounted for the largest share, contributing 52.1 per cent of service revenue. The rental and used truck business was also very encouraging, with revenue going up by 5.7 per cent. The proportion of the segment's external revenue accounted for by the service business was 49.1 per cent (2017: 49.2 per cent).

Earnings

The segment's adjusted EBIT increased at a slightly slower rate than revenue to reach €655.4 million (2017: €642.7 million). The related contraction of the adjusted EBIT margin to 11.1 per cent (2017: 11.5 per cent) essentially reflects the impact of the bottlenecks at suppliers, the effects of which included temporary inefficiencies in production. The adjusted EBIT margin continued to be squeezed by higher material prices and wage costs. After taking into account non-recurring items and purchase price allocation effects, EBIT amounted to €625.2 million (2017: €640.2 million).

Adjusted EBITDA improved to €1,340.2 million (2017: €1,288.7 million). This equated to an adjusted EBITDA margin of 22.6 per cent (2017: 23.1 per cent). > **TABLE 015**

Key figures – Industrial Trucks & Services

TABLE 015

in € million	2018	2017*	Change
Order intake	6,210.6	5,859.5	6.0%
Total revenue	5,922.0	5,572.2	6.3%
EBITDA	1,332.3	1,287.0	3.5%
Adjusted EBITDA	1,340.2	1,288.7	4.0%
EBIT	625.2	640.2	-2.3%
Adjusted EBIT	655.4	642.7	2.0%
Adjusted EBITDA margin	22.6%	23.1%	–
Adjusted EBIT margin	11.1%	11.5%	–

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

Supply Chain Solutions segment

Business performance and order intake

The Supply Chain Solutions segment saw a significant year-on-year improvement of 15.5 per cent in its order intake to €2,425.2 million (2017: €2,099.2 million). Negative currency effects of €88.0 million, which were mainly due to the US dollar being weaker on average during the year, were easily offset. Adjusted for currency effects, order intake was up by 19.7 per cent. Following a muted start to 2018, project business (business solutions) received major orders – especially in the second and third quarters – and thus registered strong year-on-year growth. Overall, project business generated 76.5 per cent of the segment's order intake (2017: 75.4 per cent). The growing trend for the outsourcing of logistics processes and the related downstream services provides good foundations for the rapidly expanding service business (customer services) in the Supply Chain Solutions segment.

Revenue

The segment's total revenue increased by a moderate 2.3 per cent to €2,055.2 million (2017: €2,009.5 million), following a strong finish to the year in the fourth quarter. However, delays in the awarding of projects by customers – some of which stretched

back to 2017 – took their toll on revenue in the first nine months of 2018. The fourth quarter rally was unable to fully make up for this, which meant that revenue was at the lower end of the target range. Excluding negative currency effects of €76.5 million, the year-on-year increase was 6.1 per cent. Project business accounted for 73.8 per cent of external revenue and the service business for 26.2 per cent. The segment generated 65.7 per cent of its revenue in North America (2017: 56.8 per cent).

Earnings

The segment's adjusted EBIT came to €180.2 million, which was below the figure for the previous year of €188.7 million. The continued delays in the awarding of projects by customers led to temporary underutilisation of project-related personnel capacity in 2018. Currency effects also had an adverse impact on EBIT. The adjusted EBIT margin fell to 8.8 per cent (2017: 9.4 per cent).

After taking into account non-recurring items and purchase price allocation effects, which were down year on year, EBIT improved significantly to €64.4 million (2017: minus 16.6 million). Adjusted EBITDA came to €231.5 million (2017: €235.7 million), with an adjusted EBITDA margin of 11.3 per cent (2017: 11.7 per cent). > TABLE 016

Key figures – Supply Chain Solutions

TABLE 016

in € million	2018	2017*	Change
Order intake	2,425.2	2,099.2	15.5%
Total revenue	2,055.2	2,009.5	2.3%
EBITDA	226.1	207.7	8.9%
Adjusted EBITDA	231.5	235.7	-1.8%
EBIT	64.4	-16.6	> 100%
Adjusted EBIT	180.2	188.7	-4.5%
Adjusted EBITDA margin	11.3%	11.7%	-
Adjusted EBIT margin	8.8%	9.4%	-

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

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, which came to €299.2 million (2017: €266.6 million), mainly resulted from internal IT and logistics services.

The segment reported adjusted EBIT of €369.6 million, compared with €532.4 million in the previous year. This sharp fall was attributable to higher intra-group dividend income in 2017. Adjusted EBIT excluding intra-group dividend income amounted to minus €45.8 million (2017: minus €54.1 million). Adjusted EBITDA came to €398.8 million, or minus €16.6 million if intra-group dividend income is excluded. > **TABLE 017**

Key figures – Corporate Services

TABLE 017

in € million	2018	2017*	Change
Order intake	299.2	266.6	12.2%
Total revenue	299.2	266.6	12.2%
EBITDA	397.6	549.4	–27.6%
Adjusted EBITDA	398.8	557.9	–28.5%
EBIT	368.5	523.9	–29.7%
Adjusted EBIT	369.6	532.4	–30.6%

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

Net assets

Non-current assets

Non-current assets rose by €300.0 million from their level at the end of 2017 to €10,150.6 million as at 31 December 2018. Intangible assets accounted for €5,721.6 million of total non-current assets (31 December 2017: €5,716.5 million). The goodwill included in this total was up slightly at €3,424.8 million (31 December 2017: €3,382.5 million), mainly as a result of currency effects. However, these were partly offset by the effect of the ongoing writedowns on the customer relationships acquired from Dematic as part of the purchase price allocation (PPA). The rise in other property, plant and equipment to €1,077.8 million (31 December 2017: €994.9 million) was largely attributable to higher capital expenditure on new production facilities and to additional right-of-use assets relating to new and extended procurement leases. Right-of-use assets increased to €390.7 million (31 December 2017: €347.4 million). Within this total, the right-of-use assets for land and buildings stood at €276.4 million (31 December 2017: €247.6 million) and the right-of-use assets for plant, machinery, and office furniture and equipment stood at €114.3 million (31 December 2017: €99.8 million). Leased assets for direct and indirect leases with end customers that are classified as operating leases increased slightly to reach €1,261.8 million (31 December 2017: €1,246.3 million). Further expansion of the short-term rental fleet caused rental assets to rise to €670.5 mil-

lion (31 December 2017: €608.4 million). At €826.2 million, long-term lease receivables arising from leases with end customers that are classified as finance leases were considerably higher than at the end of 2017 (31 December 2017: €647.8 million). The amount of deferred tax assets recognised in the statement of financial position was €421.7 million as at the reporting date (31 December 2017: €475.2 million).

Current assets

Current assets rose by €331.1 million to €2,818.2 million (31 December 2017: €2,487.1 million). The temporary bottlenecks at individual suppliers resulted in significant inventory growth in the Industrial Trucks & Services segment that had not been completely eliminated by 31 December 2018. The increased volume of business also resulted in higher inventories in the KION Group, which stood at €994.8 million as at the reporting date (31 December 2017: €768.6 million). > TABLE 018

Trade receivables amounted to €1,036.4 million (31 December 2017: €999.4 million).

The KION Group's net working capital, which comprises inventories, trade receivables and contract assets less trade payables and contract liabilities, rose to €676.1 million (31 December 2017: €619.9 million).

Inventories

TABLE 018

in € million	2018	2017	Change
Materials and supplies	284.2	185.2	53.5%
Work in progress	132.3	109.0	21.3%
Finished goods and merchandise	550.6	459.0	19.9%
Advances paid	27.8	15.4	80.5%
Total inventories	994.8	768.6	29.4%

Cash and cash equivalents stood at €175.3 million on the reporting date, which was virtually unchanged on the previous year (31 December 2017: €173.2 million) and, in line with groupwide liquidity management (cash pooling), was at the level required for operating activities.

Current lease receivables from end customers increased to €271.2 million (31 December 2017: €228.0 million).

The condensed consolidated statement of financial position as at 31 December 2018 showing current and non-current assets and liabilities together with equity is presented in > TABLE 019.

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

(Condensed) statement of financial position

TABLE 019

in € million	2018	in %	2017*	in %	Change
Non-current assets	10,150.6	78.3%	9,850.6	79.8%	3.0%
Current assets	2,818.2	21.7%	2,487.1	20.2%	13.3%
Total assets	12,968.8	–	12,337.7	–	5.1%
Equity	3,305.1	25.5%	2,992.3	24.3%	10.5%
Non-current liabilities	5,999.1	46.3%	6,133.7	49.7%	–2.2%
Current liabilities	3,664.6	28.3%	3,211.7	26.0%	14.1%
Total equity and liabilities	12,968.8	–	12,337.7	–	5.1%

* (Condensed) statement of financial position for 2017 was restated due to the initial application of IFRS 15 and IFRS 16

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 implement proactive risk management by rigorously pursuing its corporate strategy and to maintain an investment-grade credit rating in the capital and funding markets by 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 enters into

interest-rate swaps in order to hedge risks attaching to financial liabilities.

Among other stipulations, the contractual terms of the senior facilities agreement (SFA), the acquisition facilities agreement (AFA) and the promissory notes set out certain covenants. In addition, there is a financial covenant that involves ongoing testing of adherence to a defined maximum level of leverage. 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 2017.

Main corporate actions in the reporting period

In January 2018, the term of the revolving credit facility of €1,150.0 million agreed under the SFA was extended by a year, which means the KION Group can now utilise this credit facility until February 2023. The KION Group issued a further promissory note in June 2018. Split into fixed-rate and variable-rate tranches, it has a volume of €200.0 million and will mature in June 2025. The risk of a change in fair value has been hedged using an interest-rate swap with matching maturity. The hedging transaction is recognised as a fair value hedge. The funds generated by this promissory note were used to repay part of the long-term tranche under the AFA. Following further repayments using funds from operating activities, the only outstanding liability in connection with the AFA entered into in order to fund the acquisition of Dematic is the floating-rate long-term tranche in a residual amount of €600.0 million (31 December 2017: €1,000.0 million), which is due to mature in October 2021. As a result of the early repayment, deferred borrowing costs of €1.9 million had to be recognised under financial expenses. The KION Group has issued guarantees to the banks for all of the payment obligations under the SFA and AFA and it is the borrower in respect of all the payment obligations resulting from the promissory notes.

In October 2018, the KION Group employees entitled to participate in KEEP were given the opportunity to buy more KION shares. By 31 December 2018, a total of 38,691 shares had been purchased by staff (31 December 2017: 36,294 shares).

The number of shares held in treasury therefore stood at 165,558 as at the reporting date (31 December 2017: 160,829).

Analysis of capital structure

At €9,663.7 million, current and non-current liabilities had risen by €318.4 million as at the reporting date (31 December 2017: €9,345.4 million). An increase in current financial liabilities during the year was more than offset by repayments in the second half of the year. Non-current liabilities included deferred tax liabilities of €626.7 million (31 December 2017: €702.4 million).

Financial debt

Non-current financial liabilities (net of borrowing costs) decreased to €1,818.7 million (31 December 2017: €2,024.8 million). This figure can essentially be broken down into promissory notes with a total volume of €1,210.0 million and the remaining floating-rate long-term tranche of €600.0 million drawn down under the AFA.

Over the course of 2018, current financial liabilities fell by €17.4 million to €226.5 million (31 December 2017: €243.9 million). In the first six months of the year, higher drawdowns from the revolving credit facility were needed to fund net working capital as a result of the temporary bottlenecks at individual suppliers. These were repaid in the second half of 2018, taking current financial liabilities to below the level as at 31 December 2017.

Net financial debt (non-current and current financial liabilities less cash and cash equivalents) was therefore reduced to €1,869.9 million (31 December 2017: €2,095.5 million). This equated to 1.2 times the adjusted EBITDA in the year under review.

The unused, unrestricted loan facility under the SFA stood at €1,048.2 million as at the reporting date (31 December 2017: €965.3 million). > **TABLE 020**

Industrial net operating debt

TABLE 020

in € million	2018	2017*
Liabilities to banks	826.4	1,253.7
Promissory notes	1,214.3	1,007.3
Other financial liabilities to non-banks	4.6	7.7
Financial liabilities	2,045.2	2,268.7
Less cash and cash equivalents	-175.3	-173.2
Net financial debt	1,869.9	2,095.5
Liabilities from financial services (short-term rental fleet)	307.1	-
Other financial liabilities (short-term rental fleet)	289.9	515.7
Liabilities from short-term rental fleet financing	597.0	515.7
Liabilities from procurement leases	421.2	369.1
Industrial net operating debt	2,888.1	2,980.4

* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

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 2018, the retirement benefit obligation under defined benefit pension plans amounted to a total of €1,043.0 million, which was only slightly higher than the figure at the end of 2017 of €1,002.7 million. The net obligation under defined benefit pension plans increased year on year to reach €1,009.7 million (31 December 2017: €978.5 million). Changes in estimates relating to defined benefit pension entitlements resulted in a marginal decrease in equity.

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 2018 in connection with the main pension plans totalled €37.3 million, comprising €17.5 million for direct pension payments and €19.7 million for employer contributions to plan assets. The latter predominantly comprised a one-off payment of €17.8 million that was made in the United States in order to better meet statutory minimum funding provisions.

Liabilities from financial services

Further expansion of the long-term leasing business with end customers in 2018 again led to a higher total funding requirement in the form of liabilities from financial services and lease liabilities.

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.

Overall, liabilities from financial services increased to €1,472.4 million as at 31 December 2018 (31 December 2017: €437.4 million). Of this total, €1,165.3 million was attributable to financing of the direct and indirect long-term leasing business (31 December 2017: €437.4 million). The total also includes residual value obligations of €319.5 million (31 December 2017: €340.7 million) resulting from the indirect leasing business.

A sum of €307.1 million, representing some of the financing of the short-term rental fleet, is recognised under liabilities from financial services (31 December 2017: €0.0 million); the remaining financing of the short-term rental fleet, which amounts to €289.9 million (31 December 2017: €515.7 million), is recognised under other financial liabilities.

Lease liabilities

Lease liabilities fell by €390.5 million to €740.6 million as at the reporting date (31 December 2017: €1,131.1 million) because new business has been included in liabilities from financial services since 1 January 2018.

Overall, liabilities from financial services and lease liabilities together totalling €1,906.0 million were attributable to financing of the direct and indirect long-term leasing business (31 December 2017: €1,568.5 million).

Other financial liabilities

As at the reporting date, other financial liabilities included liabilities of €289.9 million (31 December 2017: €515.7 million) arising from sale and leaseback sub-lease transactions used to finance the short-term rental fleet.

This item also included liabilities from procurement leases amounting to €421.2 million (31 December 2017: €369.1 million), for which right-of-use assets were recorded. Overall, current and non-current other financial liabilities came to €813.2 million (31 December 2017: €962.2 million).

Contract liabilities

Contract liabilities, of which a large proportion related to the long-term project business, increased to €570.1 million (31 December 2017: €324.4 million) due to higher advance payments from customers in connection with new orders.

Equity

Equity increased substantially to €3,305.1 million (31 December 2017: €2,992.3 million). Net income of €401.6 million was partly offset by the dividend of €116.8 million paid by KION GROUP AG in May 2018. Given the stable level of interest rates, actuarial effects on pensions had a negligible impact on equity. Exchange differences at the reporting date boosted equity by €35.5 million. The total effects recognised directly in equity amounted to €16.8 million. The equity ratio increased to 25.5 per cent (31 December 2017: 24.3 per cent).

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (excluding right-of-use assets from procurement leases) totalled €258.5 million in the reporting year (2017: €218.3 million). This increase is primarily attributable to the rise in capitalised development costs (see 'Research and development'), which came to €84.0 million and were thus up by 11.5 per cent on 2017.

Spending in the Industrial Trucks & Services segment continued to be focused on capital expenditure on product development and on the expansion and modernisation of the Operating Units' production and technology facilities. Capital expenditure in the Supply Chain Solutions segment mainly related to development costs as well as software and licences.

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. At €175.3 million, cash and cash equivalents were virtually unchanged year on year (31 Decem-

ber 2017: €173.2 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 €1,219.8 million (31 December 2017: €1,138.0 million).

Net cash provided by operating activities totalled €765.5 million, which was higher than the prior-year figure of €711.9 million. The year-on-year improvement in earnings played a significant part in this increase. The temporary rise in liquidity tied up in inventories was partly reversed in the fourth quarter once most of the bottlenecks at individual suppliers had been resolved. Higher advance payments from customers in the project business of the Supply Chain Solutions segment made up for the increase in inventories in the Industrial Trucks & Services segment. Overall, the smaller increase in net working capital compared to the previous year made a positive contribution of €58.9 million to cash flow from operating activities. By contrast, further expansion of the leasing and rental business and, as budgeted, higher tax payments of €193.2 million (2017: €136.3 million) resulting from the positive earnings performance of KION Group companies reduced the level of cash flow from operating activities.

Net cash used for investing activities amounted to €245.6 million and was therefore higher than in the previous year (2017: €237.6 million). Within this figure, cash payments for capital expenditure on product development and on property, plant and equipment (excluding right-of-use assets related to procurement leases) rose to €258.5 million (2017: €218.3 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – increased to €519.9 million (2017: €474.3 million).

Net cash used for financing activities came to €514.5 million (2017: €568.5 million). The net repayment of financial debt in the period under review totalled €230.9 million. The gross repayment amount of €2,042.6 million consisted of the repayment of a further tranche of the long-term AFA in an amount of €400.0 million as well as the repayment of loan facilities drawn down in order to fund the temporary increase in inventories. There was also new borrowing of €1,811.7 million that was largely attributable to utilisation of the revolving credit facilities and to the issuance of a promissory note with a volume of €200.0 million. Payments made for interest portions and principal portions under procurement leases amounted to

€114.0 million in the reporting year (2017: €109.0 million). The net cash used for current interest payments decreased from €58.1 million in 2017 to €42.9 million in 2018 due to lower average net debt during the year. The dividend paid by KION GROUP

AG in the second quarter of €0.99 per share resulted in an outflow of funds of €116.8 million (2017: €86.9 million). The acquisition of employee shares caused a cash outflow of €3.6 million (2017: €4.3 million). > **TABLE 021**

(Condensed) statement of cash flows

TABLE 021

in € million	2018	2017*	Change
EBIT	642.8	561.0	14.6%
Cash flow from operating activities	765.5	711.9	7.5%
Cash flow from investing activities	-245.6	-237.6	-3.4%
Free cash flow	519.9	474.3	9.6%
Cash flow from financing activities	-514.5	-568.5	9.5%
Effect of exchange rate changes on cash	-3.2	-12.2	73.4%
Change in cash and cash equivalents	2.2	-106.4	> 100%

* (Condensed) statement of cash flows for 2017 was restated due to the initial application of IFRS 15 and IFRS 16

KION GROUP AG

Business activities

KION GROUP AG is the strategic management holding company in the KION Group. KION GROUP AG holds all the shares in Dematic Holdings GmbH, Frankfurt am Main (formerly DH Services Luxembourg Holding S.à r.l., Luxembourg) and thus all the shares in the subsidiaries in the Supply Chain Solutions segment. Furthermore, KION GROUP AG is the sole shareholder of Linde Material Handling GmbH, Aschaffenburg, which holds almost all the shares of the companies in the Industrial Trucks & Services segment.

The annual financial statements of KION GROUP AG have been prepared in accordance with the provisions in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report has been combined with the group management report. The consolidated financial state-

ments have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the additional provisions in section 315e (1) HGB. Differences between the accounting policies in accordance with HGB and those in accordance with IFRSs arise primarily in connection with the accounting treatment of financial instruments, provisions and deferred taxes.

Management system, future development and risk position

As a holding company without any operating activities of its own, KION GROUP AG is indirectly dependent on the earnings and economic performance of its subsidiaries. The management system, expected development and the opportunities and risks of the KION Group are described in detail in the 'Management system' and 'Outlook, risk report and opportunity report' sections of this combined management report.