

NON-FINANCIAL PERFORMANCE INDICATORS

The KION Group's enterprise value is determined not only by financial KPIs but also by non-financial factors. They are based on the Company's relations with its customers and employees, on its technological position and on environmental considerations. The KION Group can only achieve the targets that it has formulated for itself in the KION 2027 strategy if it is an attractive and responsible employer that can retain competent and committed employees at all sites, if it develops products and solutions that are closely tailored to customers' needs and environmental requirements now and in future, if it continually increases the customer benefits provided by its products and services and if it designs production processes in such a way that resources are conserved and emissions are avoided as far as possible.

The KION Group firmly believes that these aspects are important to its positioning as a pioneering company in a highly competitive environment.

Employees

HR strategy

The KION Group's success is founded on the capabilities and commitment of its employees. The ultimate objective of the KION Group's HR strategy is to provide the best possible support for the targeted implementation of the KION 2027 strategy. To this end, the KION Group draws on a wide range of measures to ensure that there is always a sufficient number of highly qualified, hard-working employees at all levels of its operations. Attractive working conditions and the opportunities for career progression afforded by working for an international group of companies play an important role in this and provide a solid basis for meeting the manifold challenges presented by demographic change.

The KION Group has maintained and continued to strengthen the high value of its employer brands, particularly those of Linde Material Handling, STILL and Dematic. In 2018, STILL was recognised as a top employer for the seventh year in succession by the Top Employers Institute, a certification organisation.

Our shared KION Group values

In 2017, we defined and introduced our shared corporate values as part of an international multi-stage process involving employees from across all units, countries and hierarchy levels. Eleven global workshops with a total of around 1,000 participants were held on all continents, ensuring that the entire workforce was represented. The values – integrity, collaboration, courage and excellence – provide a common basis for our work together.

In order to further entrench the values in the Company, we implemented a number of measures in 2017 and 2018. Among other things, we ran team workshops to ensure that all employees are aware of them, and provided regular updates on the intranet, including features on employees who embody the values particularly well.

Headcount

The average number of employees (full-time equivalents (FTEs), including trainees and apprentices) in the KION Group was 32,524 in 2018 (2017: 31,064 FTEs).

As at 31 December 2018, the KION Group companies employed 33,128 FTEs, 1,520 more than a year earlier. [> TABLE 024](#)

Employees (full-time equivalents) *

TABLE 024

	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
31/12/2018				
Western Europe	17,641	2,210	796	20,647
Eastern Europe	2,642	131	0	2,773
Middle East and Africa	206	4	0	210
North America	232	2,745	0	2,977
Central and South America	486	739	0	1,225
Asia-Pacific	4,326	970	0	5,296
Total	25,533	6,799	796	33,128
31/12/2017				
Western Europe	16,634	2,098	698	19,430
Eastern Europe	2,349	84	0	2,433
Middle East and Africa	237	11	0	248
North America	219	2,808	0	3,027
Central and South America	459	839	0	1,298
Asia-Pacific	4,192	980	0	5,172
Total	24,090	6,820	698	31,608

* Number of employees (full-time equivalents) as at balance sheet date; allocation according to the contractual relationship

Personnel expenses amounted to €2,100.2 million. The main reason for this increase of 5.6 per cent compared with 2017 was the rise in average headcount for 2018 and changes to collective bargaining agreements. > TABLE 025

Personnel expenses

TABLE 025

in € million	2018	2017	Change
Wages and salaries	1,653.4	1,567.8	5.5%
Social security contributions	364.2	343.5	6.0%
Post-employment benefit costs and other benefits	82.6	78.5	5.3%
Total	2,100.2	1,989.7	5.6%

Diversity

The KION Group sees itself as a global manufacturer with strong intercultural awareness: as at 31 December 2018, people from around 90 different countries were employed across the KION Group.

One of the ways in which the Company promotes international collaboration between employees is the KION expat programme, which gives employees the opportunity to transfer to different countries where the KION Group is represented.

The KION Group is tackling the challenges of demographic change in a variety of ways, for example by providing working conditions that are suited to employees' age-related requirements and organising healthy-living programmes so that it can continue to benefit from older employees' experience. As at 31 December 2018, 26.6 per cent of employees were over the age of 50 (31 December 2017: 27.0 per cent).

Compared with the previous year, the proportion of the KION Group's total workforce made up of women was virtually unchanged in 2018, at 16.2 per cent (2017: 16.0 per cent). To help increase the proportion of management positions occupied by women, the Executive Board set targets that are published in the corporate governance report. Going forward, the KION Group intends to fill more management positions internationally in order to better fulfil the continually growing requirements placed on the Company.

The KION Group offers flexible working-time models that promote a good work-life balance.

In addition, various initiatives were launched in 2018 aimed at increasing diversity in the Company. For our female managers, for example, we launched the Female Mentoring Programme.

Development of specialist workers and executives

The longer-term HR strategy focuses on an even better and more targeted development for employees with high potential.

In addition to the development activities geared specifically to high-potential employees, greater priority will be given to succession planning for key positions in the KION Group in future. To this end, we introduced a performance management process for succession planning in 2017/2018 that applies globally. Finding highly qualified people to fill specialist and executive

positions is critically important to the KION Group. As a result, one of the focuses of HR work across the Group in 2018 was, as in the previous years, the recruitment and development of suitable young talent.

The KION Group endeavours to offer its employees interesting career opportunities and flexible, family-friendly working-time models. The Group companies also collaborate closely on areas such as talent management and training & development programmes. This helps to systematically identify and support staff with potential, high performers and experts in key functions. The STILL, Linde Material Handling and Dematic academies offer subject-specific and interdisciplinary training courses that develop employees' skills, particularly in sales and service.

Training and professional development

The companies in the KION Group currently offer training for 22 professions in Germany. Besides providing dual vocational training schemes, KION Group companies offer work placements for students combining vocational training with a degree course in cooperation with various universities.

The total number of trainees and apprentices was 601 as at 31 December 2018 (31 December 2017: 579).

Sharing in the Company's success

The KION Group launched the KION Employee Equity Programme (KEEP) in 2014. Initially limited to Germany, the programme was then rolled out to more countries. Around 1,450 employees participated in this share matching programme in 2018, roughly 6 per cent of the total number who are eligible to do so.

The programme was extended to the USA in 2018.

Since 2014, the remuneration of the approximately 460 top executives has included a remuneration component running over several years that is based on the long-term success of the Company and is granted annually.

Employee commitment

The KION Group's products and services destined for its customers are produced by committed employees. That is why all KION companies aim to ensure a high level of employee commitment.

Based on the manager survey conducted in 2015 and the action plan derived from it, a package of measures was defined and implemented in 2016 as part of the new 'Lift up' transformation initiative, in particular to ensure the new organisational structure is firmly embedded and to communicate the KION Group's strategy more widely.

A new manager survey was carried out in 2017 which revealed that the action plan derived from the earlier survey had been successfully implemented and we were therefore able to improve on the results of the 2015 survey.

We continued to work on the action plan in team workshops over the course of 2018. Another survey is planned for 2019.

Health and safety in the workplace

As an employer, the KION Group is responsible for the health and safety of its employees. The focus is always on avoiding all accidents and work-related illness wherever possible, as well as on maintaining each employee's work capacity in the long term. In 2017, the KION Group updated its corporate policy setting out its obligations in respect of health, safety and the environment (HSE). These include taking comprehensive precautions to create a safe working environment and ensuring employees know how to avoid risks and accidents.

HSE activities centre on an internal audit programme, which covers all of the KION Group's production facilities as well as sales and service. It systematically documents HSE measures and processes and provides specific ideas for how they can be developed further. In 2018, nine central HSE audits were carried out within the KION Group, including at the new plant in the Czech Republic and at other Dematic sites. Furthermore, comprehensive minimum HSE standards were implemented that are binding for all plants and the sales and service organisation. Every employee can access them via the intranet. To ensure rapid implementation, the main focus is on the 20 standards that are particularly relevant.

The KION Safety Championship provides additional motivation for employees to continually engage with HSE matters. Based on regular reporting from the individual units and a set of four defined evaluation criteria, a panel of judges awards prizes to those units that have shown special dedication or have suggested the most improvements in an area of HSE.

HSE managers at the KION Group's production facilities and in its sales and service units have the opportunity to meet and talk with one another at annual conferences.

Numerous activities aimed at improving health, such as fitness programmes and advice on nutrition and healthcare – also have a positive effect on health and safety in the Group. The vast majority of employees have access to voluntary health-related activities at their site.

At 2.8 per cent on average, the illness rate for 2018 remained at a satisfactory level (2017: 2.8 per cent). The illness rate is the figure for illness-related or accident-related absences from the workplace. The targets relating to HSE were examined in 2018 as part of a regular review. Further information, along with details of the other HSE key performance indicators and of the measures initiated and implemented in 2018, will be included in the KION Group's separate sustainability report, which will be published in April 2019 on the following website: <https://reports.kiongroup.com/2018/sr>.

Research and development

Strategic focus of research and development

Under the KION 2027 strategy, research and development is set up so as to provide the best possible support for the KION Group's objective of becoming the world's leading supplier of integrated, automated supply chain solutions and mobile automation solutions. The innovativeness of the portfolio is being significantly increased by concentrating heavily on automation and robotics solutions that are based on an overarching software platform. In 2018, the KION Group forged ahead with incorporating autonomous trucks and automated guided vehicle systems into end-to-end solutions for warehouses, among other things. Another area of focus was the ongoing development of the warehouse management system. Moreover, the KION Group has driven forward the integration of research and development into a groupwide digitalisation strategy. The Digital Campus, for example, is helping to significantly accelerate projects to digitalise the existing core business and ensure that they are fully aligned with the requirements of the Operating Units and their customers.

At the same time, R&D will continue to be structured cost-effectively, including through the use of agile processes. This will further reduce the complexity and diversity of products and shorten development times for new products. R&D essentially works on a cross-brand and cross-region basis, which ensures that research findings and technological know-how are shared across the Group. Building on this, local product development teams working for the individual brand companies and regions

develop customer-specific solutions. As a result, a consortium led by the Fraunhofer Institute for Production Technology IPT and RWTH Aachen ranked the KION Group among the top five 'successful practice' companies in a benchmark study on agile invention. A total of 159 German and European companies took part in the benchmark study.

Key R&D figures

Total spending on research and development came to €221.7 million in 2018 (2017: €212.4 million), which equates to 2.8 per cent of revenue (2017: 2.8 per cent). Total R&D expenditure included €84.0 million in capitalised development costs (2017: €75.4 million). Alongside this addition to capitalised development costs, there were amortisation and impairment charges of €76.6 million (2017: €69.0 million) (see note [16] in the notes to the consolidated financial statements). A total of €137.7 million (2017: €137.0 million) was expensed.

The number of full-time jobs in R&D teams remained more or less constant compared to 31 December 2017. > **TABLE 026**

The KION Group takes comprehensive measures to protect the products it develops against imitations and pursues a dedicated patent strategy. In 2018, the KION companies applied for a total of 105 new patents (2017: 101). As at 31 December 2018, the companies of the KION Group held a total of 2,923 patent applications and issued patents (31 December 2017: 2,808 patent applications and issued patents).

Research and development (R&D)

TABLE 026

in € million	2018	2017	Change
Research and development costs (P&L)	137.7	137.0	0.5%
Capitalised development costs	84.0	75.4	11.5%
Total R&D spending	221.7	212.4	4.4%
R&D spending as percentage of revenue	2.8%	2.8%	–

Focus of R&D in 2018

Energy

Since 2018, lithium-ion technology has been available for virtually every intralogistics and warehouse management application. The advantages of energy-saving electric drives include faster charging times, lower operating costs, higher safety standards and the ability to store considerably more energy. Linde extended the availability of lithium-ion batteries to the six to eight tonne load capacity range, closing the final gap in the electric forklift truck segment in the process. A new rental concept is also encouraging the use of energy-saving drive technology. The benefits for customers are flexibility and financial security over the entire usage period.

A new battery concept was introduced for the new RX 20 electric forklift truck from STILL in 2018. The truck was a winner at this year's International Intralogistics and Forklift Truck of the Year (IFOY) awards, where it triumphed in the Counter Balanced Truck category thanks to its compactness, ergonomics, performance, precision and innovative assistance systems.

Through its strategic partnership with EP Equipment, the KION Group is expanding its portfolio for the electrification of intralogistics to include entry-level warehouse technology.

Digitalisation

Software-based supply chain solutions that use robotics applications are at the heart of digitalisation. The Dematic iQ software, which enables real-time management of material flow solutions, was expanded with the cloud-based asset performance management system Dematic iQ InSights. This new module increases warehouse efficiency through end-to-end facilities management. Using real-time data, Dematic iQ InSights helps to optimise capacity utilisation, reduce lead times and increase operational performance.

Supported by the Digital Campus, Linde and STILL have also extended their digital offerings, in particular for data-based fleet management. Linde's 'connect' fleet management solution is now available for all industrial trucks – including those built by other companies – and therefore provides a comprehensive system for capturing and evaluating data that is also suitable for mixed fleets. Two new assistance systems have also been added to 'connect'. Linde Safety Guard is a new assistance system that

uses acoustic and visual signals as well as vibrations to alert pedestrians and drivers in good time if they are approaching one another within warning zones that can be individually configured. Zone Intelligence uses sensors to identify and avoid situations that may cause an accident and therefore costs. The new assistance systems use ultra-wideband technology to enable communication between the truck's sensors, static sensors and sensors worn on the person. The highly responsive Active Stability Control (ASC) assistance system from Linde and the Active Floor Compensation (AFC) safety and assistance system from STILL make it possible to drive faster yet more safely in high-rack warehouses, even where the floor is uneven. Furthermore, the innovative Truck Mapping app improves communication between the fleet manager and drivers, thereby enabling orders to be managed even more efficiently.

Another new solution is the STILL neXxt fleet online portal, via which numerous processes involving inhouse material and data flows can be managed digitally – including from mobile devices – in order to optimise industrial truck fleets. The user is given a clear overview of all relevant fleet data and KPIs via a single application that can be accessed online from any device.

Automation

Dematic's robotics centre of excellence, established in 2018, brought the first robotic piece picking module to market that is capable of independently selecting individual items and placing them in the right container at very high throughput rates. The module has already proven itself in the field, and now all stages of the order fulfilment process can be fully automated. Further developments include a very narrow aisle AGV and robotics solutions for use in cold stores.

Dematic also presented the second generation of its pouch sorting system, which is particularly suitable for the handling of returns and for picking, e.g. in e-commerce. Hanging and flat goods as well as flat-packed items and boxes can be stored, sorted and staged. An improved goods-to-person picking solution was also launched. Combining the advantages of the Dematic Multishuttle with patented inter-aisle transfer technology, the solution enables more intelligent, faster and ergonomic order processing for high volumes of goods.

The Industrial Trucks & Services and Supply Chain Solutions segments particularly focused on product development aimed at

improving the automation and connectivity of warehouse and logistics solutions. Linde entered the automated guided cart (AGC) segment with the new Linde C-MATIC, which autonomously manoeuvres through the warehouse and plays a key part in standardising production logistics processes. Another addition to the robotics portfolio was the R-MATIC autonomous reach truck, which operates fully automatically to store and retrieve palletised goods weighing up to 1.6 tonnes on high-bay racks. New rider trucks in the 1.2 to 2.5 tonne load capacity range ensure even more comfortable and productive goods transport and link to the 'connect' modular data system. For light transport tasks, Linde also launched three new pallet stackers and a hand pallet truck on the market.

Customers

The KION Group's industrial trucks and supply chain solutions are deployed in all kinds of industries.

The Industrial Trucks & Services segment has a very broadly diversified customer base, ranging from large key accounts with global operations to small and medium-sized enterprises that typically order just a few trucks each year.

The Supply Chain Solutions segment benefits from long-standing customer relationships with major players in the e-commerce and logistics sectors. They influence the success of the segment's new business and service business. Specific product solutions and customer retention formats help Dematic to further consolidate its position in major customer sectors, including general merchandise, grocery wholesale and retail, fashion, food and beverages, and parcel and courier services. The KION Group already ranks among the global market leaders in most of these sectors and enjoys excellent relationships with its customers. It has been able to extend these relationships through joint development projects and other initiatives.

The KION brand companies again exhibited at the sector's leading trade fairs in various regions in 2018 in order to intensify their collaboration with customers and partners.

At the World of Material Handling event in June, Linde and its partners – including Dematic for the first time – presented solutions for efficient, affordable and safe intralogistics to more than 5,000 visitors. The topics in the spotlight were loading and unloading, goods handling in high-rack warehouses and fully and semi-automated solutions for picking and transport between individual production steps. There was a particular focus on specific sectors, for example through special formats for grocery wholesale and retail, transport logistics and the construction industry.

STILL presented mainly compact trucks at the 2018 Logistics & Distribution fair in Brussels, where the new RX 20 electric forklift truck won the Best of Handling award. STILL also showcased its platform concept for digitalised intralogistics of the future at the Zukunftskongress Logistik trade show in Dortmund. Among the products unveiled at CeMAT 2018 were innovative fleet management solutions from STILL. Baoli participated in various trade fairs, including an event in Dubai.

At LogiMAT in Stuttgart, Dematic presented industry-specific automation solutions and hosted a Logistics Supply Chain Day at its site in Heusenstamm. Dematic also launched European Customer Days 2018, a series of events for customers from the textile and fashion wholesale/retail industries that was supported through participation in the Fashion Supply Chain Summit. The autumn saw the launch of European Service Days, a platform where service teams from across Europe can find out more about preventative measures for automation solutions. At MODEX 2018 in Atlanta, Dematic showcased its comprehensive range of products and solutions, while at EXCHANGING it presented sector-specific automation solutions and highlighted the digital transformation's potential benefits for the supply chain. Dematic also supported the Material Handling & Logistics Conference in Utah, where customers and industry experts engaged in dialogue in a wide range of workshops and lectures on new trends and applications.

Sustainability

Acting sustainably and responsibly is one of the key principles by which the KION Group operates. The Group's focus on sustainability is reflected in its safe and clean products, in its environmentally friendly manufacturing processes and in the safe and non-discriminatory working environment it provides. The KION Group and its Operating Units strive for a balance between environmental, economic and social considerations in their activities. This is the basis upon which sustainability is enshrined in the KION 2027 strategy. The KION Group's values also have a clear link to sustainability.

In 2018, the KION Group took part in CDP's climate change survey for the first time. Once a year, the Company will voluntarily provide information regarding its climate protection activities to CDP. The KION Group was also awarded a sector-specific 'prime status' in a ranking by ISS-oekom, which specialises in identifying sustainability-related investment opportunities and risks. The objective is to be categorised as a sustainable investment for environmentally conscious investors.

As well as comprehensive information on strategy, the management approach and structures for sustainability, the groupwide 2018 sustainability report which will be published in April of 2019, contains data on relevant key performance indicators (see <https://reports.kiongroup.com/2018/sr>). It also contains the KION Group's non-financial declaration as required under German law. For this reason, the KION Group has not provided detailed information in the 2018 combined management report.