

Interim group management report

FUNDAMENTALS OF THE KION GROUP

Management and control

Anke Groth was appointed as a member of the Group's Executive Board for a term of five years beginning 1 June 2018. She is responsible for finance, which encompasses corporate accounting & tax, financial services, corporate finance, corporate controlling and legal affairs. In addition, she has taken on the role of Labour Relations Director and is therefore in charge of corporate HR and health, safety & environment. She replaces Dr Thomas Toepfer, who left the Company at his own request on 31 March 2018. At its meeting on 26 June 2018, the Supervisory Board appointed Susanna Schneeberger as a member of the Group's Executive Board for a term of five years starting 1 October 2018. The Executive Board will thus have a total of five members from this date. Ms Schneeberger will assume strategic responsibility for KION's Supply Chain Solutions segment and, in the newly created role of Chief Digital Officer (CDO), will be in charge of further development of the IT systems and of groupwide activities aimed at the digitalisation and connectivity of products and processes.

Strategy of the KION Group

The KION 2027 strategy puts the emphasis on innovation, digitalisation, automation and efficient energy use, and on achieving improved performance with regard to KION products and the Company's processes. There is now an even greater focus on a shared, customer-centric innovation, sales and brand strategy. Under this strategy, the KION Group aims to grow at a faster rate than the market, be the most profitable provider in its sector, ensure it is crisis-resistant and always offer shareholders an attractive return on their investment. The objectives of KION 2027 are set out in detail in the 2017 group management report.

The initiatives launched during the reporting period included the embedding of digital solutions and agile development processes. One of these initiatives was the establishment of a robotics centre of excellence in the Supply Chain Solutions segment, specialising in the development and engineering of robotic automation. This new unit is

responsible for applying and implementing robotic solutions that make order fulfilment operations more efficient, productive and responsive to today's on-demand omnichannel distribution environment.

REPORT ON THE ECONOMIC POSITION

Macroeconomic and sector-specific conditions

MACROECONOMIC CONDITIONS

Global economic growth lived up to the high expectations in the first half of the year. Whereas the eurozone's growth was slightly more restrained, partly due to the strong euro and the decline in exports, the United States experienced higher growth rates and the pace of growth in the emerging markets and developing countries held steady. For 2018 as a whole, economic experts continue to anticipate sustained momentum. However, uncertainties in the global market have increased owing to protectionist measures and other political risks.

SECTORAL CONDITIONS

Sales markets

The global market for industrial trucks experienced strong growth in the first half of 2018. The number of new trucks ordered was up by 15.4 per cent compared with the same period of 2017, although the increase in the second quarter was particularly strong at 18.9 per cent. In the EMEA region (western Europe, eastern Europe, Middle East and Africa), order intake was 12.5 per cent higher than in the first six months of last year. As in previous quarters, the rise in western Europe (11.6 per cent) was extremely encouraging. The markets of eastern Europe also registered significant growth (22.5 per cent). Order intake in the Americas region went up by 13.7 per cent, primarily due to a larger number of orders in the major sales markets. Demand also picked up in the APAC region during the second quarter, resulting in an overall increase for the six-month period of 19.0 per cent. This was predominantly attributable to fast-growing demand in China during the second quarter.

The number of orders for electric forklift trucks rose by 10.6 per cent worldwide. Diesel truck orders grew by 14.8 per cent. The biggest increase, 17.8 per cent, was achieved by warehouse trucks due to a particularly sharp rise in orders for smaller entry-level models.

> **TABLE 02**

In the Supply Chain Solutions market, the structural growth drivers and the growth trend both remained intact. The rapid expansion of e-commerce and the increasing use of Industry 4.0 technologies continue to shape the market for warehouse systems and automation solutions. Many businesses are investing further in the expansion and optimisation of their warehouse capacities and in automated warehouse systems that include not only solutions for individual processes, such as picking and packing, but also fully integrated end-to-end solutions.

Procurement markets and conditions in the financial markets

The procurement markets registered sharp price increases for some goods. The price of steel rocketed in the first few weeks of the year before stabilising at a high level. Compared with the end of 2017, the price of copper went up only moderately but was still well above the average price in the first half of 2017. The price of Brent crude oil rose over the course of the reporting period to more than US\$ 70 per barrel; at the end of June 2017, it had still been below US\$ 50.

Overall, currency effects resulting from the strong euro had a negative impact on the KION Group's earnings in the first half of 2018. The euro was approximately 12 per cent higher on average against the US dollar than in the first half of 2017, although it fell again in the second quarter. Against pound sterling, the euro was up by 2 per cent on average compared with the prior-year period. The euro appreciated by 4 per cent on average against the Chinese renminbi.

Global industrial truck market (order intake)

TABLE 02

in thousand units	Q2 2018	Q2 2017	Change	Q1 – Q2 2018	Q1 – Q2 2017	Change
Western Europe	114.8	96.2	19.4%	228.7	205.0	11.6%
Eastern Europe	23.5	18.4	27.5%	46.4	37.9	22.5%
Middle East and Africa	10.2	9.2	11.5%	19.1	18.7	2.0%
North America	72.6	67.5	7.6%	147.9	130.6	13.2%
Central and South America	10.1	9.4	7.8%	19.9	17.0	17.3%
Asia-Pacific	177.2	142.9	24.0%	339.1	284.9	19.0%
World	408.5	343.6	18.9%	801.1	694.1	15.4%

Source: WITS/FEM

Business performance in the Group

In January 2018, the KION Group entered into an exclusive and global strategic partnership with EP Equipment, Co., Ltd., Hangzhou, a leading Chinese manufacturer of warehouse trucks. The planned acquisition of a non-controlling interest and the future collaboration will allow the KION Group to expand its product offering in the entry-level segment for lightweight warehouse trucks and thereby improve on its position as the leading supplier of electric-powered material handling equipment. The intention is to complete the transaction with EP Equipment in late 2018.

In the Supply Chain Solutions segment, the factory in Střebro in the Czech Republic completed at the end of 2017 commenced operations in the first quarter of 2018. It produces modules for multishuttles and modular conveyor systems for the European market.

In June 2018, the KION Group issued a further promissory note. It has a volume of €200.0 million and will mature in 2025. The resulting funds were used to repay part of the long-term tranche under the acquisition facilities agreement (AFA). 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).

Financial performance and financial position

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

In the first half of 2018, the KION Group continued to demonstrate the strengths of its innovation, sales and brand strategy in the fulfilment of customer-specific requirements and solutions, achieving increases in both order intake and revenue compared with the first half of 2017. Significant negative currency effects were offset by volume increases in both segments.

The effects of temporary bottlenecks at individual suppliers in the Industrial Trucks & Services segment were not fully offset by the increase in revenue. As a result, working capital had risen as at 30 June 2018, thereby temporarily squeezing free cash flow. The countermeasures implemented at an early stage by the KION Group in order to reduce the delivery bottlenecks will generate a substantial catch-up effect in the second half of the year. Following delays in the awarding of projects by customers, Dematic took significantly more

new orders in the second quarter. As a result, order intake in the Supply Chain Solutions segment improved markedly, reaching a total of €1,270.4 million for the six-month period. The segment's revenue was lower than in the prior-year period.

The KION Group's adjusted EBIT came to €344.9 million, which was down by €17.2 million year on year. Earnings for the reporting period were affected by higher material prices, wage cost rises, currency effects and inefficiencies caused by bottlenecks at individual suppliers in the Industrial Trucks & Services segment. The adjusted EBIT margin was 8.9 per cent (H1 2017: 9.5 per cent). Net income for the period amounted to €147.7 million, which represented slight year-on-year growth (H1 2017: €144.7 million). Earnings per share stood at €1.26 (H1 2017: €1.30).

Net financial debt equated to 1.5 times the adjusted EBITDA on an annualised basis. The slight rise compared with the end of last year (31 December 2017: factor of 1.4) was due to increased current financial liabilities for financing the temporary rise in inventories.

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Level of orders

Order intake amounted to €4,309.0 million, exceeding the figure for the prior-year period of €3,852.3 million by 11.9 per cent. Excluding the negative currency effects of €159.8 million, the KION Group's order intake was up by 16.0 per cent. In the Industrial Trucks & Services segment, order intake rose by 3.5 per cent to €3,031.6 million (H1 2017: €2,928.3 million), mainly due to the fast growth of the new truck business in the EMEA and APAC regions. The Supply Chain Solutions segment saw the value of its order intake from project business (business solutions) and the service business jump by 39.0 per cent to €1,270.4 million (H1 2017: €913.6 million). The KION Group's order book rose to a total of €3,060.2 million (31 December 2017: €2,614.6 million).

Revenue

Despite negative currency effects of €151.2 million, the KION Group's consolidated revenue rose by 1.9 per cent to €3,874.4 million in the first six months of 2018 (H1 2017: €3,802.3 million). The share of consolidated revenue attributable to the service business increased from 41.0 per cent in the prior-year period to 42.7 per cent.

Revenue with third parties in the Industrial Trucks & Services segment was up by 3.8 per cent to €2,814.9 million (H1 2017: €2,711.3 million), but fell short of expectations due to the delivery bottlenecks. At €1,047.6 million, revenue in the Supply Chain Solutions segment was just slightly below the prior-year period (H1 2017: €1,079.6 million); adjusted for currency effects, however, the segment's revenue increased by 5.5 per cent. > **TABLE 03**

Revenue with third parties by product category

TABLE 03

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Industrial Trucks & Services	1,447.2	1,397.5	3.6%	2,814.9	2,711.3	3.8%
New business	729.2	728.1	0.2%	1,404.2	1,385.8	1.3%
Service business	718.0	669.4	7.3%	1,410.7	1,325.5	6.4%
– Aftersales	378.6	350.9	7.9%	741.2	700.7	5.8%
– Rental business	221.6	213.6	3.8%	434.1	411.5	5.5%
– Used trucks	80.7	76.1	6.0%	159.4	146.2	9.0%
– Other	37.1	28.8	28.9%	75.9	67.2	13.0%
Supply Chain Solutions	577.7	598.7	–3.5%	1,047.6	1,079.6	–3.0%
Business Solutions	450.0	484.2	–7.0%	803.5	845.0	–4.9%
Service business	127.7	114.6	11.5%	244.1	234.6	4.0%
Corporate Services	6.2	5.1	21.3%	12.0	11.3	5.5%
Total revenue	2,031.1	2,001.3	1.5%	3,874.4	3,802.3	1.9%

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

Revenue by customer location

Despite the bottlenecks at suppliers, the revenue of the Industrial Trucks & Services segment went up in the EMEA and APAC sales regions. Adjusted for currency effects, the revenue of the Supply Chain Solutions segment rose sharply in North America, thereby consolidating the segment's strong market position. Fast-growing markets accounted for 19.7 per cent of the KION Group's revenue in the reporting period (H1 2017: 20.5 per cent), while 81.2 per cent of revenue (H1 2017: 82.2 per cent) was generated outside Germany.

> TABLE 04

Earnings

EBIT and EBITDA

Earnings before interest and tax (EBIT) amounted to €268.0 million in the first six months of 2018 (H1 2017: €255.2 million). The rise of 5.0 per cent was primarily due to the decrease in the purchase price allocation effects included in EBIT to €73.9 million (H1 2017: €91.6 million). However, currency effects had a countervailing adverse impact on EBIT of €14.3 million. EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) was below the prior-year period at €344.9 million (H1 2017: €362.0 million). The adjusted EBIT margin thus fell to 8.9 per cent (H1 2017: 9.5 per cent). > TABLE 05

Revenue with third parties by customer location

TABLE 04

in € million	Q2 2018	Q2 2017	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Western Europe	1,160.3	1,175.1	–1.3%	2,267.0	2,271.3	–0.2%
Eastern Europe	135.3	138.1	–2.1%	260.1	254.6	2.2%
Middle East and Africa	28.9	33.9	–14.7%	57.4	80.4	–28.6%
North America	443.1	368.0	20.4%	797.2	651.0	22.5%
Central and South America	43.3	38.6	12.3%	77.8	79.0	–1.5%
Asia-Pacific	220.2	247.6	–11.1%	414.8	466.1	–11.0%
Total revenue	2,031.1	2,001.3	1.5%	3,874.4	3,802.3	1.9%

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

EBIT

TABLE 05

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
EBIT	142.1	159.8	–11.1%	268.0	255.2	5.0%
+ Non-recurring items	4.0	5.6	–28.8%	3.0	15.3	–80.2%
+ PPA items	40.9	45.0	–9.2%	73.9	91.6	–19.3%
Adjusted EBIT	187.0	210.4	–11.2%	344.9	362.0	–4.7%

* 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) improved to €716.3 million (H1 2017: €694.5 million). Adjusted EBITDA came to €717.8 million (H1 2017: €709.8 million). This equates to an adjusted EBITDA margin of 18.5 per cent (H1 2017: 18.7 per cent). > **TABLE 06**

Key influencing factors for earnings

The cost of sales grew at only a slightly slower rate than revenue, rising by 0.9 per cent to €2,870.5 million (H1 2017: €2,845.6 million). As a result, the gross margin increased from 25.2 per cent to 25.9 per cent in the first half of the year. In the reporting period, the

cost of sales was particularly mitigated by reduced purchase price allocation effects compared with the first six months of 2017. However, both the cost of sales and earnings were adversely affected by higher material prices, wage cost rises and, increasingly, production inefficiencies caused by the bottlenecks at individual suppliers in the Industrial Trucks & Services segment. Currency effects, mainly from the US dollar, had a noticeable negative impact overall, influencing the KION Group's EBIT.

The change in the cost of sales and in other functional costs is shown in > **TABLE 07**.

EBITDA

TABLE 06

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
EBITDA	374.6	382.2	–2.0%	716.3	694.5	3.1%
+ Non-recurring items	2.4	5.6	–56.3%	1.5	15.3	–90.2%
+ PPA items	–0.1	0.0	–	0.0	0.0	–
Adjusted EBITDA	377.0	387.7	–2.8%	717.8	709.8	1.1%

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

(Condensed) income statement

TABLE 07

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Revenue	2,031.1	2,001.3	1.5%	3,874.4	3,802.3	1.9%
Cost of sales	–1,518.4	–1,499.1	–1.3%	–2,870.5	–2,845.6	–0.9%
Gross profit	512.7	502.2	2.1%	1,003.9	956.7	4.9%
Selling expenses and administrative expenses	–346.0	–327.6	–5.6%	–683.4	–657.4	–4.0%
Research and development costs	–34.4	–31.5	–9.0%	–69.3	–65.9	–5.1%
Other	9.8	16.8	–41.9%	16.7	21.8	–23.2%
Earnings before interest and taxes (EBIT)	142.1	159.8	–11.1%	268.0	255.2	5.0%
Net financial expenses	–25.1	–10.1	<–100%	–53.9	–48.4	–11.4%
Earnings before taxes	117.0	149.7	–21.8%	214.1	206.8	3.5%
Income taxes	–37.7	–44.5	15.3%	–66.4	–62.1	–6.9%
Net income for the period	79.3	105.2	–24.6%	147.7	144.7	2.1%

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

Net financial income/expenses

The net financial expenses, representing the balance of financial income and financial expenses, increased from €48.4 million in the first half of 2017 to €53.9 million in the first six months of this year. Current interest expense on financial liabilities decreased due to the corporate actions carried out in 2017, whereas currency effects had improved the level of net financial expenses in the first half of last year.

Income taxes

Income tax expenses rose to €66.4 million (H1 2017: €62.1 million) mainly due to the level of earnings. This resulted in a tax rate of 31.0 per cent (H1 2017: 30.0 per cent).

Net income for the period

The KION Group's net income for the period after taxes was €147.7 million (H1 2017: €144.7 million). Earnings per share attributable to the shareholders of KION GROUP AG came to €1.26 for the first half of the year (H1 2017: €1.30) based on an average of 117.9 million (H1 2017: 110.7 million) no-par-value shares outstanding.

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE SEGMENTS

Industrial Trucks & Services segment

Business performance and order intake

The Industrial Trucks & Services segment increased orders for new trucks by 7.9 per cent to 110.5 thousand units. Warehouse trucks and electric forklift trucks – a particularly important part of integrated supply chain solutions – saw a strong growth across all regions. Of the total number of orders, 61.9 per cent were accounted for by the Linde brand including Fenwick, 31.2 per cent by the STILL brand including OM STILL and the remaining 6.9 per cent by the Baoli and OM Voltas brands. The total value of order intake rose by 3.5 per cent to €3,031.6 million (H1 2017: €2,928.3 million). Currency effects reduced the value of order intake by €60.9 million.

Revenue

Despite noticeable delays to production and deliveries as a result of bottlenecks affecting individual suppliers, segment revenue rose by 3.9 per cent to €2,818.3 million (H1 2017: €2,712.2 million). Negative currency effects also impacted on total revenue in the Industrial Trucks & Services segment, reducing it by €59.3 million. Whereas the volume of revenue from new truck business held relatively steady compared with the prior-year period, the volume of service business went up by 6.4 per cent. As a result, the proportion of segment revenue attributable to the service business grew to 50.1 per cent (H1 2017: 48.9 per cent).

Earnings

The inefficiencies in production processes caused by bottlenecks at individual suppliers increasingly impacted the cost of sales during the reporting period. Earnings were also affected by higher material prices and wage cost rises. Adjusted EBIT came to €284.2 million, which was close to the figure for the prior-year period of €286.4 million. The adjusted EBIT margin for the segment fell by 0.5 percentage points to 10.1 per cent (H1 2017: 10.6 per cent). Taking into account non-recurring items and purchase price allocation effects, EBIT was down slightly at €273.2 million (H1 2017: €285.9 million).

Adjusted EBITDA rose to €619.0 million (H1 2017: €598.7 million). This equated to an adjusted EBITDA margin of 22.0 per cent (H1 2017: 22.1 per cent). [> TABLE 08](#)

Supply Chain Solutions segment

Business performance and order intake

In the second quarter of 2018, customers awarded a high number of new orders to Dematic, causing the volume of orders to jump by €874.2 million. As a result, order intake in the Supply Chain Solutions segment increased by 39.0 per cent compared with the first half of 2017 to reach €1,270.4 million (H1 2017: €913.6 million). This figure includes negative currency effects of €98.9 million that were mainly due to the US dollar being weaker on average during the six-month period.

Key figures – Industrial Trucks & Services

TABLE 08

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Order intake	1,546.5	1,513.7	2.2%	3,031.6	2,928.3	3.5%
Total revenue	1,449.6	1,398.1	3.7%	2,818.3	2,712.2	3.9%
EBITDA	317.0	323.6	–2.0%	619.3	598.6	3.5%
Adjusted EBITDA	318.0	323.1	–1.6%	619.0	598.7	3.4%
EBIT	136.1	159.7	–14.7%	273.2	285.9	–4.4%
Adjusted EBIT	148.2	159.4	–7.0%	284.2	286.4	–0.8%
Adjusted EBITDA margin	21.9%	23.1%	–	22.0%	22.1%	–
Adjusted EBIT margin	10.2%	11.4%	–	10.1%	10.6%	–

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

Revenue

The segment's total revenue declined slightly to €1,049.5 million (H1 2017: €1,081.4 million) owing to negative currency effects of €91.8 million and delays in the awarding of projects by customers during recent quarters. Revenue from project business (business solutions) accounted for 76.7 per cent of total revenue; the remaining 23.3 per cent was attributable to the service business. The proportion of revenue generated in North America was up significantly year on year at 69.7 per cent (H1 2017: 54.8 per cent).

Earnings

The US dollar also had a negative impact on adjusted EBIT, in the amount of €12.5 million. Moreover, the delays in the awarding of projects by customers in recent quarters led to underutilisation of project-related personnel capacity. Overall, the adjusted EBIT of €86.5 million was below the figure for the prior-year period of €98.6 million; excluding currency effects the adjusted EBIT was at prior year's level. The adjusted EBIT margin was 8.2 per cent (H1 2017: 9.1 per cent). Including non-recurring items and purchase price allocation effects, EBIT came to €21.3 million and thereby exceeded the figure for the first half of 2017 of minus €1.1 million. Adjusted EBITDA of €110.1 million (H1 2017: €121.0 million) resulted in an adjusted EBITDA margin of 10.5 per cent (H1 2017: 11.2 per cent).

> TABLE 09

Key figures – Supply Chain Solutions

TABLE 09

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Order intake	874.2	452.3	93.3%	1,270.4	913.6	39.0%
Total revenue	578.8	599.8	–3.5%	1,049.5	1,081.4	–3.0%
EBITDA	63.3	68.2	–7.2%	109.0	112.5	–3.1%
Adjusted EBITDA	64.0	71.3	–10.3%	110.1	121.0	–9.0%
EBIT	19.4	16.2	19.5%	21.3	–1.1	> 100%
Adjusted EBIT	51.5	64.1	–19.7%	86.5	98.6	–12.3%
Adjusted EBITDA margin	11.1%	11.9%	–	10.5%	11.2%	–
Adjusted EBIT margin	8.9%	10.7%	–	8.2%	9.1%	–

* 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

The segment's total revenue, which mainly resulted from internal IT and logistics services, increased to €151.0 million (H1 2017: €129.9 million).

Adjusted EBIT for the segment came to €72.9 million (H1 2017: €262.1 million) and included intra-group dividend income of €98.6 million (H1 2017: €285.0 million). Like-for-like adjusted EBIT excluding dividend income amounted to minus €25.7 million (H1 2017: minus €22.9 million). Adjusted EBITDA stood at €87.4 million, or minus €11.2 million (H1 2017: €275.1 million or minus €9.9 million).

> TABLE 10

NET ASSETS

Non-current assets rose by €42.6 million from their level at 31 December 2017 to €9,893.2 million as at 30 June 2018. Intangible assets accounted for €5,712.7 million (31 December 2017: €5,716.5 million). Goodwill amounted to 3,406.8 million as at 30 June 2018 (31 December 2017: €3,382.5 million). Other property, plant and equipment, which totalled €1,012.4 million (31 December 2017: €994.9 million), included a figure of €368.7 million for right-of-use assets related to procurement leases (31 December 2017: €347.4 million). These mainly comprised right-of-use assets for land and buildings of €261.0 million (31 December 2017: €247.6 million) and right-of-use assets for plant, machinery, and office furniture and equipment of €107.7 million (31 December 2017: €99.8 million).

Leased assets for direct and indirect leases with end customers that are classified as operating leases decreased moderately to €1,208.2 million (31 December 2017: €1,246.3 million). Rental assets increased to €646.2 million (31 December 2017: €608.4 million), reflecting the continued expansion of the rental fleet business. Long-term lease receivables arising from leases with end customers that are classified as finance leases amounted to €684.8 million (31 December 2017: €647.8 million).

Overall, current assets increased to €2,827.5 million (31 December 2017: €2,487.1 million), primarily because of the sharp rise in inventories in the Industrial Trucks & Services segment. The KION Group's total inventories went up by €208.2 million to €976.8 million (31 December 2017: €768.6 million).

The KION Group's net working capital, which comprises inventories, trade receivables and contract assets less trade payables and contract liabilities, rose sharply to €821.1 million as at 30 June 2018 (31 December 2017: €619.9 million). Cash and cash equivalents amounted to €180.4 million as at 30 June 2018 (31 December 2017: €173.2 million). > **TABLE 11**

Key figures – Corporate Services

TABLE 10

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Order intake	74.9	65.8	13.9%	151.0	129.9	16.2%
Total revenue	74.9	65.8	13.9%	151.0	129.9	16.2%
EBITDA	93.1	100.7	–7.6%	86.7	268.4	–67.7%
Adjusted EBITDA	93.6	103.6	–9.7%	87.4	275.1	–68.2%
EBIT	85.3	94.3	–9.5%	72.2	255.4	–71.7%
Adjusted EBIT	85.9	97.2	–11.6%	72.9	262.1	–72.2%

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

(Condensed) statement of financial position

TABLE 11

in € million	30/06/2018	in %	31/12/2017*	in %	Change
Non-current assets	9,893.2	77.8%	9,850.6	79.8%	0.4%
Current assets	2,827.5	22.2%	2,487.1	20.2%	13.7%
Total assets	12,720.7	–	12,337.7	–	3.1%
Equity	3,046.9	24.0%	2,992.3	24.3%	1.8%
Non-current liabilities	6,166.5	48.5%	6,133.7	49.7%	0.5%
Current liabilities	3,507.3	27.6%	3,211.7	26.0%	9.2%
Total equity and liabilities	12,720.7	–	12,337.7	–	3.1%

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

FINANCIAL POSITION

The principles and objectives applicable to financial management as at 30 June 2018 were the same as those described in the 2017 combined management report.

In January 2018, the term of the revolving credit facility of €1,150.0 million agreed under the senior facilities agreement (SFA) was extended by a year, which means the KION Group can now utilise this credit facility until February 2023. In June 2018, the KION Group issued a further promissory note. It has a volume of €200.0 million and will mature in 2025. The resulting funds were used to repay part of the long-term tranche drawn down under the acquisition facilities agreement (AFA). Consequently, 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 of €800.0 million (31 December 2017: €1,000.0 million), which is due to mature in October 2021. 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 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 note. All covenants were complied with as at 30 June 2018.

Analysis of capital structure

Current and non-current liabilities rose to €9,673.8 million as at the reporting date (31 December 2017: €9,345.4 million). Whereas the increase in long-term borrowing to €2,039.7 million was negligible

(31 December 2017: €2,024.8 million), current financial liabilities rose to €428.2 million (31 December 2017: €243.9 million). This rise of €184.4 million was due to drawdowns under the revolving credit facility in order to fund net working capital. After deduction of cash and cash equivalents, net financial debt increased to €2,287.5 million (31 December 2017: €2,095.5 million). This equated to 1.5 times the adjusted EBITDA on an annualised basis. The unused, unrestricted SFA loan facility stood at €816.1 million as at 30 June 2018. > **TABLE 12**

With discount rates unchanged on average, the retirement benefit obligation of €1,020.4 million was only slightly higher than its level at the end of last year (31 December 2017: €1,002.7 million). Lease liabilities arising from sale and leaseback transactions to fund the leasing business declined significantly to €910.1 million (31 December 2017: €1,131.1 million). This reduction was offset by an increase in liabilities from financial services relating to the long-term leasing business, which rose to €772.3 million (31 December 2017: €437.4 million). Furthermore, the short-term rental fleet is funded using liabilities from financial services totalling €170.2 million (31 December 2017: €0.0 million). Current and non-current other financial liabilities came to €813.1 million (31 December 2017: €962.2 million). This included liabilities from procurement leases totalling €393.3 million (31 December 2017: €369.1 million), for which right-of-use assets were recorded. Also included were liabilities of €358.3 million from sale and leaseback transactions used to finance the short-term rental fleet (31 December 2017: €515.7 million).

Contract liabilities, of which a large proportion related to the long-term project business, were lower than at the end of 2017 at €288.6 million (31 December 2017: €324.4 million). Equity rose to

Net financial debt

TABLE 12

in € million	30/06/2018	31/12/2017	Change
Liabilities to banks	1,249.7	1,253.7	-0.3%
Promissory note	1,212.9	1,007.3	20.4%
Other financial liabilities to non-banks	5.4	7.7	-30.1%
Financial liabilities	2,467.9	2,268.7	8.8%
Less cash and cash equivalents	-180.4	-173.2	-4.2%
Net financial debt	2,287.5	2,095.5	9.2%

€3,046.9 million as at 30 June 2018 (31 December 2017: €2,992.3 million). The addition of net income of €147.7 million was largely negated by the dividend of €116.8 million paid by KION GROUP AG in May. The equity ratio was 24.0 per cent (31 December 2017: 24.3 per cent).

> **TABLE 11**

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 €103.9 million in the first half of 2018 (H1 2017: €87.5 million). Spending in the Industrial Trucks & Services segment, which came to €78.0 million, continued to be focused on capital expenditure on development and on the expansion and modernisation of the Operating Units' production and technology facilities. Capital expenditure in the Supply Chain Solutions segment amounted to €22.3 million and related to development costs and, above all, software and licences.

Analysis of liquidity

Cash and cash equivalents increased only slightly, from €173.2 million at the end of 2017 to €180.4 million as at 30 June 2018. Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group at the end of the half-year period amounted to €994.1 million (31 December 2017: €1,138.0 million).

The KION Group's net cash provided by operating activities totalled €104.6 million, compared with the figure for the prior-year period of €238.4 million. Some liquidity is temporarily tied up in inventories owing to the bottlenecks at individual suppliers and delays to deliveries. While the growth in earnings made a positive contribution, there was a negative impact from the significant increase in net working capital. Higher tax payments and prepayments also reduced the level of cash flow from operating activities.

Net cash used by investing activities amounted to €95.5 million and was therefore on a par with the first six months of last year (H1 2017: €95.4 million). It primarily comprised cash payments for capital expenditure on development (R&D) and for property, plant and equipment totalling €103.9 million (H1 2017: €87.5 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – amounted to €9.0 million (H1 2017: €143.0 million).

Net cash used by financing activities amounted to €0.4 million (H1 2017: €258.4 million). Financial debt taken on during the reporting period amounted to €1,215.8 million and predominantly consisted of drawdowns under the revolving credit facility to fund the temporary increase in inventories and the inflow from the placement of the promissory note in June 2018. Repayments totalled €1,022.4 million, which included repayment of a further part of the long-term AFA tranche. Interest and principal payments for liabilities from procurement leases totalled €55.6 million during the reporting period (H1 2017: €43.0 million). As a result of the optimised financing structure and the corporate actions carried out in 2017, regular interest payments decreased to €25.7 million (H1 2017: €28.8 million). The dividend of KION GROUP AG led to an outflow of €116.8 million in the second quarter (Q2 2018: €86.9 million). > **TABLE 13**

(Condensed) statement of cash flows

TABLE 13

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
EBIT	142.1	159.8	–11.1%	268.0	255.2	5.0%
Cash flow from operating activities	41.6	113.6	–63.4%	104.6	238.4	–56.1%
Cash flow from investing activities	–45.3	–55.7	18.8%	–95.5	–95.4	–0.2%
Free cash flow	–3.7	57.9	<–100%	9.0	143.0	–93.7%
Cash flow from financing activities	–35.9	–231.2	84.5%	–0.4	–258.4	99.9%
Effect of exchange rate changes on cash	–0.2	–6.5	96.7%	–1.4	–7.2	80.3%
Change in cash and cash equivalents	–39.8	–179.8	77.9%	7.2	–122.6	>100%

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

LONG-TERM LEASING BUSINESS AND INDUSTRIAL NET OPERATING DEBT

The sales activities of the KION Group are supported by financial services in connection with direct long-term leasing business. In this business, trucks leased directly to the end customer are refinanced by the KION Group. The portfolio of the long-term leasing business continued to be focused predominantly in western Europe as at 30 June 2018. The long-term leasing business had a positive impact on the KION Group's financial performance (> TABLE 14) in the first half of 2018 and also made a visible contribution to its financial

position. > TABLE 15 This information is taken from the internal reporting system and is determined using the assumption of a minimum rate of return on the capital employed. Industrial net operating debt consists solely of the liabilities attributable to the KION Group's industrial business, which comprise net financial debt plus liabilities from rental business and liabilities from procurement leases. As a result, industrial net operating debt amounted to €3,209.4 million (31 December 2017: €2,980.4 million). > TABLE 16 This equated to 2.7 times the adjusted EBITDA on an annualised basis less the EBITDA for the long-term leasing business on an annualised basis.

Profitability of long-term leasing business

TABLE 14

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Revenue	255.1	237.3	7.5%	494.6	439.5	12.5%
Adjusted EBITDA	76.9	83.4	–7.7%	155.9	156.3	–0.3%
Adjusted EBIT	3.0	2.6	13.7%	6.4	5.6	14.4%
Earnings before taxes (EBT)	2.1	2.0	7.8%	4.2	3.8	9.1%

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

Financial position of long-term leasing business

TABLE 15

in € million	30/06/2018	31/12/2017*	Change
Liabilities to banks	374.8	481.6	-22.2%
Liabilities from financial services	772.3	437.4	76.6%
Lease liabilities	910.1	1,131.1	-19.5%
Calculatory equity	72.2	71.9	0.3%
Total	2,129.5	2,122.1	0.3%
Leased assets	1,208.2	1,246.3	-3.1%
Lease receivables	921.2	875.8	5.2%
Total	2,129.5	2,122.1	0.3%

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

Industrial net operating debt

TABLE 16

in € million	30/06/2018	31/12/2017*
Liabilities to banks	1,249.7	1,253.7
Promissory note	1,212.9	1,007.3
Other financial liabilities to non-banks	5.4	7.7
Financial liabilities	2,467.9	2,268.7
Less cash and cash equivalents	-180.4	-173.2
Net financial debt	2,287.5	2,095.5
Liabilities from financial services (rental)	170.2	-
Liabilities from short-term rental fleet financing	358.3	515.7
Liabilities from rental business	528.6	515.7
Liabilities from procurement leases	393.3	369.1
Industrial net operating debt	3,209.4	2,980.4

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

Non-financial information

EMPLOYEES

As at 30 June 2018, the KION Group employed 32,309 full-time equivalents (31 December 2017: 31,608). This moderate increase in the first half of the year was largely attributable to the Industrial Trucks & Services segment and is a product of the expansion in business. Most of the new jobs were added in western and eastern Europe.

In the first six months of 2018, personnel expenses rose by 4.9 per cent year on year to €1,056.6 million (H1 2017: €1,006.9 million) as a result of the increase in headcount and changes to collective bargaining agreements. > TABLE 17

RESEARCH AND DEVELOPMENT

Total spending on research and development increased by 16.0 per cent to €107.8 million (H1 2017: €92.9 million), which equates to 2.8 per cent of revenue. Of this total, research and product development costs of €69.3 million (H1 2017: €65.9 million) were expensed. The first six months of 2018 saw an addition to capitalised development costs of €38.6 million (H1 2017: €27.1 million), while amortisation and impairment charges amounted to €37.4 million (H1 2017: €34.4 million). The number of full-time jobs in R&D stood at 1,744 as at 30 June 2018 (31 December 2017: 1,533).

> TABLE 18

Employees (full-time equivalents)

TABLE 17

	30/06/2018	31/12/2017	Change
Western Europe	19,958	19,430	2.7%
Eastern Europe	2,651	2,433	9.0%
Middle East and Africa	243	248	-2.0%
North America	3,033	3,027	0.2%
Central and South America	1,248	1,298	-3.9%
Asia-Pacific	5,176	5,172	0.1%
Total	32,309	31,608	2.2%

Research and development (R&D)

TABLE 18

in € million	Q2 2018	Q2 2017*	Change	Q1 – Q2 2018	Q1 – Q2 2017*	Change
Research and development costs (P&L)	34.4	31.5	9.0%	69.3	65.9	5.1%
Capitalised development costs	20.7	14.1	47.1%	38.6	27.1	42.4%
Total R&D spending	55.1	45.6	20.8%	107.8	92.9	16.0%
R&D spending as percentage of revenue	2.7%	2.3%	–	2.8%	2.4%	–

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

Focus of R&D in the first half of 2018

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.

During the reporting period, the KION Group forged ahead with incorporating autonomous trucks and automated guided vehicle systems into end-to-end solutions for warehouses. Another area of focus was the ongoing development of the warehouse management system. Moreover, the KION Group has begun to more closely integrate research and development into an overarching digitalisation strategy.

Automation and connectivity

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. For light transport tasks, Linde also launched three new pallet stackers and a hand pallet truck on the market.

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. Furthermore, the innovative Truck Call 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 online portal, via which numerous processes involving inhouse material and data flows can be managed – including from mobile devices.

Warehouse management system

Dematic 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 to coincide with MODEX in Atlanta. 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.

Drive technology

Linde's new rental concept for lithium-ion batteries is encouraging the use of energy-saving drive technology in intralogistics. The benefits for customers are flexibility and financial security over the entire usage period. Moreover, the new RX 20 electric forklift truck from STILL now has greater range and availability thanks to a new battery concept. STILL was again a winner at this year's International

Intralogistics and Forklift Truck of the Year (IFOY) awards, at which the RX 20 electric forklift truck was honoured in the 'Counter Balanced Truck' category for setting new benchmarks in terms of compactness, ergonomics, performance, precision and innovative assistance systems.

Safety and ergonomics

Many product innovations launched in recent months help to improve safety and ergonomics in intralogistics. Linde Safety Guard is a new assistance system that uses acoustic and visual signals as well as vibrations to alert individual pedestrians and drivers in good time if they are approaching one another within warning zones that can be individually configured. It is complemented by the Linde TruckSpot visual warning system. 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. The illumination of working areas has been optimised using VertiLight and LED Stripes, while the new Surround View camera system offers an undistorted view of the entire area surrounding a truck.

CUSTOMERS

The KION brand companies have again exhibited at the sector's leading trade fairs in various regions this year in order to intensify their collaboration with customers and partners from a wide variety of industries.

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. 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 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. At MODEX 2018 in Atlanta, Dematic showcased its comprehensive range of products and solutions.

OUTLOOK, RISK REPORT AND OPPORTUNITY REPORT

Outlook

EXPECTED BUSINESS PERFORMANCE

Despite temporary bottlenecks at individual suppliers and the related production inefficiencies in the Industrial Trucks & Services segment, the KION Group expects to achieve the outlook for the year as published in the 2017 combined management report. In 2018, the KION Group aims to build on its successful performance in 2017 and, based on the forecasts for market growth, achieve further increases in order intake, revenue and adjusted EBIT.

The order intake of the KION Group is expected to be between €8,050 million and €8,550 million. The target figure for consolidated revenue is in the range of €7,700 million to €8,200 million. The target range for adjusted EBIT is €770 million to €835 million. Free cash flow is expected to be in a range between €410 million and €475 million. The target figure for ROCE is in the range of 8.7 per cent to 9.7 per cent.

Order intake in the Industrial Trucks & Services segment is expected to be between €5,950 million and €6,150 million. The target figure for revenue is in the range of €5,700 million to €5,900 million. The target range for adjusted EBIT is €650 million to €685 million.

Order intake in the Supply Chain Solutions segment is expected to be between €2,100 million and €2,400 million. The target figure for revenue is in the range of €2,000 million to €2,300 million. The target range for adjusted EBIT is €180 million to €215 million.

The outlook is based on the assumption that material prices and the exchange rate environment will remain broadly the same as at the time the outlook was prepared.

Actual business performance may deviate from the outlook due, among other factors, to the opportunities and risks described in the

2017 combined management report. Performance particularly depends on macroeconomic and industry-specific conditions and may be negatively affected by increasing uncertainty or a worsening of the economic and political situation.

Opportunity and risk report

The KION Group's overall risk and opportunity situation has not changed significantly compared with the description in the 2017 combined management report. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.