KION GROUP

A NEW ERA

ANNUAL REPORT
2016

KION Group
Key figures for 2016

KION Group overview

in € million	2016	2016 (excl. Dematic)	2015	2014	Change 2016/2015
Order intake	5,833.1	5,553.0	5,215.6	4,771.2	11.8%
Revenue	5,587.2	5,327.7	5,097.9	4,677.9	9.6%
Order book [1]	2,244.7		864.0	764.1	> 100%
Financial performance					
EBITDA	889.5		824.2	714.2	7.9%
Adjusted EBITDA [2]	931.6		850.0	780.4	9.6%
Adjusted EBITDA margin [2]	16.7%		16.7%	16.7%	–
EBIT	434.8		422.8	347.0	2.8%
Adjusted EBIT [2]	537.3	527.2	482.9	442.9	11.3%
Adjusted EBIT margin [2]	9.6%	9.9%	9.5%	9.5%	–
Net income	246.1		221.1	178.2	11.3%
Financial position [1]					
Total assets	11,359.2		6,440.2	6,128.5	76.4%
Equity	2,535.1		1,848.7	1,647.1	37.1%
Net financial debt	2,903.4		573.5	810.7	> 100%
ROCE [3]	6.8%	12.4%	11.9%	11.4%	–
Cash flow					
Free cash flow [4]	–1,850.0	317.5	332.7	305.9	<–100%
Capital expenditures [5]	166.7		142.6	133.1	16.9%
Employees [6]	**30,544**		**23,506**	**22,669**	**29.9%**

1 Figures as at balance sheet date 31/12/
2 Adjusted for PPA items and non-recurring items
3 ROCE is defined as the proportion of EBIT adjusted to capital employed
4 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities;
Last year figures were adjusted due to a change in presentation, for details see ‚Additional information of the condensed statement of cash flows'
5 Capital expenditure including capitalised development costs, excluding leased and rental assets
6 Number of employees (full-time equivalents) as at balance sheet date 31/12/

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

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A NEW ERA

OUR WORLD IS EVOLVING **RAPIDLY.**

HOW WE LIVE, HOW WE WORK, CUSTOMER NEEDS, MARKET REQUIREMENTS – **DIGITALISATION** IS CHANGING EVERYTHING.

WITH DEMATIC THE KION GROUP HAS STARTED A **NEW CHAPTER** AND REPOSITIONED ITSELF.

kiongroup.com

360° FORKLIFT TRUCKS, WAREHOUSE TECHNOLOGY, & SUPPLY CHAIN SOLUTIONS

FOR EVERY PART OF THE WAREHOUSE: SEE POSTER IN THE JACKET OR ONLINE AT:

kiongroup.com/A_New_Era

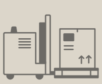
Industry 4.0
The KION Group adds value in production and logistics

INTELLIGENT TRUCKS

- Smart trucks with electronic control units
- Driver assistance systems for greater efficiency

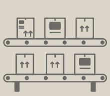
FLEET DATA MANAGEMENT

- Fleet data services for centralised control and tracking
- Fleet optimisation
- Financial benefits and improved safety



AUTOMATED TRUCKS

- Full range of automated trucks
- Enables automation of material handling processes



AUTOMATION SYSTEMS

- Customised and integrated intralogistics solutions
- Automated trucks in combination with additional hardware and software

The KION Group is a global leader in industrial trucks, related services and supply chain solutions. Across more than 100 countries worldwide, the KION Group's logistics solutions optimise the flow of material and information within factories, warehouses and distribution centres. The Group is the largest manufacturer of industrial trucks in Europe, the second-largest producer of forklifts globally and a leading provider of warehouse automation.

The KION Group's world-renowned brands are among the best in the industry. Dematic is a global leader in automated material handling, providing a comprehensive range of intelligent supply chain and automation solutions. Egemin Automation is a top-tier logistics automation specialist. The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks in the economy segment. Among the regional KION brand companies, Fenwick is the largest supplier of material handling products in France, while OM STILL is a market leader in Italy. Voltas is a leading provider of industrial trucks in India.

More than 1.2 million industrial trucks and over 6,000 installed systems from the KION Group are deployed by customers in all industries and of all sizes on six continents.

We keep the world moving.

INDUSTRIAL TRUCKS & SERVICES

The Industrial Trucks & Services segment encompasses forklift trucks, warehouse technology and related services, including complementary financial services.
It pursues a multi-brand strategy involving the three international brands Linde, STILL and Baoli plus the three regional brands Fenwick, OM STILL and Voltas.

Industrial Trucks & Services is made up of four operating units that cover the KION Group's existing industrial truck business: Linde Material Handling EMEA and STILL EMEA, which each concentrate on Europe, the Middle East and Africa, plus KION APAC and KION Americas, which hold cross-brand responsibility for the Asia-Pacific region and the Americas respectively.

OPERATING UNITS

BRANDS

Linde
FENWICK
STILL
OM STILL
Baoli
VOLTAS

PRODUCTS

- Counterbalance trucks with electric drive
- Counterbalance trucks with IC engine
- Warehouse technology: ride-on industrial trucks
- Warehouse technology: hand-operated industrial trucks
- Towing vehicles
- Automated trucks and autonomous trucks

SUPPLY CHAIN SOLUTIONS

The Supply Chain Solutions segment encompasses integrated technology and software solutions that are used to optimise supply chains. Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking and value-added packing. The segment brings together the activities of the Dematic, Egemin Automation and Retrotech brands. Dematic, the fifth operating unit, is responsible for the shared, cross-brand market presence.

OPERATING UNIT

BRANDS

DEMATIC
egemin AUTOMATION

PRODUCTS

- Conveyors
- Sorters
- Storage and retrieval systems
- Picking equipment
- Palletisers

CORPORATE SERVICES

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

INTERNAL SERVICES

HOLDING COMPANY FUNCTIONS

KION GROUP

OUR BRANDS

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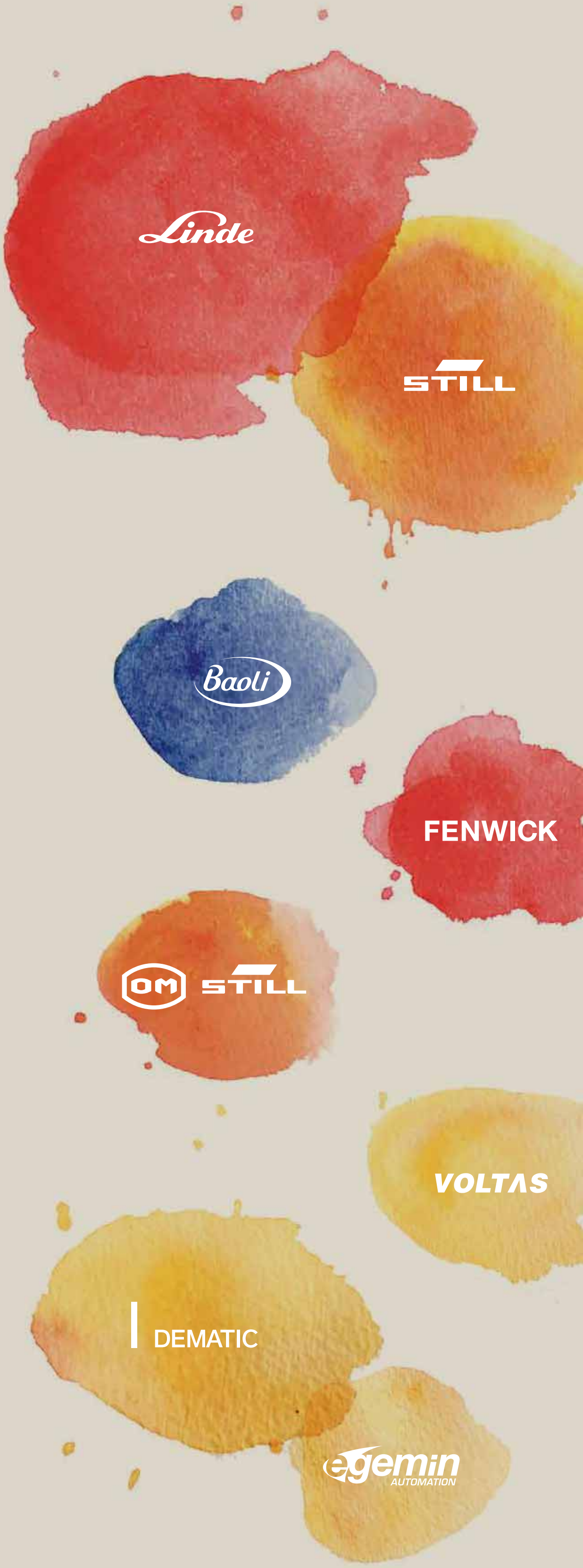

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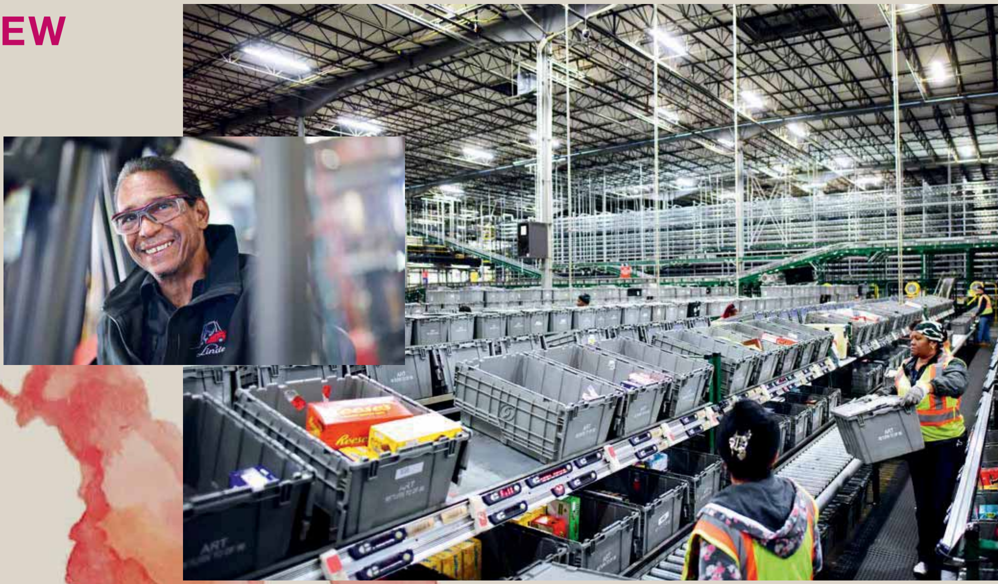
SHAPING CHANGE AND HARNESSING NEW OPPORTUNITIES:
DISCOVER HOW THE KION GROUP IS BEGINNING A NEW ERA, WITH THE AIM OF CREATING EVEN MORE VALUE FOR ITS CUSTOMERS, IN OUR WEB SPECIAL AT:



kiongroup.com/A_New_Era


FENWICK
Linde

TO OUR SHAREHOLDERS

»We shape the future of intralogistics.«

Gordon Riske
Chief Executive Officer

Dear shareholders, customers, partners, employees and friends of the KION Group,

Last year marked the dawn of a new era for our Company, and also for others. By acquiring Dematic, a specialist for automation and supply chain optimisation, the KION Group has become a different, more diverse and more powerful group. We can now offer our customers around the world everything they need for their intralogistics – from basic hand pallet trucks to the most complex of automated material handling solutions – underpinned by what is probably the most extensive sales and service network in the industry worldwide. By offering a comprehensive portfolio from a single source, we are better placed than anyone else to help customers create value. That is why, now that Dematic has joined the KION family, we have also begun a new chapter for our industry.

Our world is evolving rapidly and our industry is being shaken up. How we live, how we work – digitalisation is changing everything. When you order goods online, they usually arrive the next day or, more and more frequently, the same day. Cities are growing and people are starting to prefer using their local shops again instead of going to a mall. Warehouses are therefore being relocated to distribution centres. Thriving companies are those that have automation solutions with which they can meet the constantly changing needs of today's and, above all, tomorrow's consumers.

All set for innovation and Intralogistics 4.0

Of course it is not only thanks to Dematic that the KION Group is fully equipped to fulfil – and benefit from – our customers' expectations regarding innovation and solutions in the world of Intralogistics 4.0. Sophisticated technology has made our smart trucks even safer, and we have refined our fleet data management systems. We are breaking down the barriers of automation with STILL's award-winning autonomous order picker, iGo neo: this intelligent truck follows the operator at every turn like a willing colleague. What's more, Linde has expanded its range of Linde-MATIC trucks equipped with robotics, while Egemin has unveiled new, compact versions of its automatic guided vehicle systems. We have also made huge advances in cutting-edge drive technology: Linde and STILL went to market with the first counterbalance trucks powered by a lithium-ion battery in 2016.

A NEW ERA

»We shape the future of intralogistics.«

Gordon Riske
Chief Executive Officer

Our traditional business of forklift trucks and warehouse technology on the one hand and the automation solutions from Dematic on the other are the perfect fit, and not only in technological terms. The two companies complement each other because they both have a strong market position and regional presence, which will open up cross-selling potential in the medium term. Dematic will make use of the KION Group's outstanding reputation and the leading position of its brands in key markets such as Europe, China and Brazil, while KION benefits from Dematic's strong standing in the US and European automation markets. Moreover, the combination of the KION Group's comprehensive sales and service network and Dematic's large installed base will also result in opportunities for further growth in the software and service businesses and in the retrofitting and upgrading of systems. The benefits that each company has for the other will also generate cost synergies.

KION Group is evolving in line with customer needs

Customer needs, market requirements, the technology: everything is changing from the ground up, and our Company is of course evolving at the same time. Since acquiring Dematic, we have put a new management and reporting structure in place for the KION Group. The Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments have replaced the Linde, STILL, Financial Services and Other segments. Industrial Trucks & Services consists of the KION Group's existing business and is made up of four regional operating units: Linde Material Handling EMEA and STILL EMEA, which each concentrate on Europe, the Middle East and Africa, plus KION APAC and KION Americas, which hold cross-brand responsibility for the Asia-Pacific region and the Americas respectively. Supply Chain Solutions comprises the global Dematic operating unit, Egemin Automation and Retrotech, while Corporate Services includes head-office functions and groupwide services such as internal logistics and IT services.

In the magazine section of this annual report at www.kiongroup.com/A_New_Era, you can discover what this new era for the KION Group means – including on a personal level – to the people who head up our operating units. You will also find videos, photos and stories illustrating how the KION Group is actually tackling changing markets and technologies for the benefit of our customers.

A **NEW** ERA

»We shape the future of intralogistics.«

Gordon Riske
Chief Executive Officer

New structures paying off

We have made significant progress with establishing our CTO organisation, which has been managed by our Chief Technology Officer Dr Eike Böhm since the summer of 2015. The organisation brings together key technical functions of the KION Group in a centralised structure. The responsibilities have now been fully defined, the CTO organisation's more than 2,000 employees have attended workshops to learn about its purpose and objectives and major projects have got under way. We are therefore well on track to harness the full potential of cross-brand collaboration on product development, of course with Dematic on board.

Our new and future-proof structures following the purchase of Dematic, the constant innovation in our core business of forklift trucks, warehouse technology and related services, the corresponding changes to our Group's structure – these are all vital elements in achieving the targets of our Strategy 2020: more growth, increased resilience to crises, higher profitability and greater efficiency. One of our core tasks in 2017 will therefore be to press ahead with the integration of Dematic so that we can add even more value for our customers, shareholders, employees and partners in the years to come. To support the change that is needed inside the Company, we launched the 'Lift up' initiative last year as a way of communicating the new structures and embedding them in the corporate culture.

Profitable growth again in 2016

Clearly, the only constant in the KION Group is change. This was never more obvious than last year, and yet we again generated profitable growth. We met our forecasts for 2016 in full, achieving record results. Excluding the purchase of Dematic, our revenue, adjusted EBIT, adjusted margin, and net income reached unprecedented levels, as did the value of our order intake. The profitability of the KION Group (excluding Dematic) rose to 9.9 per cent. In our outlook for 2017, we predict further profitable growth in both of our new core segments, Industrial Trucks & Services and Supply Chain Solutions.

We can thank our now more than 30,000 highly motivated and skilled employees around the world for these outstanding results. I would like to take this opportunity, on behalf of the entire Executive Board, to offer them my sincere thanks for their fantastic efforts.

A **NEW** ERA

»We shape the future of intralogistics.«

Gordon Riske
Chief Executive Officer

As you can see, there is a good reason why we called this annual report 'A new era'. Our Company is now not only much bigger but also much closer to our customers because their local service engineer or sales office is now nearer. Our portfolio of products and service is now far more extensive and it has never been easier for customers to obtain the solution they need from a single source. But one thing has stayed the same: our mission statement that the KION Group equates to more than the sum of its brands.

With best wishes,

Gordon Riske
Chief Executive Officer
KION GROUP AG

A **NEW** ERA

Executive Board

GORDON RISKE

- Chief Executive Officer (CEO) of KION GROUP AG
- born in 1957 in Detroit (USA)

DR EIKE BÖHM

- Chief Technology Officer (CTO) of KION GROUP AG
- born in 1962 in Pforzheim (Germany)

CHING PONG QUEK

- Chief Asia Pacific Officer of KION GROUP AG
- born in 1967 in Batu Pahat/Johor (Malaysia)

DR THOMAS TOEPFER

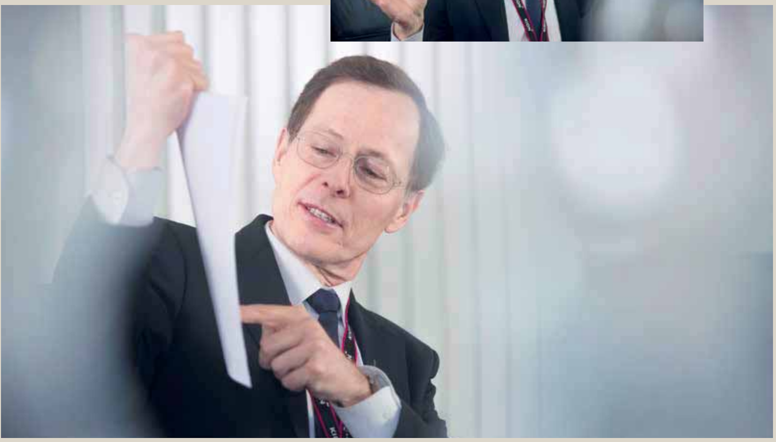
- Chief Financial Officer (CFO) and Labour Relations Director of KION GROUP AG
- born in 1972 in Hamburg (Germany)

»Now that Dematic has joined the KION family, we have begun a new chapter for our customers.«

Gordon Riske
Chief Executive Officer

»When you accept change, you will make progress.«

Ching Pong Quek
Chief Asia Pacific Officer



»Dematic's software expertise is an enormous asset to the KION Group significantly adding value also for our industrial truck customers.«

Dr Eike Böhm
Chief Technology Officer

»The investment grade credit rating from Fitch is an external confirmation of how far KION has progressed in recent years.«

Dr Thomas Toepfer
Chief Financial Officer

Report of the Supervisory Board of KION GROUP AG

Dear shareholders,

2016 was another very successful year for KION GROUP AG. It was dominated by the acquisition of automation and supply chain optimisation specialist Dematic, which is having a lasting and significant impact on the business model of KION GROUP AG and its market positioning. This is a time of transformation for KION GROUP AG. The combination of KION GROUP AG's excellent capabilities, expertise and experience in developing, manufacturing, marketing and servicing industrial trucks with that of Dematic in automating and increasing the efficiency of warehouse systems means that the Company is now much better placed to offer top-class intralogistics solutions and to help shape the future of intelligent logistics. The structure of KION GROUP AG is also continuing to evolve. Since December 2016, it has had a new reporting and management structure consisting of the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments, reflecting the Group's strategic realignment. In terms of business performance, the KION Group again generated encouraging revenue and earnings growth and achieved all of its forecasts in 2016.

Last year, the Supervisory Board continued to fulfil the tasks and responsibilities imposed on it by the law, the Company's articles of incorporation and the German Corporate Governance Code with dedication and diligence. As in previous years, there were again many important decisions, transactions requiring approval and other matters to be discussed and resolved upon.

Monitoring and advisory role in dialogue with the Executive Board

The Supervisory Board advised the Executive Board on all significant matters relating to managing the Company and monitored the Executive Board's running of the Company. The Supervisory Board was fully involved in all major decisions affecting the Company from an early stage. The Executive Board always notified the Supervisory Board of every significant aspect of the decisions to be made promptly and in detail, providing both written and oral reports. Between meetings of the Supervisory Board and between those of its committees, the chairman of the Supervisory Board, who is

DR JOHN FELDMANN
Chairman

also chairman of the Executive Committee, remained in close contact at all times with the Executive Board, particularly the Chief Executive Officer and the Chief Financial Officer. There was also regular contact between the chairman of the Audit Committee and both the Chief Financial Officer and those responsible for auditing and compliance in the Company. This ensured that the Supervisory Board was always kept up to date on the Company's performance and any significant transactions, even between meetings. The Supervisory Board satisfied itself at all times that the Company was being managed lawfully and diligently by the Executive Board. Giving the specified period of notice, the Executive Board presented to the Supervisory Board transactions that, according to the law, the Company's articles of incorporation or the rules of procedure for the Executive Board of KION GROUP AG, require the Supervisory Board's consent so that it could adopt resolutions. The Supervisory Board examined closely the resolutions proposed by the Executive Board and deliberated on them before adopting them.

Main focus areas discussed by the Supervisory Board

Last year, the Supervisory Board's deliberations again centred on the implementation of the Strategy 2020, which the Executive Board and Supervisory Board adopted in 2013, the growth and profitability targets for KION GROUP AG defined in the strategy, and the further development of the portfolio.

Throughout 2016, the Company's Supervisory Board and Executive Board intensively discussed growth opportunities arising from the organic expansion of the portfolio and from the acquisition of additional capabilities. The focus was always on growing the global business in industrial trucks of all categories, refining the product portfolio, increasing market share at regional level and examining the digital transformation of manufacturing (Industry 4.0). As in the previous year, the Supervisory Board kept a close eye on developments in this area and discussed them with KION GROUP AG's management team. In the core business of industrial trucks, the Supervisory Board and Executive Board discussed short-, medium- and long-term aspects of strategic development, innovation and operational excellence, applying strategic parameters such as customer satisfaction, market trends and technological developments. The strategy meeting on 28 September 2016 was an opportunity for an in-depth exchange of views on innovative trends in the core industrial trucks business. The main topics of discussion were innovations relating to the integration of industrial trucks into existing end-to-end intralogistics solutions in order to increase the efficiency of customers' processes, particularly with regard to production logistics, order picking and warehouse technology. Moreover, following on from the acquisition in 2015 of Egemin N.V., a leading warehouse automation company, KION GROUP AG continued on its journey to becoming a leading supplier of products for all areas of intralogistics by acquiring the Dematic Group, a global player and one of the world's top providers of automated logistics solutions. This acquisition makes the KION Group the only company able to supply all intralogistics products, from hand-operated trucks to fully automated warehouses, from a single source. The Supervisory Board regularly advised the Executive Board on this strategic project and was kept informed by the Executive Board on the progress of the planning and negotiations. The implementation and operation of the new organisational structure, which had been decided upon in 2015, was closely monitored by the Supervisory Board. The core elements of this new organisation are decentralised, regional operating units, of which there were originally four. A further operating unit called Dematic was created following the acquisition of the Dematic Group. Since December 2016, the Executive Board has run the KION Group on the basis of three segments: Industrial Trucks & Services, Supply Chain Solutions and Corporate Services. The operating units are supported by a central R&D function and administrative departments. The CTO organisation, which is headed up by the Chief Technology Officer Dr Eike Böhm, assumed groupwide responsibility for product strategy, R&D, innovation, the production system, quality assurance and procurement on 1 January 2016. The new external reporting format derived from this organisation structure, which is based on the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments, was monitored by the Audit Committee and, in particular, its chairman.

Other administrative functions were adapted to meet the requirements of the Group's new organisational structure during 2016, which involved centralising and harmonising them. The aim for 2017 is to further optimise the integration of the Dematic Group into the KION Group and, as a result, generate additional synergies.

Corporate governance matters

Besides the regular corporate governance matters, the issues dealt with by the Supervisory Board during the reporting year included the governance changes required due to the new organisational structure and the implementation of requirements and voluntary undertakings arising for the KION Group out of Germany's new 'Act for the equal participation of women and men in managerial positions in the private and public sectors'.

The new organisational structure resulted in a shift away from responsibility for brands towards responsibility for regions or functions. Within the Group, management structures and work processes across legal entities had to be redesigned worldwide, especially in the CTO organisation. The results achieved so far are very promising and instil confidence that the increased efficiency and profit expected to be delivered by the new organisational structure will be achieved.

Given the Group's expansion into logistics process automation solutions, the Supervisory Board believed it was appropriate to supplement the targets for its composition to include valuable experience in this field of industry. In Dr Christina Reuter, the Supervisory Board has gained a highly qualified scientist with a proven track record focusing on automation. Moreover, the addition of both Dr Reuter as a shareholder representative and Ms Claudia Wenzel as an employee representative means that the Supervisory Board of KION GROUP AG now has two new and highly qualified female members. KION therefore met the statutory requirements for the proportion of women on the Supervisory Board of KION GROUP AG at the end of 2016. This provided the background for the Supervisory Board's discussions in the fourth quarter about the upcoming election of shareholder representatives at the Annual General Meeting on 11 May 2017. The Nomination Committee has prepared the necessary nominations, applying the updated objectives for the composition of the Supervisory Board. The committee examined whether the current members, who are proposed as candidates, continue to meet the requirements for the office of shareholder representative. It paid particular attention to the need to ensure a sufficient number of Supervisory Board members considered independent. The Company believes that five of the eight shareholder representatives can be classed as independent, which is sufficient. Based on the recommendation made by the Nomination Committee, the Supervisory Board decided at its meeting on 14 December 2016 to propose that the Annual General Meeting re-elect the current shareholder representatives.

Another area of focus was the review and revision of the remuneration system and of the individual remuneration for the members of the Executive Board of KION GROUP AG. The structure of Executive Board and Supervisory Board remuneration had been defined ahead of the IPO in 2013. In spring 2016, a consultancy reviewed it, comparing it against the benchmark. Based on the findings, the Executive Board's remuneration was revised in two phases. Firstly, the remuneration system was updated with the aim of simplifying it on the basis of past experience and bringing it closer in line with current best practice in this area. Changes were made to both the one-year and the multiple-year variable remuneration. It was also decided to introduce an obligation on Executive Board members to hold shares in the Company. Secondly, the individual remuneration of each Executive Board member was reviewed on the basis of comparative information during the Supervisory Board meeting in September. As the remuneration of the Executive Board had remained unchanged for three and a half years, a resolution was adopted to adjust the amount with effect from 1 January 2017. Further details are provided in the remuneration report on pages 37 to 53. In compliance with the recommendations in the German Corporate Governance Code, the updated remuneration system will be presented to the Annual General Meeting for approval in May 2017.

The topics on which the Executive Board and individual managers in the Company regularly submitted reports were the internal control system, risk management, internal audit and compliance in the Group. The focus was on the processes in place as well as on the content of the individual reports. As a result of these reports, the Supervisory Board was able to gain an impression of the processes in place and to examine and comment on the proposed developments in these areas. It concluded that the systems and mechanisms at KION GROUP AG are adequate and suitable.

At its meeting on 14 December 2016, the Supervisory Board held its final discussion on the KION Group's compliance with the recommendations of the German Corporate Governance Code, the version of which dated 5 May 2015 continued to apply in 2016. The Supervisory Board issued an unchanged comply-or-explain statement pursuant to section 161 of the German Stock Corporation Act (AktG). It has been made permanently available to the public on the KION GROUP AG website. KION GROUP AG complies with all but one of the recommendations in the German Corporate Governance Code (version dated 5 May 2015) and intends to continue to do so in future. As in the previous year, the only recommendation of the Code with which KION GROUP AG does not comply is the recommendation in section 3.8 (3) of the Code for an excess in the D&O insurance policies for members of the Supervisory Board. KION GROUP AG's articles of incorporation do not provide for this type of excess. The Company believes that such an excess is not typical at international level and would therefore make it considerably more difficult to find independent candidates, in particular candidates from outside Germany.

In accordance with section 3.10 of the German Corporate Governance Code, the Executive Board and the Supervisory Board provide a detailed report on corporate governance in the KION Group in the corporate governance report. This is combined with the declaration on corporate governance pursuant to section 289a of the German Commercial Code (HGB) and can be found on pages 24 to 36 of this annual report and on the KION GROUP AG website at kiongroup.com/GovernanceReport. For details of the remuneration of the Executive Board and Supervisory Board for 2016, please refer to the remuneration report, which can be found on pages 37 to 53 of this annual report.

Work of the committees

In the run-up to the Dematic transaction, the Supervisory Board of KION GROUP AG established an ad-hoc transaction committee to ensure the Company was able to act and the Supervisory Board was able to adopt the necessary resolutions at short notice. To the extent permitted by law, the Supervisory Board's decision-making powers were delegated to the committee. The committee was made up of three employee representatives and three shareholder representatives. The Executive Board and the transaction team at KION GROUP AG kept the committee updated on the progress of the negotiations. Following the successful completion of the transaction, the committee was dissolved on 31 December 2016. Since the last report, there have not been any other material changes to the established committees.

KION GROUP AG's Supervisory Board had four committees last year: the Mediation Committee pursuant to section 27 (3) of the German Codetermination Act (MitbestG), the Executive Committee, the Audit Committee and the Nomination Committee. These committees, but primarily the Executive Committee, prepare the matters to be discussed at the meetings of the full Supervisory Board. In individual cases, the Supervisory Board's decision-making powers were delegated to committees within the scope permitted by law. The chairman of the Supervisory Board is also chairman of all committees except the Audit Committee. At the meetings of the full Supervisory Board, the committee chairmen report in detail on the discussions of the committees to ensure that the Supervisory Board as a whole is always fully informed.

In 2016, the Supervisory Board and its committees dealt with the matters at hand and made the necessary decisions at a total of 22 meetings (eight full Supervisory Board meetings and 14 committee meetings). There were also several informal conference calls for the purpose of providing the members of the Supervisory Board or the relevant committees with advance information.

In 2016, all members of the Supervisory Board attended all Supervisory Board meetings and the meetings of the respective committees of which they were members apart from in the following cases: there were five Supervisory Board meetings at each of which one member sent apologies and one committee meeting at which one member sent apologies. Supervisory Board Member Tan Xuguang only participated in half of all the Supervisory Board meetings.

Engagement of the auditors; audit of the separate and consolidated financial statements

The Company's independent auditors, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, Frankfurt am Main branch office, which on 15 June 2016 changed its registered company name to Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), audited the Company's separate financial statements and management report and the consolidated financial statements and group management report for the year ended 31 December 2016 following their engagement by the Annual General Meeting on 12 May 2016. The corresponding proposal to the Annual General Meeting had been prepared in meetings held between the chairman of the Audit Committee and the auditors. They concerned the suitability and independence of the auditors and the fees. The proposal was discussed at the Audit Committee's meeting on 9 March 2016 and committee members were given the opportunity to speak to the auditors in person. The key audit issues were also discussed and set out accordingly at the Audit Committee's meeting on 26 July 2016. The auditors were appointed by the chairman of the Supervisory Board on 2 June 2016.

The auditors submitted their report and the documents relating to the 2016 financial statements to the members of the Audit Committee on 15 February 2017 and to the members of the Supervisory Board on 22 February 2017. The report was discussed in depth at the Audit Committee meeting on 22 February 2017 and at the full Supervisory Board meeting on 1 March 2017, both of which were attended by the auditors. At both of those meetings, the auditors reported in detail on the main findings of the audit and provided comprehensive answers to all questions asked by members of the Audit Committee and Supervisory Board. The auditors issued an unqualified opinion for the separate financial statements for the year ended 31 December 2016, the consolidated financial statements and the group management report which was combined with the management report for the year ended 31 December 2016 on 22 February 2017.

Having itself scrutinised the Company's separate financial statements, consolidated financial statements and the combined management report for the year ended 31 December 2016, the Audit Committee then made a recommendation to the full Supervisory Board, which the chairman of the Audit Committee explained in more detail in his report to the meeting of the full Supervisory Board. On this basis and taking the auditors' opinion into consideration, the Supervisory Board held a further discussion of its own and then approved the results of the independent audit at its meeting on 1 March 2017. Based on the final outcome of the Supervisory Board's own review, no objections were raised. The Supervisory Board approved the Company's separate financial statements and consolidated financial statements for the year ended 31 December 2016 prepared by the Executive Board, thereby adopting the annual financial statements.

At its meeting on 1 March 2017, the Supervisory Board also discussed and approved the proposal made by the Executive Board that the distributable profit of KION GROUP AG be appropriated for the payment of a dividend of €0.80 per no-par-value share. In doing so, the Supervisory Board took account of the Company's financial situation and performance, its medium-term financial and capital-expenditure planning and the interests of the shareholders. The Supervisory Board believes the proposed dividend is appropriate.

Relationships with affiliated entities (dependency)

Joint control of the Company by Superlift S.à r.l. and Weichai Power ended on 31 March 2015 when the remaining KION GROUP AG shares held by Superlift S.à r.l. were sold. There have been no dependency relationships with shareholders since that date. A report on the Company's relationships with affiliated entities (dependency report) therefore did not need to be prepared for 2016.

Personnel changes on the Executive Board and Supervisory Board

There were no changes on the Executive Board of KION GROUP AG last year.

There were several changes on the Supervisory Board in 2016. Mr Wolfgang Faden stepped down from the Supervisory Board on 12 May 2016. The Company's Annual General Meeting elected Dr Christina Reuter to succeed him as a shareholder representative. In addition, Mr Kay Pietsch resigned from his position as an employee representative on the Company's Supervisory Board with effect from the end of 31 October 2016. The courts appointed Ms Claudia Wenzel as his successor with effect from 1 November 2016. The Supervisory Board would like to thank Mr Faden and Mr Pietsch for the great dedication with which they always carried out their work in the interests of the Company.

Mr Özcan Pancarci has been deputy chairman of the Supervisory Board since 1 January 2016, replacing Mr Joachim Hartig.

The details of this report were discussed thoroughly at the Supervisory Board meeting on 1 March 2017 when it was adopted.

My colleagues on the Supervisory Board and I would like to thank the members of the Executive Board and the employees of KION GROUP AG and its Group companies in Germany and abroad for their commitment and outstanding achievements in 2016.

Dr John Feldmann
Chairman

KION shares

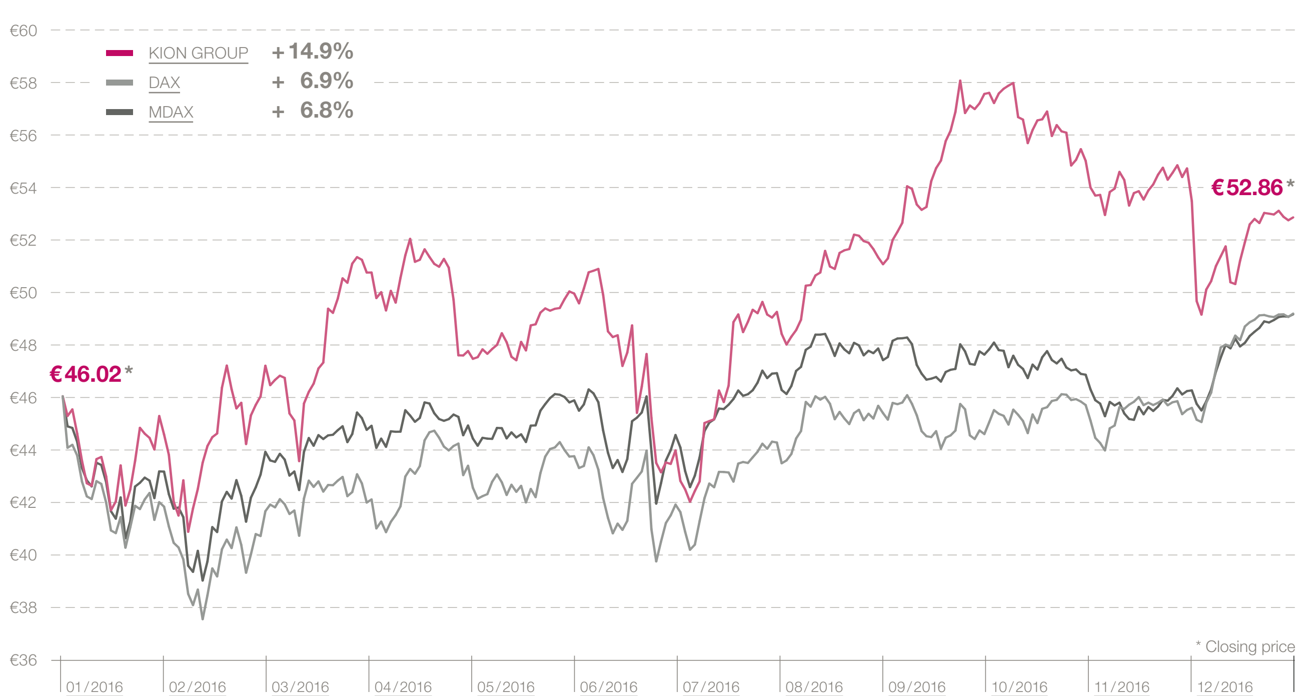
Moderate increase in equity markets

The European stock markets only showed a moderate increase over the course of 2016. Although prices fell sharply at the start of the year on the back of weaker growth in China, geopolitical tensions, the collapse of the oil price and other factors, they then began rising again as the interest rate environment remained favourable to equities. The surprising vote for Brexit in the middle of the year created some turmoil, but only for a short time, and the second half of 2016 was characterised by minimal fluctuation within a narrow range. Moreover, the outcome of the US presidential election and Italy's referendum did not trigger any significant price reactions. The moderate upward trend observed at the end of 2016 was primarily supported by good economic data, a strongly rebounding oil price and positive leading indicators. The DAX closed the year at 11,481 points, an increase of 6.9 per cent. The MDAX rose by 6.8 per cent to reach 22,189 points.

Gain for the KION share price

KION shares outperformed the benchmark indices in 2016. They closed at €52.86 on 30 December 2016, which was 14.9 per cent higher than their 2015 year-end closing price of €46.02. The share price largely followed the market trend in the first half of the year, registering its low for the year of €40.84 on 8 February 2016. At the end of June, KION shares were also affected by the downward movement seen after the surprising outcome of the referendum in the UK in favor of leaving the European Union. From July, however, KION shares were able to increasingly buck the market trend thanks to a strong business performance and the positive perception of the Dematic acquisition. The successful capital increase on 18 July 2016 was also accompanied by rising prices. KION shares achieved their highest price of the year on 22 September 2016 when they reached €58.09. After falling in the fourth quarter, the price at the end of the year was €52.86. > DIAGRAM 001

Share price performance between 30 December 2015 and 30 December 2016 DIAGRAM 001

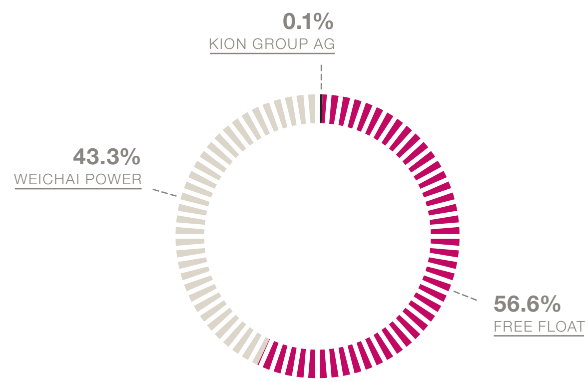


KION GROUP AG's market capitalisation was €5.8 billion as at 30 December 2016. Of this total, 56.6 per cent or €3.3 billion was in free float. The average daily Xetra trading volume in 2016 was 230 thousand shares or €11.4 million, up considerably on the prior year. > TABLE 001

Basic information on KION shares TABLE 001

ISIN	DE000KGX8881
WKN	KGX888
Bloomberg	KGX:GR
Reuters	KGX.DE
Share type	No-par-value shares
Index	MDAX, STOXX Europe 600, MSCI Germany Small Cap, FTSE EuroMid

Shareholder structure as at 31 December 2016 DIAGRAM 002



Acquisition-related capital increase and employee equity programme

On 18 July 2016, KION GROUP AG placed 9,890,000 new shares at a price of €46.44 each in order to partly finance the acquisition of Dematic. The authorised capital was used in full for this purpose and the Company's share capital was increased by 10 per cent against cash contributions; shareholders' pre-emption rights were excluded. The anchor shareholder Weichai Power acquired 5,934,000, or 60 per cent, of the new shares, increasing its stake in the Company to around 40.2 per cent at that time. The remaining shares were placed with institutional investors in an accelerated bookbuilding process. The gross proceeds from the capital increase amounted to approximately €459.3 million.

On 12 December 2016, Weichai Power acquired further KION shares, taking its stake in KION GROUP AG to the current level of 43.3 per cent. Weichai Power has undertaken not to acquire more than 49.9 per cent of KION shares before 28 June 2018 (as part of a standstill agreement).

Between 12 and 27 September 2016, KION GROUP AG repurchased a total of 50,000 shares (around 0.05 per cent of the share capital) for use in the KION Employee Equity Programme (KEEP).

The proportion of shares held by the KION Group changed only slightly as a result of KEEP and stood at 0.1 per cent as at 31 December 2016. The free float accounted for 56.6 per cent at the end of the year. > DIAGRAM 002

KION shares predominantly recommended as a buy

As at 31 December 2016, nineteen brokerage houses published regular reports on the KION Group. Thirteen analysts recommended KION shares as a buy, five rated them as neutral and one analyst recommended selling them. The median target price specified for the shares was €61.00.

Share data TABLE 002

Closing price at the end of 2015	€46.02
High for 2016	€58.09
Low for 2016	€40.84
Closing price at the end of 2016	€52.86
Market capitalisation at the end of 2016	€5,750.6 million
Performance in 2016	14.9%
Average daily trading volume in 2016 (no. of shares)	230.1 thousand
Average daily trading volume in 2016 (€)	€11.4 million
Share capital	€108,790,000
Number of shares	108,790,000
Earnings per share for 2016	€2.38
Dividend per share for 2016*	€0.80
Dividend payout rate*	35%
Total dividend payout*	€86.9 million
Equity ratio as at 31/12/2016	22.3%

* Proposed dividend for the fiscal year 2016

Dividend of €0.80 per share planned

The Executive Board and Supervisory Board of KION GROUP AG will propose a dividend of €0.80 per share to the Annual General Meeting on 11 May 2017. With earnings per share for 2016 of €2.38, this equates to a dividend payout rate of around 35 per cent of net income. > TABLE 002

Financing and credit ratings

In February 2016, the KION Group successfully replaced the financing dating back to the time before the IPO, updating its financing structure with much better terms. The current senior facilities agreement comprises a revolving credit facility of €1,150.0 million (maturing in February 2022) and a fixed-term tranche of €350.0 million (maturing in February 2019). An agreement was reached for a firmly committed bridge loan of originally €3.0 billion as financing for the acquisition of Dematic. The financing volume was reduced by the amount of the proceeds from the issue of shares and now stands at just over €2.5 billion. To refinance part of the bridge loan, the KION Group issued promissory notes (Schuldscheindarlehen) in February 2017 amounting to €958.0 million with fixed or floating coupons. The promissory notes mature in May 2022, April 2024 or April 2027. Three rating agencies publish credit ratings for the KION Group. On 4 January 2017, Fitch Ratings awarded the KION Group a long-term issuer rating of BBB- with a stable outlook. This is the first time that the KION Group has received an investment-grade rating. The credit rating awarded to KION by rating agency Standard & Poor's has been BB+ with a negative outlook since June 2016. In November, Moody's lowered the outlook from stable to negative with a credit rating of Ba1.

Services for shareholders

Active investor relations work

The objective of investor relations is to ensure, through continuous dialogue, that the capital markets value the Company appropriately. The Executive Board and the KION Group's investor relations team continued their active dialogue with investors and analysts last year. The KION Group participated in investor conferences in Germany and abroad and held numerous roadshows and one-on-one meetings. At these events, also the acquisition of Dematic and its financing were explained in detail.

On 30 November 2016, around 60 investors and analysts took part in the KION Group's Capital Markets Day in Frankfurt am Main. The Executive Boards of KION and Dematic presented detailed information about the new shared offering and provided a comprehensive picture of the automation market.

Around 100 shareholders participated in the Annual General Meeting of KION GROUP AG on 12 May 2016. Those in attendance, representing 85.8 per cent of the voting share capital, approved all the draft resolutions put forward by the Company's management with a substantial majority. The speeches of the Chief Executive Officer and the chairman of the Supervisory Board were broadcast live at kiongroup.com/agm. A webcast of the Chief Executive Officer's speech is also available on the Company's website.

When the 2015 annual report was published on 17 March 2016, the Executive Board of KION GROUP AG held a conference call at which it presented the steps already taken to implement the Strategy 2020 plus the planned future milestones. In addition, the Executive Board held update calls to report on each set of quarterly results. The transcripts from the conference calls on the 2015 financial year and the quarterly update calls along with the presentations form part of the extensive information for investors which is available on the Company's website.

Information on the website

Detailed information on KION shares as well as press releases, reports, presentations and information about the Annual General Meeting and corporate governance in the Group can be found at kiongroup.com/ir. The KION Group's annual report is also available here, both as a PDF file and as an interactive online version. A printed copy of the annual report can be ordered under IR Contact & Services. The contact details of the investor relations team are also provided here.

kiongroup.com/
ir

B

CORPORATE GOVERNANCE

Corporate governance report

Corporate governance covers the whole system of managing and monitoring an enterprise, the principles and guidelines that shape its business policy and the system of internal and external control and monitoring mechanisms. The Executive Board and Supervisory Board of KION GROUP AG believe that an uncompromising commitment to rigorous corporate governance in accordance with the standards is essential to the Company's long-term success. Compliance with these principles also promotes the trust that our investors, employees, business partners and the public have in the management and monitoring of the Company.

There is a close correlation between the corporate governance report required by section 3.10 of the German Corporate Governance Code (the Code) as amended on 5 May 2015 and the content of the corporate governance declaration required by section 289a of the German Commercial Code (HGB). For this reason, the Executive Board and the Supervisory Board of KION GROUP AG have combined the two statements.

DECLARATION PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance declaration required by section 289a HGB includes the comply-or-explain statement in accordance with section 161 of the German Stock Corporation Act (AktG) (see 1. below), relevant disclosures on corporate management practices extending beyond statutory requirements (see 2. below), a description of the working methods of the Executive Board and Supervisory Board, and a description of the working methods and composition of the Supervisory Board committees (see 3. below). The declaration on corporate governance pursuant to section 289a HGB is part of the management report. According to section 317 (2) sentence 3 HGB, the information provided in accordance with section 289a HGB does not have to be included in the audit of financial statements.

1. Comply-or-explain statement pursuant to section 161 (1) AktG

Section 161 (1) AktG requires the management board and supervisory board of a publicly listed company to issue an annual declaration stating that the company has complied with, and intends to comply with, the recommendations of the Code or stating the recommendations with which it has not complied or does not intend to comply, and the reasons why. Detailed reasons must be given for any departure from the recommendations of the Code. The comply-or-explain statement must be made permanently available to the public on the company's website.

The Executive Board and Supervisory Board submitted the Company's previous comply-or-explain statement on 14/17 December 2015.

Both decision-making bodies considered the recommendations of the amended Code in detail and, on 14 December 2016, issued the fourth comply-or-explain statement of KION GROUP AG as required by section 161 (1) AktG as follows:

1. Since the last comply-or-explain statement was issued in December 2015, KION GROUP AG has complied with all but one of the recommendations of the German Corporate Governance Code (the Code) as amended on 5 May 2015 and will continue to comply with them in the future.

   In departure from section 3.8 (3) of the Code, the articles of incorporation of KION GROUP AG do not provide for an excess in the D&O insurance policies for members of the Supervisory Board. The Company believes that such an excess is not typical at international level and would therefore make it considerably more difficult to find independent candidates, in particular candidates from outside Germany.

Wiesbaden, 14 December 2016

For the Executive Board:

Gordon Riske Dr Thomas Toepfer

For the Supervisory Board:

Dr John Feldmann

The comply-or-explain statement is available on the website of KION GROUP AG at kiongroup.com/comply_statement.

2. Relevant disclosures on corporate governance

The corporate governance of KION GROUP AG is essentially, but not exclusively, determined by the provisions of the German Stock Corporation Act and the German Codetermination Act (MitbestG) and also follows the recommendations of the German Corporate Governance Code. KION GROUP AG complies with all the Code's recommendations, with one exception. These fundamental principles are combined with a commitment to sustainable business, taking account of society's expectations in the markets in which the Company operates.

In 2016, the Executive Board and the Supervisory Board (or its committees) regularly discussed corporate governance issues in accordance with a rolling schedule of topics. This ensured that the key elements of corporate governance within the KION Group were always on the agenda at meetings of the Company's main decision-making bodies. The Supervisory Board in particular complied with the supervisory duties incumbent upon it under the German Stock Corporation Act. For example, the Supervisory Board's Audit Committee, which was set up partly for this purpose, received regular reports on the accounting standard processes, the development of the regulatory landscape, the effectiveness of the internal monitoring and risk management systems and of the audit of financial statements, and then reported back to the full Supervisory Board on these matters.

2.1 Internal control system

KION GROUP AG has an internal control system designed to meet the specific needs of the Company. Its processes are intended to ensure the correctness of the internal and external accounting processes, the efficiency of the Company's business operations and compliance with key legal provisions and internal policies. These control processes also include the Company's strategic planning, where the underlying assumptions and plans are reviewed on an ongoing basis and refined as necessary.

The Supervisory Board and in particular the Supervisory Board's Audit Committee regularly obtain information on the processes put in place as part of the internal control system and have satisfied themselves as to their efficiency.

2.2 Accounting-related internal control system

For its accounting process, the KION Group has defined suitable structures and processes as part of its internal control and risk management system and implemented them throughout the Group. Besides defined control mechanisms, it includes, for example, system-based and manual reconciliation processes, clear separation of functions, strict compliance with the double-checking principle and written policies and procedures. The overarching aim is for the separate financial statements, consolidated financial statements and combined management report to be fully compliant with the relevant statutory and regulatory requirements and, in particular, the applicable financial reporting standards. Changes to these requirements and standards are analysed on an ongoing basis and taken into account as appropriate. Details can be found in the risk report, which is part of the combined management report.

2.3 Risk management system

For the Company to be managed professionally and responsibly, the Executive Board must use the risk management system established in the Company to regularly gather information about current risks and how they are evolving, and then report on this to the Supervisory Board's Audit Committee. The KION Group's risk management system is documented in a Group risk policy that defines tasks, processes and responsibilities and sets out the rules for identifying, assessing, reporting and managing risk. Specific individual risks are then reported by each Group entity using an online reporting tool. Reporting on cross-segment risks and groupwide risks is carried out by Controlling and the relevant departments. The risks that have been reported are reviewed on a quarterly basis and re-assessed until the reason for reporting a risk no longer exists.

2.4 Compliance management system

The Executive Board and Supervisory Board of KION GROUP AG consider that adhering uncompromisingly to broad-ranging compliance standards is essential to sustained financial success. That is why a comprehensive compliance programme, centring around the KION Group Code of Compliance, has been set up for KION GROUP AG and its Group companies worldwide.

The KION Group Code of Compliance, which is available in all of the main languages relevant to the Group companies of KION GROUP AG, provides every employee with clear guidance on how to conduct their business in accordance with sound values and ethics and in compliance with the law. The aim is for all employees to receive regular training on the most important compliance subjects (e.g. competition law, data protection, communication and anti-corruption). Desk-based employees can use e-learning tools to complete the mandatory training. Employees who do not work at a PC attend classroom-based training. In addition, classroom-based courses on compliance are held for particular employee groups, based on an assessment of their level of risk (e.g. managers, sales staff).

Compliance activities focus on anti-corruption, liability of senior management / directors' and officers' liability, data protection, IT security and foreign trade / export controls.

KION GROUP AG's compliance organisation is made up of the following committees, functions and duties:

The Executive Board of KION GROUP AG bears collective responsibility for the functioning of compliance management within the Group; the compliance department reports to the Chief Executive Officer of KION GROUP AG. He has delegated responsibility for ensuring compliance to the Chief Compliance Officer and the presidents of the operating units. Ultimate responsibility of course remains with the CEO of the Group. The KION compliance department, the KION compliance team and the KION compliance committee provide operational support to the aforementioned functions. The KION compliance department focuses mainly on preventing compliance violations by providing guidance, information, advice and training. It manages the KION compliance team, in which local and regional compliance officers of the Group are represented.

The members of the compliance team at KION GROUP AG are available to advise all Group employees and answer their questions at any time. They are also responsible for the implementation of the compliance programme, particularly for providing advice, information and training.

Actual or suspected incidents of non-compliance can be reported by post, email or fax. All employees can also report any cases of non-compliance via a compliance hotline and can choose to remain anonymous.

As part of its work, the compliance department at KION GROUP AG cooperates closely with the legal, internal audit and human resources departments. The KION compliance committee is staffed by the heads of these departments, operating as a cross-functional committee that primarily advises on, examines and, if appropriate, punishes incidents of non-compliance that are reported. While the KION compliance department is responsible for preventing compliance violations, the internal audit unit is tasked with checking the facts of reported non-compliance cases. On behalf of the Executive Board, the internal auditors also monitor subsidiaries for compliance with regulations. If their audits confirm cases of non-compliance, it is the task of the human resources or legal department to remedy the violations and sanction those responsible, if appropriate.

The presidents of the operating units are responsible for enforcing compliance. The Local Compliance Representatives advise and support the directors and senior managers in ensuring compliance throughout the Group.

2.5 Audit-relevant processes

The Company's independent auditors, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, Frankfurt am Main branch office, which on 15 June 2016 changed its registered company name to Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), audited the separate financial statements prepared by the Executive Board of KION GROUP AG, the consolidated financial statements and the combined management report following their engagement by the Annual General Meeting on 12 May 2016. Since the audit of the 2014 separate and consolidated financial statements, the global lead service partner at Deloitte has been Ms Kirsten Gräbner-Vogel. The separate financial statements, the consolidated financial statements and the combined management report are discussed by the Audit Committee and then approved by the Supervisory Board.

The independent auditors review the condensed consolidated interim financial statements and the condensed interim group management report for the first half of the year. The Executive Board discusses all interim reports with the Audit Committee before they are published.

2.6 Avoiding conflicts of interest

Conflicts of interest between the governing bodies and other decision-makers in the Company or significant shareholders go against the principles of good corporate governance and are likely to be harmful to the Company. KION GROUP AG and its governing bodies therefore adhere strictly to the Code's recommendations on this subject. The employees of KION GROUP AG and its investees are made aware of the problem of conflicts of interest as part of compliance training and are bound by rules on how to behave in the event of actual or potential conflicts of interest.

The Company attaches high priority to preventing possible conflicts of interest from occurring in the first place and to dispelling any impression that they might exist. This is especially important given the involvement of Weichai Power, whose stake has risen to 43.3 per cent. The Company achieves these aims by avoiding business scenarios or personnel structures that could give the impression of a conflict of interest and by taking transparent steps that effectively prevent concerns about conflicts of interest.

The Company's Chief Executive Officer, Mr Gordon Riske, was appointed a non-executive director of Weichai Power with effect from 24 June 2013, for which the Supervisory Board had previously given its consent. Appropriate precautions have been taken to ensure that this role at a major shareholder of the Company does not create a conflict of interest relating personally to Mr Riske. Formal processes have been put in place to ensure that Mr Riske, in his role as a non-executive director of Weichai Power, is not involved in transactions that could give rise to a conflict with the interests of the KION Group. Nor is Mr Riske involved in transactions relating to the exercise of voting rights by Weichai Power or its subsidiaries at the Annual General Meeting of KION GROUP AG. It has been ensured that Mr Riske maintains a strict separation between his duties as a non-executive director of Weichai Power and his duties as Chief Executive Officer of KION GROUP AG and that he fulfils all of his legal obligations in the interests of the Company.

3. Working methods of the Executive Board and Supervisory Board and composition of the committees of the Supervisory Board

The Executive Board and Supervisory Board of KION GROUP AG have a close and trusting working relationship. It focuses on ensuring the sustained success of the Company. The members of the Executive Board regularly attend Supervisory Board meetings, unless the Supervisory Board decides to meet without the Executive Board.

The Executive Board promptly, comprehensively and regularly reports to the Supervisory Board on the performance of the KION Group. Besides the reporting obligations defined by law, the rules of procedure for the Executive Board of KION GROUP AG set out further reporting requirements and reservations of approval in favour of the Supervisory Board.

3.1 Working methods of the Executive Board

The Executive Board of KION GROUP AG comprises four members. It is responsible for managing the Company in the Company's interest, i.e. taking account of shareholders, customers, employees and other stakeholders with the aim of creating sustainable added value. The Executive Board develops the Company's strategy, discusses it with the Supervisory Board and ensures that it is implemented. Every Executive Board member is responsible for his own area of responsibility and keeps his fellow board members informed of developments on an ongoing basis.
> TABLE 003

Responsibilities of Executive Board members TABLE 003

Member	Responsibilities
Gordon Riske	**CEO of KION GROUP AG** **CEO of STILL GmbH** (until 31 March 2016) LMH EMEA STILL EMEA KION Americas Dematic Corporate Strategy Corporate Communications Corporate Office Internal Audit Corporate Compliance KION Warehouse Systems
Dr Thomas Toepfer	**CFO of KION GROUP AG** Accounting/Tax Financial Services Corporate Finance Corporate Controlling Corporate HR/Labour Relations Director Legal KION GROUP IT Data Protection Logistics/Urban Health, Safety & Environment
Dr Eike Böhm	**CTO KION GROUP AG** R&D Product Strategy Innovation Production System Quality & Operations Purchasing
Ching Pong Quek	**Member of KION GROUP AG Executive Board/ Chief Asia Pacific Officer** KION APAC

Every Executive Board member must disclose potential conflicts of interest to the Supervisory Board immediately and must also inform the other Executive Board members. All transactions between KION GROUP AG and Executive Board members or related parties must be concluded on an arm's-length basis.

Rules of procedure laid down by the Supervisory Board define the areas of responsibility of the Executive Board members and the way in which they work together. The full Executive Board normally meets every 14 days and meetings are chaired by the CEO. Individual Executive Board members sometimes take part via video conference. At the meetings, the board members discuss measures and business that, under the Executive Board's rules of procedure, require the approval of the full Executive Board. Resolutions of the full Executive Board are passed by simple majority unless a greater majority is required by law. The CEO has a casting vote in the event of a tied vote. Resolutions of the Executive Board may also be adopted between meetings. Taking account of the requirements of section 90 AktG, the Executive Board provides the Supervisory Board with regular, timely and comprehensive information on all matters of relevance to the business as a whole relating to the intended operating policy, strategic planning, business performance, financial position, financial performance and business risks. The Chief Executive Officer discusses these matters regularly with the chairman of the Supervisory Board.

The Executive Board's rules of procedure specify that important transactions are subject to approval by the Supervisory Board. Budget planning, major acquisitions or capital expenditure, for example, require the consent of the Supervisory Board.

The Company is represented by two members of the Executive Board, by one member of the Executive Board acting conjointly with a Prokurist (person with full commercial power of representation), or by two Prokurists.

3.2 Working methods of the Supervisory Board

The Supervisory Board of KION GROUP AG advises and monitors the Executive Board in its management of the Company and reviews its work. The Supervisory Board is fully involved from an early stage in all decisions that are fundamental to KION GROUP AG.

The Supervisory Board of KION GROUP AG consists of 16 members, eight of whom are employee representatives and eight are shareholder representatives. The shareholder representatives are elected by the Annual General Meeting by simple majority.

The Supervisory Board has drawn up rules of procedure for its work. These apply in addition to the requirements of the articles of incorporation and also define the Supervisory Board committees. According to these rules, the chairman of the Supervisory Board coordinates its work and the cooperation with the Executive Board, chairs its meetings and represents it externally. The Supervisory Board meets in person at least twice in each half of a calendar year, and adopts its resolutions at these meetings. Between these meetings, resolutions may also be adopted in writing, by telephone or by other similar forms of voting, provided that the chairman of the Supervisory Board or, in his absence, his deputy, decides on this procedure for the individual case concerned. The Supervisory Board adopts resolutions by a simple majority of the votes cast unless a different procedure is prescribed by law. If a vote is tied, the matter will only be renegotiated if the majority of the Supervisory Board vote in favour of this option. Otherwise the Board must vote again without delay. If this new vote on the same matter also results in an equal number of votes for and against, the chairman of the Supervisory Board has a casting vote.

3.3 Objectives for the composition of the Supervisory Board

The Supervisory Board strives to ensure that its composition is appropriate to its responsibilities and obligations. In particular, this means considering members' individual qualities and skills as well as the specific requirements resulting from the global business activities of KION GROUP AG and its Group companies. The Supervisory Board is therefore of the opinion that the priority in aiming for a board composition based on diversity must be on the expertise of the individual members and on a balanced mix of personal qualities, experience, skills, qualifications and knowledge of all members in line with the requirements of the business. Consequently, it has agreed upon guidelines for the selection of Supervisory Board members in the form of a diversity statement. This also means that the Supervisory Board's aim is to have an appropriate number of women on the Supervisory Board and to comply with the new statutory requirements for the proportion of female members of supervisory boards. Since the election of Dr Christina Reuter by the Annual General Meeting on 12 May 2016 and the appointment of Ms Claudia Wenzel by the courts with effect from 1 November 2016 as members of the KION GROUP AG Supervisory Board, there have been five female members. The Supervisory Board will also support the inclusion of other female board members who meet the above criteria.

3.4 Working methods and composition of the committees of the Executive Board and Supervisory Board

In the year under review, there were four committees at KION GROUP AG whose tasks, responsibilities and work processes comply with the provisions of the German Stock Corporation Act and the German Corporate Governance Code. The chairman of each committee reports regularly to the full Supervisory Board on the committee's work. The committees have each drawn up rules of procedure that define their tasks and working methods.

Executive Committee

The Executive Committee consists of four shareholder representatives and four employee representatives. Its chairman is always the chairman of the Supervisory Board. It prepares the meetings of the Supervisory Board and is responsible for ongoing matters between Supervisory Board meetings. The Executive Committee also prepares the Supervisory Board's decisions relating to corporate governance, particularly amendments to the comply-or-explain statement pursuant to section 161 AktG reflecting changed circumstances and the checking of adherence to the comply-or-explain statement. It also prepares documents for the Supervisory Board when Executive Board members are to be appointed or removed and, if applicable, when a new Chief Executive Officer is to be appointed. Documents relating to any matters in connection with Executive Board remuneration are also compiled by the Executive Committee. In addition, the Executive Committee is responsible for resolutions concerning the conclusion, amendment and termination of Executive Board employment contracts and agreements with Executive Board members governing pensions, severance packages, consultancy and other matters and for resolutions on any matters arising as a result of such contracts and agreements, unless they relate to remuneration. The responsibilities of the Executive Committee also include resolutions about the extension of loans to Executive Board members, Supervisory Board members and parties related to them within the meaning of sections 89 and 115 AktG, as well as resolutions to approve contracts with

Supervisory Board members outside their Supervisory Board remit. The Executive Committee should – in consultation with the Executive Board – regularly deliberate on long-term succession planning for the Executive Board.

The Executive Committee met four times in 2016. The main topics discussed by the Executive Committee in 2016 were those concerning the acquisition of the Dematic Group, the rules for Executive Board and Supervisory Board remuneration, the Annual General Meeting and governance matters.

In 2016, the members of the Executive Committee were:

Dr John Feldmann (chairman)
Özcan Pancarci (deputy chairman since 1 November 2016)
Dr Alexander Dibelius
Joachim Hartig
Denis Heljic
Jiang Kui
Olaf Kunz
Kay Pietsch (member and deputy chairman until 31 October 2016)
Hans Peter Ring

Mediation Committee

The Mediation Committee comprises the chairman of the Supervisory Board, his deputy, an employee representative and a shareholder representative. If the two-thirds-of-votes majority required by section 27 (3) and section 31 (3) MitbestG is not reached in a vote by the Supervisory Board on the appointment of an Executive Board member, the Mediation Committee must propose candidates for the post to the Supervisory Board within one month. The chairman of the Supervisory Board does not have a casting vote on the candidates proposed. The Mediation Committee did not need to be convened in 2016.

In 2016, the members of the Mediation Committee were:

Dr John Feldmann (chairman)
Özcan Pancarci (deputy chairman)
Jörg Milla (since 1 November 2016)
Kay Pietsch (until 31 October 2016)
Hans Peter Ring

Audit Committee

The Audit Committee has four members, who are elected by the Supervisory Board. Its purpose is to assist the Supervisory Board in performing its task of monitoring accounting processes, compliance matters and reporting. These responsibilities encompass monitoring the quality and integrity of the consolidated and separate financial statements (as well as related disclosures), the internal control mechanisms, risk management and the internal audit system. The Audit Committee also reviews the work carried out by the independent auditors and checks that the independent auditors are qualified and independent. It is also responsible for engaging the independent auditors, determining the focus of the audit and agreeing the fee. In addition, the Audit Committee exercises the rights in investee companies set forth in section 32 (1) MitbestG.

The Audit Committee met five times in 2016. The main topics discussed by the Audit Committee in 2016 were the 2015 annual financial statements, the quarterly financial statements, the budget and the regular subject of the key elements of corporate governance within the Company.

In 2016, the members of the Audit Committee were:

Hans Peter Ring (chairman)
Kay Pietsch (member and deputy chairman until 31 October 2016)
Alexandra Schädler (deputy chairman since 1 November 2016)
Dr John Feldmann
Jörg Milla (since 1 November 2016)

The chairman of the Audit Committee, Hans Peter Ring, is an independent member and has the required expertise in the areas of accountancy and auditing specified in sections 100 (5) and 107 (4) AktG.

Nomination Committee

The Nomination Committee has four members, all of whom are shareholder representatives and are elected by the shareholder representatives on the Supervisory Board. The Nomination Committee's only task is to propose new candidates for the Supervisory Board to the Company's Annual General Meeting. Back in December 2015, the Supervisory Board adopted a resolution, following the recommendation of the Nomination Committee, to propose to the Annual General Meeting on 12 May 2016 that Dr Christina Reuter be elected as a shareholder representative and succeed Mr Wolfgang Faden. There were no further changes to the shareholder representatives on the Supervisory Board in 2016. In its meeting on 30 November 2016 the Nomination Committee resolved to propose to the Supervisory Board to propose, jointly with the Executive Board, to the Annual General Meeting on 11 May 2017 the election of the eight incumbent shareholder representatives for a new term. The Nomination Committee met twice in 2016, both times via a conference call.

In 2016, the members of the Nomination Committee were:
Dr John Feldmann (chairman)
Dr Alexander Dibelius (deputy chairman)
Birgit A. Behrendt
Jiang Kui

Ad-hoc transaction committee
In addition to the committees that existed throughout the year, the Supervisory Board decided at its meeting on 10 June 2016 to establish an ad-hoc transaction committee in connection with the acquisition of the Dematic Group. The purpose of this ad-hoc transaction committee was to ensure that the Supervisory Board was able to participate adequately in the final phase of the transaction. To this end, the committee was given the power to give final approvals and make decisions relating both to the purchase of the Dematic Group and to the associated financing matters and corporate actions. The three meetings of the ad-hoc transaction committee all took the form of conference calls. Following the successful completion of the transaction, the committee was dissolved on 31 December 2016.

The members of the ad-hoc transaction committee were:
Dr John Feldmann (chairman)
Jiang Kui
Jörg Milla (from 1 November 2016)
Özcan Pancarci
Kay Pietsch (until 31 October 2016)
Hans Peter Ring
Alexandra Schädler

4. Targets for the proportion of women

Germany's 'Act for the equal participation of women and men in managerial positions in the private and public sectors' came into force on 24 April 2015. The Act requires the supervisory boards of companies that are listed or subject to equal shareholder / employee representation to define a target for the percentage of female executive board members. Also under the new legislation, executive boards must set the targets for increasing the proportion of women at the two management levels immediately below the executive board. Supervisory / executive boards must set time limits within which the targets are to be achieved. The time limits must not exceed five years. The first targets must be achieved by 30 June 2017.

The Executive Board and Supervisory Board of KION GROUP AG studied the new legal requirements carefully. As the Supervisory Board was not planning any changes to the composition of the KION GROUP AG Executive Board, the target for the proportion of female Executive Board members was set at 0 per cent and applies until 30 June 2017. This position did not change in 2016. The Executive Board of KION GROUP AG has set the target for the proportion of women at 10 per cent for the first management level immediately below the Executive Board and at 30 per cent for the second level of management below the Executive Board. The target at each level is also to be achieved by 30 June 2017.

EXECUTIVE BOARD AND SUPERVISORY BOARD SHAREHOLDINGS AND DIRECTORS' DEALINGS

1. Shareholdings

As at 31 December 2016, the shares in KION GROUP AG or related financial instruments held directly or indirectly by all members of the Executive Board and Supervisory Board equated to less than 1 per cent of all the shares issued by the Company.

2. Directors' dealings

Pursuant to section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and the Supervisory Board and related parties are obliged to disclose transactions involving shares in the Company or related financial instruments (such as derivatives) if the value of these transactions reaches €5,000 or more within one calendar year. The members of the Company's Executive Board and Supervisory Board did not carry out any such transactions in 2016.

Disclosures relevant to acquisitions, section 315 (4) HGB

The disclosures relevant to acquisitions pursuant to section 315 (4) HGB together with the explanatory report form an integral part of the combined management report.

1. Composition of subscribed capital

The subscribed capital (share capital) of KION GROUP AG amounted to €108.79 million as at 31 December 2016. It is divided into 108.79 million no-par-value bearer shares. The share capital is fully paid up. All of the shares in the Company give rise to the same rights and obligations. Each share confers one vote and entitlement to an equal share of the profits. The rights and obligations arising out of the shares are defined by legal provisions. As at 31 December 2016, the Company held 164,468 shares in treasury. The primary intention is to offer these treasury shares to staff as part of the KION Employee Equity Programme (KEEP).

2. Restrictions on voting rights or the transfer of shares

The Company is not aware of any agreements entered into by shareholders of KION GROUP AG that restrict voting rights or the transfer of shares.

KION GROUP AG has no rights arising from the treasury shares that it holds (section 71b AktG).

3. Direct or indirect shareholdings in the Company that represent more than 10 per cent of the voting rights

As far as the Company is aware, only Weichai Power directly or indirectly held more than 10 per cent of the voting rights in KION GROUP AG as at 31 December 2016 and its shareholding was 43.26 per cent.

- Pursuant to the German Securities Trading Act, the shareholding held by Weichai Power is deemed to belong to the following other companies: > TABLE 004

Companies and countries to which Weichai Power is deemed to belong TABLE 004

Company	Registered office
Shandong Heavy Industry Group Co., Ltd.	Jinan, People's Republic of China
Weichai Group Holdings Limited	Weifang, People's Republic of China
Weichai Power Co., Ltd.	Weifang, People's Republic of China
Weichai Power Hong Kong International Development Co., Ltd.	Hong Kong, People's Republic of China

Other	Registered office
People's Republic of China	Beijing, People's Republic of China

Since the reporting date, there may have been further changes to the aforementioned shareholdings of which the Company is unaware. As the shares in the Company are bearer shares, the Company only learns about changes to the size of shareholdings if they are notifiable pursuant to the WpHG or other regulations.

4. Shares with special rights that confer authority to exert control over the Company

There are no shares with special rights that confer the authority to exert control over the Company.

5. Type of voting right controls in cases where employees hold some of the Company's capital and do not exercise their control rights directly

There are no cases where employees hold some of the Company's capital and do not exercise their control rights directly themselves.

6. Appointment and removal of members of the Executive Board; amendments to the articles of incorporation

Members of the Company's Executive Board are appointed and removed in accordance with the provisions of sections 84 and 85 AktG and section 31 MitbestG. Pursuant to article 6 (1) of the articles of incorporation of the Company, the Executive Board must have a minimum of two members. The Supervisory Board determines the number of Executive Board members. Pursuant to section 84 AktG and section 6 (3) of the Company's articles of incorporation, the Supervisory Board may appoint a Chief Executive Officer and a deputy.

Section 179 (1) sentence 1 AktG requires that amendments to the articles of incorporation be passed by resolution of the Annual General Meeting. In accordance with article 23 of the articles of incorporation in conjunction with section 179 (2) sentence 2 AktG, resolutions at the Annual General Meeting on amendments to the articles of incorporation are passed by simple majority of the votes cast and by simple majority of the share capital represented in the voting unless a greater majority is specified as a mandatory requirement under statutory provisions. The option to stipulate a larger majority than a simple majority in any other cases has not been exercised in the articles of incorporation.

The Supervisory Board is authorised in article 10 (3) of the articles of incorporation to amend the articles of incorporation provided that such amendments relate solely to the wording.

7. Authority of the Executive Board to issue or buy back shares

The Annual General Meeting on 12 May 2016 authorised the Company, in the period up to 11 May 2021, to acquire for treasury up to 10 per cent of all the shares in issue at the time of the resolution or in issue on the date the authorisation is exercised, whichever is the lower. Together with other treasury shares in the possession of the Company or deemed to be in its possession pursuant to section 71a et seq. AktG, the treasury shares bought as a result of this authorisation must not exceed 10 per cent of the Company's share capital at any time. The Company may sell the purchased treasury shares through a stock exchange or by means of an offer to all shareholders. It may also sell the shares in return for a non-cash consideration, in particular in connection with the acquisition of a business, parts of a business or equity investments. In addition, the treasury shares may be offered to employees of the Company or of an affiliated company as part of an employee share ownership programme. The treasury shares can also be retired. Share buyback for trading purposes is prohibited. The authorisation may be exercised on one or more occasions, for the entire amount or for partial amounts, in pursuit of one or more aims, by the Company, by a Group company or by third parties for the account of the Company or the account of a Group company. At the discretion of the Executive Board, the shares may be purchased through the stock exchange, by way of a public purchase offer made to all shareholders or by way of a public invitation to shareholders to tender their shares. The authorisation to acquire shares for treasury, which existed until the adoption of a resolution on 12 May 2016 and had been granted by the Extraordinary General Meeting on 13 June 2013, was cancelled by the resolution on 12 May 2016.

In 2016, the Company made use of the authorisation granted on 12 May 2016 by the Annual General Meeting, purchasing 50,000 shares in the period 12 September to 27 September 2016. During the reporting year, 45,564 of the shares acquired that were still in treasury were used as part of the KEEP Employee Equity Programme for the employees of the Company and certain Group companies.

- On the basis of a resolution of the Company's Annual General Meeting on 19 May 2014, the Executive Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by up to €9.89 million by issuing up to 9.89 million new no-par-value ordinary bearer shares for cash and/or non-cash contributions up to and including 18 May 2019 (2014 Authorised Capital).

Based on resolutions of the Executive Board and Supervisory Board dated 18 July 2016, the 2014 Authorised Capital was used in full; shareholders' pre-emption rights were disapplied. The capital increase was entered in the commercial register on 20 July 2016. As part of this capital increase, the Company's share capital was increased from €98.9 million to €108.79 million, a rise of €9.89 million, as a result of issuing 9.89 million new no-par-value bearer shares. Consequently, the Executive Board currently has no further authorisation from the Annual General Meeting to increase the Company's share capital.

- On the basis of a resolution of the Annual General Meeting on 19 May 2014, the Executive Board was also authorised, in the period up to and including 18 May 2019, to issue convertible bonds, warrant-linked bonds, profit-sharing rights and/or income bonds with or without conversion rights, warrants, mandatory conversion requirements or option obligations, or any combinations of these instruments (referred to jointly as 'debt instruments') for a total par value of up to €800 million, and to grant conversion rights and/or warrants to – and/or to impose mandatory conversion requirements or option obligations on – the holders/beneficial owners of debt instruments to acquire up to 9.89 million new shares of KION GROUP AG with a pro-rata amount of the share capital of up to €9.89 million ('2014 Authorisation'). The 2014 Conditional Capital of €9.89 million was created to service the debt instruments. The 2014 authorisation has not been used so far.

The 2014 Conditional Capital will be reduced by, among other things, the portion of the share capital attributable to shares issued on the basis of the 2014 Authorised Capital. As part of the capital increase in July 2016, 9.89 million new shares were issued on the basis of the 2014 Authorised Capital. Consequently, no more conditional capital is available on the basis of which the Executive Board would be able to issue shares.

8. Material agreements that the Company has signed and that are conditional upon a change of control resulting from a takeover bid, and the consequent effects

In the event of a change of control resulting from a takeover bid, certain consequences are set out in the following contracts (still in force on 31 December 2016) concluded between Group companies of KION GROUP AG and third parties:

- Senior facilities agreement dated 28 October 2015, concluded between KION GROUP AG and, among others, the London branch of UniCredit Bank AG.

In the event that a person, companies affiliated with this person, or persons acting in concert within the meaning of section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG) acquire(s) control over more than 50 per cent of the Company's voting shares, the lenders may demand that the loans drawn down be repaid and may cancel the loan facilities under the senior facilities agreement.

- Acquisition facilities agreement dated 4 July 2016, concluded between KION GROUP AG and, among others, the London branch of UniCredit Bank AG.

The provisions in this agreement that apply in the event of a change of control are identical to those in the senior facilities agreement dated 28 October 2015.

- An agreement exists between KION GROUP AG and Volkswagen AG for the supply of internal combustion engines. This agreement includes a provision under which either party may terminate the agreement without notice if there is a change in ownership involving more than 50 per cent of the shares in either case.

9. Compensation agreements that the Company has signed with the Executive Board members or employees that will be triggered in the event of a takeover bid

No such agreements have been concluded between the Company and its current Executive Board members or employees.

Remuneration report

This remuneration report forms an integral part of the combined management report for KION GROUP AG. In accordance with statutory requirements and the recommendations of the German Corporate Governance Code (DCGK) as amended on 5 May 2015, the report explains the main features and structure of the remuneration system used for the Executive Board and Supervisory Board of KION GROUP AG and also discloses the remuneration of the individual members of the Executive Board and Supervisory Board for the work that they carried out on behalf of the Company and its subsidiaries in 2016. The report also reflects the requirements of German accounting standard (GAS) 17 and HGB.

KION GROUP AG considers that transparency and clarity surrounding both the remuneration system itself and the remuneration of the individual members of the Executive Board and Supervisory Board are fundamental to good corporate governance.

EXECUTIVE BOARD REMUNERATION

Remuneration system

The Supervisory Board of KION GROUP AG is responsible for setting and regularly reviewing the total pay of the individual members of the Executive Board. According to the rules of procedure for the Supervisory Board, the Executive Committee prepares all Supervisory Board resolutions pertaining to remuneration.

The remuneration system described below has applied to the members of the KION GROUP AG Executive Board since 29 June 2013, the day after KION GROUP AG's successful IPO and listing on the Frankfurt Stock Exchange. It was approved by the Annual General Meeting of KION GROUP AG on 19 May 2014 with a majority of 98.77 per cent. The Supervisory Board of the former KION Holding 1 GmbH had approved this system by adopting a resolution at its meeting on 25 April 2013 in connection with the Company's conversion into a public limited company. This resolution was based on the recommendation of what was then the Human Resources Committee.

Essential features of the Executive Board remuneration system

The remuneration of the Executive Board of KION GROUP AG is determined in accordance with the requirements of the German Stock Corporation Act (AktG) and the DCGK and is focused on the Company's long-term growth. It is determined so as to reflect the size and complexity of the KION Group, its business and financial situation, its performance and future prospects, the normal amount and structure of executive board remuneration in comparable companies and the internal salary structure. The Supervisory Board also takes into account the relationship between the Executive Board remuneration and the remuneration paid to senior managers and the German workforce of the Company as a whole, including changes over the course of time. To this end, the Supervisory Board has decided how the relevant benchmarks are to be defined. Other criteria used to determine remuneration are the individual responsibilities and personal performance of each member of the Executive Board. To review the Executive Board's remuneration, the Supervisory Board draws on remuneration comparisons, particularly comparisons with MDAX companies, and on recommendations from an external remuneration consultant who is independent both of the Executive Board and of the KION Group. The Supervisory Board regularly reviews the structure and appropriateness of Executive Board remuneration.

The total remuneration of the Executive Board comprises a non-performance-related salary and non-performance-related non-cash benefits, performance-related (variable) remuneration and pension entitlements. When setting the variable remuneration, the emphasis is on creating a measurement basis covering a number of years, thus providing the members of the Executive Board with an incentive to contribute to the sustained and long-term growth of the Company. The system specifically allows for possible positive and negative developments.

The regular cash remuneration for a particular year, consisting of a non-performance-related fixed annual salary and performance-related (variable) remuneration, has a heavy emphasis on performance. If the targets set by the Supervisory Board are completely missed, only the fixed salary is paid. Taking account of the cap on one-year and multiple-year variable remuneration, the cash remuneration consists of the following components in the event that the targets are significantly exceeded and the share price goes up sufficiently:

- 15 per cent fixed annual salary
- 24 to 27 per cent one-year variable remuneration
- 58 to 61 per cent multiple-year variable remuneration.

The variable components of the cash remuneration make up no more than 85 per cent, of which approximately two-thirds are multiple-year components. Both the one-year and the multiple-year components are linked to key performance indicators used by the KION Group to measure its success. The remuneration system is thus closely tied to the success of the Company and, with a high proportion of multiple-year variable remuneration, has a long-term focus aimed at promoting the KION Group's growth.

The pension entitlements consist of entitlements in respect of retirement, invalidity and surviving dependants' benefits.

Non-performance-related remuneration

The Executive Board members of KION GROUP AG receive non-performance-related remuneration in the form of a fixed annual salary (basic remuneration) and additional benefits. The fixed annual salary is paid at the end of each month in twelve equal instalments, the last payment being made for the full month in which the Executive Board service contract ends. The Supervisory Board reviews the basic remuneration at regular intervals and makes adjustments if appropriate.

The additional benefits essentially comprise use of a company car and the payment of premiums for accident insurance with benefits at a typical market level.

Performance-related remuneration

The performance-related remuneration components consist of a variable remuneration component measured over one year (short-term incentive) and a variable remuneration component measured over several years in the form of a rolling performance share plan with a three-year term (long-term incentive).

Additional special benefits

Additional special benefits have been agreed for Mr Quek because he has been sent from Singapore to China on foreign assignment.

Under this arrangement, Mr Quek's remuneration is structured as if he were liable for taxes and social security contributions in Singapore. KION GROUP AG pays the taxes and social security contributions that Mr Quek incurs in China and Germany over and above the taxes that would theoretically apply in Singapore. In 2016, this additional amount totalled €1,308 thousand (2015: €1,299 thousand). The additional benefits also agreed with Mr Quek include the cost of trips home to Singapore for him and his family, a company car, rental payments in Xiamen, China, and private health insurance. In 2016, the additional benefits for Mr Quek amounted to a total of €135 thousand (2015: €158 thousand). These additional benefits will be granted for as long as Mr Quek's designated place of work is Xiamen or until his service contract with KION GROUP AG ends.

One-year variable remuneration

The one-year variable remuneration is a remuneration component linked to the business profitability and productivity of the KION Group in the relevant financial year. Its amount is determined by the achievement of the following targets:

- earnings before interest, tax and amortisation (EBITA), weighting of 30 per cent
- return on capital employed (ROCE), weighting of 30 per cent
- revenue, weighting of 20 per cent
- net debt, weighting of 20 per cent.

The target values for the financial components are derived from the annual budget and specified by the Supervisory Board.

No bonus is paid if target achievement is 75 per cent or less (lower target limit). In cases where the targets are significantly exceeded, the bonus can be doubled at most (capped at 200 per cent). If the targets derived from the annual budget are achieved in full, target achievement is 100 per cent. The target achievement levels for the weighted targets (EBITA, ROCE, revenue and net debt) are added together to give the total target achievement.

The individual performance of the Executive Board members is assessed by the Supervisory Board, which applies a discretionary performance multiple with a factor of between 0.8 and 1.2. When deciding what factor to apply, the Supervisory Board looks at the extent to which the Executive Board members have achieved the individual targets set by the Supervisory Board at the start of the year. This factor enables the Supervisory Board to increase or reduce the bonus, calculated on the basis of the total target achievement for the financial targets derived from the budget, by a maximum of 20 per cent depending on the assessment of individual performance. The one-year variable remuneration is capped at 200 per cent of the contractual target bonus and is paid after the Annual General Meeting relating to the year in question.

In the event that an Executive Board member is not entitled to remuneration for the entire year on which the calculation is based, the remuneration is reduced pro rata temporis.

Multiple-year variable remuneration

For the members of the Executive Board, multiple-year variable remuneration has been agreed in the form of a performance share plan. A very similar plan is offered to the Group's senior managers. The basis of measurement has been defined as the total shareholder return (TSR) for KION shares compared with the STOXX Europe Total Market Index (TMI) Industrial Engineering Index and return on capital employed (ROCE). Each has a weighting of 50 per cent. The annual tranches granted under the plan have a term (performance period) of three years and are paid at the end of the term, provided the defined targets have been achieved.

At the start of a performance period, a conditional entitlement to a certain target number of performance shares is granted. This preliminary number is calculated by dividing the allocation value set out (in euros) in the service contract for the particular Executive Board member by the fair value of one performance share at the time of grant. At the end of the performance period, the preliminary number of performance shares is adjusted depending on achievement of the two targets (relative TSR and ROCE) to give the final number of performance shares.

In respect of the ROCE target, there is no entitlement if target achievement is 75 per cent or less. If the target is significantly exceeded (target achievement of 135 per cent or more), the entitlement is capped at 150 per cent. Regarding the relative TSR target, there is no entitlement if KION shares do not outperform the STOXX Europe TMI Industrial Engineering Index. If the KION shares outperform this index by 15 per cent or more, the entitlement is capped at 150 per cent. If KION shares outperform the STOXX Europe TMI Industrial Engineering Index by 10 per cent and the ROCE targets defined each year on the basis of the budget are achieved, total target achievement will be 100 per cent.

The amount paid for each tranche is determined by the final number of performance shares multiplied by the price of KION shares (average price over the preceding 60 trading days) at the end of the performance period.

Executive Board members' individual performance is also taken into account in the multiple-year variable remuneration. At the start of the performance period, the Supervisory Board defines individual targets for the three-year period. Depending on achievement of these targets, the Supervisory Board can apply a discretionary factor to make a final adjustment to the calculation of the amount to be paid out at the end of the performance period by plus or minus 20 per cent, although the maximum payment may not exceed 200 per cent of the allocation value.

The plan is a cash-settled long-term incentive plan that does not include the right to receive any actual shares. Under the requirements of German accounting standard (GAS) 17, IFRS 2 and HGB, the total expense arising from share-based payments and the fair value of the performance share plan on the date of granting must be disclosed. > TABLE 005

Performance Share Plan 2014

TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted [1]	Fair value per performance share on date of grant (in €)	Expense for share-based remuneration in 2015 [2,3] (in thousand €)	Expense for share-based remuneration in 2016 [2] (in thousand €)
Gordon Riske	1,500	54,427	27.56	1,095	1,419
Bert-Jan Knoef [4]	1,000	36,284	27.56	335	174
Theodor Maurer [4]	1,000	36,284	27.56	335	174
Ching Pong Quek	830	30,116	27.56	1,044	1,294
Dr Thomas Toepfer	1,000	36,284	27.56	730	946
Total	**5,330**	**193,395**		**3,539**	**4,007**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary.
2 The amount shown for Mr Quek includes a flat-rate allowance of 57 per cent in 2016 (2015: 50 per cent) as part of a tax equalisation agreement.
3 The amounts for Mr Knoef and Mr Maurer include the expenses recognised in the 2014 figure in connection with their departure.
4 Resigned from office on 14 January 2015; Executive Board service contract ended on 31 March 2015.

Performance Share Plan 2015

TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted [1]	Fair value per performance share on date of grant (in €)	Expense for share-based remuneration in 2015 [2,3] (in thousand €)	Expense for share-based remuneration in 2016 [2] (in thousand €)
Gordon Riske	1,500	53,210	28.19	696	1,180
Dr Eike Böhm	806	28,576	28.19	193	693
Bert-Jan Knoef [4]	83	2,956	28.19	116	40
Theodor Maurer [4]	83	2,956	28.19	116	40
Ching Pong Quek	830	29,443	28.19	578	1,052
Dr Thomas Toepfer	1,000	35,474	28.19	464	787
Total	**4,302**	**152,615**		**2,164**	**3,792**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary.
2 The amount shown for Mr Quek includes a flat-rate allowance of 57 per cent in 2016 (2015: 50 per cent) as part of a tax equalisation agreement.
3 The amounts for Mr Knoef and Mr Maurer include the expenses recognised in the 2014 figure in connection with their departure.
4 Resigned from office on 14 January 2015; Executive Board service contract ended on 31 March 2015. The fair value of the performance share plan on the date of grant was recognised pro rata temporis up to 31 March 2015.

Performance Share Plan 2016

TABLE 005

	Fair value of the performance share plan on the date of grant (in thousand €)	Number of performance shares granted[1]	Fair value per performance share on date of grant (in €)	Expense for share-based remuneration in 2016[2] (in thousand €)
Gordon Riske	1,500	36,179	41.46	509
Dr Eike Böhm	1,000	24,120	41.46	339
Ching Pong Quek	830	20,019	41.46	442
Dr Thomas Toepfer	1,000	24,120	41.46	339
Total	**4,330**	**104,438**		**1,629**

1 The target number of performance shares is calculated by dividing the allocation value by the fair value of one performance share. In this calculation, the number of performance shares is rounded to the nearest whole number where necessary.
2 The amount shown for Mr Quek includes a flat-rate allowance of 57 per cent as part of a tax equalisation agreement.

The total expense in 2016 amounted to €9,429 thousand (2015: €11,203 thousand).

Upper limits on remuneration

In accordance with the DCGK, remuneration is subject to upper limits on the amounts payable, both overall and also in terms of the variable components. The upper limit on the total cash remuneration to be paid, consisting of the fixed annual salary plus the one-year and multiple-year variable remuneration, equals 1.7 times the target remuneration (2015: 1.7 times) – excluding the non-performance-related non-cash remuneration and other benefits paid in that financial year. Both the one-year and the multiple-year variable remuneration are capped at 200 per cent of the target value.

Pension entitlements

KION GROUP AG grants its Executive Board members direct entitlement to a company pension plan consisting of retirement, invalidity and surviving dependants' benefits.

The Chief Executive Officer has a defined benefit entitlement that was granted in his original service contract and was transferred to his Executive Board service contract when the Company changed its legal form. The amount of the entitlement is dependent on the number of years of service and amounts to a maximum of 50 per cent of the most recent fixed annual salary awarded in the original service contract after the end of the tenth year of service.

The present value of the previous defined benefit plan for the ordinary members of the Executive Board was transferred as a starting contribution for a new defined contribution pension plan when the Company changed its legal form. The new plan is structured as a cash balance plan and is also applied to new Executive Board members.

For each of the other ordinary members of the Executive Board, a fixed annual contribution of €150 thousand (€124.5 thousand for Mr Quek) is paid into their pension accounts for the duration of the member's period of service on the Executive Board. Interest is paid on the pension account at the prevailing statutory guaranteed return rate for the life insurance industry (applicable maximum interest rate for the calculation of the actuarial reserves of life insurers pursuant to section 2 (1) of the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV)) until an insured event occurs. If higher interest is generated by investing the pension account, it will be credited to the pension account when an insured event occurs (surplus). The standard retirement age for the statutory pension applies. Executive Board members are entitled to early payment of the pension no earlier than their 62nd birthday. In the event of invalidity or death while the Executive Board member has an active service contract, the contributions that would have been made until the age of 60 are added to the pension account, although only a maximum of ten annual contributions will be added. When an insured event occurs, the pension is paid as a lump sum or, following a written request, in ten annual instalments.

Termination benefits

In line with the DCGK, all Executive Board service contracts provide for a severance payment equivalent to no more than two years' annual remuneration payable in the event of the contract being terminated prematurely without good cause. The amount of annual remuneration is defined as fixed salary plus the variable remuneration elements, assuming 100 per cent target achievement and excluding non-cash benefits and other additional benefits, for the last full financial year before the end of the Executive Board service contract. If the Executive Board service contract was due to end within two years, the severance payment is calculated pro rata temporis. If a service contract is terminated for good cause for which the Executive Board member concerned is responsible, no payments are made to the Executive Board member in question. The Company does not have any commitments for the payment of benefits in the event of a premature termination of Executive Board contracts following a change of control.

Executive Board members are subject to a post-contractual non-compete agreement of one year. In return, the Company pays the Executive Board member compensation for the duration of the non-compete agreement amounting to 100 per cent of his final fixed salary. Other income of the Executive Board member is offset against the compensation.

In the event that Mr Riske's appointment is not extended for reasons for which he is not responsible and he has not reached the standard retirement age for the statutory pension or in the event that Mr Riske resigns for good cause before the end of his appointment or suffers permanent incapacity after his period of service as a result of sickness, he will receive transitional benefits of €288 thousand per annum on the basis of previous contracts. During his current term of office, the amount of the transitional benefits will rise by €12 thousand each year up to a maximum amount of €300 thousand per annum. Severance payments in the event of early termination of his appointment without good cause, compensation for the post-contractual non-compete agreement, pension benefits that Mr Riske receives due to his previous work for other employers and income from other use of his working capacity (with the exception of remuneration for work as a member of a supervisory or advisory board or a board of directors) will be offset against these transitional benefits.

If an Executive Board member suffers temporary incapacity, he will receive his full fixed salary for a maximum period of six months plus the one-year variable remuneration. In the event of temporary incapacity for a further six months, the Executive Board member will receive 80 per cent of his fixed salary, but only up to a point at which the service contract is terminated.

If an Executive Board member ceases to be employed by the Company as a result of death, the Executive Board member's family will be entitled to the fixed monthly remuneration for the month in which the service contract ends and for the three subsequent months, but only up to the point at which the service contract would otherwise have come to an end.

Remuneration for members of the Executive Board in 2016

In accordance with the recommendations of the DCGK, as amended on 5 May 2015, the remuneration of Executive Board members is presented in two separate tables. Firstly, the benefits granted for the year under review, including the additional benefits and – in the case of variable remuneration components – the maximum and minimum remuneration achievable are shown. > TABLE 006

Secondly, > TABLE 007 shows the total remuneration allocated/earned, comprising fixed remuneration, short-term variable remuneration and long-term variable remuneration, broken down by reference year.

Benefits granted pursuant to the DCGK

The total remuneration granted to Executive Board members for 2016 was €10,442 thousand (minimum: €3,618 thousand, maximum: €17,267 thousand) (2015: €9,535 thousand). Of this amount, €2,372 thousand (2015: €2,098 thousand) was attributable to fixed non-performance-related remuneration components, €6,824 thousand (minimum: €0 thousand, maximum: €13,649 thousand) (2015: €6,372 thousand) to variable one-year and multiple-year performance-related remuneration components, €199 thousand (2015: €211 thousand) to non-performance-related non-cash remuneration and other benefits and €1,047 thousand (2015: €854 thousand) to the pension expense in accordance with IFRS. The figure shown for one-year variable remuneration is based on a target achievement rate of 100 per cent (minimum: 0 per cent for target achievement of 75 per cent or less, maximum: 200 per cent for target achievement of 135 per cent or more). The figure shown for multiple-year variable remuneration is the fair value of the performance share plans at the date of grant, representing full target achievement (minimum: zero payment, maximum: 200 per cent of the contractual allocation value).

The additional benefits were measured at the value calculated for tax purposes. > TABLE 006

Benefits granted in 2016

in thousand €			Gordon Riske CEO of KION GROUP AG 2015	2016	2016 (Min)	2016 (Max)
Non-performance-related components		Fixed remuneration	800	800	800	800
		Non-cash remuneration and other benefits [1]	21	20	20	20
		Total	**821**	**820**	**820**	**820**
Performance-related components	Short-term incentive	One-year variable remuneration [2,3]	700	700	0	1,400
	Share-based long-term incentive	**Multiple-year variable remuneration [2,4]**	**1,500**	**1,500**	**0**	**3,000**
		Performance share plan (1 Jan 2015 – 31 Dec 2017)	1,500			
		Performance share plan (1 Jan 2016 – 31 Dec 2018)		1,500	0	3,000
		Total	**3,021**	**3,020**	**820**	**5,220**
		Pension expense [5]	622	633	633	633
		Total remuneration	**3,643**	**3,653**	**1,453**	**5,853**
Reconciliation to total remuneration as defined by section 285 no. 9a, 314 (1) no. 6a HGB in conjunction with GAS 17						
		Minus the one-year variable remuneration granted	–700	–700		
		Plus the expected one-year variable remuneration (allocation)	795	756		
		Minus the pension expense	–622	–633		
		Plus the adjustment of the one-year variable remuneration for the previous year	159	80		
		Total remuneration as defined by section 285 no. 9a, 314 (1) no. 6a HGB in conjunction with GAS 17	**3,275**	**3,156**		

1 Non-performance related non-cash remuneration and other benefits include expenses and/or benefits in kind, such as the use of a company car and housing costs.
2 The amount shown for Mr Quek includes a flat-rate allowance of 57 per cent (2015: 50 per cent) as part of a tax equalisation agreement.
3 The figure shown for one-year variable remuneration is based on a target achievement rate of 100 per cent (minimum: 0 per cent for target achievement of 75 per cent or less, maximum: 200 per cent for target achievement of 135 per cent or more). The value from the year 2015 for Mr Knoef and Mr Maurer is the value defined in their termination agreements.
4 Fair value on the date of grant
5 Service cost (IAS); the service cost in accordance with the HGB is shown in TABLE 009.

TABLE 006

	Dr Eike Böhm				Bert-Jan Knoef			
	CTO of KION GROUP AG Since 1 August 2015				Member of KION GROUP AG Executive Board Until 14 January 2015			
	2015	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**
	208	500	500	500	19	–	–	–
	14	21	21	21	1	–	–	–
	223	**521**	**521**	**521**	**20**	**–**	**–**	**–**
	167	400	0	800	16	–	–	–
	806	**1,000**	**0**	**2,000**	**13**	**–**	**–**	**–**
	806				13	–	–	–
		1,000	0	2,000		–	–	–
	1,195	**1,921**	**521**	**3,321**	**48**	**–**	**–**	**–**
		155	155	155	4	–	–	–
	1,195	**2,076**	**676**	**3,476**	**52**	**–**	**–**	**–**
	–167	–400			–16	–	–	–
	189	432			16	–	–	–
	0	–155			–4	–	–	–
		19			9	–	–	–
	1,217	**1,972**			**57**	**–**	**–**	**–**

Benefits granted in 2016 (continued)

in thousand €			Theodor Maurer Member of KION GROUP AG Executive Board Until 14 January 2015 2015	2016	2016 (Min)	2016 (Max)
Non-performance-related components		Fixed remuneration	19	–	–	–
		Non-cash remuneration and other benefits [1]	1	–	–	–
		Total	**20**	**–**	**–**	**–**
Performance-related components	Short-term incentive	One-year variable remuneration [2,3]	16	–	–	–
	Share-based long-term incentive	**Multiple-year variable remuneration [2,4]**	**13**	**–**	**–**	**–**
		Performance share plan (1 Jan 2015 – 31 Dec 2017)	13	–	–	–
		Performance share plan (1 Jan 2016 – 31 Dec 2018)		–	–	–
		Total	**48**	**–**	**–**	**–**
		Pension expense [5]	4	–	–	–
		Total remuneration	**52**	**–**	**–**	**–**
Reconciliation to total remuneration as defined by section 285 no. 9a, 314 (1) no. 6a HGB in conjunction with GAS 17						
		Minus the one-year variable remuneration granted	–16	–	–	–
		Plus the expected one-year variable remuneration (allocation)	16	–	–	–
		Minus the pension expense	–4	–	–	–
		Plus the adjustment of the one-year variable remuneration for the previous year	9	–	–	–
		Total remuneration as defined by section 285 no. 9a, 314 (1) no. 6a HGB in conjunction with GAS 17	**57**	**–**	**–**	**–**

1 Non-performance related non-cash remuneration and other benefits include expenses and/or benefits in kind, such as the use of a company car and housing costs.
2 The amount shown for Mr Quek includes a flat-rate allowance of 57 per cent (2015: 50 per cent) as part of a tax equalisation agreement.
3 The figure shown for one-year variable remuneration is based on a target achievement rate of 100 per cent (minimum: 0 per cent for target achievement of 75 per cent or less, maximum: 200 per cent for target achievement of 135 per cent or more). The value from the year 2015 for Mr Knoef and Mr Maurer is the value defined in their termination agreements.
4 Fair value on the date of grant
5 Service cost (IAS); the service cost in accordance with the HGB is shown in TABLE 009.

TABLE 006

	Ching Pong Quek				Dr Thomas Toepfer			
	Member of KION GROUP AG Executive Board / Chief Asia Pacific Officer				CFO of KION GROUP AG			
	2015	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**
	552	572	572	572	500	500	500	500
	158	135	135	135	17	23	23	23
	710	**707**	**707**	**707**	**517**	**523**	**523**	**523**
	498	521	0	1,042	400	400	0	800
	1,245	**1,303**	**0**	**2,606**	**1,000**	**1,000**	**0**	**2,000**
	1,245				1,000			
		1,303	0	2,606		1,000	0	2,000
	2,453	**2,532**	**707**	**4,356**	**1,917**	**1,923**	**523**	**3,323**
	107	122	122	122	117	137	137	137
	2,560	**2,654**	**829**	**4,478**	**2,034**	**2,060**	**660**	**3,460**
	–498	–521			–400	–400		
	566	563			455	432		
	–107	–122			–117	–137		
	195	80			91	45		
	2,716	**2,654**			**2,062**	**2,000**		

Allocation pursuant to the DCGK

The total remuneration allocated to/earned by Executive Board members for 2016 was €13,407 thousand (2015: €15,521 thousand). Of this amount, €2,372 thousand (2015: €2,098 thousand) was attributable to fixed non-performance-related remuneration components, €9,789 thousand (2015: €12,358 thousand) to variable one-year and multiple-year performance-related remuneration components, €199 thousand (2015: €211 thousand) to non-performance-related non-cash remuneration and other benefits and €1,047 thousand (2015: €854 thousand) to the pension expense in accordance with IFRS. The figure shown for one-year variable remuneration is based on a preliminary total target achievement rate of about 108 per cent calculated using preliminary earnings figures at the beginning of 2017. This preliminary variable remuneration for each Executive Board member is also subject to adjust-

Allocation in 2016

			Gordon Riske		Dr Eike Böhm	
			CEO of KION GROUP AG		CTO of KION GROUP AG	
					Since 1 August 2015	
in thousand €			**2015**	**2016**	**2015**	**2016**
Non-performance-related components		Fixed remuneration	800	800	208	500
		Non-cash remuneration and other benefits [1]	21	20	14	21
		Total	**821**	**820**	**223**	**521**
Performance-related components	Short-term incentive	One-year variable remuneration [2]	875	756	208	432
	Share-based long-term incentive	**Multiple-year variable remuneration**	**3,000**	**3,000**	**0**	**0**
		Performance share plan [3] (29 Jun 2013 – 31 Dec 2015)	3,000			
		Performance share plan (1 Jan 2014 – 31 Dec 2016)		3,000		
		Total	**4,696**	**4,576**	**431**	**953**
		Pension expense [4]	622	633		155
		Total remuneration	**5,317**	**5,209**	**431**	**1,108**

1 Non-performance related non-cash remuneration and other benefits include expenses and/or benefits in kind, such as the use of a company car and housing costs.
2 The figure shown for one-year variable remuneration for 2015 is the actual amount paid out, which differs from the estimated value listed in the 2015 consolidated financial statements.
3 The figure shown for multiple-year variable remuneration is the actual amount paid out, which, in Mr Quek's case, differs from the estimated value listed in the 2015 consolidated financial statements.
4 Service cost (IAS); the service cost in accordance with the HGB is shown in TABLE 009.

ment by the Supervisory Board in line with the individual performance of the Executive Board member. This adjustment may vary by plus or minus 20 per cent of the variable remuneration.

For the multiple-year variable remuneration, a payment from the 2014 tranche of the performance share plan will be made in spring 2017 on the basis of the achievement of the long-term targets that were defined in 2014 at the start of the performance period. The value shown for 2016 is also calculated on the basis of a preliminary total target achievement rate of about 126 per cent and is subject to the performance-based adjustment made by the Supervisory Board (using a discretionary performance multiple) for individual Executive Board members. As is the case for the one-year variable remuneration, this performance-based adjustment may vary by plus or minus 20 per cent.

The additional benefits were measured at the value calculated for tax purposes. > TABLE 007

TABLE 007

	Bert-Jan Knoef		Theodor Maurer		Ching Pong Quek		Dr Thomas Toepfer	
	Member of KION GROUP AG Executive Board		Member of KION GROUP AG Executive Board		Member of KION GROUP AG Executive Board / Chief Asia Pacific Officer		CFO of KION GROUP AG	
	Until 14 January 2015		Until 14 January 2015					
	2015	2016	2015	2016	2015	2016	2015	2016
	19	–	19	–	552	572	500	500
	1	–	1	–	158	135	17	23
	20	**–**	**20**	**–**	**710**	**707**	**517**	**523**
	16	–	16	–	646	563	500	432
	1,255	**–**	**1,255**	**–**	**2,587**	**2,606**	**2,000**	**2,000**
	1,255	–	1,255	–	2,587		2,000	
		–		–		2,606		2,000
	1,290	**–**	**1,290**	**–**	**3,944**	**3,877**	**3,017**	**2,955**
	4	–	4	–	107	122	117	137
	1,294	**–**	**1,294**	**–**	**4,051**	**3,998**	**3,134**	**3,092**

The payments to be made in spring 2017 to two former members of the Executive Board from the 2014 tranche of the performance share plan were also calculated on the basis of a preliminary total target achievement rate of about 126 per cent and amount to €1,667 thousand. Of this total, €833 thousand is attributable to Mr Knoef and €833 thousand to Mr Maurer.

The table below shows the pension contributions (additions to the plan) attributable to each individual Executive Board member and their separate present values in accordance with IFRS > TABLE 008 and in accordance with HGB > TABLE 009.

In addition to the remuneration described above for Mr Knoef and Mr Maurer, the total remuneration paid to former members of the Executive Board amounted to €249 thousand in 2016 (2015: €230 thousand). Provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants amounting to €9,791 thousand (2015: €8,758 thousand) were recognised in accordance with IAS 19.

In the year under review, no advances were made to members of the Executive Board, and there were no loans.

Pension entitlements under IFRS TABLE 008

in thousand €	Service cost 2016	Service cost 2015	Present value (DBO) 31 Dec 2016	Present value (DBO) 31 Dec 2015
Gordon Riske	633	622	6,168	5,308
Dr Eike Böhm	155		222	76
Bert-Jan Knoef[1]		4		
Theodor Maurer[1]		4		
Ching Pong Quek	122	107	446	317
Dr Thomas Toepfer	137	117	615	436

1 Resigned from office on 14 January 2015; the present value (DBO) as at 31 December 2015 was recognised under provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants in accordance with IAS 19.

Pension entitlements under HGB TABLE 009

in thousand €	Service cost 2016	Service cost 2015	Present value (DBO) 31 Dec 2016	Present value (DBO) 31 Dec 2015
Gordon Riske	481	415	4,176	3,970
Dr Eike Böhm	139		191	68
Bert-Jan Knoef[1]		3		
Theodor Maurer[1]		4		
Ching Pong Quek	102	79	347	263
Dr Thomas Toepfer	107	78	527	335

1 Resigned from office on 14 January 2015; the present value (DBO) as at 31 December 2015 was recognised under provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants in accordance with HGB.

OUTLOOK

In 2016, the Supervisory Board reviewed and updated the Executive Board's remuneration system, which had remained unchanged since the IPO in 2013. The Supervisory Board adopted the necessary resolutions for this purpose at its meetings on 29 June 2016 and 28 September 2016.

The review was based on an analysis conducted by an external remuneration consultant who is independent of both the Executive Board and the KION Group. It also drew on remuneration comparisons, particularly with MDAX companies.

On the basis of this analysis and taking account of the assumptions that it had formulated, the Supervisory Board drew up changes to the Executive Board remuneration system in accordance with the requirement that remuneration is appropriate and in line with normal market practice and reflecting changes at KION GROUP AG since the current remuneration system was introduced.

The structure of the remuneration, comprising fixed, one-year variable and multiple-year variable remuneration, remains fundamentally unchanged. However, minor adjustments to the content of the individual components are to be made with effect from 1 January 2017 in order to improve the transparency and understandability of the system.

The number of financial targets for the one-year variable remuneration will be reduced from four to two. Starting in 2017, it will be equally weighted between free cash flow and adjusted EBIT. In addition, the target range has been linearised and the lower and upper limits have been adjusted to minus 30 per cent and plus 30 per cent below/above the budgeted figure (previously: minus 25 per cent and plus 35 per cent).

The bandwidth of the discretionary performance multiple, which enables the assessment of an Executive Board member's individual performance to be reflected in the one-year variable remuneration, was widened to a range of 0.7 to 1.3 (currently: 0.8 to 1.2).

For the purpose of the multiple-year variable remuneration, the target number of performance shares at the start of a performance period will, from 2017, be calculated on the basis of the average price of KION shares during the last 60 trading days before the start of the performance period (currently: fair value at the start of the performance period).

The benchmark index used to calculate the total shareholder return (TSR) target will be the MDAX (currently: STOXX Europe Total Market Index (TMI) Industrial Engineering Index), to which KION GROUP AG belongs. In view of the share price trend that has become established since the IPO in 2013, the target range will be adjusted so that the lower limit for the target is set at 0 per cent outperformance (= equal performance) and the upper limit (= 200 per cent target achievement) at 20 per cent outperformance. If the lower limit (= equal performance) is reached, target achievement is 50 per cent and a bonus is paid. This means that target achievement is 100 per cent if outperformance is 6.67 per cent (currently: lower limit if outperformance is 0 per cent, 100 per cent target achievement if outperformance is 10 per cent and upper limit if outperformance is 15 per cent).

Similarly to the financial targets for the one-year variable remuneration, the target range for the ROCE target has been linearised and the lower and upper limits have also been adjusted to minus 30 per cent and plus 30 per cent below/above the budgeted figure.

The maximum possible target achievement for the two targets, which affects the calculation of the final number of performance shares at the end of the performance period, has been raised to 200 per cent (currently: 150 per cent).

For the multiple-year variable remuneration, the bandwidth of the discretionary performance multiple for evaluating the individual performance of Executive Board members was also widened to a range of 0.7 to 1.3 (currently 0.8 to 1.2). In parallel to this, the Supervisory Board has decided to increase Executive Board members' individual remuneration in two stages (with effect from 1 January 2017 and 1 January 2018) and to increase the fixed annual contribution to Dr Toepfer's pension from 1 January 2017.

In addition, it was decided to introduce share ownership guidelines, under which individual Executive Board members are required to hold shares worth 100 per cent of their basic remuneration. This shareholding must be reached within four years and held for as long as they remain on the Executive Board.

The amended Executive Board remuneration system will be put to the Annual General Meeting of KION GROUP AG for approval on 11 May 2017.

SUPERVISORY BOARD REMUNERATION

Remuneration system

The Supervisory Board's remuneration is defined in article 18 of KION GROUP AG's articles of incorporation. Members of the Supervisory Board receive fixed remuneration plus reimbursement of out-of-pocket expenses. The annual remuneration amounts to €45,000 for ordinary members of the Supervisory Board, €75,000 for the deputy chairman of the Supervisory Board and €105,000 for the chairman of the Supervisory Board.

Additional remuneration is paid for being a member or chairman of a committee, although this does not apply in the case of the Nomination Committee or the Mediation Committee pursuant to section 27 (3) of the German Codetermination Act (MitbestG). The annual remuneration for members of a committee is €8,000, while the chairman of a committee receives double this amount.

If a member of the Supervisory Board or one of its committees does not hold their position for a full financial year, remuneration is reduced pro rata temporis.

The members of the Supervisory Board receive an attendance fee of €1,250 per day for meetings of the Supervisory Board and its committees, although they only receive this amount once if they attend more than one meeting on the same day.

The Company reimburses each member for any VAT incurred in connection with his or her remuneration.

A D&O insurance policy without an excess has been taken out for the members of the Supervisory Board.

As the general parameters have changed significantly since the current remuneration arrangements for the Supervisory Board were decided upon in June 2013 immediately after the IPO of KION GROUP AG, the Supervisory Board decided it would be appropriate to also review the Supervisory Board's remuneration last year, in addition to that of the Executive Board. To this end, an experienced consultancy was commissioned to examine the appropriateness and market conformity of Supervisory Board remuneration at KION GROUP AG.

Based on the findings of this examination, the Supervisory Board has decided to propose to the Company's Annual General Meeting that some aspects of the remuneration system of the KION GROUP AG Supervisory Board be amended. The Supervisory Board proposes increasing the fixed annual remuneration of ordinary members from €45,000 to €55,000. The chairman of the Supervisory Board is to receive three times the amount of an ordinary member, i.e. €165,000, and the deputy is to receive two times the amount of an ordinary member, i.e. €110,000.

In view of the increased responsibility attaching to Audit Committee membership and thus the greater amount of time that members are required to dedicate, the Supervisory Board also proposes raising the remuneration of ordinary Audit Committee members from €8,000 to €15,000 and that of the Audit Committee chairman from €16,000 to €45,000.

Furthermore, the Supervisory Board proposes increasing the attendance fee for meetings of the Supervisory Board and its committees from €1,250 to €1,500.

Remuneration paid to members of the Supervisory Board in 2016

The total remuneration paid to the Supervisory Board in 2016 was €1,165,750. Of this amount, €973,750 was attributable to remuneration for activities carried out by the Supervisory Board. The remuneration paid for committee work (including attendance fees) totalled €192,000. The following table shows the breakdown of remuneration paid to each Supervisory Board member for 2016: > TABLE 010

In 2016, no company in the KION Group paid or granted any remuneration or other benefits to members of the Supervisory Board for services provided as individuals, such as consulting or brokerage activities. Nor were any advances or loans granted to members of the Supervisory Board.

Supervisory Board remuneration

TABLE 010

	Fixed remuneration	Committee remuneration	Attendance fee	Total remuneration
Dr John Feldmann (chairman)	€105,000	€24,000	€22,500	€151,500
Özcan Pancarci (deputy chairman; committee from 1 Nov)	€75,000	€1,333	€15,000	€91,333
Birgit Behrendt	€45,000	–	€11,250	€56,250
Holger Brandt	€45,000	–	€12,500	€57,500
Dr Alexander Dibelius	€45,000	€8,000	€15,000	€68,000
Wolfgang Faden (until 12 May)	€18,750	–	€2,500	€21,250
Joachim Hartig	€45,000	€8,000	€16,250	€69,250
Denis Heljic	€45,000	€8,000	€16,250	€69,250
Jiang Kui*	€45,000	€8,000	€17,500	€70,500
Olaf Kunz	€45,000	€8,000	€15,000	€68,000
Jörg Milla (committee from 1 Nov)	€45,000	€1,333	€12,500	€58,833
Kay Pietsch (until 31 Oct)	€37,500	€13,333	€20,000	€70,833
Christina Reuter (from 12 May)	€30,000	–	€6,250	€36,250
Hans Peter Ring	€45,000	€24,000	€20,000	€89,000
Alexandra Schädler	€45,000	€8,000	€21,250	€74,250
Tan Xuguang*	€45,000	–	€5,000	€50,000
Claudia Wenzel (from 1 Nov)	€7,500	–	€2,500	€10,000
Xu Ping*	€45,000	–	€8,750	€53,750
Total	**€813,750**	**€112,000**	**€240,000**	**€1,165,750**
* Withholding tax (pursuant to section 50a of the German Income Tax Act (EStG)) incl. the reunification surcharge was also paid over:	€62,513	€3,704	€14,471	€80,688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COMBINED MANAGEMENT REPORT

Preliminary remarks

COMBINED MANAGEMENT REPORT

This management report combines the group management report and the management report of KION GROUP AG. It is published instead of a group management report in the annual report of KION GROUP AG. In it, we report on the course of business (including business performance), the position and the expected development of the Group and KION GROUP AG. The combined management report for the year ended 31 December 2016 is the first such report to be produced. Previously, the management report for KION GROUP AG and the group management report for the KION Group were produced separately. Unless stated otherwise, the information on the following pages refers both to the Group and to KION GROUP AG. Sections that only contain information on KION GROUP AG are indicated as such. The report on the economic position includes a separate section containing disclosures for KION GROUP AG in accordance with the German Commercial Code (HGB).

Fundamentals of the KION Group

PROFILE OF THE KION GROUP

Organisational structure

The KION Group is one of the world's leading suppliers of material handling solutions. With a portfolio of products, technologies and services that is unparalleled in the global market, ranging from industrial trucks and warehouse trucks to fleet and warehouse management systems and fully automated supply chain solutions, the KION Group is a full-service provider catering to customers of all sizes in all kinds of industries. The acquisition of Dematic in 2016 (see page 128) also makes the KION Group the intralogistics partner of choice for Industry 4.0.

With around 30,000 highly qualified employees and four international brands, Linde, STILL, Dematic and Baoli, the KION Group is represented in more than 100 countries and in all of the major market and price segments. More than 1.2 million industrial trucks and over 6,000 installed systems are deployed by customers in all industries and of all sizes on six continents.

The KION Group comprises the parent company KION GROUP AG, which is a public limited company under German law, and its subsidiaries. The KION Group's strategic management holding company, KION GROUP AG, is listed on the Frankfurt Stock Exchange and is part of the MDAX, the STOXX Europe 600 and the FTSE Euro Mid Cap. Details of treasury shares (pursuant to section 160 (1) no. 2 of the German Stock Corporation Act (AktG)) are provided in note [28] 'Equity' in the notes to the financial statements of KION GROUP AG.

The strategic anchor shareholder of KION GROUP AG is Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg, a subsidiary of Weichai Power Co. Ltd., which held 43.3 per cent of the shares at the end of 2016 as far as the Company is aware. The free float accounted for 56.6 per cent of the shares, while the remaining 0.1 per cent were treasury shares.

Management and control

Corporate governance

The KION Group follows generally accepted standards of sound, responsible corporate governance. The German Corporate Governance Code (DCGK) provides the framework for management and control. As required by section 289a of the German Commercial Code (HGB), the corporate governance standards that the Group applies are set out in the declaration on corporate governance. This declaration also contains the comply-or-explain statement pursuant to section 161 AktG, which was issued by the Executive Board and Supervisory Board of KION GROUP AG on 14 December 2016, and the corporate governance report pursuant to section 3.10 of the German Corporate Governance Code, which also provides information about the compliance standards in the Group. The declaration on corporate governance can be viewed and downloaded on the Company's website. It also forms part of this annual report.

The essential features of the remuneration system are described in the remuneration report, which is part of the 2016 combined management report and can be found in the 'Remuneration report' section of this annual report. The total amounts for Executive Board remuneration and Supervisory Board remuneration are reported in the notes to the consolidated financial statements (note [45]).

Disclosures relevant to acquisitions

The disclosures relevant to acquisitions (pursuant to section 315 (4) HGB) together with the explanatory report form an integral part of the combined management report and can be found in the 'Disclosures relevant to acquisitions' section of this annual report.

Executive Board

The Executive Board of KION GROUP AG is responsible for the operational management of the KION Group. As before, it had four members at the end of 2016. In July 2016, the Supervisory Board of KION GROUP AG extended the appointment of Chief Executive Officer Gordon Riske by a further five years to 30 June 2022.

During the year under review, the responsibilities of the Executive Board members were adjusted to reflect changes to the Group's structure. The steering of the Industrial Trucks & Services, Supply Chain and Corporate Services segments is the joint responsibility of the entire Executive Board. The segment Industrial Trucks & Services, following the acquisition of Dematic, encompasses activities relating to industrial trucks plus supporting financial services. The industrial truck business in the segment Industrial Trucks & Services is made up of four operating units – Linde Material Handling EMEA (LMH EMEA), STILL EMEA, KION Americas and KION APAC – in order to do even more to meet the specific customer and market requirements of the world's key regions and to leverage cross-brand synergies. The KION Group's second segment is now Supply Chain Solutions, which has been significantly strengthened by the arrival of Dematic and constitutes the fifth operating unit, Dematic, which also includes Egemin Automation and Retrotech.

As at 31 December 2016, the responsibilities of the Executive Board members were as follows:

- Gordon Riske, Chief Executive Officer (CEO), is responsible for the LMH EMEA, STILL EMEA, and KION Americas operating units in the Industrial Trucks & Services segment and the Dematic operating unit in the Supply Chain Solutions segment. He also remains in charge of the following group functions: corporate strategy, corporate communications, corporate office, internal audit, corporate compliance and KION Warehouse Systems.
- Dr Eike Böhm, in his role as Chief Technology Officer (CTO), has groupwide responsibility for research and development (R&D) and for product strategy, including innovation, the production system, quality & operations and purchasing.
- Ching Pong Quek, Chief Asia Pacific Officer, heads up the KION APAC operating unit and thus the entire Asia business within the Industrial Trucks & Services segment.
- Dr Thomas Toepfer is Chief Financial Officer (CFO) and his responsibilities include corporate accounting & tax, financial services, corporate finance, corporate controlling, corporate HR / Labour Relations Director, legal affairs, KION Group IT, data protection, health, safety & environment and logistics / Urban.

Formed at the end of 2015, the Group Executive Committee (GEC) advises the Executive Board of KION GROUP AG and provides input from the operating units. The committee comprises the Executive Board members as well as the presidents of the operating units. The President and Chief Executive Officer of Dematic joined the GEC with effect from 1 November 2016.

The Executive Board maintains a relationship of trust with, and is monitored by, the Company's Supervisory Board.

Supervisory Board

The Supervisory Board, which was formed in accordance with the German Codetermination Act (MitbestG), comprises 16 people. It advises the Executive Board in its handling of significant matters and business transactions. To increase the efficiency of its work, the Supervisory Board is supported by four committees: the Nomination Committee, the Executive Committee, the Audit Committee and the Mediation Committee.

The Annual General Meeting elected Dr Christina Reuter to the Supervisory Board on 12 May 2016. She replaced Wolfgang Faden, who stepped down from the Supervisory Board. In addition, Mr Kay Pietsch resigned from his position as a member of the KION GROUP AG Supervisory Board with effect from 31 October 2016. Ms Claudia Wenzel, deputy chairwoman of the plants I & II work council at Linde Material Handling GmbH, Aschaffenburg, was appointed by the courts to succeed Mr Pietsch as an employee representative on the Supervisory Board of KION GROUP AG with effect from 1 November 2016.

Business model

The KION Group's business model is designed so that customers of all sizes and from all kinds of industries can obtain the full spectrum of material handling products and services from a single source. Thanks to its broad technology base, diversified product portfolio and worldwide service network, the KION Group has the most comprehensive portfolio of such products and services in the market.

The KION Group divides its business into two segments for management purposes: Industrial Trucks & Services, which covers activities relating to industrial trucks plus supporting financial services, and Supply Chain Solutions, which focuses on intelligent supply chain and automation solutions. The two segments of the KION Group complement each other as they each have a strong market position and regional presence, which opens up opportunities for increasing revenue. The Supply Chain Solutions segment makes use of the service network and the reputation of the brands of the industrial truck business in key markets such as Europe, China and Brazil, while the Industrial Trucks & Services segment benefits from the strong standing of the supply chain solutions business in the US and European automation markets. Aligning the products and services with customers' requirements will be a focus project within the Group's strategy (see page 66) in the years ahead, culminating in an integrated, customer-centric KION Group business model.

Industrial Trucks & Services segment

So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers key steps of the value chain: product development, manufacturing, sales and logistics, spare parts business, truck rental and used trucks, fleet management and financial services that support the core industrial truck business. The segment operates a multi-brand strategy involving the three international brands Linde, STILL and Baoli plus the three national brands Fenwick, OM STILL and Voltas.

The segment earns a good half of its revenue by selling industrial trucks. The product portfolio includes counterbalance trucks powered by an electric drive or internal combustion engine, warehouse trucks (ride-on and hand-operated) and towing vehicles for industrial applications. It covers all load capacities, from one to 18 tonnes. Worldwide research and development activities (R&D) enable the Industrial Trucks & Services segment to consolidate its technology leadership, which it is extending in the areas of innovative, energy-efficient and low-emission drive technologies and hydrostatic and diesel-electric drive systems. In this field, the KION Group operates a total of 15 production facilities for industrial trucks and components in eight countries. Production got under way at the new factory in Stříbro, which is near Plzeň in the Czech Republic, during the year under review. So that it can ensure security of supply and the availability of spare parts for important components in order to meet customers' specific requirements, the segment manufactures major components itself – notably lift masts, axles, counterweights and safety equipment. Other components – such as hydraulic components, electronic components, rechargeable batteries, engine components and industrial tyres – are purchased through the global procurement organisation.

As a rule, industrial trucks are built according to the customer's individual specifications. Advantages for customers in terms of total cost of ownership (TCO) underpin the international Linde and STILL brands' premium positioning. The trucks' hallmarks are cost-efficiency, high productivity and high residual values. The international Baoli brand serves the lower end of the volume segment and the economy segment.

The segment is underpinned by an extensive sales and service network comprising around 1,400 outlets in over 100 countries and staffed by approximately 16,000 service employees. Around half of them are employed by the KION Group. In other cases, the operating units rely on external dealers.

The worldwide vehicle fleet, which comprised more than 1.2 million industrial trucks at the end of 2016, provides a stable basis for the spare parts, maintenance and repair business. The service business, which includes financial services, helps to smooth out fluctuations in the segment's revenue and reduces dependency on market cycles. This business also strengthens customer relationships, thereby helping to generate sales of new trucks. Extensive supplementary services are offered, mainly for premium products. However, the proportion of service business is continually increasing in the other price segments too.

There are also individual orders for repairs and maintenance work as well as for spare parts. In addition, the segment looks after entire customer fleets, using special software to monitor the trucks in the fleets and to enable customers to efficiently manage their fleets.

The operating units also have extensive used truck and rental truck businesses, allowing peaks in capacity requirements to be met and customers to be supported after their leases have expired.

Financial services support new truck business in many markets, forming another pillar of the service business. About half of all new trucks are financed via the KION Group itself or via external banks and dealers. Offering financial services is therefore part of the truck sales process, and end customer finance is generally linked to a service contract throughout the term of the finance agreement. In the main sales markets with a high volume of financing and leasing, financial activities are handled by legally independent financial services companies. These activities include long-term leasing to customers and internal financing of the operating units' short-term rental fleets.

Supply Chain Solutions segment

The Supply Chain Solutions segment, with its Dematic operating unit, is a strategic partner to customers in a variety of industries, supplying them with integrated technology and software solutions with which to optimise their supply chains. Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking and automated palletising. Picking equipment controlled by radio, voice or light is available for nearly all goods and packaging types, whether it is used for case, individual item, split-case or pallet picking. Automated storage and retrieval systems (ASRS) such as RapidStore and high-performance picking stations (RapidPick) can be used to achieve very fast throughput times and picking rates. At the same time, cross-docking solutions increase the efficiency of the system as a whole by eliminating the unnecessary handling and storage of goods.

Real-time management of the supply chain solutions is based on the proprietary, open software platform Dematic iQ, which can be easily integrated into customers' existing application landscape. Dematic iQ offers much more than traditional warehouse management systems, helping with the data-based optimisation of all processes to ensure seamless order processing. It also supports performance management functions for measuring and controlling performance.

Through its Dematic, Egemin Automation and Retrotech brand companies, this segment is primarily involved in customer-specific, longer-term project business. With global resources, ten production facilities worldwide and regional teams of experts, Dematic is able to plan and deliver logistics solutions with varying degrees of complexity anywhere in the world.

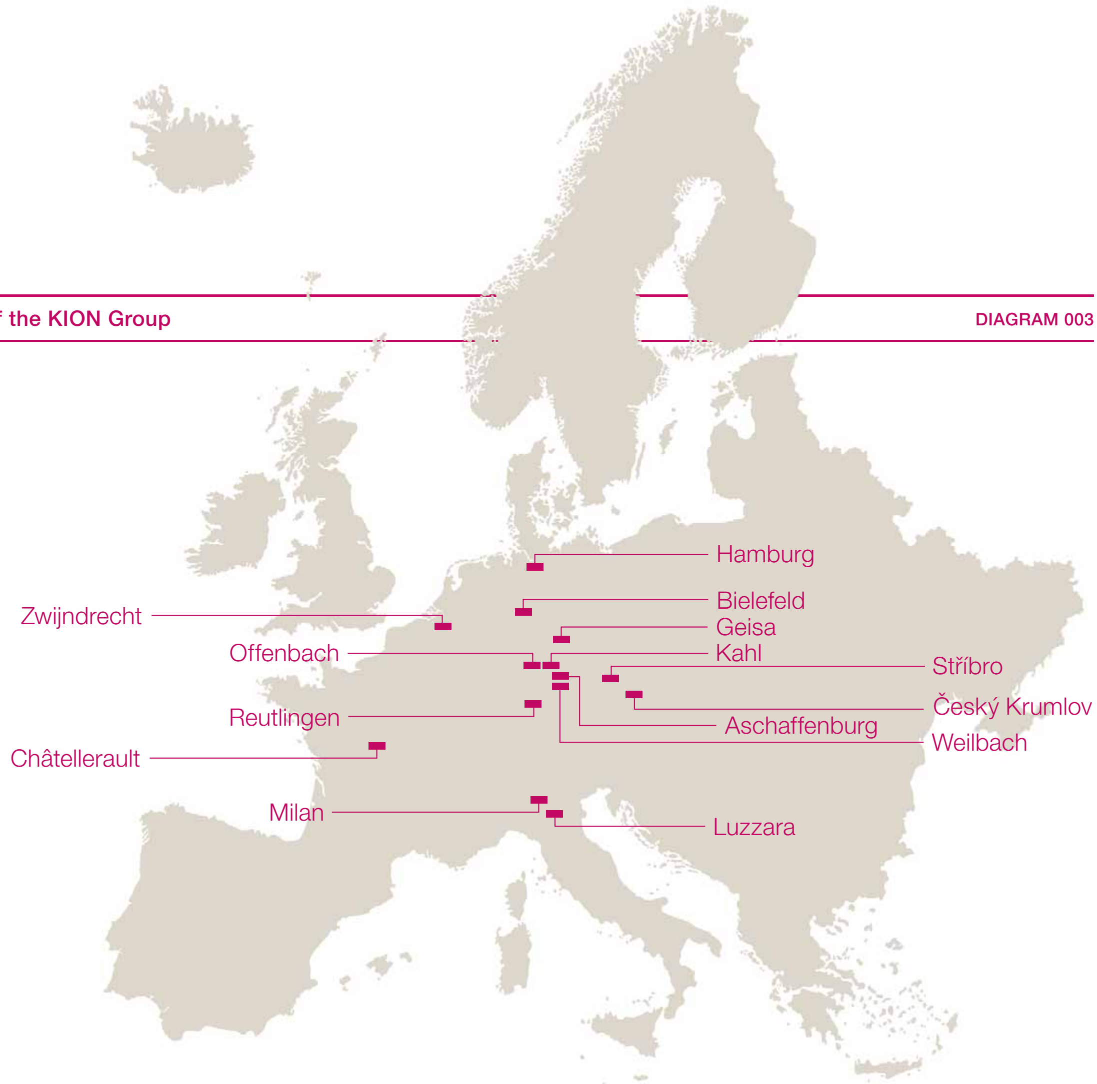
The (new) project business (business solutions) covers every phase of a new installation: analysis of the customer's needs and the general parameters, provision of appropriate advice, computer simulation of bespoke intralogistics solutions in the customer's individual environment, technical planning and design of the system, implementation of the control technology and its integration into the customer's existing IT infrastructure, site and project management, plant monitoring and support for the customer during implementation of the system, including training for the workforce.

The system components, which are specified in detail for each customer project, such as automatic guided vehicles, palletisers, storage and picking equipment including automated storage and retrieval systems, sorters and conveyors, are manufactured inhouse at ten production facilities or, in some cases, by quality-assured third parties.

The breadth of this offering allows the segment to offer a one-stop shop for modernisation work and services (customer solutions), which usually cover the entire lifetime of an installation. The installed base of 6,000 or so systems provides significant potential for this business, including on-site support provided by approximately 1,700 employees in around 30 countries.
> DIAGRAM 003

Production sites of the KION Group

DIAGRAM 003



Industrial Trucks & Services

Brazil

Indaiatuba / São Paulo: Counterbalance trucks with electric drive or IC engine, warehouse technology

China

Jingjiang: Counterbalance trucks with electric drive or IC engine, warehouse technology

Xiamen: Counterbalance trucks with electric drive or IC engine, heavy trucks, warehouse technology

Germany

Aschaffenburg: Counterbalance trucks with electric drive or IC engine, warehouse technology

Geisa: Component production

Hamburg: Counterbalance trucks with electric drive or IC engine, warehouse technology, components

Kahl: Spare parts warehouse, component production

Reutlingen: Very narrow aisle trucks

Weilbach: Component production

France

Châtellerault: Warehouse technology

India

Pune: Counterbalance trucks with electric drive or IC engine, warehouse technology

Italy

Luzzara: Warehouse technology

Czech Republic

Český Krumlov: Component production

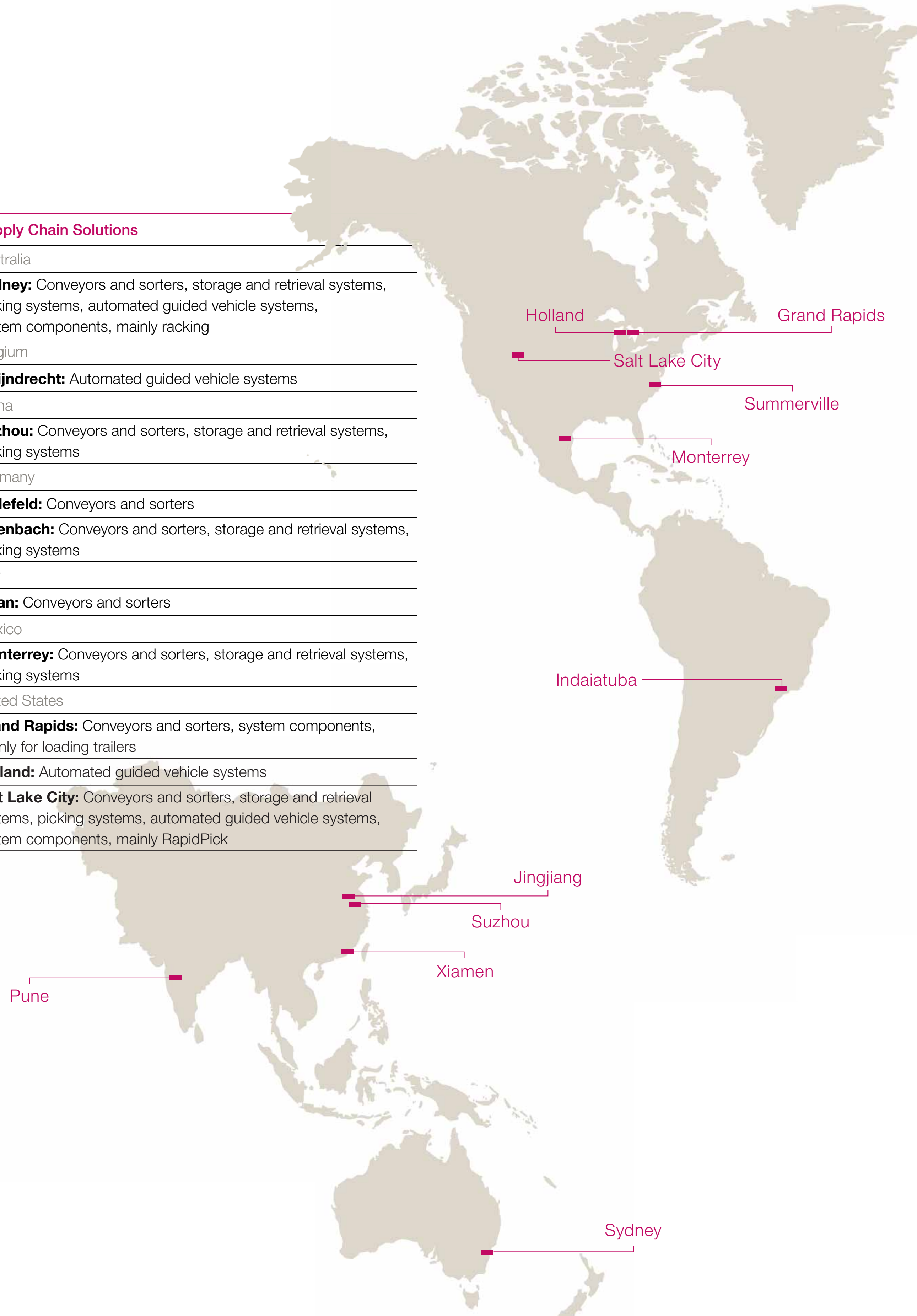
Stříbro: Warehouse technology

United States

Summerville: Counterbalance trucks with electric drive or IC engine, warehouse technology

Supply Chain Solutions

Australia
Sydney: Conveyors and sorters, storage and retrieval systems, picking systems, automated guided vehicle systems, system components, mainly racking
Belgium
Zwijndrecht: Automated guided vehicle systems
China
Suzhou: Conveyors and sorters, storage and retrieval systems, picking systems
Germany
Bielefeld: Conveyors and sorters
Offenbach: Conveyors and sorters, storage and retrieval systems, picking systems
Italy
Milan: Conveyors and sorters
Mexico
Monterrey: Conveyors and sorters, storage and retrieval systems, picking systems
United States
Grand Rapids: Conveyors and sorters, system components, mainly for loading trailers
Holland: Automated guided vehicle systems
Salt Lake City: Conveyors and sorters, storage and retrieval systems, picking systems, automated guided vehicle systems, system components, mainly RapidPick



Market and influencing factors

Industrial trucks and warehouse systems are essential elements in the production and logistics processes of many manufacturers as well as in wholesale and retail. The main growth drivers are the advancing interconnectivity of the global economy and specialisation of companies, which require additional transport services between what are becoming increasingly fragmented value chains and supply chains. Moreover, complex processes are increasingly being digitalised as part of Industry 4.0, calling for intelligent and connected trucks and logistics solutions.

Both segments are exposed to the industry's cyclical fluctuations. Economic conditions in the different regions and the rates of growth in global trade are therefore key influencing factors for the KION Group. Nonetheless, the market for material handling solutions is a global growth market whose rates of expansion in recent years have consistently exceeded the pace of global economic growth. The economic situation is also affected by competition levels, exchange rates and changes in commodity prices. Another important influencing factor is the economic development of individual customer segments. The most important and fastest-growing of these is the e-commerce sector. Increasing complexity, cost pressures and shifting customer expectations require shorter lead times, an optimum flow of goods, lower inventories and process reliability.

Regulatory frameworks have a major impact on the business model, both in the Industrial Trucks & Services segment and in the Supply Chain Solutions segment. The products and services of companies in the KION Group have to comply with the specific legal requirements in their respective markets. Compliance with the different requirements has to be verified or certified. Many of the legal requirements are enshrined in product-specific standards and other norms (e.g. EN, ISO and DIN).

Legal requirements also apply to the construction and operation of production facilities, including in relation to air pollution avoidance, noise reduction, waste production & disposal and health & safety. Furthermore, the KION Group fulfils all of the legal provisions pertaining to exports and financing business.

Influencing factors in the Industrial Trucks & Services segment

Measured in terms of unit sales of new trucks, the growth of the market for industrial trucks has exceeded global economic growth over the past ten years (2006–2016), rising at an average of 3.3 per cent per year. However, it should be noted that these statistics do not include price effects or the contribution from the service business.

Measured in terms of units ordered, 37.6 per cent of the global market was attributable to IC trucks in 2016, while electric forklift trucks accounted for 17.4 per cent and warehouse trucks for 45.0 per cent. Due to more stringent emissions regulations and the expansion of e-commerce, the KION Group expects the segmentation of the market to shift even more towards electric forklift trucks and warehouse trucks, which are particularly suitable for use in buildings. In the developed economies, these two product categories – in which the KION Group is particularly strongly positioned – already account for the bulk of the market volume. By contrast, counterbalance trucks with an internal combustion engine (diesel trucks) make up a comparatively high proportion of the total volume in growth regions.

In emerging markets, demand for logistics services on the back of increasing consumer spending is being fuelled by the expansion of industrial and public infrastructure as well as rising living standards. In mature markets, where supply chains are highly sophisticated, the large number of trucks in use provides a strong base for replacement business and high demand for services. The KION Group estimates that a high proportion of sales in western Europe are accounted for by replacement investments.

In the long-term, due to rising customer expectations in terms of quality, efficiency and eco-friendliness of industrial trucks, the middle (volume) price segment is likely to become increasingly important for the growth markets in particular. At the same time, there is mounting competitive pressure as some manufacturers in the economy segment based in emerging markets are pursuing an international expansion strategy. In the premium segment, customers are much more focused than before on optimising total cost of ownership and on the integration of fully automated intralogistics solutions. In 2016, according to the KION Group's estimates, the premium price segment and the economy price segment each accounted for between 25 per cent and 30 per cent of units ordered in the market for industrial trucks. The remainder was attributable to the volume price segment, making it the largest in terms of units sold.

Influencing factors in the Supply Chain Solutions segment

The market for automation solutions has seen average annual growth of around 8 per cent in the five years (2010–2015) according to the Modern Materials Handling website, which measured the revenue of the 20 largest manufacturers and took account of minor consolidation effects. This market therefore expanded at a much faster rate than global economic output.

The growth of e-commerce is the main influence on demand for automated supply chains. According to market analysis by the E-Commerce Foundation, global online trading expanded at an average rate of around 22 per cent between 2012 and 2016. The market research institution eMarketer forecasts that the volume will more than double again by 2020. This calls for new, more decentralised warehouse and logistics capacity that enables faster deliveries and, due to automated processes, keeps down personnel expenses and floor space costs.

The digitalisation and automation of production and supply chains in the context of Industry 4.0 and the multichannel strategies being adopted in traditional industries – e.g. supermarket chains, grocery wholesale and retail, fashion, food and beverage manufacturing, and parcel and courier services – are also contributing to the growing need for ever more efficient supply chain solutions. This calls for concepts and solutions that help manufacturers, retailers, wholesalers and service providers to keep up with rapidly changing consumer requirements. Technological progress, e.g. in the field of robot-operated picking systems, is also fuelling buy-in for automation concepts.

Market position

The KION Group is a global leader in industrial trucks, related services and supply chain solutions. Across more than 100 countries worldwide, it designs, builds and supports logistics solutions that optimise the flow of material and information within factories, warehouses and distribution centres.

In 2016, the Industrial Trucks & Services segment achieved a 15.0 per cent share of the global market based on unit sales (2015: 15.0 per cent) and is thus the second-largest manufacturer of industrial trucks. At the same time, the KION Group is the world's leading producer of electric forklift trucks. It remained the market leader across all product categories in Europe. The KION Group also became the top manufacturer in India. In China, it is still the leading foreign manufacturer and number three overall. And in Brazil, the KION Group is the number one for electric forklift trucks and warehouse trucks.

Based on the Modern Materials Handling's ranking the Supply Chain Solutions segment with Dematic, Egemin and Retrotech together rank as one of the three largest suppliers. Dematic is a leading provider of automated technology for supply chains, while Egemin Automation has a particularly high profile in the fields of automated warehouse systems and automated guided vehicle systems.

The segments and their products and services

The KION Group's market activities are divided into five operating units: LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic. While the operating units have full operational and commercial responsibility within their markets, KION GROUP AG is the strategic management holding company and is responsible for the groupwide strategy and groupwide business standards.

During the year under review, the segment structure was amended in line with the changed internal management structures following the completion of the Dematic acquisition. Dematic has only been included for two months. For internal management purposes, the KION Group has divided its operating business into two segments that correspond to segments, as required by international financial reporting standards (IFRS 8). The KION Group overall has three segments, which are also presented retrospectively for the 2015 financial year. The industrial truck business, including the supporting financial services, is now shown in the Industrial Trucks & Services segment, while activities focusing on automated supply chain solutions make up the Supply Chain Solutions segment. Egemin Automation (including Retrotech, which was acquired in 2016) now belongs to the Supply Chain Solutions segment, which is

Segment overview TABLE 011

	Revenue		Adjusted EBIT[1]		Employees[2]	
in € million	2016	2015	2016	2015	2016	2015
Industrial Trucks & Services	5,202.6	5,044.7	586.9	529.5	23,064	22,637
Supply Chain Solutions	366.0	33.0	6.0	2.0	6,810	323
Corporate Services	242.0	219.4	305.9	153.3	670	545
Consolidation / reconciliation	–223.4	–199.3	–361.5	–202.0	–	–
Total	**5,587.2**	**5,097.9**	**537.3**	**482.9**	**30,544**	**23,506**

1 Adjusted for PPA items and non-recurring items
2 Number of employees (full-time equivalents) as at balance sheet date 31/12/

headed up by Dematic. The Corporate Services segment comprises the other activities and holding functions of the KION Group. > TABLE 011

Industrial Trucks & Services segment

The Industrial Trucks & Services segment encompasses the activities of the brands Linde, STILL, Fenwick, OM STILL, Baoli and Voltas plus the financial services business. The industrial truck business has been organised into four operating units to ensure efficient and close cooperation across all regions and brands: LMH EMEA and STILL EMEA, which each concentrate on Europe, the Middle East and Africa, plus KION APAC and KION Americas, which hold cross-brand responsibility for the Asia-Pacific region and the Americas respectively.

Linde is an international premium brand and a technology leader. Among its other selling points, it meets customers' highest requirements regarding technology, efficiency, functionality and design. The product portfolio ranges from warehouse trucks to heavy trucks and caters to all of the major application areas. In France, Linde products are sold under the Fenwick brand.

STILL is predominantly an international premium provider of trucks with electric and diesel-electric drives. It mainly focuses on the European and Latin American markets, with the national brand OM STILL serving the Italian market. The STILL portfolio consists of forklift trucks and warehouse trucks plus associated services, including automation and fleet management.

Baoli is the international brand for the lower end of the volume segment and the economy segment. Building on its base in China and other growth markets in Asia, it is expanding its sales structures in Europe as well as in Central, South and North America.

Voltas is the national brand company for the Indian market, through which the KION India Pvt. Ltd. subsidiary manufactures and sells electric and IC forklift trucks and warehouse trucks.

KION Financial Services (FS) is an internal funding partner for the industrial trucks business, providing finance solutions to support sales. Its activities comprise the financing of long-term leasing business for external customers, the internal financing of the short-term rental business and the related risk management. In the large sales markets with a high volume of financing and leasing, legally independent FS companies handle this business.

Supply Chain Solutions segment

The Supply Chain Solutions segment brings together the activities of the Dematic, Egemin Automation and Retrotech brands. The Dematic operating unit is responsible for the shared, cross-brand market presence of the portfolio of automated supply chain solutions.

Dematic is a leading global supplier of advanced integrated automation technology as well as software and services for optimising supply chains and meeting customers' supply chain solution requirements. Its portfolio of products and systems comprises automated guided vehicle systems, palletisers, storage and picking equipment including automated storage and retrieval systems, sorters and conveyors, a leading integrated software platform and automation technologies. The offerings from Egemin, which focuses on automated guided vehicle (AGV) systems, and Retrotech, which specialises in modernising storage and retrieval systems and in retrofitting systems, enhance and complement Dematic's products and services.

Corporate Services segment

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

STRATEGY OF THE KION GROUP

The successful acquisitions of Egemin Automation, Retrotech and Dematic marked the start of the process to refine the KION Group Strategy 2020. This will provide the basis for updating the Strategy 2020 over the course of 2017. Besides continuing with the growth strategy in the segments, the overarching objective of the strategy is to systematically unlock the potential for cross- selling and synergies, thereby continually increasing the benefits for customers. This potential arises from their complementary technological position with compatible software solutions, different regional coverage, large installed base of truck fleets and supply chain solutions, and the combined strength in sales and service.

From a technological perspective, the focus is on incorporating intelligent industrial trucks and fleet management services into integrated, automated and bespoke supply chain solutions using the Dematic iQ software platform. To this end, Dematic will be integrated into the KION Group's tried-and-tested global CTO structure (see page 96).

In sales, priority will be given to joint business development on the basis of combined portfolios. Dematic can make use of the comprehensive sales and service organisation of Linde and STILL in Europe while, conversely, Dematic's strong market position in North America and elsewhere should help to stimulate the truck business outside Europe.

At the same time, the intelligent alignment of the production infrastructure and shared use of corporate services should increase efficiency across the Group. This is expected to generate cost synergies equating to 1 – 2 per cent of Dematic's revenue within the next two to three years.

Overall, this action plan should generate profitable growth in the two segments, balance out the revenue structure and, at the same time, secure their technological position.

Objectives of the Strategy 2020

The Strategy 2020 continues to provide the guiding framework for the KION Group. Although originally formulated for what is now the Industrial Trucks & Services segment, it sets out the objectives for the entire Group:

- Growth: The KION Group wants to accelerate its growth. To this end, it is strengthening its leading position in the European market and, at the same time, capturing significant market share in growth markets, particularly those in Asia and North America. In the Industrial Trucks & Services segment, the KION Group aims to close the gap on the global market leader by 2020. This is to be accompanied by a far greater presence in the largest price segment (volume).
- Profitability: The KION Group aims to further improve its EBIT margin in order to entrench its position as the most profitable supplier in the market. In doing so, it aims to improve its EBIT margin so that it is permanently in the double-digit range –

a target that has remained unchanged in communications since the IPO.

- Efficient use of capital: The KION Group is working steadfastly to optimise the return on capital employed (ROCE). Besides increasing earnings, the focus here is on how assets and finance are to be managed going forward.
- Resilience: The KION Group aims to improve its ability to cope with economic downturns. It is therefore also diversifying its business in terms of regions and customer sectors alongside its efforts to optimise the production network and expand the service business.

Strategic focus areas of the Strategy 2020

The Strategy 2020 essentially encompasses six closely related areas of focus.

Multi-brand strategy

The starting point is the further development of the successful multi-brand strategy throughout the Group. This will ensure that the Industrial Trucks & Services segment is represented in all regions and price segments. The premium brands, Linde and STILL, are continuing to consolidate their presence at the upper end of the volume segment on the basis of the platform strategy, particularly in North America, South America and Asia. Especially in the premium segment and at the upper end of the volume segment, seamless integration into customer-specific logistics solutions is playing an increasingly important role. IT-based assistance systems, such as fleet data management and truck control systems, also look set to bolster sales of trucks, primarily in the premium segment. As an international brand, Baoli will position itself in the economy segment and at the lower end of the volume segment with a product and sales strategy that is tailored to regional requirements.

Following the multi-brand strategy, Dematic will remain the leading brand in the Supply Chain Solutions segment. The Egemin Automation and Retrotech brands will be retained but as part of the Dematic portfolio. Overall, the leading position in supply chain solutions is to be further strengthened.

Global modular and platform strategy

Further development of the multi-brand strategy requires the product portfolio to be managed end to end on the basis of the global modular and platform strategy. At the start of the reporting year, the technical functions were brought together into a central KION organisation under the new CTO Executive Board role. Dematic was integrated into this organisation following its acquisition in November.

In the volume and economy segments outside western Europe, the KION Group's Industrial Trucks & Services segment is working with cross-brand, cost-efficient platforms for product development and production that are also allowing a strong degree of regional differentiation in the industrial trucks business. New platforms were created and products brought to market for electric forklift trucks, diesel trucks and warehouse trucks once again in 2016. The ongoing refinement of the Baoli platform and its localisation for different regional markets are particularly important in the volume segment. In western Europe, the premium brands, Linde and STILL, will continue to use different platforms in order to maintain the defining characteristics of their brands, but will increasingly deploy shared modules.

The current focus in the Supply Chain Solutions segment is on synchronising the various types of automated guided vehicle (AGV) systems on one technology platform. Going forward, the cross-segment integration of software on the basis of Dematic iQ will be extremely important.

Global production network

In the Industrial Trucks & Services segment, the KION Group strives to build its industrial trucks close to the markets in which they will be sold. To this end, production facilities worldwide are being efficiently integrated – harnessing economies of scale and ensuring a high level of capacity utilisation. A programme of capital expenditure is aimed not only at updating and expanding existing plants but also at establishing factories in new locations.

During the reporting year, further progress was made on modernising the plants in Aschaffenburg (Linde) and Hamburg (STILL), with a clear focus on increasing capacity, improving processes and containing costs. A total of around €83 million will have been made available for these projects between 2014 and 2021. Both sites are also working closely with the plant in Stříbro (near Plzeň in the Czech Republic), which commenced production of warehouse trucks in January 2016. The Aschaffenburg plant now focuses on making electric and diesel trucks and has been able to structure its production processes more efficiently. Capacity at non-European sites is also continually adjusted and processes optimised in response to market growth. For example, the KION North America plant in Summerville is being expanded for the production of electric forklift and IC trucks as well as warehouse trucks in order to close gaps in the portfolio.

In the Supply Chain Solutions segment, the site in Monterrey (Mexico) opened in 2014 has joined the global production network. The assembly plant serves the North American market alongside the Grand Rapids site in Michigan (United States), focusing on conveyor belts, sorting equipment and multishuttle racking systems.

Regional growth strategies

Having enhanced its multi-brand strategy and its modular and platform strategy, as well as increasing integration between the sites in its production network, the KION Group has put everything in place to increase its market share in strategically important regions.

The Industrial Trucks & Services segment mainly focuses on North America and China. In North America, one of the largest markets for industrial trucks, the segment aims – including by capitalising on Dematic's market presence – to move from being a niche provider to a major market player offering a full portfolio of products by 2020. This will enable it to capture an increasing share of this growing market. The various platforms are being specially adapted to the American market within the context of the cross-brand approach. For example, Baoli introduced products specifically for the lower price segment in the reporting year. As well as expanding the range of products, KION North America is also strengthening the sales and service network, which encompassed more than 70 partners at around 220 sites at the end of 2016.

The segment is also looking to gain additional market share in the high-growth markets, including through new products for the volume segment that have been developed on the basis of Baoli's economy platform. New electric forklift trucks and warehouse trucks are being developed, primarily for China's fast-growing e-commerce sector. Linde and STILL are pooling their sales activities in Brazil, the most important sales market in South America, in view of the difficult situation in this market.

The Supply Chain Solutions segment is gearing its portfolio to the specific needs of the high-growth customer segments and regions. Building on its solid position in the North American market, the segment plans to make use of the strong sales and service network for industrial trucks in order to expand its footprint in the European and Asian markets.

Aftersales and service business

The KION Group's strategy for aftersales and service aims to unlock more of the potential offered by the installed base, which is expanding worldwide. This will help to boost revenue. To this end, the Company is continually broadening its portfolio of services and improving their quality at every stage of the product lifecycle.

The KION Group is progressively extending its comprehensive service offering in the Industrial Trucks & Services segment to also cover the volume and economy segments in high-growth markets. Financial services are also a key component of the service portfolio as they support the KION Group's core industrial business. The Company intends to further increase its market share by opening additional service outlets in attractive growth markets and stepping up the short-term rental business.

The Supply Chain Solutions segment plans to increasingly provide services, e.g. for modernising logistics processes, that complement its project business.

Back-office functions

The KION Group is aligning its corporate services, which provide back-office support across the Group, with the growing requirements of the global organisation in order to leverage economies of scale and synergies. For example, KION Group IT was restructured as a global shared services organisation in the reporting year and has begun to further standardise and pool its processes and infrastructure. In order to keep the costs of the expanded service offering low, the operating units will be integrating their administrative tasks more closely.

MANAGEMENT SYSTEM

Core key performance indicators

The KION Group's strategy, which centres on value and growth, is reflected in how the Company is managed. It uses five core key performance indicators (KPIs) to continuously monitor market success, profitability, financial strength and liquidity. The performance targets of the Group and the segments are based on selected financial KPIs, as is the performance-based remuneration paid to managers. As a rule, the KPIs are measured and made available to the Executive Board in a comprehensive report each month. This enables the management team to take prompt corrective action in the event of variances compared with target figures. > TABLE 012

KPIs related to business volume

Order intake and revenue

Order intake and revenue are broken down by segment, region and product category in the KION Group's management reporting so that growth drivers and pertinent trends can be identified and analysed at an early stage. Order intake is a leading indicator for revenue. The length of time between receipt and invoicing of an order varies between business units and product groups.

Earnings-related KPI

Adjusted EBIT

The key figure used for operational management and analysis of the KION Group's financial performance is adjusted earnings before interest and tax (EBIT). It is calculated in the same way as EBIT, except that it does not take account of purchase price allocation effects or any non-recurring items.

Liquidity-related KPI

Free cash flow

Free cash flow is the main KPI for managing leverage and liquidity. It is determined by the KION Group's operating activities and investing activities. Free cash flow does not include interest arising from financing activities. Carefully targeted management of working capital and detailed planning of capital expenditure are used to help in controlling the level of free cash flow.

Key performance indicators TABLE 012

in € million	Order intake	Revenue	Adjusted EBIT[1]	Free cash flow	ROCE
2016	**5,833.1**	**5,587.2**	**537.3**	**–1,850.0**	**6.8%**
2015	5,215.6	5,097.9	482.9	332.7	11.9%
2014	4,771.2	4,677.9	442.9	305.9	11.4%

1 Adjusted for PPA items and non-recurring items

ROCE

TABLE 013

in € million	2016	2015
Total assets	11,359.2	6,440.2
– less selected assets[1]	–1,460.8	–1,126.7
– less selected liabilities[2]	–2,003.5	–1,261.9
Capital employed	**7,894.9**	**4,051.6**
EBIT normalised	**537.3**	**482.9**
ROCE	**6.8%**	**11.9%**

1 Lease receivables, income tax receivables, cash and cash equivalents, PPA items and several items of other financial assets respectively other assets
2 Sundry other provisions, trade payables, a major part of other liabilities as well as several items of other financial liabilities

Profitability-related KPI

ROCE

Return on capital employed (ROCE) is another core KPI. It is the ratio of adjusted EBIT to capital employed. ROCE is measured annually and reported to the Executive Board. > TABLE 013

Other key performance indicators

Besides the aforementioned core KPIs, the KION Group uses a variety of additional financial KPIs. The main ones are net debt, which is used to manage the capital structure, and the EBIT margin, which together with ROCE is relevant as a component of remuneration and as a target in the Strategy 2020. There are also non-financial KPIs, which primarily relate to customers, employees, sustainability and technology. Some of them are used operationally as leading indicators for the financial KPIs.

The KPIs used to manage the segments are order intake, revenue and adjusted EBIT.

Report on the economic position

MACROECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Macroeconomic conditions

In 2016, the global economy expanded at a slower rate than in the previous year due to weaker growth in the United States, the European Union and China. Growth in global trade also persisted at a low level in 2016 and fell well short of expectations. The influencing factors were the weaker economies of the major emerging markets China and Brazil as well as declining US imports. In addition, companies also held back on capital equipment spending due to the uncertain prospects. However, consumer spending was encouraging – as it had been in 2015.

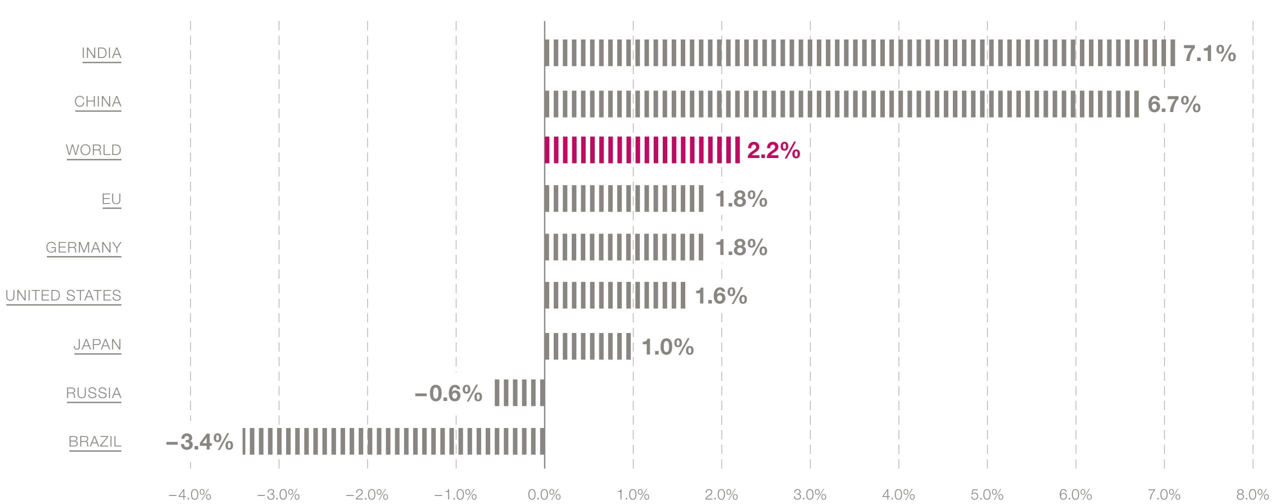
The economies of the European Union registered modest growth, albeit slightly slower than in the previous year. Nonetheless, companies viewed their situation much more optimistically again at the end of the year. The surprising outcome of the United Kingdom's referendum on whether to leave the European Union did not have any significant impact on the eurozone in 2016. The UK economy remained fairly steady on the whole, although heightened uncertainty caused companies to scale back capital expenditure.

Following a very weak start to the year, the United States saw its growth pick up significantly in the second half of the year thanks to a positive trend in the job market and strong domestic demand. Exports were also better than expected.

In China, the growth rate slowed moderately – as had been anticipated – and the shift away from industry towards the service sector continued. Domestic consumption remained robust, partly because of the government's economic stimulus package. Particularly in the second half of the year, the Chinese economy expanded at a faster rate again than in the previous months.

Although Russia's growth continued to slow in 2016, it showed signs of stabilising at the end of the year. The Brazilian market's sharp downtrend persisted despite improved sentiment among consumers and companies following a change of leadership. > DIAGRAM 004

Gross domestic product in 2016 – real year-on-year change DIAGRAM 004



Source: Oxford Economics (as at 13 January 2017)

Sectoral conditions

Intralogistics, with its products and solutions for the flow of material, information and goods within companies, was again a global growth market in the reporting year. An integral element of the market as a whole, the global market for industrial trucks also expanded in 2016 and registered a year-on-year increase of 7.5 per cent in new truck orders (2015: 1.0 per cent). The total number of trucks ordered across all regions and product types was 1.2 million (2015: 1.1 million). Market growth in intralogistics system business also remains strong.

The number of warehouse trucks sold rose sharply with growth of 12.9 per cent. This sector particularly benefited from the sustained high demand for small, simple trucks. The significant increase in electric forklift trucks (up by 7.5 per cent) was partly driven by ever-stricter emissions standards and advances in battery technology. Demand for IC trucks rose slightly thanks to the recovery of the Chinese market (up by 1.7 per cent). Unit sales in Europe advanced rapidly to reach a record high on the back of double-digit growth of 12.8 per cent. In western Europe, order numbers were up by 11.8 per cent in 2016, with all of the major markets except the United Kingdom registering significant gains. With an increase of 9.3 per cent, Germany lagged behind the market as a whole, but Italy and Spain generated above-average growth. Eastern Europe saw a sharp rise of 19.0 per cent, primarily thanks to the recovery of the Russian market. There was a small increase of 2.4 per cent in North America. Brazil, the largest individual market in South America, contracted by 17.0 per cent, which was a slower rate than in 2015. Other major South American markets declined too, although Central America made gains. The Chinese market rallied strongly, advancing by 14.0 per cent. This was the result of the tightening of emissions standards at the start of 2016 and a better macroeconomic situation in the second half of the year. Moreover, many companies benefited from the government's infrastructure spending. > TABLE 014

Growth in the systems business was attributable to companies' sustained capital expenditure on expanding and renewing their warehousing and logistics capacity. Booming online sales, changes in customer needs and the growing use of Industry 4.0 technologies were mainly responsible for the continued healthy level of demand for logistics systems.

According to the Logistics and Real Estate study published by bulwiengesa AG, the space used for logistics in Germany has increased by an average annual rate of more than 8 per cent over the past five years. There is a similarly positive trend in China and the United States. It is not only e-commerce-focused players but also traditional retailers, manufacturers and third-party logistics providers (3PL) that are investing in automated logistics centres in order to align their infrastructure with the additional growth in online shopping and faster delivery times.

Global industrial truck market (order intake) TABLE 014

in thousand units	2016	2015	Change
Western Europe	359.9	321.9	11.8%
Eastern Europe	63.7	53.5	19.0%
Middle East and Africa	34.6	37.7	–8.2%
North America	240.9	235.2	2.4%
Central and South America	40.3	42.5	–5.2%
Asia-Pacific	445.8	411.6	8.3%
World	**1,185.2**	**1,102.4**	**7.5%**

Source: WITS / FEM

Procurement markets

The price of steel, the most important commodity for the KION Group, rose slightly in 2016 as demand in China picked up again. Copper prices were once more below the average for the previous year, although they rose sharply at the end of 2016. The oil price was also down year on year but began to rise sharply following OPEC's decision in early December to cut output. In overall terms, producer prices for input goods in the eurozone fell slightly although prices for commodities went up significantly in the fourth quarter.

Financial markets

The KION Group bills a large part of its revenue in euros. In 2016, the proportion was 60.8 per cent, which was slightly below the prior-year level due to the consolidation of Dematic (2015: 62.1 per cent). The remaining 39.2 per cent of revenue was billed in foreign currencies, most notably China's renminbi and pound sterling. The significance of the US dollar also increased as a result of the consolidation of Dematic.

Overall, currency effects had a negative impact on the KION Group's business situation in 2016. Against the Chinese renminbi, the euro was approximately 5 per cent higher on average than in 2015. The euro appreciated by around 13 per cent against pound sterling and by 4 per cent against the Brazilian real. The average US dollar exchange rate in 2016 was roughly the same as in 2015.
> TABLE 015

Business performance

The KION Group substantially improved its competitive position in 2016 by making targeted strategic acquisitions.

On 1 November 2016, the KION Group successfully completed its takeover of Dematic, a leading specialist in automation and supply chain optimisation. The purchase consideration for 100 per cent of the shares in Dematic came to €2.2 billion. The acquisition was financed with a bridge loan that had been arranged with a number of banks beforehand. In July, a capital increase generated gross proceeds of around €459.3 million, which have already been used to reduce the amount that the Group needed to draw down under the bridge loan. In this corporate action, the pre-emption rights of the existing shareholders were disapplied and KION GROUP AG increased its share capital by 10.0 per cent for cash, fully utilising the available authorised capital. All 9,890,000 new shares were placed at a price of €46.44 each, which was determined by means of an accelerated bookbuilding process for institutional investors. Weichai Power, the anchor shareholder of KION GROUP AG, acquired 5,934,000, or 60.0 per cent, of the new shares. Institutional investors bought the remaining shares in the accelerated bookbuilding process.

Back in March 2016, the KION Group expanded its capabilities in the provision of automated warehousing systems by acquiring Retrotech, a company based in North America. Retrotech is a subsidiary of Egemin US and therefore, like Dematic, forms part of the new Supply Chain Solutions segment. The purchase consideration amounted to approximately €25.0 million.

Currencies TABLE 015

Average rate per Euro	2016	2015
Australia (AUD)	1.49	1.48
Brazil (BRL)	3.86	3.70
China (CNY)	7.35	6.98
United Kingdom (GBP)	0.82	0.73
U.S.A. (USD)	1.11	1.11

Source: Reuters / Bloomberg

STILL EMEA acquired its Norwegian dealer Roara AS, thereby strengthening its market position in Scandinavia. All the operating activities in that region are now brought together in the company STILL Norge AS. In Portugal, STILL has pooled its activities by establishing a separate presence in the country and is making use of the sales and distribution structures provided by the Spanish company STILL S.A.U. Customers are benefiting from new products, for example in the areas of automation, software solutions and intralogistics services, and are being offered comprehensive local customer relationship management.

At the beginning of 2016, the KION Group also opened a new plant near the Czech town of Stříbro close to Plzeň. The plant has the capacity to produce 12,000 warehouse trucks a year and operates as a smart factory based on digitally connected systems. Initially, the facility will build reach trucks for the Linde brand.

In addition, LMH EMEA has opened a new spare parts distribution centre, again in the Czech Republic, in the city of Brno. LMH EMEA is therefore also continuing to expand its service activities in the fast-growing market of central and eastern Europe.

In Brazil, the premium brands STILL and LMH have responded to the market contraction by merging their sales and distribution operations. This is helping the KION brands not only to benefit from a fall in fixed costs but also to improve their chances of gaining market share in the key South American sales market.

At the same time, the international economy brand Baoli started production at the KION plant in Indaiatuba with the aim of opening up a new market segment in Latin America. At the end of the year under review, 30 dealers were already selling Baoli trucks.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Overall assessment of the economic situation

The KION Group is a global leader in industrial trucks, warehouse technology, related services and supply chain solutions. It now has a unique portfolio of products, technologies and services in the global market and its positioning as a full-service provider of material handling solutions will enable it to benefit extensively from the growth in Intralogistics 4.0.

In 2016, the KION Group generated revenue of around €5.6 billion, thereby exceeding the equivalent figure in 2015 of €5.1 billion by 9.6 per cent despite significant negative currency effects. When adjusted for Dematic, which was reported for the first time in November/December, revenue rose by 4.5 per cent. The groupwide order book, which had a value of €2.2 billion at the end of 2016 (31 December 2015: €864.0 million), will serve as a sound basis for future growth and also includes the order book acquired with Dematic.

Total revenue in the Industrial Trucks & Services segment went up by 3.1 per cent to €5,202.6 million. The order intake was also 4.6 per cent higher year on year, one of the reasons being the excellent sustained level of orders in Europe. The segment was able to generate significant growth from new trucks, service business and also financial services, more than offsetting the negative effects from currency movements. Measured in terms of units sold, the brands in the segment kept pace overall with the strong growth in the global market. Significant drivers behind the growth in the industrial trucks business included truck deliveries and fleet management solutions in connection with e-commerce.

The Supply Chain Solutions segment generated total revenue of €366.0 million, which equated to an increase of €333.0 million compared with 2015. This rise in revenue was largely attributable to Dematic, the lead company in the segment, and to Retrotech, which was also acquired in the year under review. The revenue from Dematic was only included for two months, and that from Retrotech for ten months (2015: Egemin Automation for five months). The revenue was primarily accounted for by call-off orders under ongoing engineering projects, some of which cover a number of years. The revenue was recognised on a pro rata basis using the percentage of completion method. The order intake of €431.2 million related to project business for the most part.

EBIT, adjusted for non-recurring items, came to €537.3 million, a year-on-year increase of 11.3 per cent. After taking into account purchase price allocation (PPA) effects, among other things in connection with the KION and Dematic acquisitions, and further non-recurring items, EBIT amounted to €434.8 million.

In total, the KION Group generated net income for the year of €246.1 million (2015: €221.1 million). The earnings per share attributable to the shareholders of the KION Group amounted to

€2.38 compared with €2.20 in 2015. KION GROUP AG will propose a dividend of €0.80 per share to the Annual General Meeting (2015: €0.77 per share).

Comparison between actual and forecast growth

In the past year, the KION Group was able to fully met the forecasts for 2016 specified in the outlook section of the 2015 group management report – even without taking into account the effects arising from the acquisition of Dematic. The order intake of €5,553.0 million (excluding Dematic) was slightly in excess of the target range of €5,350 million to €5,500 million. With Dematic included, order intake was higher than the specified band at €5,833.1 million. Revenue excluding Dematic amounted to €5,327.7 million, coming in at the upper end of the target range of €5,200 million to €5,350 million, whereas including Dematic, the revenue of €5,587.2 million exceeded the forecast band. Adjusted EBIT without Dematic amounted to €527.2 million and was thus in the upper third of the target corridor of €510 million to €535 million; the adjusted EBIT margin of 9.9 per cent significantly exceeded the equivalent figure for 2015, as forecast. Including Dematic, adjusted EBIT amounted to €537.3 million, slightly higher than the specified corridor. This led to an adjusted EBIT margin of 9.6 per cent and therefore to an improvement compared with 2015. Free cash flow excluding Dematic, which was projected to fall within the range of €280 million to €320 million, amounted to €317.5 million at the end of the year and was therefore at the top end of this range. The effects from the Dematic acquisition led to a negative free cash flow of €1,850.0 million overall. In line with expectations, return on capital employed (ROCE) excluding the Dematic acquisition rose slightly to 12.4 per cent; with the inclusion of Dematic for two months, ROCE was 6.8 per cent and therefore below the corresponding figure for 2015. The following table shows the results achieved by the KION Group (both excluding and including the effects associated with the acquisition of Dematic) compared against forecasts.
> TABLE 016

Comparison between actual and forecast growth TABLE 016

in € million	Outlook 2016	KION Group 2016 (excl. Dematic)	KION Group 2016 (incl. Dematic)
Order intake	5,350 – 5,500	5,553.0	5,833.1
Revenue	5,200 – 5,350	5,327.7	5,587.2
Adjusted EBIT	510 – 535	527.2	537.3
Free cash flow	280 – 320	317.5	– 1,850.0
ROCE	slightly above previous year	12.4%	6.8%

Business situation and financial performance of the KION Group

Level of orders

Order intake rose to €5,833.1 million, up by 11.8 per cent on the prior-year level (2015: €5,215.6 million). Egemin Automation, Retrotech (from March 2016) and Dematic (from November 2016), which together form the Supply Chain Solutions segment, contributed a total of €431.2 million to the order volume. Negative currency effects reduced order intake by €108.8 million. The order book expanded year on year by €1,380.6 million to €2,244.7 million (31 December 2015: €864.0 million). The huge leap was mainly caused by the inclusion of Dematic's order book on the reporting date.

Revenue

External revenue generated by the KION Group amounted to €5,587.2 million, an increase of 9.6 per cent on the 2015 figure of €5,097.9 million. The share accounted for by the Supply Chain Solutions segment was €364.7 million or 6.5 per cent. Currency effects reduced revenue by €105.2 million. Overall, the proportion of groupwide external revenue accounted for by services was 43.7 per cent (2015: 44.6 per cent). > TABLE 017

Revenue by customer location

The increase in revenue in the KION Group was predominantly attributable to the sound performance of the Industrial Trucks & Services segment in western Europe, particularly in France, Italy and Germany. The segment's revenue in eastern Europe also grew substantially. The significant rise in revenue in North America was mainly attributable to the Supply Chain Solutions segment and its pro rata contribution to revenue from Dematic. Based on the KION Group as a whole, 23.3 per cent of external revenue in the reporting period (2015: 24.7 per cent) was accounted for by fast-growing markets. Overall, 76.4 per cent of revenue (2015: 75.0 per cent) was generated outside Germany. > TABLE 018

Revenue with third parties by product category TABLE 017

in € million	2016	2015	Change
Industrial Trucks & Services	**5,200.5**	**5,044.4**	**3.1%**
New business	2,860.3	2,779.9	2.9%
Service business	2,340.2	2,264.5	3.3%
– Aftersales	1,363.8	1,347.0	1.2%
– Rental business	558.3	524.1	6.5%
– Used trucks	285.8	270.4	5.7%
– Other	132.4	122.9	7.7%
Supply Chain Solutions	**364.7**	**33.0**	**>100%**
Business Solutions	263.9	25.7	>100%
Service business	100.7	7.4	>100%
Corporate Services	**22.1**	**20.5**	**7.7%**
Total revenue	**5,587.2**	**5,097.9**	**9.6%**

Revenue with third parties by customer location TABLE 018

in € million	2016	2015	Change
Western Europe	3,982.7	3,724.1	6.9%
Eastern Europe	459.6	432.0	6.4%
Middle East and Africa	100.3	92.9	7.9%
North America	295.9	119.6	> 100%
Central and South America	148.6	143.4	3.6%
Asia-Pacific	600.1	585.8	2.4%
Total revenue	**5,587.2**	**5,097.9**	**9.6%**

Earnings and profitability

EBIT, EBITDA and ROCE

Earnings before interest and tax (EBIT) improved by 2.8 per cent to €434.8 million (2015: €422.8 million). Although there was a growth-related rise in gross profit, selling and administrative expenses also increased. Generally, the earnings figures went up as a result of the acquisition of Dematic, which was included in each of the figures for the first time, but only for two months. In addition, functional costs rose because of the negative effects from purchase price allocation – especially that relating to Dematic – and because of the non-recurring transaction costs associated with the Dematic acquisition. The non-recurring items in 2015 amounting to €33.0 million related mainly to expenses and impairment losses in connection with the efficiency measures initiated under the Strategy 2020.

EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) amounted to €537.3 million (2015: €482.9 million). The adjusted EBIT margin improved to 9.6 per cent (2015: 9.5 per cent). > TABLE 019

EBIT TABLE 019

in € million	2016	2015	Change
EBIT	**434.8**	**422.8**	**2.8%**
+ Non-recurring items	42.2	33.0	27.8%
+ PPA items	60.4	27.0	> 100%
Adjusted EBIT	**537.3**	**482.9**	**11.3%**

As a consequence of the inclusion of Dematic for two months, return on capital employed (ROCE) was 6.8 per cent (2015: 11.9 per cent). While adjusted EBIT increased, there was also a substantial rise in capital employed.

Earnings before interest, tax, depreciation and amortisation (EBITDA) reached €889.5 million, compared with €824.2 million in the prior year. Adjusted EBITDA rose to €931.6 million (2015: €850.0 million). This equated to an adjusted EBITDA margin of 16.7 per cent. > TABLE 020

Key influencing factors for earnings

The cost of sales rose by 10.4 per cent to €4,034.6 million (2015: €3,655.1 million). Gross profit amounted to €1,552.6 million, up by 7.6 per cent on the 2015 figure of €1,442.8 million. The gross margin was 27.8 per cent compared with 28.3 per cent in 2015.

Selling expenses grew by 7.2 per cent to €662.4 million in 2016 (2015: €618.0 million) as a result of the stepping up of sales activities – also in connection with the inclusion of Egemin Automation for the whole of the year and as a result of the acquisition of Dematic and Retrotech. At €411.2 million, administrative expenses were higher than in the prior year (€355.9 million) for a number of reasons, including consultancy expenses incurred in connection with the Dematic acquisition. Research and development costs in the same period increased year on year to €96.5 million (2015: €89.7 million). The 'other' item came to €52.3 million (2015: €43.6 million). This included the share of profit (loss) of equity-accounted investments, which amounted to a profit of €6.5 million (2015: profit of €10.6 million) as well as gains and losses from exchange differences. > TABLE 021

Net financial income / expenses

The net financial expenses representing the balance of financial income and financial expenses increased by €3.1 million year on year to €95.7 million (2015: net financial expenses of €92.6 million). Non-recurring financial expenses of €25.7 million arose in February 2016 as a result of the new financing structure, but these have already been fully offset by the optimised financing arrangements put in place during the reporting year. The bridge loan drawn down to finance the Dematic acquisition led to a higher interest cost in the fourth quarter of 2016.

EBITDA TABLE 020

in € million	2016	2015	Change
EBITDA	**889.5**	**824.2**	**7.9%**
+ Non-recurring items	42.2	25.8	63.5%
+ PPA items	0.0	0.0	–100.0%
Adjusted EBITDA	**931.6**	**850.0**	**9.6%**

(Condensed) income statement

TABLE 021

in € million	2016	2015	Change
Revenue	5,587.2	5,097.9	9.6%
Cost of sales[1]	–4,034.6	–3,655.1	–10.4%
Gross profit	**1,552.6**	**1,442.8**	**7.6%**
Selling expenses and administrative expenses	–1,073.6	–973.9	–10.2%
Research and development costs[1]	–96.5	–89.7	–7.6%
Other	52.3	43.6	20.0%
Earnings before interest and taxes (EBIT)	**434.8**	**422.8**	**2.8%**
Net financial expenses	–95.7	–92.6	–3.3%
Earnings before taxes	**339.2**	**330.2**	**2.7%**
Income taxes	–93.1	–109.2	14.7%
Net income	**246.1**	**221.1**	**11.3%**

1 Last year figures were adjusted due to a change in presentation in 2016, for details see note [7] to the consolidated financial statements

Income taxes

Income tax expenses amounted to €93.1 million (2015: €109.2 million). The tax rate was 27.4 per cent (2015: 33.1 per cent).

Net income and appropriation of profit

Net income amounted to €246.1 million, up by 11.3 per cent on the 2015 figure of €221.1 million. Net income of €245.5 million (2015: €217.1 million) was attributable to the shareholders of KION GROUP AG. Basic earnings per share came to €2.38 (2015: €2.20) based on 103.2 million (2015: 98.7 million) no-par-value shares. Diluted earnings per share came to €2.38 (2015: €2.20) based on an average number of shares of 103.3 million (2015: 98.7 million) during the year. These calculations did not include around 164.5 thousand no-par-value treasury shares that had been repurchased by KION GROUP AG as part of a buy-back to support the KION Employee Equity Programme.

The Executive Board and the Supervisory Board propose to the Annual General Meeting to be held on 11 May 2017 that an amount of €86.9 million be appropriated from the distributable profit of KION GROUP AG for the 2016 financial year of €129.2 million for the payment of a dividend of €0.80 per dividend-bearing share. It is also proposed that a further sum of €42.3 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. It is therefore planned to distribute 35 per cent of the net income accruing to KION GROUP AG shareholders in dividends.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

The brand companies in the Industrial Trucks & Services segment increased orders for new trucks by 7.5 per cent to 178.3 thousand units. Of this total, 61.3 per cent was accounted for by the Linde brand including Fenwick, 33.0 per cent by the STILL brand including OM STILL and the remaining 5.7 per cent by the brands Baoli and Voltas. The KION Group was able to benefit in particular from the growth in electric forklift trucks and warehouse trucks, which already account for more than 80 per cent of order intake. Orders for IC trucks fell slightly year on year but stabilised to a significant extent in the second half of the year. Substantial growth occurred in some regions, primarily the European markets, China and North America. However, orders fell in Central and South America, a consequence of the persistently weak market situation in Brazil.

The total value of order intake rose by 4.6 per cent to €5,383.2 million (2015: €5,146.3 million). Growth was generated from both new trucks and service business. Some of the gains were offset by negative currency effects.

Revenue

Total segment revenue went up by 3.1 per cent to €5,202.6 million. The main factor behind the increase was higher unit sales of new trucks, primarily in Germany, France, Italy and eastern Europe. This more than made up for a fall in revenue in the United Kingdom, Brazil and Asian countries. Overall, new truck business with external customers rose to €2,860.3 million (2015: €2,779.9 million), with electric forklift truck business continuing to expand.

Revenue from external customers in the service business was up by 3.3 per cent to €2,340.2 million (2015: €2,264.5 million). The proportion of external revenue in the Industrial Trucks & Services segment accounted for by service business came to 45.0 per cent overall (2015: 44.9 per cent).

Earnings

The positive trend in revenue combined with the margin improvements in new truck business resulted in adjusted EBIT of €586.9 million, which was significantly higher than in the prior year (2015: €529.5 million). Consequently, the adjusted EBIT margin for the segment increased to 11.3 per cent (2015: 10.5 per cent). Even after taking into account non-recurring items and purchase price allocation effects, EBIT was significantly higher year on year at €553.0 million (2015: €482.5 million).

Key figures – Industrial Trucks & Services – TABLE 022

in € million	2016	2015	Change
Order intake	5,383.2	5,146.3	4.6%
Total revenue	5,202.6	5,044.7	3.1%
EBITDA	953.4	868.8	9.7%
Adjusted EBITDA	958.8	882.5	8.6%
EBIT	553.0	482.5	14.6%
Adjusted EBIT	586.9	529.5	10.8%
Adjusted EBITDA margin	18.4%	17.5%	–
Adjusted EBIT margin	11.3%	10.5%	–

Key figures – Supply Chain Solutions – TABLE 023

in € million	2016	2015	Change
Order intake	431.2	48.8	> 100%
Total revenue	366.0	33.0	> 100%
EBITDA	5.1	2.4	> 100%
Adjusted EBITDA	10.8	2.4	> 100%
EBIT	–31.7	1.2	<–100%
Adjusted EBIT	6.0	2.0	> 100%
Adjusted EBITDA margin	3.0%	7.2%	–
Adjusted EBIT margin	1.6%	6.1%	–

Adjusted EBITDA stood at €958.8 million (2015: €882.5 million). This equated to an adjusted EBITDA margin of 18.4 per cent (2015: 17.5 per cent). > TABLE 022

Supply Chain Solutions segment

Business performance and order intake

Order intake in the Supply Chain Solutions segment amounted to €431.2 million in 2016. Dematic only contributed two months, and Retrotech ten months, to the order volume in the year under review. The segment managed to win new customer projects in a number of regions, including Europe. These projects focused on e-commerce, food retail and general trade in goods.

Revenue

Total segment revenue rose to €366.0 million as a result of acquisitions, although Dematic was only included for a period of two months. Business solutions activities outside the KION Group accounted for 72.4 per cent of revenue and the service business for 27.6 per cent. The segment generated almost half of its revenue in North America.

Earnings

Adjusted EBIT amounted to €6.0 million (2015: €2.0 million). The adjusted EBIT margin for this segment was 1.6 percent (2015: 6.1 percent). After taking into account non-recurring items and purchase price allocation effects, EBIT came to minus €31.7 million (2015: €1.2 million).

Adjusted EBITDA amounted to €10.8 million with an adjusted EBITDA margin of 3.0 per cent. > TABLE 023

Corporate Services segment

Business performance

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

Revenue and earnings

Total segment revenue came to €242.0 million and was therefore higher than the 2015 figure of €219.4 million. This revenue was derived primarily from internal IT and logistics services.

The segment reported adjusted EBIT of €305.9 million (2015: €153.3 million). The year-on-year increase was attributable to higher intra-group dividend income. Adjusted EBITDA came to €323.5 million (2015: €170.5 million). > TABLE 024

Key figures – Corporate Services –			TABLE 024
in € million	2016	2015	Change
Order intake	242.0	219.8	10.1%
Total revenue	242.0	219.4	10.3%
EBITDA	292.5	143.4	> 100%
Adjusted EBITDA	323.5	170.5	89.8%
EBIT	274.9	126.2	> 100%
Adjusted EBIT	305.9	153.3	99.6%

Consolidation / reconciliation

Besides the intra-group supply relationships between the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments, the main factor in the adjusted EBIT effect of minus €361.5 million (2015: minus €202.0 million) across all segments was the intra-group dividend income.

Net assets

Non-current assets

Non-current assets increased to €9,004.6 million (31 December 2015: €4,810.3 million), primarily as a result of the acquisition of Dematic. Intangible assets accounted for €6,236.7 million (31 December 2015: €2,452.5 million). Within that amount, goodwill and the KION Group's brand names rose significantly to €4,578.1 million (31 December 2015: €2,152.2 million) owing to currency effects and, in particular, the first-time consolidation of Dematic on the basis of a provisional purchase price allocation.

Rental assets increased to €575.3 million, reflecting the expansion of the rental fleet (31 December 2015: €544.0 million). Due to the overall growth in business, leased assets for leases with end customers that are classified as operating leases increased to €429.7 million (31 December 2015: 334.4 million). Long-term lease receivables arising from leases with end customers that are classified as finance leases advanced to €531.3 million (31 December 2015: €472.0 million).

The amount of deferred tax assets recognised in the statement of financial position rose by €71.2 million to reach €420.2 million as at the reporting date. Further details regarding the change in deferred tax assets are provided in note [14] in the notes to the consolidated financial statements.

Current assets

Overall, current assets increased by €724.7 million to €2,354.6 million (31 December 2015: €1,629.9 million). This change reflected the marked impact of Dematic on the statement of financial position as well as an expansion in trade receivables and inventories in the Industrial Trucks & Services segment in line with the growth of the business. Working capital (inventories and trade receivables less trade payables) amounted to €869.1 million as at the reporting date (31 December 2015: €649.3 million).

The breakdown of the reported inventories as at 31 December 2016 was as follows: > TABLE 025

Current lease receivables from end customers increased by €18.6 million year on year to €200.3 million (31 December 2015: €181.7 million).

Cash and cash equivalents went up by €176.5 million to €279.6 million (31 December 2015: €103.1 million). A significant cash reserve at Dematic was one of the factors that led to this temporary increase as at the reporting date.

Inventories TABLE 025

in € million	2016	2015	Change
Materials and supplies	158.0	115.9	36.3%
Work in progress	105.3	75.0	40.4%
Finished goods and merchandise	396.5	359.5	10.3%
Advances paid	12.6	3.1	>100%
Total inventories	**672.4**	**553.5**	**21.5%**

(Condensed) statement of financial position TABLE 026

in € million	2016	in %	2015	in %	Change
Non-current assets	9,004.6	79.3%	4,810.3	74.7%	87.2%
Current assets	2,354.6	20.7%	1,629.9	25.3%	44.5%
Total assets	**11,359.2**	**–**	**6,440.2**	**–**	**76.4%**
Equity	2,535.1	22.3%	1,848.7	28.7%	37.1%
Non-current liabilities	6,151.7	54.2%	2,860.0	44.4%	>100%
Current liabilities	2,672.5	23.5%	1,731.5	26.9%	54.3%
Total equity and liabilities	**11,359.2**	**–**	**6,440.2**	**–**	**76.4%**

The condensed consolidated statement of financial position as at 31 December 2016 showing current and non-current assets and liabilities together with equity is presented in > TABLE 026.

Financial position

Principles and objectives of financial management

The KION Group pursues a conservative financial policy of maintaining a strong cross-over credit profile with reliable access to debt capital markets. By pursuing an appropriate financial management strategy, the KION Group makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. In addition, the KION Group optimises its financial relationships with customers and suppliers, manages any collateral security offered 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 and those of 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 core components of this borrowing will become due for repayment in the years 2018 to 2021.

Depending on requirements and the market situation, the KION Group will also avail itself of the funding facilities offered by the public capital markets in future. The KION Group therefore seeks to maintain an investment-grade credit rating in the capital and funding markets by rigorously pursuing a value-based strategy, implementing proactive risk management and ensuring a solid funding structure. Since June 2016, rating agency Standard & Poor's has classified the KION Group as BB+ with a negative outlook, while the rating from Moody's since 1 November 2016 has been Ba1 with a negative outlook. Shortly after the reporting date on 4 January 2017, Fitch Ratings issued the KION Group with a long-term issuer rating of BBB– with a stable outlook. This is the first time that the KION Group has received an investment-grade rating.

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. The Group also uses derivatives to hedge currency risk.

Main capital market activities in the reporting period

The KION Group obtained a firm commitment for a bridge loan on attractive terms, originally in an amount of €3.0 billion, to finance the acquisition of Dematic. In July of the reporting year, KION GROUP AG increased its share capital by 10.0 per cent for cash and, including the share premium, generated issue proceeds of €459.3 million. The costs associated with the capital increase amounting to €2.0 million (net) were recognised directly in equity.

Following this capital increase, the agreed financing under the bridge loan was reduced by the amount of the proceeds from the issue and now stands at €2,543.2 million. This loan amount was fully drawn down as at the reporting date. The bridge loan is subdivided into three tranches with staggered maturities from February 2018 to November 2021 and offers the best possible temporary flexibility and security.

In the first quarter of 2016, the KION Group had successfully repaid the financing dating back to the time before the IPO and updated its financing structure with much better terms. The current senior facilities agreement (SFA) comprises a revolving credit facility of €1,150.0 million (maturing in February 2021) and a fixed-term tranche of €350.0 million (maturing in February 2019). KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the new SFA. The new syndicated loan is not collateralised, as is typical in the current market environment for companies that are on the cusp of an investment-grade rating. The contractual terms of the SFA require compliance with certain covenants. All the covenants were complied with as at the reporting date.

In September 2016, KION GROUP AG carried out another share buyback to support its KION Employee Equity Programme (KEEP), purchasing a total of 50,000 of its own no-par-value shares (around 0.046 per cent of the share capital). To do so, KION Group AG used the renewed authorisation granted at the Annual General Meeting on 12 May 2016. In October 2016, the KION Group employees entitled to participate in KEEP were given the opportunity to buy more KION shares. By 31 December 2016, a total of 45,564 shares had been purchased by staff (31 December 2015: 73,512 shares). This increased the number of shares held in treasury to 164,486 as at the reporting date.

Analysis of capital structure

Overall, current and non-current liabilities had risen by €4,232.6 million to €8,824.2 million as at the reporting date. In addition to the acquisition financing, the deferred tax liabilities in connection with the preliminary purchase price allocation for Dematic led to the increase in liabilities. The non-current liabilities of €6,151.7 million (31 December 2015: €2,860.0 million) included deferred tax liabilities of €905.3 million (31 December 2015: €302.7 million). > TABLE 026

Financial debt

The utilisation of the bridge loan meant that the financial liabilities in the statement of financial position as at the reporting date had risen sharply compared with the figure at the end of 2015 (€676.5 million) and now stood at €3,183.0 million. After deduction of cash and cash equivalents of €279.6 million, net financial debt amounted to €2,903.4 million compared with €573.5 million at the end of 2015. This equated to 3.1 times (2015: 0.7 times) the adjusted EBITDA for 2016. It is important to note that the EBITDA figure only included a contribution to earnings from Dematic covering two months. The debt is to be repaid in subsequent financial years using cash flow from operating activities and other sources of funds.

Long-term borrowing net of borrowing costs increased to €2,889.1 million as at the reporting date, a year-on-year rise compared with the figure of €557.2 million at the end of 2015. The bridge loan was classified in full as a non-current financial liability as at the reporting date. One tranche (€343.2 million) is due for repayment in February 2018, followed by a further tranche (€1,200.0 million) in November 2018 and the third tranche (€1,000.0 million) in November 2021. The fixed-term tranche of the SFA maturing in February 2019 has been drawn down in full (€350.0 million). The corporate bond of €450.0 million still included at the end of 2015 was repaid in full in February 2016 together with the old revolving line of credit. As at 31 December 2016, the unused, unrestricted SFA loan facility amounted to €924.7 million and together with the freely available cash and cash equivalents totalled €1,200.8 million. The KION Group works continuously to optimise the financing of the Group (see note [50] in the notes to the consolidated financial statements). > TABLE 027

Retirement benefit obligation

The KION Group supports pension plans in many countries. These plans comply with legal requirements, standard local practice and 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 2016, the retirement benefit obligation under defined benefit pension plans amounted to a total of €991.0 million. The increase compared with the figure at the end of 2015 (€798.0 million) was partly attributable to the inclusion of pension provisions at Dematic amounting to €87.7 million; it was also caused by the lower level of interest rates. The provisions predominantly relate to pension plans in Germany. After deduction of the pension plan assets amounting to €12.3 million, the remaining net obligation came to €978.7 million (31 December 2015: €767.8 million).

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 2016 in connection with the main pension plans totalled €20.6 million, comprising €13.9 million for direct pension payments and €6.6 million for employer contributions to plan assets. Transfers to external pension funds resulted in payments of €0.1 million.

Net financial debt TABLE 027

in € million	2016	2015	Change
Corporate bond (2013/2020) – fixed rate (gross)	–	450.0	–100.0%
Liabilities to banks (gross)	3,188.6	225.9	>100%
Other financial liabilities to non-banks	7.2	6.2	16.7%
./. Capitalised borrowing costs	–12.9	–5.5	<–100%
Financial liabilities	**3,183.0**	**676.5**	**>100%**
./. Cash and cash equivalents	–279.6	–103.1	<–100%
Net financial debt	**2,903.4**	**573.5**	**>100%**

Further details about the retirement benefit obligation are provided in the notes to the consolidated financial statements.

Lease liabilities

Continuing growth in the long-term leasing business with end customers in 2016 led to a correspondingly higher funding requirement. Lease liabilities arising from sale and leaseback transactions to fund the long-term leasing business with end customers increased to €1,007.2 million (31 December 2015: €855.6 million) in line with the growth of the business. Of this total, €722.0 million related to non-current and €285.2 million to current lease liabilities.

The liabilities from the short-term rental fleet and from procurement leases are reported under other financial liabilities (see note [34] in the notes to the consolidated financial statements). As at 31 December 2016, other financial liabilities included liabilities of €440.0 million (31 December 2015: €403.2 million) arising from sale-and-leaseback transactions used to finance the short-term rental fleet. The item also included liabilities from residual value guarantees amounting to €16.7 million (31 December 2015: €17.8 million). The residual-value liabilities relate to residual-value guarantees provided in connection with the sale of assets to leasing companies, where the guaranteed amount is more than 10.0 per cent of the fair value of the asset in question.

Equity

Consolidated equity was higher than at the end of 2015, advancing by €686.4 million to €2,535.1 million as at 31 December 2016 (31 December 2015: €1,848.7 million). This rise was predominantly attributable to the capital increase implemented in July 2016 (€457.3 million) and the net income for the year (€246.1 million). However, the continuing low level of interest rates resulted in a negative impact on pensions, as a result of which equity declined by €50.1 million. Other positive effects recognised in other comprehensive income (€109.1 million, of which a positive impact of €110.4 million from currency translation) and the dividend payment (€76.0 million) led to an overall increase in equity of €33.1 million. The equity ratio was 22.3 per cent as at the reporting date (31 December 2015: 28.7 per cent).

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (excluding leased and rental assets) came to €166.7 million in the reporting year, compared with €142.6 million in 2015. Once again, the main areas of spending in the Industrial Trucks & Services segment were capitalised development costs in the LMH EMEA and STILL EMEA operating units and the expansion and modernisation of production and technology sites. This included continuing capital spending at the STILL facilities in Hamburg and the LMH facilities in Aschaffenburg, for which a total of €83 million will be made available up to 2021. This is intended to lead to improved material flows in production and logistics, and to more cost-effective production processes. Capital expenditure in the Supply Chain Solutions segment mainly related to capitalised development costs as well as software and licences.

Analysis of liquidity

Liquidity management is an important aspect of central financial management. The sources of liquidity are cash and cash equivalents, cash flow from operating activities and amounts available under credit facilities. Cash and cash equivalents went up by €176.5 million over the course of 2016 to reach €279.6 million (31 December 2015: €103.1 million); €3.5 million of this was restricted. Taking into account the credit facility that was still available, the unrestricted cash and cash equivalents available to the KION Group as at 31 December 2016 amounted to €1,200.8 million (31 December 2015: €1,193.6 million.)

The KION Group's net cash provided by operating activities totalled €414.3 million, which was below the comparable prior-year figure of €455.0 million. The positive trend in EBIT was offset by cash outflows in connection with the Dematic deal. In addition to the cash transaction costs incurred by KION GROUP AG, Dematic itself also incurred pre-contract expenses in connection with the acquisition by the KION Group that were then reflected in Dematic cash flows after the acquisition date. Growth in business led to a year-on-year increase in working capital and the volume of leases, thereby reducing cash flow by a total of €52.4 million. The net change of minus €158.2 million arising from the expansion of the rental business (including finance lease liabilities) was close to the prior-year level of minus €155.9 million. Higher tax payments of €108.7 million (2015: €84.8 million) reduced the level of cash flow from operating activities.

The net cash used for investing activities totalled €2,264.3 million in the year under review (2015: €122.3 million). Cash payments for development (R&D) and for property, plant and equipment amounted to €166.7 million (2015: €142.6 million). In particular, the purchase considerations relating to the acquisitions of Dematic and Retrotech in the reporting period led to a net cash outflow of €2,118.7 million (after deduction of cash and cash equivalents acquired). Net cash of €2,091.1 million was used for the acquisition of Dematic, and €23.2 million for the acquisition of Retrotech. Cash payments for the acquisition of equity investments in the prior year (€84.9 million) had largely been in connection with the acquisition of Egemin Automation. This amount was partly offset by an inflow of funds of €77.4 million generated by the sale of 20.0 per cent of the shares in Linde Hydraulics to Weichai Power.

Free cash flow – the sum of cash flow from operating activities and investing activities – amounted to minus €1,850.0 million as a result of the outflow of funds for the Dematic acquisition (2015: plus €332.7 million).

Cash flow from financing activities was well into positive territory at €2,026.3 million (2015: minus €329.1 million) following the financial liabilities taken on in connection with the acquisitions. The net drawdown of financial debt in the year under review totalled €1,744.0 million. The additional gross borrowings in 2016 amounted to €4,362.5 million. These borrowings arose as a result of the reorganisation of the financing structure in February 2016 and the need to pay the purchase consideration for the acquisition of Dematic. At the same time as taking on this new debt, the KION Group redeemed liabilities of €2,618.5 million in the reporting year. These redemptions consisted of the early repayment of a bond of €450.0 million and the repayment of the revolving credit facility of €1,243.0 million, which was replaced by the new SFA. In addition, the net cash proceeds from the capital increase (€456.7 million) were used to reduce the amount that needed to be made available under the bridge loan. The costs of obtaining financing in the year under review amounted to €23.2 million (2015: €5.6 million). The distribution of a dividend of €0.77 per share resulted in an outflow of funds of €76.0 million (2015: €54.3 million). The net cash used for current interest payments rose to a total of €76.3 million in the year under review (2015: €50.4 million). This figure included the interest payments in connection with the early redemption charge (€15.2 million) levied because of the early repayment of the corporate bond. The acquisition of employee shares caused a cash outflow of €2.8 million (2015: €2.7 million). > TABLE 028

(Condensed) statement of cash flows TABLE 028

in € million	2016	2015	Change
EBIT	434.8	422.8	2.8%
Cash flow from operating activities[1]	414.3	455.0	–8.9%
Cash flow from investing activities[1]	–2,264.3	–122.3	<–100%
Free cash flow	**–1,850.0**	**332.7**	**<–100%**
Cash flow from financing activities	2,026.3	–329.1	>100%
Effect of foreign exchange rate changes on cash	0.2	0.5	–52.8%
Change in cash and cash equivalents	**176.5**	**4.1**	**>100%**

1 Last year figures were adjusted due to a change in presentation, for details see note [37] to the consolidated financial statements

Long-term leasing business

The sales activities of the KION Group are supported by financial services in connection with direct long-term leasing business. In this business, trucks leased directly to the end customer are refinanced by the KION Group. As in 2015, a large proportion of the portfolio was focused on business in western Europe. The contribution made by the long-term leasing business in 2016 to the financial performance and financial position of the KION Group is shown in > TABLE 029 and > TABLE 030. 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. The increase of €7.3 million in net financial debt relating to long-term leasing business to €106.3 million (31 December 2015: €99.0 million) was attributable to the expansion in business activities. > TABLE 031

Profitability of long-term leasing business TABLE 029

in € million	2016	2015
Revenues	480.5	444.4
Adjusted EBITDA	99.8	87.5
Adjusted EBIT	4.0	5.4
Earnings before taxes (EBT)	4.5	3.9

Financial position of long-term leasing business TABLE 030

in € million	2016	2015
Liabilities to banks	106.3	99.0
Liabilities from financial services	8.3	–
Lease liabilities	1,007.2	855.6
Calculatory equity	39.4	33.5
Total	**1,161.2**	**988.1**
Leased assets	429.7	334.4
Lease receivables	731.5	653.7
Total	**1,161.2**	**988.1**

Refinancing of long-term leasing business

TABLE 031

in € million	2016 KION Group	2016 thereof non-current leasing business	2015 KION Group	2015 thereof non-current leasing business
Liabilities to banks	3,188.6	106.3	225.9	99.0
Corporate bond (2013/2020) – fixed rate	–	–	450.0	–
Other financial liabilities to non-banks	7.2	–	6.2	–
./. Capitalised borrowing costs	–12.9	–	–5.5	–
Financial liabilities	**3,183.0**	**106.3**	**676.5**	**99.0**
./. Cash and cash equivalents	–279.6	–	–103.1	–
Net financial liabilities	**2,903.4**	**106.3**	**573.5**	**99.0**
Lease liabilities	1,007.2	1,007.2	855.6	855.6
Liabilities from financial services	8.3	8.3	–	–
Interest-bearing net liabilities	**3,918.9**	**1,121.8**	**1,429.1**	**954.6**
Liabilities from short-term rental financing	456.7	–	421.0	–
Liabilities from procurement leases	21.0	–	18.1	–
Liabilities from finance leases	**477.7**	**–**	**439.0**	**–**
Net operating debt	**4,396.6**	**1,121.8**	**1,868.1**	**954.6**

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 KION Holding 2 GmbH and in the newly acquired DH Services Luxembourg Holding S.à r.l. Through DH Services Luxembourg Holding S.à r.l., KION GROUP AG holds all the shares in Dematic. In turn, KION Holding 2 GmbH is the sole shareholder of Linde Material Handling GmbH, Aschaffenburg, which holds almost all of the shares of the companies in the KION Group (excluding Dematic).

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 statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the additional provisions in section 315a 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.

Business performance in 2016

The business performance and position of KION GROUP AG are largely determined by the business performance and success of the Group. Detailed reports in this regard are set out in the 'Business performance' and 'Financial position and financial performance of the KION Group' sections.

Financial performance

KION GROUP AG does not have any operating activities itself. The reported revenue has arisen as a result of the first-time application of the provisions in the German Accounting Directive Implementation Act (BilRUG) and largely relates to the provision of services for affiliated companies.

The cost of materials is related to the revenue from the provision of services and mostly consists of expenses for consultancy services.

Personnel expenses rose to €43.9 million (2015: €34.1 million) as a consequence of organisational changes following the implementation of the CTO organisation and additions to the performance share plans.

Other operating expenses went up by €14.9 million to €51.5 million. These largely comprised costs for external services and consultancy.

The main changes in net financial income / expenses were as follows:

- Of the total income from profit-transfer agreements, €361.3 million (2015: €24.6 million) related to KION Holding 2 GmbH and €1.1 million (2015: €0.6 million) to proplan Transport- und Lagersysteme GmbH.
- Interest expense and similar charges, which amounted to €27.0 million (2015: €2.8 million), arose mainly from expenses for the provision of credit facilities and from bank interest expenses (2015: from unwinding the discount on the pension provisions).
- Other interest and similar income for the most part consisted of interest income on intercompany receivables in the amount of €4.6 million (2015: €6.5 million).

- KION GROUP AG incurred tax expenses of €23.1 million as a result of its role as the parent company of the tax group in 2016 (2015: €0.0 million).

A total net profit of €258.3 million was generated in the year under review (2015: net loss of €29.3 million). > TABLE 032

The substantially higher profit transfer from KION Holding 2 GmbH led to a significantly higher net profit compared to the forecast for the year under review, which was for a net loss in the low double-digit-million range.

Net assets

At the end of 2016, the total assets of KION GROUP AG had increased by approximately 144.1 per cent year on year to €5,505.3 million. This was predominantly attributable to the acquisition of the Dematic Group. The financial assets include the carrying amount of the equity investment in DH Services Luxembourg Holding S.à r.l. (€2,468.5 million) – which in turn holds all the shares in the subsidiaries in the Dematic Group –, the shares in KION Holding 2 GmbH (€2,005.3 million) and the shares in proplan Transport- und Lagersysteme GmbH (€0.6 million).

The receivables mainly consist of loans of €586.4 million to the Dematic Group and the Company's entitlement to the transfer of profits from KION Holding 2 GmbH of €361.3 million. As at 31 December 2015, there had been receivables due from KION Holding 2 GmbH (€229.9 million).

As a result of the capital increase of €459.3 million implemented in July 2016 and the higher net profit (€258.3 million), and after taking into account the payment of the dividend of €76.0 million, equity rose to €2,842.5 million (31 December 2015: €2,200.5 million). As a consequence of the new borrowing, the equity ratio was 51.6 per cent as at the reporting date (31 December 2015: 97.6 per cent).

Provisions increased by €15.9 million to €62.8 million and this was mainly attributable to changes in pension provisions and personnel provisions. Pension provisions include provisions of €3.1 million (31 December 2015: €2.3 million) for former members of the Executive Board. KION GROUP AG recognised tax provisions of €4.1 million as a result of taking over the role as the parent company of the tax group.

Financial performance TABLE 032

in € million	2016	2015	Change
Revenue	17.6	–	–
Operating income	19.9	12.6	58.3%
Operating expenses	–96.1	–70.7	–35.9%
Material expenses	–0.7	–	–
Personnel expenses	–43.9	–34.1	–28.7%
Other administrative expenses	–51.5	–36.5	–40.9%
Depreciation expense	–0.1	–0.1	6.4%
Operating loss	**–58.7**	**–58.2**	**–0.9%**
Net financial income	340.0	28.9	>100%
Income taxes	–23.1	–0.0	<–100%
Net income (loss)	**258.3**	**–29.3**	**>100%**

Net assets TABELLE 033

in € million	2016	2015	Change
Assets			
Property, plant and equipment	0.1	0.2	–32.7%
Financial assets	4,474.4	2,005.9	> 100%
Receivables and other assets	974.0	248.8	> 100%
Cash and cash equivalents	56.7	0.0	–
Total assets	**5,505.3**	**2,255.0**	**> 100%**
Equity and liabilities			
Equity	2,842.5	2,200.5	29.2%
Retirement benefit obligation	20.3	13.5	50.3%
Tax provisions	4.1	–	–
Other provisions	38.4	33.4	15.0%
Liabilities	2,599.9	7.4	> 100%
Deferred income	0.1	0.2	–30.9%
Total equity and liabilities	**5,505.3**	**2,255.0**	**> 100%**

At the end of the year, liabilities to banks amounted to €2,546.3 million (31 December 2015: €0.0 million). These liabilities were in connection with the acquisition of Dematic. > TABLE 033

Financial position

By pursuing an appropriate financial management strategy, the KION Group – either directly through KION GROUP AG or through Linde Material Handling GmbH (LMH), a subsidiary of KION GROUP AG – makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. KION GROUP AG is a publicly listed company and therefore ensures that its financial management takes into account the interests of shareholders and banks. For the sake of these stakeholders, KION GROUP AG makes sure that it maintains an appropriate ratio of internal funding to borrowing.

An agreement was reached for a firmly committed bridge loan of originally €3.0 billion as financing for the acquisition of Dematic. In July 2016, KION GROUP AG increased its share capital by 10.0 per cent for cash. The total issue proceeds came to €459.3 million.

Following this capital increase, the agreed financing under the bridge loan was reduced by the amount of the proceeds from the issue and now stands at €2,543.2 million. This loan amount was fully drawn down as at the reporting date. The individual tranches of the bridge loan become due for repayment in the period from 2018 to 2021.

Back in the first quarter of 2016, KION GROUP AG decided to enter into a new senior facilities agreement (SFA) with a syndicate of banks. The SFA comprises a revolving credit facility of €1,150.0 million and a fixed-term tranche of €350.0 million. The SFA at LMH in existence up to that point was therefore repaid. The new SFA can also be utilised by other companies in the KION Group. KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the new SFA. The SFA is not collateralised, as is typical in the current market environment for companies that are on the cusp of an investment-grade rating.

As a result of the drawdown of the bridge loan, the liabilities to banks amounted to €2,546.3 million (31 December 2015: €0.0 million). After deduction of cash and cash equivalents, net debt amounted to €2,489.6 million (31 December 2015: €0.0 million).

Employees

The average number of employees at KION GROUP AG was 172 in 2016 (2015: 138). KION GROUP AG employed 185 people as at 31 December 2016 (31 December 2015: 139).

NON-FINANCIAL PERFORMANCE INDICATORS

The KION Group's enterprise value is determined not only by financial KPIs but also by non-financial influencing factors. These 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 Strategy 2020 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 to the targeted implementation of the KION Group Strategy 2020. 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 and STILL. In 2016, STILL was recognised as one of Germany's best employers for the fifth year in succession by the Top Employers Institute, an international certification organisation. It also received a 'Germany's Top Employers' award from the CRF Institute.

Headcount

The average number of employees (full-time equivalents (FTEs), including trainees and apprentices) in the KION Group was 24,957 in 2016 (2015: 23,129 FTEs). As at 31 December 2016, the KION Group companies employed 30,544 FTEs, 7,038 more than a year earlier.

The increase was predominantly attributable to the acquisition of Dematic. > TABLE 034

Personnel expenses amounted to €1,520.3 million. The main reason for this increase of 12.5 per cent compared with 2015 was the rise in average headcount for 2016 and changes to collective bargaining agreements. > TABLE 035

Employees (full-time equivalents)*

TABLE 034

31/12/2016	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
Western Europe	16,005	1,931	670	18,606
Eastern Europe	2,103	52	0	2,155
Middle East and Africa	241	0	0	241
North America	187	2,910	0	3,097
Central and South America	442	944	0	1,386
Asia-Pacific	4,086	973	0	5,059
Total	**23,064**	**6,810**	**670**	**30,544**
31/12/2015				
Western Europe	15,707	262	545	16,515
Eastern Europe	1,921	0	0	1,921
Middle East and Africa	229	0	0	229
North America	154	54	0	208
Central and South America	485	0	0	485
Asia-Pacific	4,141	7	0	4,148
Total	**22,637**	**323**	**545**	**23,506**

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

Personnel expenses

TABLE 035

in € million	2016	2015	Change
Wages and salaries	1,198.3	1,058.1	13.3%
Social security contributions	258.4	237.8	8.7%
Post-employment benefit costs and other benefits	63.6	55.9	13.8%
Total	**1,520.3**	**1,351.7**	**12.5%**

Diversity

The KION Group sees itself as a global manufacturer with strong intercultural awareness: as at 31 December 2016, people from 83 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 tackles the challenges of demographic change 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 2016, 26.5 per cent of employees were over the age of 50 (31 December 2015: 25.1 per cent). A total of 299 employees were participating in partial retirement models as at the reporting date (31 December 2015: 258).

Compared with the previous year, the proportion of the KION Group's total workforce made up of women was virtually unchanged in 2016, at 16.3 per cent (2015: 16.1 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 with employees from outside Germany in order to better reflect the Company's international make-up.

The KION Group offers flexible working-time models that promote a good work-life balance. In addition, Linde Material Handling has implemented a company agreement about 'teleworking/home office', which stipulates the terms on which employees can work at home on a mutually agreed and voluntary basis.

Development of specialist workers and executives

In 2016, the longer-term HR strategy was revised in order to ensure 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 and a robust process will be implemented for this purpose.

Finding highly qualified people to fill specialist and executive positions is crucial to the KION Group's success. As a result, one of the focuses of HR work across the Group in 2016 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 Academy offers subject-specific and interdisciplinary training courses. There is also an academy at Linde Material Handling that develops 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. They employed a total of 580 trainees and apprentices as at 31 December 2016 (31 December 2015: 571). 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.

Sharing in the Company's success

Having successfully floated on the stock exchange, the KION Group launched the KION Employee Equity Programme (KEEP) in 2014. Initially limited to Germany, the programme was rolled out to more countries in 2015 and 2016. Around 1,100 employees participated in this share matching programme in 2016, roughly 6 per cent of the total number who are eligible to do so.

The total participation rate for KEEP since its inception is around 17 per cent.

The plan for 2017 is to give employees in other countries the opportunity to share in the company's success by participating in KEEP.

In 2016, the remuneration of the approximately 300 top executives was updated by continuing the long-term remuneration components that had been introduced in 2014, thereby aligning it with the remuneration of the Executive Board. A third allocation under the long-term incentive plan (LTI) was made in the year under review.

Employee commitment

The KION Group's products and services destined for its customers are produced by committed and motivated 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 newly defined 'Lift up' corporate initiative, in particular to ensure the new organisational structure is firmly embedded.

Alongside this objective, collaboration was further improved by holding a number of team workshops.

Health and safety in the workplace

The KION Group has a 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. The aim is to systematically document existing HSE measures and processes and to provide specific ideas for how they can be developed further. Last year, nine central HSE audits were carried out within the KION Group.

In 2016, an assessment of possible HSE risks was introduced for all sites. The starting point was a survey developed in the reporting year that ascertains the risk situation at each location.

The KION Safety Championship, which was introduced in 2014, 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 considerable progress in an area of HSE. In 2016, LMH EMEA's FMO 5 shipping and logistics team in Aschaffenburg was crowned champion.

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 an annual international summit.

The health rate for 2016 stood at the high level of 97.0 per cent (2015: 96.4 per cent). Details of the other HSE key performance indicators and of the measures initiated and implemented in 2016 will be included in the KION Group's separate sustainability report, which is expected to be published in the third quarter of 2017.

Research and development

Strategic focus of research and development

The focus of research and development (R&D) is determined by the Strategy 2020. The KION Group pursues the primary objective of increasing the customer benefits in all price segments and sales regions and, by adhering to modular and platform strategies, offering high quality as well as high-performance products at competitive prices. This involves structuring R&D cost-effectively, reducing the complexity and diversity of products and shortening 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. In addition, specialist product development teams working for the individual brand companies and regions develop customer-specific solutions.

In the Industrial Trucks & Services segment, the focus for premium products remains on total cost of ownership for customers. The objective is to minimise these costs, which include the purchase price, maintenance and repair costs and energy use, while complying with environmental targets and regulatory requirements in order to create highly efficient and competitive products for customers. In the volume and economy segments, the KION Group is establishing shared, cross-brand and cost-efficient platforms that enable low-cost production yet allow a strong degree of regional differentiation in the industrial trucks. The development centre in the southern Chinese city of Xiamen plays a particularly crucial role here.

The Supply Chain Solutions segment focuses, on the one hand, on refining its central software solution, Dematic iQ. This includes optimising the standard package and making customer-specific and region-specific modifications. On the other hand, the manual and automated supply chain solutions, including their components, are being constantly enhanced in order to achieve even faster processes, seamless integration of all production and logistics steps and even greater productivity while using the same amount of space.

Across the segments, brand companies, and regions, the KION Group has brought together the technical functions – research and development, procurement, quality and production processes – in the new CTO organisation in order to make its operating units more competitive. Uniform standards and global coordination of technical activities should enable the KION Group to offer more product variants with less effort and shorter development processes in future.

Key R&D figures

Total spending on research and development came to €147.1 million in 2016 (2015: €130.5 million), which equates to 2.6 per cent of revenue. Total R&D expenditure included €50.6 million in capitalised development costs (2015: €40.9 million). These expenses were offset by depreciation and amortisation of €57.0 million (2015: €53.3 million) (see note [17] in the notes to the consolidated financial statements).

The number of full-time jobs in R&D teams grew by 39.8 per cent to 1,477. A total of 451 R&D employees were added as a result of the Dematic and Retrotech acquisitions. > TABLE 036

The KION Group takes comprehensive measures to protect the products it develops against imitations and pursues a specific patent strategy. In 2016, the KION companies (including Dematic) registered a total of 93 patents (2015: 70). As at 31 December 2016, the companies of the KION Group held a total of 2,689 patent applications and issued patents (31 December 2015: 1,641 patent applications and issued patents). The marked increase is predominantly attributable to the first-time consolidation of Dematic.

Focus of R&D in 2016

Automation and connectivity

As a result of acquiring Dematic, Egemin and Retrotech, the KION Group offers the full spectrum of solutions for Intralogistics 4.0. These range from intelligent industrial trucks and fleet management solutions (Industrial Trucks & Services segment) to fully integrated, automated intralogistics systems (Supply Chain Solutions segment), in which self-driving trucks can be included as a component. The KION Group has also strengthened its CTO organisation with the R&D teams from Dematic and Egemin, thereby laying the foundations for success in a digital future and building on a whole host of product innovations in industrial trucks and supply chain solutions.

Industrial Trucks & Services

In 2016, STILL launched the first self-driving order picker, the iGo neo CX 20, on the market. The truck interacts with its operator and automatically follows him or her during the picking process. This can mean time savings of up to 30 per cent and a faster pick rate because the operator does not have to keep getting in and out of the truck. In addition, STILL unveiled the LiftRunner tugger train system, an automated forklift-free solution for on-site transporting materials.

Research and development (R&D) TABLE 036

in € million	2016	2015	Change
Research and development costs (P&L)	96.5	89.7	7.6%
Capitalised development costs	50.6	40.9	23.7%
Total R&D spending	**147.1**	**130.5**	**12.7%**
R&D spending as percentage of revenue	2.6%	2.6%	–

Linde Material Handling added further models to its innovative robotics series, Linde-MATIC. In the medium term, Linde is aiming for all of the major product series to include an automated version.

The KION premium brands also continued to enhance their fleet management solutions. STILL introduced the new 'neXXt fleet' software, which intelligently merges data sets from different applications and areas so that customers can analyse their fleets accurately and comprehensively. The tool comprises a variety of web applications (apps) that can be accessed easily and conveniently from anywhere. In the medium term, STILL neXXt fleet will replace the STILLReport and STILL FleetManager applications.

LMH added the 'pre-op check' app to its 'connect:' fleet management system. A smartphone or tablet can now be very easily used to carry out the check that is required each time before a truck is used, as stipulated by the rules of the DGUV (German Social Accident Insurance organisation). In addition, LMH developed a new localisation technology that pinpoints the location of trucks and transport containers to within centimetres in real time. In the service business, LMH tested a mobile service manager app that sends requests, together with the truck's QR code and a photo of the defective function, directly to the LMH service organisation.

Supply Chain Solutions

Dematic has, on the one hand, further enhanced its Multishuttle storage systems. The flexible and scalable Dematic Multishuttle 2 can significantly increase speed, accuracy and throughput in warehouses, production plants or distribution centers. The ergonomically optimized high performance order picking station RapidPick, with its revolutionary delivery system and fully automated feeding, allows for rates of 1.000 order lines respectively 1.400 picks per hour. A newly introduced modular sorting system increases performance for numerous applications in production and distribution. The enhanced RapidStore UL 1200-1 for the automation of pallet warehouses was particularly developed to modify previously manual processes under difficult spatial conditions.

Dematic's automated guided vehicle (AGV) systems have been fully updated: in the past three years, the automated very narrow aisle trucks (VNAs) and the Flexfork 900, 1600 and 2500 counterbalance trucks have been completely redesigned and switched over to the FlexTruck universal mobile platform. The new FlexTruck can include a robot arm, pallet lifter or conveyor, enabling it to pick the correct units from a pallet containing a single type of item in order to load up a stable, mixed-order pallet. This new Dematic model series also comprises several modular, interchangeable components, such as cable harnesses and lithium-ion/hydrogen fuel cell options, as well as all of the new reflectorless navigation features.

Egemin Automation launched the E'tow® Easy Loop, a new standardised in-floor chain conveyor system that can be delivered and installed particularly quickly thanks to its predefined components. The supply chain solution's automatic chain lubrication and self-cleaning capability enable it to run continuously with virtually no maintenance, making it particularly appealing to logistics service providers.

Software development

The KION Group's software expertise was strengthened considerably by the acquisition of Dematic as well as the related implementation of agile structures and strategic research partnerships for visualising and simulating supply chain solutions. The Dematic iQ and Dematic iQ Analytics software offers customers in the warehousing and distribution industry a host of functions for planning, optimising and executing orders plus comprehensive insights into the data that they collect. This enables them to automate their facilities efficiently, regardless of whether they are automating individual process steps for the first time or already have extensive experience of automation. Dematic iQ solutions are developed and thoroughly tested by highly qualified, dedicated R&D software development teams; new functions and releases usually come onto the market several times a year. The solutions are then configured, adapted and optimised for the individual products by equally experienced teams of software engineers. This ensures that every customer receives a bespoke solution that is tailored specifically to their automation requirements. The new Dematic iQ 2.3 release, for example, offers even faster picking, and versions of it for different customer segments have been successfully implemented. The on-demand fulfilment function enables urgent orders to be processed as a matter of priority at the nearest picking station.

Drive technology

The development of new drive technologies in the Industrial Trucks & Services segment is focused on lithium-ion batteries. STILL and Linde are using technology developed by the CTO Organisation in order to establish a lithium-ion standard for various electric forklift trucks and warehouse trucks and to gain a competitive edge in this important future market.

In 2016, Linde and STILL unveiled the first counterbalance trucks with lithium-ion batteries. Both manufacturers already have a number of li-ion warehouse technology models and tow tractors in their portfolios. The first Linde trucks with lithium-ion technology in the 1.4 – 1.8 tonne load capacity range went on sale in November 2016. STILL intends to offer lithium-ion batteries in 90 per cent of its trucks by the end of 2017.

The focus of development work at Baoli was the upgrading of its trucks fitted with diesel engines, which must meet the new China 3 emissions standard but also remain very affordable. In parallel, Baoli is working on new electric counterbalance trucks and warehouse trucks in order to expand these product lines.

Linde added new IC trucks in the 5 – 8 tonne load capacity range to its EVO series. The new trucks consume up to 20 per cent less fuel than their predecessors and feature extensive exhaust aftertreatment.

Modular and platform strategy

The KION Group is establishing shared, cross-brand platforms for product development and production that are geared to the volume and economy segments. The platforms enable the industrial trucks to be adapted to different regions cost-efficiently. Development for the volume and economy segments is managed from China, where around one third of the R&D staff are based.

The premium brands, Linde and STILL, have shared platforms for the Asia-Pacific and Americas regions, whereas their products for western Europe are developed using different platforms in order to maintain the defining characteristics of the brands.

All platforms are part of a global module strategy that enables products to be developed more cost-effectively and at a higher quality because of the growing number of common parts. The Group is therefore able to achieve high levels of synergy even in western Europe with its different platforms. Wherever possible, local suppliers are used for regional product features.

Customers

The KION Group's industrial trucks and automation 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 performance of the segment's new business and service business. The Dematic operating unit's focus industries also include general merchandise, grocery wholesale and retail, fashion, food and beverages, and parcel and courier services. Together with Dematic, KION already counts among the global market leaders in most of these sectors and enjoys excellent relationships with its customers. It has been able to strengthen these relationships through joint development projects and other initiatives.

The KION brand companies again exhibited at the sector's leading trade fairs LogiMAT, CeMAT and MODEX in various regions in 2016 in order to intensify their relationships with customers and partners. In the United States, Dematic again hosted the Material Handling & Logistics Conference in Park City, Utah, which featured a distinguished line-up of participants. More than 50 expert discussions gave existing and prospective customers the opportunity to find out about the latest supply chain trends. The Dematic Sprocket User Conference was also held during the event, focusing primarily on the automation of processes in facilities management. In Europe, STILL organised a customer day while LMH held its World of Material Handling customer event, which was attended by over 7,000 customers, dealers and business partners.

In September, Dematic opened its new Imagination Center in Heusenstamm, Germany, in which complex intralogistics processes can initially be configured in a virtual environment. This enables customers to look at a number of bespoke solutions in detail before deciding which concept to implement. Dematic is one of the first companies in Germany to offer this type of product presentation. Moreover, the KION brand companies attracted attention once again in 2016 by collecting a number of awards. In July 2016, for example, STILL received the Red Dot Award:

Product Design 2016 for the EXV-SF pallet stacker. The Red Dot Award: Product Design is a mark of quality awarded only to products that clearly stand out from the rest of the field. The self-driving picking system iGo neo CX 20 was one of the winners of an award decided upon by readers of trade journal LOGISTRA in recognition of technical, business and intellectual innovations in intralogistics and commercial vehicles.

Sustainability

Acting responsibly has always been one of the principles by which the KION Group and its brand companies operate. They strive for a balance between environmental, economic and social considerations in their business activities. This focus on sustainability is reflected in the Group's eco-friendly and safe products that help customers to conserve energy, reduce emissions and comply with strict workplace safety standards (see the 'Research and development' section). Furthermore, the KION Group ensures that its production processes have as minimal an impact on the environment as possible and that it offers safe and discrimination-free working conditions.

Sustainability management

In 2016, the KION Group continued to work on the groupwide sustainability management system that it had begun to establish the previous year. To this end, the reporting system introduced as part of a pilot project for Linde Material Handling was rolled out to the other departments and brand companies, although the new subsidiary Dematic is not yet included.

Specifically, a groupwide structure for sustainability was developed and a corresponding management structure was implemented in 2016. In addition, the preparations for a groupwide internal reporting system were completed, the relevant key performance indicators were defined and the preliminary work on organisational structures and content were carried out in preparation for publishing a separate sustainability report. All of the fully consolidated units of the KION Group are included in the sustainability reporting system.

The Group Executive Committee decides on the strategy, objectives and reporting process for sustainability. In addition, the CFO chairs the Sustainability Steering Committee, whose members include the sustainability managers in the individual operating units, the head of sustainability for the entire KION Group and the people responsible for the various sustainability-related action areas.

For each action area, an individual programme has been, or will be, created that sets out objectives and measures for refining the sustainability activities on an ongoing basis. Responsibility for implementing these measures lies with the person in charge of the action area.

The sustainability objectives define the minimum standard that applies to the entire KION Group. Individual units are permitted to achieve higher standards in their sustainability activities or to tailor them to their needs as appropriate.

The development of the sustainability strategy and related objectives builds on existing groupwide standards and rules of conduct, such as the KION Group Code of Compliance. This defines clear rules, including on the correct way for employees to interact with each other as well as with customers, partners and the public. All other standards and initiatives, e.g. relating to health, safety and the environment (HSE), are derived from the code. It is available to the public on the KION Group website.

The corporate policy on workplace safety, health and the environment defines a number of requirements for the KION Group companies including compliance with, as a minimum, all relevant national laws, codes of conduct and industry standards, ensuring safe working conditions and providing employees with the necessary training. Adverse effects on the environment must also be avoided as far as possible.

The KION Group's objective is to gradually establish a certified system for quality, environmental and occupational health and safety management at all sites. Further sites obtained such certification in 2016, including the Indaiatuba production facility in Brazil, which became certified in all three areas for the first time in 2016.

Social aspects

Minimum standards for employment apply at Group level that are based on the fundamental conventions drawn up by the International Labour Organization (ILO). These include freedom of association, the right to collective bargaining, elimination of forced and child labour, and a ban on discrimination in respect of employment and occupation. Furthermore, the KION Group is committed to ensuring health and safety standards in the workplace and to paying its employees remuneration that is appropriate to the industry in the particular country and, at the very least, provides a living wage.

Information on the KION Group's major projects and developments in the area of health and safety can be found in the relevant part of the 'Employees' section.

Environmental protection

Furthermore, the release of pollutants, discharge and emissions into the environment should be avoided as far as possible and the volume of waste should be reduced by making better use of raw materials and using recyclable materials. Materials, products and processes that comply with best environmental practice should be deployed; resources, energy and raw materials should be used efficiently.

In the year under review, the KION Group set itself the medium-term objective of eliminating components that are manufactured using chromium trioxide (chromium VI). Aspects of sustainability are enshrined in the KION Group's purchasing terms, which must be adhered to by suppliers and service providers. Sustainability – particularly protection of the environment, conservation of resources and workplace safety – is an important consideration when developing new products and enhancing existing ones.

Transparent reporting on sustainability

The first groupwide sustainability report is planned for publication in the third quarter of 2017. As well as comprehensively describing the strategy, management approach and structures for sustainability, the report will contain data on relevant key performance indicators and details of the KION Group's success in its endeavours to develop sustainable products. For this reason, the KION Group has not provided information on individual sustainability KPIs in the 2016 annual report.

Outlook, risk report and opportunity report

OUTLOOK

Forward-looking statements

The forward-looking statements and information given below are based on the Company's current expectations and assessments. Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of the KION Group, affect the Group's business activities and profitability as well as the earnings of KION GROUP AG. Any unexpected developments in the global economy would result in the KION Group's and KION GROUP AG's performance and profits differing significantly from those forecast below. The KION Group does not undertake to update forward-looking statements to reflect subsequently occurring events or circumstances. Furthermore, the KION Group cannot guarantee that future performance and actual profits generated will be consistent with the stated assumptions and estimates and can accept no liability in this regard.

Actual business performance may deviate from our forecasts due, among other factors, to the opportunities and risks described here. 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.

Forecast for 2016

The overall assessment of the financial situation of the KION Group compares the forecasts included in the 2015 group management report and subsequent interim reports with actual performance in 2016.

Assumptions

The forecasts in this section are derived from the KION Group's multiple-year market, business and financial plan, which is based on certain assumptions. Market planning takes into account macroeconomic and industry-specific performance, which is described below. Business planning and financial planning are based on expected market performance, but also draw on other assumptions, such as those relating to changes in the cost of materials, the KION Group's ability to command higher prices from customers and movements in exchange rates.

Expected macroeconomic conditions

In its January economic outlook, the International Monetary Fund (IMF) expects the global economy's growth to accelerate, driven by the United States and China. Improved estimates for Europe are another contributing factor. According to this forecast, the world's economy will expand by 3.4 per cent in 2017, compared with 3.1 per cent in 2016. Following weak growth in 2016, the IMF believes global trade will return closer to the trend growth rate of four per cent in 2017. Nonetheless, the IMF warns of increasing protectionist tendencies, which could lead to a trade war.

The outlook for macroeconomic conditions is based, in particular, on higher government spending and fiscal stimulus in the United States and China as well as a further stabilising of the oil price.

Expected sectoral conditions

Going forward, the overall market for industrial trucks and warehouse systems will continue to depend heavily on economic conditions in key sales markets. Over the past few years, the market's growth – measured by the number of new trucks sold and the revenue of the largest system manufacturers – has consistently exceeded the growth rates for global gross domestic product (GDP). In view of the generally positive macroeconomic prospects, the KION Group anticipates that the worldwide market for material handling solutions will continue to expand in 2017.

Following substantial growth of almost eight per cent in the global market for new industrial trucks in 2016, growth rates are predicted to normalise, returning closer to the long-term trend of around four per cent. A further increase in orders is expected in Europe and North America, although growth rates will be more modest due to the record-high market volume and political uncertainties. Following a strong second half of 2016, the KION Group expects a further firming of demand in China. The constantly increasing number of trucks in operation worldwide provides a sustainable customer base for the service business.

In the warehouse systems business, the rapid expansion of e-commerce and the increasingly widespread use of Industry 4.0 technologies are likely to push up demand for automation solutions. For this reason, the KION Group expects slightly faster growth, with average growth rates of around 10 per cent up to 2019.

Expected business situation and financial performance of the KION Group

In 2017, the KION Group aims to build on its successful performance in 2016 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 €7,800 million and €8,250 million. The target figure for consolidated revenue is in the range of €7,500 million to €7,950 million. The target range for adjusted EBIT is €740 million to €800 million. The adjusted EBIT margin is predicted to increase above the margin of 9.6 per cent that was generated in 2016. Free cash flow is expected to be in a range between €370 million and €430 million. The target figure for ROCE is in the range of 9.5 per cent to 10.5 per cent.

Order intake in the Industrial Trucks & Services segment is expected to be between €5,450 million and €5,600 million. The target figure for revenue is in the range of €5,300 million to €5,450 million. The target range for adjusted EBIT is €605 million to €630 million. The adjusted EBIT margin is predicted to increase slightly above the margin of 11.3 per cent achieved in 2016.

Order intake in the Supply Chain Solutions segment is expected to be between €2,350 million and €2,650 million. The target figure for revenue is in the range of €2,200 million to €2,500 million. The target range for adjusted EBIT is €195 million to €230 million. The adjusted EBIT margin is predicted to increase significantly above the margin of 1.6 per cent that was generated in 2016.

The outlook is based on the assumption that material prices will hold steady and the current exchange rate environment will remain as it is. > TABLE 037

Outlook TABLE 037

	KION Group		Industrial Trucks & Services		Supply Chain Solutions	
in € million	2016	2017	2016	2017	2016	2017
Order intake*	5,833.1	7,800–8,250	5,383.2	5,450–5,600	431.2	2,350–2,650
Revenue*	5,587.2	7,500–7,950	5,202.6	5,300–5,450	366.0	2,200–2,500
Adjusted EBIT	537.3	740–800	586.9	605–630	6.0	195–230
Free cash flow	–1,850.0	370–430	–	–	–	–
ROCE	6.8%	9.5%–10.5%	–	–	–	–

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

Expected financial position of the KION Group

As at 31 December 2016, an amount of €225.3 million had been drawn down from the revolving credit facility, which includes other loan liabilities and contingent liabilities. The fixed-term tranche of €350.0 million was fully drawn down as at the end of 2016.

A bridge loan of €3,000.0 million was agreed for the acquisition of Dematic. The agreed financing volume was reduced by the net proceeds from the capital increase in July 2016 of €457.3 million and, when the bridge loan was drawn down for the first time on 1 November 2016, amounted to €2,543.2 million.

As at the end of 2016, the bridge loan consisted of three fixed-term, floating-rate tranches: tranche A2 of €343.2 million, tranche B of €1,200.0 million and a further loan of €1,000.0 million.

In February 2017, KION GROUP AG partly refinanced the bridge loan by issuing promissory notes (see note [50] in the notes to the consolidated financial statements). Over the course of 2017, KION GROUP AG intends to use free cash flow to lower its net debt still further.

Overall statement on expected performance

The basis for the long-term success of the KION Group will continue to be the strong position occupied by its international and national brands in western Europe and the emerging markets. The international brands Linde and STILL, in particular, safeguard their technology leadership and underline their status as premium brands in the Industrial Trucks & Services segment by maintaining high levels of capital expenditure and R&D spending. In Dematic, the KION Group has acquired a leading player in the expanding logistics systems segment. With a strong presence in the North American market, Dematic benefits from its position as the market number one in fast-growing customer segments such as e-commerce, retail and wholesale.

By pursuing its Strategy 2020 and other measures, the KION Group believes it will continue along its path of profitable growth and aims to achieve a further improvement in its market position worldwide in 2017.

RISK REPORT

Risk strategy

The business activities of the KION Group necessarily involve risk. Dealing responsibly with risk and managing it in a comprehensive manner is an important element of corporate management. The overarching aim is to fully harness business opportunities while ensuring that risk always remains under control. Using its groupwide risk management system, the KION Group contains all identified risks by implementing suitable measures and takes appropriate precautions. This ensures that the losses expected if these risks arise will be largely covered and therefore will not jeopardise the Company's continuation as a going concern.

At the KION Group, risk management has always been embedded in the corporate controlling function and plays an active and wide-ranging role due to the strategic focus of corporate controlling. The operational units' business models, strategic perspectives and specific plans of action are examined systematically. This ensures that risk management is fully integrated into the KION Group's overall planning and reporting process.

Principles of risk management

The procedures governing the KION Group's risk management activities are laid down in internal risk guidelines. For certain types of risk, such as financial risk or risks arising from financial services, the relevant departments also have guidelines that are specifically geared to these matters and describe how to deal with inherent risks. Risk management is organised in such a way that it directly reflects the structure of the Group itself. Consequently, risk officers supported by risk managers have been appointed for each company and each division. A central Group risk manager is responsible for the implementation of risk management processes in line with procedures throughout the Group. His or her remit includes the definition and implementation of standards to ensure that risks are captured and evaluated.

The risk management process is organised on a decentralised basis. Firstly, a groupwide risk catalogue is used to capture the risks attaching to each company. Each risk must be captured individually. If the losses caused by a specific risk or the likelihood of this risk occurring exceed a defined limit, the KION Group's Executive Board and its corporate controlling function are notified immediately. Each risk is documented in an internet-based reporting system designed specifically for the requirements of risk management. Risks affecting more than one Group company, such as market risks, competition risks, financial risks and risks arising from financial services, are not recorded individually but are instead evaluated at Group level. Consequently, such risks are not quantified.

The scope of consolidation for risk management purposes is the same as the scope of consolidation for the consolidated financial statements. The risks reported by the individual companies are combined to form divisional risk reports as part of a rigorous reporting process. To this end, minuted risk management meetings are held once a quarter. Moreover, material risks are discussed with the segments at the business review meetings. The divisional risk reports are then used to compile an aggregate risk portfolio for the KION Group as a whole. To support this, the relevant departments of the holding company are consulted each quarter in order to identify and assess risk – particularly Company-wide, cross-brand risk affecting areas such as treasury, purchasing, tax, human resources and financial services. The Executive Board of KION GROUP AG and the Supervisory Board's Audit Committee are informed of the Group's risk position once a quarter. The Internal Audit department audits the risk management system at regular intervals.

Material features of the internal control and risk management system pertaining to the (Group) accounting process

Principles

The main objectives of the accounting-related internal control system are to avoid the risk of material misstatements in financial reporting, to identify material mismeasurement and to ensure compliance with the applicable regulations and internal instructions. This includes verifying that the consolidated financial statements and combined management report comply with the relevant accounting standards.

Material processes and controls in the (Group) accounting process

For its (Group) accounting process, the KION Group has defined suitable structures and processes within its internal control and risk management system and implemented them in the organisation.

Changes to the law, accounting standards and other pronouncements are continually analysed with regard to their relevance and effect on the consolidated financial statements and group management report; the relevant changes are then incorporated into the Group's internal policies and systems.

All consolidated entities must follow the KION GROUP IFRS Accounting Manual when preparing their IFRS reporting packages. This manual contains the recognition, measurement and disclosure rules to be applied in the KION Group's accounting in accordance with IFRS. The accounting guidelines primarily explain the financial reporting principles specific to the KION Group's business. In addition, all companies must adhere to the schedule defined by head office for preparing the consolidated financial statements and group management report.

The accounting-based internal control and risk management system encompasses defined control mechanisms, automated and manual reconciliation processes, separation of functions, the four-eyes principle and adherence to policies and instructions.

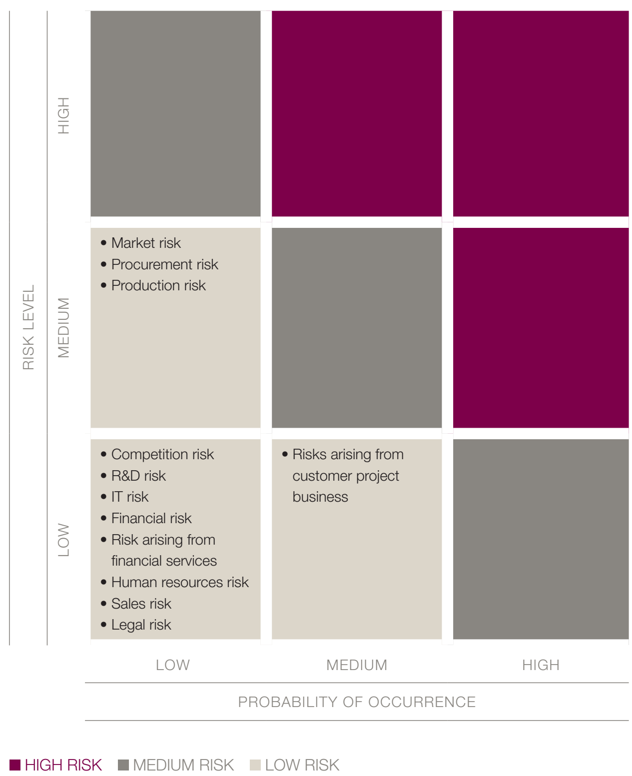
The employees involved in the Group's accounting process receive regular training in this field. Throughout the accounting process, the local companies are supported by central points of contact. The consolidated accounts are drawn up centrally using data from the consolidated subsidiaries. A consolidation department with specially trained employees carries out the consolidation activities, reconciliations and monitoring of the stipulated deadlines and processes. Monthly checklists have been drawn up for the consolidation process and are worked through in a standardised manner. All postings are managed centrally and documented. This team also monitors the system-based controls and supplements them with manual checks. The entire accounting process contains a number of specific approval stages, for which extensive plausibility checks have been set up. Employees with the relevant expertise provide support on specialist questions and complex issues.

Internal control mechanisms and ongoing analysis of the regulatory framework enable any risks that might jeopardise the compliance of the consolidated financial statements and group management report with accounting standards to be identified as soon as possible so that appropriate countermeasures can be taken. Such risks form part of the KION Group's aggregate risk profile and are classified as operational risk.

The Internal Audit department evaluates governance, risk management and the control processes by following a systematic and structured process, thus helping to bring about improvements. It focuses primarily on the following aspects:

- appropriateness and effectiveness of the internal control systems for avoiding financial losses;
- compliance with legal requirements, directives from the Executive Board, other policies and internal instructions;
- correct performance of tasks and compliance with business principles.

Risk matrix DIAGRAM 005



Risk

Aggregate risk

In 2016, the aggregate risk position was largely unchanged compared with the previous year. However, the importance of risks from customer project business increased significantly as a result of the Dematic acquisition.

With regard to 2017, the risks in the risk matrix below will be continually observed and evaluated in terms of their extent and probability of occurrence. For example, the KION Group considers the probability of market risk materialising as low because of the fairly positive market expectations. However, the possible impact of market risk continues to be rated at a medium risk level because of the importance of the market for the KION Group's business situation and financial performance. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern. > DIAGRAM 005

The market risks and competition risks described, the risks along the value chain, the human resources risks and the legal risks largely relate to the Industrial Trucks & Services and Supply Chain Solutions segments. Risks arising from financial services mainly affect the Industrial Trucks & Services segment, while financial risks would predominantly impact on the Corporate Services segment.

Market risks and competition risks

Market risks

Market risk can arise when the economy as a whole or a particular sector does not perform as well as had been anticipated in the outlook. Cyclical fluctuations in macroeconomic activity affect both the market for industrial trucks and the market for automated supply chain solutions. Customers' decisions on whether to invest depend to a large degree on the macroeconomic situation and conditions in their particular sector. During an economic downturn, customers tend to postpone their capital expenditure on new industrial trucks and automated supply chain solutions. Although demand for services is less cyclical, it correlates with the degree of utilisation of the trucks and systems – which usually declines during difficult economic periods. As the KION Group can only adjust its fixed costs to fluctuations in demand to a limited extent, reductions in revenue impact on earnings.

Despite the acquisition of Dematic and the associated increase in the future proportion of revenue from North America, the proportion of revenue earned in the eurozone remains high. As a result, the market conditions that prevail there impact significantly on the KION Group's financial performance. In view of the increasing stabilisation of economic growth at a low level, the direct market risk arising from a downturn in the economy has further reduced for the eurozone, whereas the development of geopolitical risks is currently unforeseeable. However, unfavourable trends affecting major trading partners, e.g. China, might reduce eurozone customers' willingness to invest and consequently the demand for the KION Group's products.

A further weakening of growth in the emerging markets could also have a negative effect on global trade volumes and thus on growth in the material handling market. The market risks referred to could be heightened by geopolitical risks and possible currency crises.

Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities and the platform strategy – help to contain the earnings risk arising from reductions in revenue caused by economic conditions. Diversification of the customer base in terms of industry and region as well as expansion of service activities also play a role in mitigating risk. Moreover, the KION Group closely monitors the market and its competitors so that it can identify market risks at an early stage and adjust its production capacities in good time. Besides global economic growth and other data, the KION Group also analyses exchange rates, price stability, the consumer and investment climate, foreign trade activity and political stability in its key sales markets, constantly monitoring the possible impact on its financial performance and financial position.

Other risks arise as a result of constant changes in the Company's political, legal and social environment. Because it operates in countries in which the political or legal situation is uncertain, the KION Group is exposed to the consequent risk of government regulation, amendments to customs regulations, capital controls and expropriations. The KION Group mitigates such strategic risks by, for example, carrying out in-depth market research, conducting thorough evaluation procedures to assess political and economic conditions and drafting contracts appropriately.

Competition risks

Competition risk describes the risk that growing competitive pressure will prevent the KION Group from achieving its predicted margins and market share. The markets in which the KION Group operates are characterised by strong competition, often price-driven. Price competition is compounded by some manufacturers having cost advantages in production, sometimes due to the currency situation and sometimes because local labour costs are lower. This primarily affects the Industrial Trucks & Services segment, where competition is fierce, particularly in the economy and volume price segments, and the impact is especially strong in emerging markets. Building on their local competitive strength, manufacturers in emerging markets are also looking for opportunities to expand. Although the high quality expectations and service needs of customers in developed markets present a barrier to growth for many of these manufacturers, this situation is likely to intensify competitive pressures in future.

It is also conceivable that competitors will join forces and their resulting stronger position will be detrimental to the KION Group's sales opportunities. Moreover, predictions of higher volumes and margins may lead to overcapacity, which would put increased pressure on prices.

Although the KION Group's strengths have enabled it to charge appropriate prices until now, it is taking a variety of steps to contain competition risk. Alliances, partnerships, acquisitions and other measures are playing an increasing role in improving the KION Group's competitiveness in terms of resources, market access and product range. The steps that the KION Group is taking to mitigate its competition risk also include making its plants more efficient and securing low-cost sources of supply.

The KION Group also continually evaluates its options for strengthening and consolidating its position in emerging markets, in particular through strategic partnerships, the creation of joint ventures or acquisition of local manufacturers. One of the risks of such alliances and acquisitions is that the expected benefits will materialise only partly or not at all. For example, the organisational integration of new units can harm financial performance for a variety of reasons. It is also possible that a partner will collaborate with competitors if exclusivity agreements are not in place.

Risks along the value chain

Research and development risks

The KION Group's market position and business performance depend to a large extent on its ability to remain a leading provider of technology. This requires the Group to continually develop products that meet customer expectations and comply with changing regulatory and technological requirements. To this end, the KION Group must anticipate customers' needs and changing market conditions and has to quickly bring new products to market. If the Company does not succeed in doing this, its technological and competitive position could be compromised in the long term.

The innovations developed by the KION Group are comprehensively protected by intellectual property rights, in particular patents. Nevertheless, there is always the possibility that products or product components will be imitated. There is also a risk that patent applications will not be successful.

The KION Group mitigates research and development risk by focusing firmly on customer benefit in its development of products and solutions. Customer needs are incorporated into the development process on an ongoing basis by ensuring close collaboration between sales and development units and taking account of all region-specific requirements.

Procurement risks

Procurement activities constitute a potential risk for the KION Group in terms of the lack of availability of parts and components for logistical or quality reasons and the rising cost of raw materials, energy, base products and intermediate products. As a result, there is always the possibility that the KION Group will face backlogs in the supply of individual raw materials and components. The KION Group obtains some of its key components from a limited number of core suppliers. Key components in the Industrial Trucks & Services segment include internal combustion engines, tyres and high-performance forged and electronic parts.

The risk of supply bottlenecks – for example in the event of a shortage of raw materials or financial difficulties at core suppliers – cannot be ruled out in future. The KION Group mitigates this risk through appropriate diversification of its supplier structure in the context of a global procurement organisation. In addition, the supplier development department, which focuses on improving suppliers' production processes, helps suppliers to ensure that their processes are cost-efficient and offer excellent quality.

Price changes present another procurement-related risk. In 2016, around 25 per cent of the cost of materials for new trucks was directly influenced by changes in commodity prices (2015: 25.8 per cent). Moreover, conditions in the commodity markets typically affect component prices after a delay of three to six months. The KION Group endeavours to pass on price increases to customers but cannot always do so entirely due to market pressures.

Production risks

Production risks are largely caused by quality problems, possible disruptions in operational procedures or production downtime at individual sites. In such cases, the KION Group's closely integrated manufacturing network presents a heightened risk to its ability to deliver goods on time. There is also a risk that structural measures and reorganisation projects will not be implemented owing to disruption of production or strikes. Delays in delivery or a rise in the number of complaints could harm the KION Group's positioning in the price segments and sales markets that it serves and, as a result, could harm its financial situation.

To mitigate these risks, the KION Group carries out preventive maintenance, implements fire protection measures, trains its staff and builds a pool of external suppliers. The Company has taken out a commercially appropriate level of insurance cover against loss. Quality assurance is a high priority throughout the value chain and reduces possible quality-related risks arising from the products and services provided. The KION Group mitigates its quality-related risks significantly by applying rigorous quality standards to its development activities, conducting stringent controls throughout the process chain and maintaining close contact with customers and suppliers.

Risks arising from customer project business

In the customer project business, risks can arise from deviations from the original schedule, leading to revenue and profit being recognised in subsequent years or, in isolated cases, contractual penalties having to be paid. Another possible risk is that the technology deviates from the promised specifications, which may result in additional completion costs. The long-term nature of individual projects can lead to cost increases during the project lifetime that were not anticipated in the project costing and cannot be passed onto the customer.

To mitigate these risks in the Supply Chain Solutions segment, project management includes a comprehensive process of risk management. This involves detailed evaluation of the risks when defining the technical aspects of quotations plus risk provisioning based on the individual project specifications when preparing quotations. A multistage approval process based on an extensive list of criteria ensures that financial, country-specific, currency-specific and contractual risks are largely avoided.

As projects are progressing, the potential risks in each individual project are analysed using detailed continuous reviews based on the individual items of work that make up the project, to keep potential risks to a minimum.

Sales risks

The main sales risks – besides a drop in revenue caused by market conditions – result from dependence on individual customers and sectors. For example, it is possible that customers would postpone or cancel orders during a period of economic difficulty. There have not been any significant cancellations in previous years, however. It is also conceivable that customers would face a liquidity shortfall and therefore be unable to fulfil their payment obligations immediately or even at all. Although the KION Group's dependence on individual sectors and on individual customers has increased since the acquisition of Dematic due to its customer project business, the overall level is still considered to be low. The business is highly diversified from a regional perspective. In addition, the KION Group supplies companies of all sizes. Experience has shown that the KION Group's exposure to the risk of possible payment defaults is low, but this risk can be further mitigated by recovering any collateral.

IT risks

A high degree of interconnectedness between sites and with customers and other companies means that the KION Group also relies on its IT systems working flawlessly. The KION Group undertakes ongoing further development of a reliable, extendable and flexible IT system environment with the aim of countering any IT-related risks that may arise from the failure of IT systems and IT infrastructure. Internal IT resources are pooled in KION Information Management Services GmbH, which has well-established processes for portfolio management and project planning and control. Independent external audits are conducted to provide additional quality assurance. Various technical and organisational measures protect the data of the KION Group and its Group companies against unauthorised access, misuse and loss. These measures include procedures to validate and log access to the Group's infrastructure.

Financial risks

Group Treasury is responsible for ensuring that sufficient financial resources are always available for the KION Group's international growth. The main types of financial risk managed by Group Treasury, including risks arising from funding instruments, are liquidity risk, currency risk, interest-rate risk and counterparty risk. Counterparty risk consists solely of credit risks attaching to financial institutions. Risk management procedures issued by Group Treasury stipulate how to deal with the aforementioned risks.

Long-term financial liabilities rose by €2,331.8 million from its level at 31 December 2015 to reach €2,889.1 million at the end of 2016. As at 31 December 2016, the main components of long-term borrowing were the long-term 'Term Loan B' under the SFA (€350.0 million) and the non-current liabilities associated with the new AFA that came into force for the financing of the Dematic acquisition (€2,543.2 million). The unused, unrestricted revolving credit facility stood at €924.7 million as at 31 December 2016. The risk position has not changed significantly as a result of the adjustments to the financing structure after the reporting date (see note [50] in the notes to the consolidated financial statements). Risk arising out of the lending conditions that have been agreed was not regarded as material as at 31 December 2016. It relates in particular to the restrictions in respect of compliance with financial covenants and upper limits for certain transactions and in respect of the obligation to submit special regular reports. The KION Group complied with all the lending covenants in the reporting year.

The Company generally refers to credit ratings to manage counterparty risk when depositing funds with a financial institution.

The KION Group only uses derivatives to hedge underlying operational and financial transactions; they are not used for speculative purposes. It is exposed to currency risk because of the high proportion of its business conducted in currencies other than the euro. Normally, at least 75 per cent of the currency risk related to the planned operating cash flows based on liquidity planning is hedged by currency forwards in accordance with the relevant guideline.

Group Treasury rigorously complies with and monitors the strict separation of functions between the front, middle and back offices. Each Group company's liquidity planning is broken down by currency and incorporated into the KION Group's financial planning and reporting process. Group Treasury checks the liquidity planning and uses it to determine the funding requirements of each company.

The funding terms and conditions faced by the lenders themselves (manifested, for example, in the payment of liquidity premiums on interbank lending) may result in a future shortage of lines of credit and/or increased financing costs for companies. However, the Group currently does not expect any further changes in its lines of credit or any excessive increases in margins.

Goodwill and brand names represented 40.3 per cent of total assets as at 31 December 2016 (31 December 2015: 33.4 per cent). Pursuant to IFRS, these assets are not amortised and their measurement depends, above all, on future expectations. If these future expectations are not fulfilled, there is a risk that impairment losses will have to be recognised on these assets.

The individual Group companies directly manage counterparty risks involving customers. These counterparty risks did not change significantly in 2016. Each individual Group company has established a credit management system for identifying customer-related counterparty risks at an early stage and initiating the necessary countermeasures. Analysis of the maturity structure of receivables is an integral element of monthly reporting.

Risks arising from financial services

The leasing activities of the Industrial Trucks & Services segment mean that the KION Group may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast. The KION Group regularly assesses its aggregate risk position arising from financial services.

The risks identified are immediately taken into account by the Company in the costing of new leases by recognising writedowns or valuation allowances and adjusting the residual values. Risk-mitigating factors include the demand for used trucks, which stabilises the residual values of the KION Group's industrial trucks. The majority of the residual values have underlying remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the financial results in 2016. Groupwide standards to ensure that residual values are calculated conservatively, combined with an IT system for residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

The KION Group mitigates its liquidity risk and interest-rate risk attaching to financial services by ensuring that most of its transactions and funding loans have matching maturities and by constantly updating its liquidity planning. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

In order to exclude currency risk, the KION Group generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the Group. The KION Group has not identified any material changes between 2015 and 2016. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. In addition, receivables management has been improved by enhancing the dunning process. The credit risk management system was updated during 2016. Besides the design of the business processes, it also encompassed the risk management and risk control processes.

Moreover, the KION Group offers the majority of financial services indirectly via selected financing partners that bear the risks of the finance transaction. As far as these financial services are concerned, the KION Group bore the counterparty risk in under three per cent of cases (2015: three per cent).

Human resources risks and legal risks

The KION Group relies on having highly qualified managers and experts in key roles. If they left, it could have a long-term adverse impact on the Group's prospects.

That is why the KION Group actively engages in HR work aimed at identifying and developing young professionals with high potential who already work for the Company and retaining them over the long term, thereby enabling succession planning for key roles across the Group. The KION Group also positions itself in the external market as an employer of choice. This will enable it to make strategic additions to its portfolio of existing staff and, in this way, avert the risk of possibly losing expertise and thereby becoming less competitive.

Any restructuring measures may result in a risk of strikes and reactions of other kinds by the workforce. As demonstrated several times in the past, this risk is contained by collaborating closely with employee representatives and, if job losses are necessary, taking comprehensive steps to ensure they are achieved with the minimum possible social impact.

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The Group companies are a party in a number of pending lawsuits in various countries. The individual companies cannot assume with any degree of certainty that they will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION Group is not expecting any of these existing legal proceedings to have a material impact on its financial position or financial performance. These lawsuits relate, among other things, to liability risks, especially as a result of legal action brought by third parties because, for example, the Company's products were allegedly faulty or the Company allegedly failed to comply with contractual obligations. Further legal risk may arise as a result of the environmental restoration of sites that have been shut down in recent years, for example work required due to contamination. Any damage to the environment may lead to legal disputes and give rise to reputational risk.

The Company has taken measures to prevent it from incurring financial losses as a result of these risks. Although legal disputes with third parties have been insignificant both currently and in the past, the Company has a centralised reporting system to record and assist pending lawsuits. In addition to the high quality and safety standards applicable to all users of the Company's products, with which it complies when it develops and manufactures the products, it has also taken out the usual types of insurance to cover any third-party claims. In addition, interdisciplinary teams work on the avoidance of risks arising from inadequate contractual arrangements. A further objective of this cooperation across functions is to ensure compliance with mandatory laws, regulations and contractual arrangements at all times.

Owing to the KION Group's export focus, legal risk and reputational risk arise due to the numerous international and local export controls that apply. The Company mitigates these risks with a variety of measures. Consequently, export controls are an important part of the compliance activities carried out by the Group companies.

OPPORTUNITY REPORT

Principles of opportunity management

Opportunity management, like risk management, forms a central part of the Company's day-to-day management. In 2016, the aggregate opportunity position was largely unchanged compared with the previous year. Individual areas of opportunity are identified within the framework of the strategy process. Opportunities are determined and managed on a decentralised basis in line with the Group strategy.

There are monthly reports on the opportunity situation as part of the regular Group reporting process. As a result, the KION Group is in a position to ascertain at an early stage whether market trends, competitive trends or events within the Group require individual areas of opportunity to be re-evaluated. This may lead to reallocation of the budgets earmarked for the realisation of opportunities. Such decisions are made on the basis of the potential of the opportunity, drawing on empirical values. There is no management system for the evaluation of opportunities comparable to the system for risk management.

Categorisation of opportunities

By 'opportunities', we mean positive deviations from the expectations set out in the outlook relating to the economic situation and the KION Group's position. Opportunities are divided into three categories:

- Market opportunities describe the potential resulting from trends in the market and competitive environment and from the regulatory situation.
- Strategic opportunities are based on implementation of the Group's strategy. They may lead to positive effects that exceed planning assumptions.
- Business-performance opportunities arise in connection with operational activities along the value chain, such as restructuring or cost-cutting measures.

Opportunity situation

Market opportunities

The economy as a whole may perform better than expected in 2017. In addition, circumstances may occur in the wider market at any time – such as quality problems at competitors or the effects of consolidation – that increase demand for products from the KION Group brands. New, unforeseen regulatory initiatives could be launched, for example the tightening of health and safety regulations or emissions standards, that would push up demand for products offered by the KION Group brands. Average prices for procuring commodities over the year may be cheaper than anticipated.

Medium- to long-term market opportunities are presented, in particular, by:

- growing demand for intralogistics products, solutions and services as a consequence of globalisation, industrialisation and fragmentation of supply chains, as well as the necessary efficiency enhancements due to limited storage space and changing consumer needs;
- high demand for replacement investments, especially in developed markets;
- the trend towards outsourcing service functions, particularly in the market for industrial trucks, and growth in demand for finance solutions;
- increased use of industrial and warehouse trucks powered by electric motors – one of the KION Group's particular strengths;
- growing demand for automation solutions and fleet management solutions in connection with the rapidly expanding e-commerce sector, as well as the realisation of Industry 4.0 concepts.

Strategic opportunities

The positive impact of strategic activities, such as the Strategy 2020, is already largely reflected in the expectations regarding the KION Group's financial performance in 2017. Nevertheless, the individual activities could create positive effects that exceed expectations. There is also a possibility that new strategic opportunities that were not part of the planning may arise over the course of the year, for example in the form of acquisitions and strategic partnerships.

The KION Group's medium- to long-term strategic opportunities in the Industrial Trucks & Services segment arise, in particular, from:

- a greater presence in the economy and volume price segments, particularly as a result of the systematic implementation of the groupwide platform strategy;

- strengthening of its market-leading position in core western European markets by boosting its technological expertise and making greater use of shared modules;
- expansion of the service portfolio, including financial services, at every stage of the product lifecycle, taking advantage of the high number of trucks in use.

The KION Group's medium- to long-term strategic opportunities in the Supply Chain Solutions segment arise, in particular, from:

- further consolidation of its position in the market for intralogistics solutions based on the growing acceptance of automation concepts;
- the advancing digitalisation and automation of production and supply chains as part of Industry 4.0.

Business-performance opportunities

Business-performance opportunities primarily arise from ongoing activities to modernise and streamline the KION Group's production facilities and from the worldwide integration of the production network. By investing in new locations, products can be assembled nearer to the markets in which they are to be sold, economies of scale can be achieved across the Group and synergies can be leveraged. Further development of the Group's back-office services will also help to achieve these objectives.

The following may lead to an increase in profitability in the medium term:

- Ongoing efficiency increases at production sites may boost sales and improve the gross margin.
- Effective use of global development capacities may create synergies and economies of scale.

D

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

Consolidated income statement TABLE 038

in € million	Note	2016	2015
Revenue	[8]	5,587.2	5,097.9
Cost of sales [1]		–4,034.6	–3,655.1
Gross profit		**1,552.6**	**1,442.8**
Selling expenses		–662.4	–618.0
Research and development costs [1]		–96.5	–89.7
Administrative expenses		–411.2	–355.9
Other income	[9]	87.7	99.6
Other expenses	[10]	–41.9	–66.6
Profit (loss) from equity-accounted investments	[11]	6.5	10.6
Earnings before interest and taxes		**434.8**	**422.8**
Financial income	[12]	88.9	51.4
Financial expenses	[13]	–184.5	–144.0
Net financial expenses		**–95.7**	**–92.6**
Earnings before taxes		**339.2**	**330.2**
Income taxes	[14]	**–93.1**	**–109.2**
Current taxes		–86.2	–132.5
Deferred taxes		–6.9	23.3
Net income		**246.1**	**221.1**
Attributable to shareholders of KION GROUP AG		245.5	217.1
Attributable to non-controlling interests		0.5	3.9
Earnings per share according to IAS 33 (in €)	[16]		
Basic earnings per share		2.38	2.20
Diluted earnings per share		2.38	2.20

1 Last year figures were adjusted due to a change in presentation in 2016, for details see note [7] to the consolidated financial statements

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income TABLE 039

in € million	Note	2016	2015
Net income		**246.1**	**221.1**
Items that will not be reclassified subsequently to profit or loss		**–50.4**	**14.7**
Gains/losses on defined benefit obligation	[29]	–50.1	12.7
thereof changes in unrealised gains and losses		–66.9	17.3
thereof tax effect		16.7	–4.5
Changes in unrealised gains and losses from equity-accounted investments		–0.2	1.9
Items that may be reclassified subsequently to profit or loss		**108.3**	**24.3**
Impact of exchange differences		109.8	19.9
thereof changes in unrealised gains and losses		109.8	19.9
thereof realised gains (–) and losses (+)		–	–
Gains/losses on hedge reserves	[40]	–1.7	4.0
thereof changes in unrealised gains and losses		21.8	–16.1
thereof realised gains (–) and losses (+)		–24.0	20.9
thereof tax effect		0.4	–0.8
Gains/losses from equity-accounted investments		0.1	0.4
thereof changes in unrealised gains and losses		0.1	0.4
Other comprehensive income		**57.9**	**38.9**
Total comprehensive income		**304.0**	**260.0**
Attributable to shareholders of KION GROUP AG		304.0	256.5
Attributable to non-controlling interests		–0.1	3.5

Consolidated statement of financial position

Consolidated statement of financial position – Assets

TABLE 040

in € million	Note	2016	2015
Goodwill	[17]	3,605.8	1,548.1
Other intangible assets	[17]	2,630.9	904.4
Leased assets	[18]	429.7	334.4
Rental assets	[19]	575.3	544.0
Other property, plant and equipment	[20]	679.1	508.8
Equity-accounted investments	[21]	72.7	73.6
Lease receivables	[22]	531.3	472.0
Other financial assets	[23]	47.5	45.9
Other assets	[24]	12.3	30.2
Deferred taxes	[14]	420.2	349.0
Non-current assets		**9,004.6**	**4,810.3**
Inventories	[25]	672.4	553.5
Trade receivables	[26]	998.9	670.5
Lease receivables	[22]	200.3	181.7
Income tax receivables	[14]	35.2	7.9
Other financial assets	[23]	82.0	58.4
Other assets	[24]	86.2	54.8
Cash and cash equivalents	[27]	279.6	103.1
Current assets		**2,354.6**	**1,629.9**
Total assets		**11,359.2**	**6,440.2**

Consolidated statement of financial position – Equity and liabilities

TABLE 041

in € million	Note	2016	2015
Subscribed capital		108.6	98.7
Capital reserve		2,444.4	1,996.6
Retained earnings		183.4	11.3
Accumulated other comprehensive loss		–207.0	–265.5
Non-controlling interests		5.7	7.7
Equity	[28]	**2,535.1**	**1,848.7**
Retirement benefit obligation	[29]	991.0	798.0
Non-current financial liabilities	[30]	2,889.1	557.2
Lease liabilities	[31]	722.0	617.7
Other non-current provisions	[32]	92.3	83.4
Other financial liabilities	[34]	349.3	315.6
Other liabilities	[35]	202.8	185.4
Deferred taxes	[14]	905.3	302.7
Non-current liabilities		**6,151.7**	**2,860.0**
Current financial liabilities	[30]	293.9	119.3
Trade payables	[33]	802.2	574.6
Lease liabilities	[31]	285.2	237.9
Income tax liabilities	[14]	63.0	79.8
Other current provisions	[32]	163.4	111.5
Other financial liabilities	[34]	222.6	194.4
Other liabilities	[35]	842.1	414.0
Current liabilities		**2,672.5**	**1,731.5**
Total equity and liabilities		**11,359.2**	**6,440.2**

Consolidated statement of cash flows

Consolidated statement of cash flows TABLE 042

in € million	Note	2016	2015
Earnings before interest and taxes		**434.8**	**422.8**
Amortisation, depreciation and impairment charges of non-current assets	[15]	454.7	401.4
Other non-cash income (–)/expenses (+)		45.0	12.9
Gains (–)/losses (+) on disposal of non-current assets		1.7	–2.4
Changes in leased assets (excluding depreciation) and lease receivables/liabilities	[18], [22], [31]	–120.4	–94.9
Change in rental assets (excluding depreciation) and liabilities for Finance Leases[1]	[19], [34]	–158.2	–155.9
Change in inventories	[25]	–31.2	–22.1
Change in trade receivables/payables	[26], [33]	–78.8	–60.9
Cash payments for defined benefit obligations	[29]	–20.6	–24.2
Change in other provisions	[32]	4.7	23.6
Change in other operating assets/liabilities		–8.6	39.6
Taxes paid		–108.7	–84.8
Cash flow from operating activities	[37]	**414.3**	**455.0**
Cash payments for purchase of non-current assets	[37]	–166.7	–142.6
Cash receipts from disposal of non-current assets	[37]	6.4	14.1
Dividends received		9.6	18.2
Acquisition of subsidiaries (net of cash acquired) and other equity investments	[5], [37]	–2,118.7	–84.9
Proceeds from disposal of shares from equity investments, net of cash		0.0	77.4
Cash receipts/payments for sundry assets		5.0	–4.5
Cash flow from investing activities[1]	[37]	**–2,264.3**	**–122.3**

Consolidated statement of cash flows (continued)

TABLE 042

in € million	Note	2016	2015
Capital contribution from shareholders for the carried out capital increase	[37]	456.7	0.0
Capital increase from issuing of employee shares	[28]	3.2	3.1
Acquisition of treasury shares		–2.8	–2.7
Dividend of KION GROUP AG		–76.0	–54.3
Dividends paid to non-controlling interests		–2.1	–1.5
Cash receipts/payments for changes in ownership interests in subsidiaries without change of control		0.3	0.5
Financing costs paid	[37]	–23.2	–5.6
Proceeds from borrowings	[37]	4,362.5	911.0
Repayment of borrowings	[37]	–2,618.5	–1,134.9
Interest received		8.0	7.1
Interest paid	[37]	–76.3	–50.4
Cash payments from other financing activities		–5.5	–1.2
Cash flow from financing activities	[37]	**2,026.3**	**–329.1**
Effect of foreign exchange rate changes on cash and cash equivalents		0.2	0.5
Change in cash and cash equivalents		**176.5**	**4.1**
Cash and cash equivalents at the beginning of the year	[37]	103.1	98.9
Cash and cash equivalents at the end of the year	[37]	279.6	103.1

1 Last year figures were adjusted due to a change in presentation, for details see note [37] to the consolidated financial statements

Consolidated statement of changes in equity

Consolidated statement of changes in equity

in € million	Note	Subscribed capital	Capital reserves	Retained earnings
Balance as at 01/01/2015		**98.7**	**1,996.2**	**–148.2**
Net income for the year				217.1
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		**0.0**	**0.0**	**217.1**
Dividend of KION GROUP AG	[28]			–54.3
Dividends paid to non-controlling interests				
Acquisition of treasury shares	[28]	–0.1	–2.6	
Changes from employee share option programme	[28]	0.1	3.0	
Effects from the acquisition/disposal of non-controlling interests	[28]			
Changes from application of the equity-method	[28]			–3.2
Other changes				–0.1
Balance as at 31/12/2015		**98.7**	**1,996.6**	**11.3**
Balance as at 01/01/2016		**98.7**	**1,996.6**	**11.3**
Net income for the year				245.5
Other comprehensive income (loss)	[28]			
Comprehensive income (loss)		**0.0**	**0.0**	**245.5**
Capital increase	[28]	9.9	449.4	
Transaction costs	[28]		–2.0	
Dividend of KION GROUP AG	[28]			–76.0
Dividends paid to non-controlling interests	[28]			
Acquisition of treasury shares	[28]	–0.1	–2.7	
Changes from employee share option programme	[28]	0.0	3.2	
Effects from the acquisition/disposal of non-controlling interests	[28]			
Other changes				2.6
Balance as at 31/12/2016		**108.6**	**2,444.4**	**183.4**

TABLE 043

Accumulated other comprehensive income (loss)						
Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on hedge reserves	Gains/losses from equity-accounted investments	Equity attributable to shareholders of KION GROUP AG	Non-controlling interests	Total
–31.7	**–264.6**	**–4.2**	**–4.3**	**1,641.8**	**5.3**	**1,647.1**
				217.1	3.9	221.1
20.3	12.7	4.0	2.3	39.4	–0.4	38.9
20.3	**12.7**	**4.0**	**2.3**	**256.5**	**3.5**	**260.0**
				–54.3	0.0	–54.3
				0.0	–1.5	–1.5
				–2.7	0.0	–2.7
				3.1	0.0	3.1
				0.0	0.3	0.3
				–3.2	0.0	–3.2
				–0.1	0.0	–0.1
–11.4	**–251.9**	**–0.2**	**–2.0**	**1,841.0**	**7.7**	**1,848.7**
–11.4	**–251.9**	**–0.2**	**–2.0**	**1,841.0**	**7.7**	**1,848.7**
				245.5	0.5	246.1
110.4	–50.1	–1.7	–0.1	58.5	–0.6	57.9
110.4	**–50.1**	**–1.7**	**–0.1**	**304.0**	**–0.1**	**304.0**
				459.3	0.0	459.3
				–2.0	0.0	–2.0
				–76.0	0.0	–76.0
				0.0	–2.1	–2.1
				–2.8	0.0	–2.8
				3.2	0.0	3.2
				0.0	0.2	0.2
				2.6	0.0	2.6
99.0	**–302.0**	**–1.9**	**–2.2**	**2,529.4**	**5.7**	**2,535.1**

Notes to the consolidated financial statements

Basis of presentation

[1] GENERAL INFORMATION ON THE COMPANY

KION GROUP AG, whose registered office is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden, Germany, is entered in the commercial register at the Wiesbaden local court under reference HRB 27060.

The KION Group is a global leader in industrial trucks, warehouse technology, related services and supply chain solutions. In 2016, the Group's 30,000 highly skilled employees generated €5,587.2 million in revenue (2015: €5,097.9 million).

The consolidated financial statements and the combined group management report and management report of the Company were prepared by the Executive Board of KION GROUP AG on 22 February 2017.

[2] BASIS OF PREPARATION

The consolidated financial statements of the KION Group for the financial year ended 31 December 2016 have been prepared in accordance with section 315a of the German Commercial Code (HGB) in conjunction with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council concerning the application of international accounting standards. All of the IFRSs and IFRICs that had been enacted by the reporting date and that were required to be applied in the 2016 financial year have been applied in preparing the consolidated financial statements.

In order to improve the clarity of presentation, certain items are aggregated in the statement of financial position and the income statement. The items concerned are disclosed and explained separately in the notes. Assets and liabilities are broken down into current and non-current items in accordance with IAS 1.60. The consolidated income statement is prepared in accordance with the cost of sales (function-of-expense) method.

The consolidated financial statements are prepared in euros, which is the Group's functional currency and reporting currency. All amounts are disclosed in millions of euros (€ million) unless stated otherwise. The addition of the totals presented may result in minor rounding differences. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros. The separate financial statements of the subsidiaries included in the consolidation were prepared as at the same reporting date as the annual financial statements of KION GROUP AG.

Financial reporting standards to be adopted for the first time in the current financial year

The following financial reporting standards were adopted for the first time in 2016:

- Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures', clarification relating to application of the exception to the consolidation obligation for investment entities
- Amendments to IFRS 11 'Joint Arrangements': clarification relating to the acquisition of interests in joint operations
- Amendments to IAS 1 'Presentation of Financial Statements': amendments in connection with the disclosure initiative
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets': clarification relating to revenue-based depreciation and amortisation

- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture': amendments relating to the financial reporting for bearer plants
- Amendments to IAS 19 'Employee Benefits': defined benefit plans: employee contributions
- Amendments to IAS 27 'Separate Financial Statements': amendments relating to the application of the equity method for subsidiaries, joint ventures and associates in separate financial statements
- Annual Improvements to IFRSs (2010–2012)
- Annual Improvements to IFRSs (2012–2014).

The first-time adoption of these amendments to standards has had no significant effect on presentation of the financial performance, financial position or notes to the financial statements of the KION Group.

Financial reporting standards released but not yet adopted

In its consolidated financial statements for the year ended 31 December 2016, the KION Group has not applied the following standards and interpretations, which have been issued by the IASB but were not yet required to be adopted in 2016:

- Amendments to IFRS 2 'Share-based Payment': amendments relating to the classification and measurement of share-based payment transactions
- Amendments to IFRS 4 'Insurance Contracts': exempting provisions relating to the adoption of IFRS 9 'Financial Instruments' before the effective date of the new version of IFRS 4
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Clarifications to IFRS 15 'Revenue from Contracts with Customers': amendments relating to the identification of performance obligations, classification as principal or agent, revenue from licenses and transition relief
- IFRS 16 'Leases'
- Amendments to IAS 7 'Statement of Cash Flows': amendments in connection with the disclosure initiative
- Amendments to IAS 12 'Income Taxes': amendments relating to the recognition of deferred tax assets for unrealised losses on available-for-sale financial assets
- Amendments to IAS 40 'Investment Property': clarification in relation to transfers of property to, or from, investment property
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements to IFRSs (2014–2016).

These standards and interpretations are expected to be applied by the entities included in the KION Group only from the date on which they must be adopted for the first time. Initial information from an analysis of the impact from the first-time adoption of IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' indicates that there is likely to be a clear impact on financial position, especially as a consequence of the greater recognition of indirect end customer finance and purchase leases in the statement of financial position. Effects will arise both from the application of the control principle in IFRS 15 and from the application of the right-of-use approach specified by IFRS 16. The implications for financial position and financial performance from the first-time application of IFRS 15 'Revenue from Contracts with Customers' in respect of revenue from construction contracts and of IFRS 9 'Financial Instruments', especially in relation to the subsequent measurement of financial assets, are currently still being analysed. The effects of the first-time adoption of the other standards and interpretations on the presentation of the financial position and financial performance of the KION Group are expected to be insignificant.

[3] PRINCIPLES OF CONSOLIDATION

Acquisitions are accounted for using the acquisition method. In accordance with IFRS 3, the identifiable assets and the liabilities assumed on the acquisition date are recognised separately from goodwill, irrespective of the extent of any non-controlling interests. The identifiable assets acquired and the liabilities assumed are measured at their fair value.

The amount recognised as goodwill is calculated as the amount by which the acquisition cost, the amount of non-controlling interests in the acquiree and the fair value of all previously held equity interest at the acquisition date exceeds the fair value of the acquiree's net assets. If the cost of acquisition is lower than the fair value of the acquiree's net assets, the difference is recognised in income.

For each acquisition, the Group decides on a case-by-case basis whether the non-controlling interest in the acquiree is recognised at fair value or as a proportion of the net assets of the acquiree. The option to recognise non-controlling interests at fair value is not currently exercised. Consequently, non-controlling interests are recognised at the proportionate value of the net assets attributable to them excluding goodwill.

In the case of business combinations in stages, previously held equity interests are recognised at their fair value at the acquisition date. The difference between their carrying amount and fair value is recognised in the consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are likely to benefit from the business combination.

Transaction costs are immediately taken to income. Contingent consideration elements are included at fair value at the date of acquisition when determining the purchase consideration. Contingent consideration elements may consist of equity instruments or financial liabilities. Depending on the category, changes in their fair value are included in subsequent measurements.

The consolidated financial statements include all of the parent company's material subsidiaries. Intragroup balances, transactions, income and expenses, and gains and losses on intercompany transactions are eliminated in full. Deferred taxes are recognised on temporary differences arising from consolidation transactions.

Transactions with non-controlling interests are treated as transactions with the Group's equity providers. Differences between the consideration paid for the acquisition of a non-controlling interest and the relevant proportion of the carrying amount of the subsidiary's net assets are recognised in equity. Gains and losses arising from the sale of non-controlling interests are also recognised in equity, provided there is no change in control.

Associates and joint ventures that are of material importance to the presentation of the financial position and financial performance of the KION Group are accounted for using the equity method.

[4] BASIS OF CONSOLIDATION

KION GROUP AG's equity investments include subsidiaries, joint ventures, associates and financial investments.

In addition to KION GROUP AG, the consolidated financial statements of the KION Group include, using the acquisition method, all material subsidiaries over which KION GROUP AG exercises control. KION GROUP AG controls a subsidiary if it has decision-making power over the main activities of the entity and can use this power to affect the amount of the variable returns to which it is exposed as a result of the equity investment. Subsidiaries acquired in the course of the financial year are consolidated from the date on which control is obtained. Companies sold in the course of the financial year are deconsolidated from the date on which control is lost.

A joint venture is an equity interest in which the entity is jointly managed by companies in the KION Group and one or more partners on the basis of a contractual agreement, and these parties have rights to the net assets of the joint venture.

Associates are entities in which companies in the KION Group are able to exercise significant influence, either directly or indirectly, over the financial and operating policies of the entity concerned. Significant influence is assumed when KION GROUP AG holds between 20 per cent and 50 per cent of the voting rights.

Equity interests over which KION GROUP AG is unable to exercise control or a significant influence, or that are not jointly controlled by KION GROUP AG, are classified as financial investments.

The number of equity investments broken down by category is shown in > TABLE 044.

Shareholdings by categories

TABLE 044

	01/01/2016	Additions	Disposals	31/12/2016
Consolidated subsidiaries	**102**	**40**	**3**	**139**
Domestic	22	4	1	25
Foreign	80	36	2	114
Equity-accounted associates and joint ventures	**9**	**–**	**–**	**9**
Domestic	5	–	–	5
Foreign	4	–	–	4
Non-consolidated subsidiaries and other investments	**55**	**11**	**6**	**60**
Domestic	14	–	1	13
Foreign	41	11	5	47

A total of 25 German (2015: 22) and 114 foreign (2015: 80) subsidiaries were fully consolidated in addition to KION GROUP AG as at 31 December 2016. The acquisition of the Dematic Group involved the acquisition of DH Services Luxembourg Holding S.à r.l., Luxembourg, plus its 33 subsidiaries (see note [5]).

As had been the case a year earlier, nine joint ventures and associates were accounted for under the equity method as at 31 December 2016. In each case, the last available annual financial statements were used as the basis for measurement.

60 (2015: 55) companies with minimal business volumes or no business operations were not included in the consolidation.

The non-consolidated subsidiaries and other equity investments (joint ventures and associates that are not accounted for using the equity method, plus financial investments) are of minor importance to the presentation of the financial position and financial performance of the KION Group, both individually and as a whole.

Where other requirements are met, the fully consolidated companies listed in > TABLE 045 are exempt from the obligation to disclose annual financial statements and to prepare notes to the financial statements and management reports in accordance with sections 264 (3) and 264b HGB on account of their inclusion in the consolidated financial statements. In the case of KION Holding 2 GmbH and STILL Financial Services GmbH, it has been decided solely not to disclose the annual financial statements.

A detailed overview of all the direct and indirect shareholdings of KION GROUP AG is shown in the list of shareholdings (note [47]).

German entities exempted from disclosure requirements TABLE 045

Entities exempted	Head office
BlackForxx GmbH	Stuhr
Eisenwerk Weilbach GmbH	Wiesbaden
Fahrzeugbau GmbH Geisa	Geisa
KION Financial Services GmbH	Wiesbaden
KION Holding 2 GmbH	Wiesbaden
KION Information Management Services GmbH	Wiesbaden
KION Warehouse Systems GmbH	Reutlingen
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Linde Material Handling GmbH	Aschaffenburg
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
STILL Financial Services GmbH	Hamburg
STILL Gesellschaft mit beschränkter Haftung	Hamburg
Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim

[5] ACQUISITIONS

Dematic

On 21 June 2016, the KION Group reached agreement with funds managed by AEA Investors and the Ontario Teachers' Pension Plan to acquire 100 per cent of the capital and voting shares in DH Services Luxembourg Holding S.à r.l., Luxembourg. The deal was completed on 1 November 2016. DH Services Luxembourg Holding S.à r.l. is the parent company of the Dematic Group. The acquisition of Dematic, a leading specialist for automation and optimisation of supply chains, will make the KION Group one of the world's top suppliers of solutions for Intralogistics 4.0. The KION Group's sales and service network, technology and resources will enable it to offer customers of all sizes in diverse industries worldwide a complete range of material handling products and services. The KION Group is thus strengthening its position as a full-service provider of intelligent supply chain and automation solutions and can benefit from megatrends, such as digitalisation and the growing e-commerce business. With technology centres and production facilities worldwide, Dematic has more than 100 sites in 22 countries.

The cash consideration paid for the acquired net assets amounted to €1,782.7 million, plus €383.4 million to extinguish debt instruments. A cash flow hedge in connection with the purchase price obligation denominated in foreign currency (see note [40]) gave rise to exchange-rate-driven changes of €10.4 million, which were recognised as a basis adjustment. The forward exchange deals involved had been recognised beforehand using hedge accounting.

The incidental acquisition costs incurred by this business combination amounted to €20.2 million and have been recognised in consolidated profit or loss under administrative expenses. The impact of this acquisition on the consolidated financial statements of KION GROUP AG based on the incomplete figures available at the acquisition date is shown in > TABLE 046.

Impact of the acquisition of Dematic on the financial position of the KION Group TABLE 046

in € million	Fair value at the acquisition date
Goodwill	1,925.7
Customer relationships	673.5
Brand names	349.7
Technology & development	515.6
Other intangible assets	127.1
Other property, plant and equipment	153.4
Deferred taxes	105.0
Other non-current assets	28.2
Non-current assets	**3,878.2**
Inventories	83.1
Trade receivables	255.1
Cash and cash equivalents	74.6
Other current assets	69.3
Current assets	**482.1**
Total assets	**4,360.3**
Retirement benefit obligation	98.3
Non-current financial liabilities	516.1
Deferred taxes	614.6
Other non-current liabilities	10.5
Non-current liabilities	**1,239.5**
Current financial liabilities	334.8
Trade payables	220.3
Other current liabilities	399.6
Current liabilities	**954.7**
Total liabilities	**2,194.2**
Total net assets	**2,166.1**
Cash payment	1,782.7
Repayment of debt instruments	383.4
Consideration transferred	**2,166.1**

It has not been possible to complete the analysis of the acquired assets and assumed liabilities before the publication date for these consolidated financial statements because of the timing of the deal close to the reporting date, the complexity of the business model and the extent of the detailed information necessary to carry out the measurements. The above acquisition's purchase price allocation as at 31 December 2016 should therefore be treated as incomplete in terms of the recognition and measurement of the acquired net assets at fair value – especially the measurement of the intangible assets, property, plant and equipment, construction contracts, inventories and provisions. Additionally, the deferred taxes should be considered as incomplete. Furthermore, the reported purchase price should be viewed as incomplete due to contractual verification by KION. The goodwill represents both the well-qualified workforce and the KION Group's expectations of revenue synergies. The latter will be generated on the sales side as Dematic makes use of the comprehensive sales and service organisation of Linde and STILL in Europe. At the same time, Dematic's strong market position in North America and elsewhere should help to stimulate the truck business outside Europe. The goodwill arising from this acquisition is currently not tax deductible. The derived goodwill is initially being assigned to the Dematic cash-generating unit (CGU).

For now, the useful lives applied to the customer relationships are 10 to 15 years, and to technology & development 15 years.

The receivables acquired as part of this transaction, which largely constitute trade receivables (€170.9 million) and unbilled receivables from construction contracts with a net credit balance (€96.1 million), totalled €267.1 million gross. At the acquisition date, it was assumed that trade receivables of €11.4 million and unbilled receivables from construction contracts with a net credit balance of €0.5 million would not be recoverable. Consolidated revenue rose by €259.5 million as a result of the acquisition. The net income reported for 2016 contains a loss totalling €26.5 million attributable to the entities acquired. If the business combination had been in place for the whole of the year, i.e. from 1 January 2016, this would have caused an increase in revenue of €1,705.0 million and a decrease in net income of €128.2 million for the KION Group in 2016. The loss from the acquired entities results from non-operating losses in the course of the amortisation of the fair values determined for the acquired assets on initial recognition of the business combination.

An agreement was reached with a group of banks for a bridge loan (acquisition facilities agreement, AFA) to finance the acquisition of Dematic. The original amount of the AFA was €3,000.0 million. This bridge loan was to be refinanced partly by long-term capital-market and bank debt and partly by equity. For this reason, KION GROUP AG implemented a capital increase in July 2016 that generated gross proceeds of €459.3 million (see disclosures in note [28]). The agreed financing volume was reduced by the proceeds from the issue of shares and, when the AFA was drawn down for the first time on 1 November 2016, amounted to €2,543.2 million.

The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated statement of cash flows contains a net cash outflow of €2,091.1 million for the acquisition of the Dematic Group.

Retrotech Inc.

On 8 February 2016, the KION Group reached agreement on the acquisition of Retrotech Inc., a US systems integrator of automated warehouse and distribution solutions. The transaction was closed on 1 March 2016. The purchase price for the 100 per cent stake in Retrotech Inc., which is headquartered in Rochester, New York State, was €25.0 million.

The incidental acquisition costs incurred by this business combination amounted to €0.7 million. They have been recognised as an expense for the current period and reported as administrative expenses in the consolidated income statement. The impact of this acquisition on the consolidated financial statements of KION GROUP AG based on the figures available at the acquisition date is shown in > TABLE 047.

Impact of the acquisition of Retrotech Inc. on the financial position of the KION Group

TABLE 047

in € million	Fair value at the acquisition date
Goodwill	24.3
Other intangible assets	15.4
Trade receivables	8.8
Cash and cash equivalents	1.7
Other assets	3.0
Total assets	**53.2**
Financial liabilities	9.6
Trade payables	7.5
Other current financial liabilities	5.0
Other liabilities	6.2
Total liabilities	**28.3**
Total net assets	**25.0**
Cash payment	25.0
Consideration transferred	**25.0**

As part of this transaction, receivables in a gross amount of €8.8 million were acquired, of which €5.3 million constituted unbilled receivables from construction contracts with a net credit balance. At the acquisition date, the amount of acquired trade receivables that could not be recovered was insignificant. Consolidated revenue rose by €17.5 million as a result of the acquisition. The net income reported for 2016 contains a loss totalling €4.9 million attributable to the entity acquired. If this business combination had been in place for the whole of the year, i.e. from 1 January 2016, this would have had no material impact on either the revenue or the net income (loss) reported by the KION Group for 2016.

In the second quarter of 2016, the main item was a change in the measurement of other intangible assets within the measurement period. In addition to the increase in other intangible assets, this adjustment also caused a countervailing increase in the deferred tax liabilities recognised thereon, which caused the goodwill recognised to reduce by a total of €2.0 million.

The goodwill represents the KION Group's expectations of strategic and geographical synergies, and the benefit of the well-qualified workforce. The goodwill arising from this acquisition is currently not tax deductible. The derived goodwill is assigned to the Egemin Automation CGU.

The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated statement of cash flows contains a net cash outflow of €23.2 million for the acquisition of Retrotech Inc.

Other acquisitions

In October 2015, 100.0 per cent of the shares in the dealer Emhilia Material Handling S.p.A. (formerly Moden Diesel S.p.A.), Modena, Italy, had been acquired. At the end of October 2015, 100.0 per cent of the shares in LR Intralogistik GmbH, Wörth an der Isar, Germany, a specialist in intralogistics concepts that eschew forklift trucks in favour of tugger trains, had also been acquired. These two subsidiaries were included in the KION Group's basis of consolidation for the first time in January 2016 because they had become more financially important.

With effect from 1 September 2016, 100.0 per cent of the shares in the dealer STILL Norge AS (formerly Roara AS), Heimdal, Norway, were acquired. The purchase consideration for these shares was €0.7 million.

The impact of these acquisitions on the consolidated financial statements of KION GROUP AG based on the figures available at their acquisition dates is shown in > TABLE 048.

The goodwill constitutes the strategic, technological and geographical synergies that the KION Group expects to derive from these business combinations. None of the goodwill arising from the other acquisitions is currently tax deductible. The goodwill derived from these acquisitions is assigned to the STILL EMEA CGU.

The contingent considerations in connection with the acquisition of LR Intralogistik GmbH contractually oblige the KION Group to make additional payments to the previous shareholders that are mainly dependent on the usability of certain intangible assets. The line item 'Acquisition of subsidiaries (net of cash acquired) and other equity investments' in the consolidated state-

Impact of other acquisitions on the financial position of the KION Group TABLE 048

in € million	Fair value at the acquisition date
Goodwill	12.2
Other intangible assets	4.6
Leased / Rental assets	13.6
Trade receivables	5.8
Cash and cash equivalents	2.6
Other assets	9.4
Total assets	**48.2**
Financial liabilities	2.7
Trade payables	8.4
Other liabilities	16.8
Total liabilities	**27.9**
Total net assets	**20.3**
Cash payment	13.9
Contingent consideration	6.4
Consideration transferred	**20.3**

ment of cash flows contains – in addition to cash payments (€0.3 million) – a cash outflow totalling €4.1 million that relates to these contingent considerations.

The purchase price allocation for the acquisition of STILL Norge AS was incomplete as at 31 December 2016 because some details, particularly in the area of intangible assets, and lease data had not yet been fully evaluated. The contingent considerations in connection with the acquisition of STILL Norge AS (€0.5 million) contractually oblige the KION Group to make additional payments to the previous shareholders that are mainly dependent on the achievement of defined EBIT targets for the years 2017 to 2019.

[6] CURRENCY TRANSLATION

Financial statements in foreign currencies are translated in accordance with the functional currency concept (IAS 21 'The Effects of Changes in Foreign Exchange Rates'). The functional currency is the currency of the primary economic environment in which an entity operates. The modified closing-rate method is used for currency translation.

The assets and liabilities of foreign subsidiaries, including goodwill, are translated at the middle spot exchange rate, i.e. at the average of the bid or offer rates on the reporting date. Income and expenses are translated at the average rate. With the exception of income and expenses recognised as other comprehensive income (loss), equity is recognised at historical rates. The resulting translation differences are not taken to income and are recognised in other comprehensive income (loss) until subsidiaries are disposed of.

The financial statements of foreign equity-accounted investments are also translated using the method described above.

Transactions of the consolidated entities in foreign currencies are translated into the relevant company's functional currency at the rate prevailing on the transaction date. On the reporting date, monetary items are translated at the closing rate and non-monetary items at the rate prevailing on the transaction date. Currency translation differences are taken to income and recognised in other income/expenses or in net financial income/expenses.

The translation rates used for currencies that are material to the financial statements are listed in > TABLE 049.

Major foreign currency rates in € TABLE 049

	Average rate		Closing rate	
	2016	2015	2016	2015
China (CNY)	7.3501	6.9767	7.3382	7.0914
United Kingdom (GBP)	0.8193	0.7264	0.8535	0.7375
U.S.A. (USD)	1.1069	1.1103	1.0517	1.0857

[7] ACCOUNTING POLICIES

The accounting policies applied in these consolidated financial statements are, besides the aforementioned accounting policies to be adopted for the first time in 2016, fundamentally the same as those used for the year ended 31 December 2015. These consolidated financial statements are based on the financial statements of the parent company and its consolidated subsidiaries prepared in accordance with the standard accounting policies applicable throughout the KION Group.

Revenue recognition

Revenue is the fair value of the consideration received for the sale of products and services and rental and lease income (excluding VAT) after deduction of trade discounts and rebates. In accordance with IAS 18, revenue is recognised when it is sufficiently probable that a future economic benefit will accrue to the entity and that it can be reliably measured. Other criteria may arise, depending on each individual transaction, such as:

Sale of goods

With the exception of items classified as 'sale with risk', revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the risks and rewards incidental to the ownership of the goods sold are substantially transferred to the customer and the flow of benefits to the Group is considered to be sufficiently probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Appropriate provisions are recognised for risks relating to the sale of goods.

Rendering of services

Revenue from the rendering of services is recognised in the year in which the services are rendered. For services provided over several periods, revenue is recognised in accordance with the proportion of the total services rendered in each period (stage of completion). Revenue from long-term service agreements is therefore recognised on the basis of the average term of the service agreements and in line with progressive costs (constant margin).

Revenue from financial service transactions is recognised in the amount of the sale value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. If industrial trucks are first sold to and then leased back from a finance partner to refinance leases, the selling margin in connection with an operating lease sub-lease is deferred and recognised as revenue in profit or loss over the term of the refinancing. As part of the financial services provided by the Group, industrial trucks are also sold to finance partners who then enter into leases directly with the end customer ('indirect end customer finance'). If significant risks and rewards remain with the KION Group as a result of an agreed residual value guarantee that accounts for more than 10 per cent of the asset's value or as a result of an agreed customer default guarantee ('sale with risk'), the proceeds from the sale are deferred and recognised as revenue on a straight-line basis over the term until the residual value guarantee or the default guarantee expires.

Construction contracts

Revenue from construction contracts is recognised according to the stage of completion (percentage-of-completion method).

Interest income and royalties

Interest income is recognised pro rata temporis in accordance with the effective interest method. Income from royalties is deferred in accordance with the substance of the relevant agreements and recognised pro rata temporis.

Information on the deferral of lease income is contained in the disclosures on the accounting treatment of leases.

Cost of sales

The cost of sales comprises the cost of goods and services sold and includes directly attributable material and labour costs as well as directly attributable overheads, including depreciation of production equipment and amortisation of certain intangible assets, as well as write-downs of inventories. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Financial income and expenses

Financial income and expenses mainly consist of interest expenses on financial liabilities, interest income from financial receivables, interest income from leases and the interest cost on leases, exchange rate gains and losses on financial activities and the net interest cost of the defined benefit obligation.

Interest income and expenses are recognised in profit and loss in accordance with the effective interest method. The effective interest method is used for calculating the amortised cost of a financial asset or financial liability and the allocation of interest income and interest expenses over the relevant periods.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the consolidated income statement under other income, provided they are dividends from subsidiaries carried at cost.

Goodwill

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

Impairment testing for goodwill is performed at the level of the individual cash-generating units (CGUs) or groups of CGUs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. CGUs are generally based on the lowest level of an entity at which – for internal management purposes – the management systematically monitors and controls the goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the Industrial Trucks & Services, Supply Chain Solutions and Corporate Services segments. The 2016 forecast, the budget for 2017, the medium-term planning for 2018 to 2019 and the KION Group's internal projections for 2020 to 2021 were drawn up on the basis of this reporting structure.

The CGUs identified for the purposes of testing goodwill and brand names for impairment equate to the following operating units treated as independent CGUs: LMH EMEA, STILL EMEA, KION APAC, KION Americas, Dematic and Egemin Automation.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows forecast for the next five years are included in the calculation for the impairment test in accordance with IAS 36.33(b). The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. Cash flows beyond the five-year planning horizon were extrapolated for the LMH EMEA, STILL EMEA, KION APAC, KION Americas, Dematic and Egemin Automation CGUs using a growth rate of 0.5 per cent (2015: 1.0 per cent).

CGU cash flows are discounted using a weighted average cost of capital (WACC) that reflects current market assessments of the specific risks to individual CGUs. The underlying capital structure for the LMH EMEA, STILL EMEA, KION APAC and KION Americas CGUs is determined by comparing peer group companies in the same sector. The beta factor derived from this peer group was 1.00 (2015: 1.07). Yield curve data from the European Central Bank (three-month average, rounded) was used to determine the risk-free interest rate; as at 1 November 2016 the rate was 0.6 per cent (1 November 2015: 1.5 per cent). The market risk premium derived from empirical studies of the capital markets was set at 7.0 per cent (2015: 7.0 per cent) and was at the upper end of the band recommended by the technical committee for business valuation and administration (FAUB) of the German Institute of Auditors (IDW), which is 5.5 per cent to 7.0 per cent. The implied return on equity was 7.6 per cent, which was slightly lower than in the previous year (2015: 8.5 per cent). The assumed country risk was 0.16 per cent for the LMH EMEA CGU, 0.21 per cent for the STILL EMEA CGU, 0.78 per cent for the KION APAC CGU and 1.67 per cent for the KION Americas CGU. A leverage ratio of 25.8 per cent (2015: 25.7 per cent) was calculated based on the capital structure determined for the peer group.

A leveraged beta of 0.88 (2015: 0.95) was used to determine the country-specific WACC for Dematic and Egemin Automation on the basis of the sector-specific peer group. The risk-free interest rate for the US as at 1 November 2016 was 2.5 per cent; the country-specific risk premium for the US was set at 0.15 per cent. The risk-free interest rate for Belgium as at 1 November 2016 was 0.6 per cent (1 November 2015: 1.5 per cent); the country-specific risk premium for Belgium was set at 0.15 per cent (1 November 2015: 0.5 per cent). The WACC before tax, which is used to discount the estimated cash flows, was calculated at 9.1 per cent for LMH EMEA, 9.2 per cent for STILL EMEA, 9.6 per cent for KION APAC, 11.2 per cent for KION Americas, 10.4 per cent for Dematic and 9.5 per cent for Egemin Automation. The WACC after tax was 6.5 per cent for LMH EMEA, 6.6 per cent for STILL EMEA, 7.2 per cent for KION APAC, 7.7 per cent for KION Americas, 7.4 per cent for Dematic and 6.8 per cent for Egemin Automation.

The impairment test carried out in December 2016 did not reveal any need to recognise impairment losses for the existing goodwill recognised for the LMH EMEA, STILL EMEA, KION APAC, KION Americas, Dematic and Egemin Automation CGUs. Sensitivity analysis has enabled us to determine that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits, in particular a variation in WACC of plus or minus 100 basis points.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at historical cost less all accumulated amortisation and all accumulated impairment losses. If events or market developments suggest impairment has occurred, impairment tests are carried out on the carrying amount of items classified as other intangible assets with a finite useful life. The carrying amount of an asset is compared with its recoverable amount, which is defined as the higher of its value in use and its fair value less costs to sell. If the reasons for recognising impairment losses in the past no longer apply, the relevant impairment losses are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its amortised cost.

Other intangible assets with an indefinite useful life are carried at cost and are mainly capitalised brand names. Brand names are not amortised because they have been established in the market for a number of years and there is no foreseeable end to their useful life. In accordance with IAS 36, they are tested for impairment at least once a year or whenever there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill. Assessments of indefinite useful life are carried out in every period.

Development costs are capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the likelihood that the intangible asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Capitalised development costs include all costs and overheads directly attributable to the development process. Once they have been initially capitalised, these costs and internally generated intangible assets – particularly internally generated software – are carried at cost less accumulated amortisation and accumulated impairment losses. Internally generated intangible assets are not qualifying assets so finance costs are not capitalised. All non-qualifying development costs are expensed as incurred and reported in the income statement under research and development costs together with research costs. From 2016, the amortisation expense on capitalised development costs has been reported under cost of sales. The prior-year figures have been restated. As a result, the cost of sales rose by €53.3 million. Research and development costs declined by the same amount.

Amortisation of intangible assets with a finite useful life is recognised on a straight-line basis and reported under functional costs. The impairment losses on intangible assets are reported under other expenses.

The useful lives shown in > TABLE 050 are applied in determining the carrying amounts of other intangible assets.

Useful life of other intangible assets TABLE 050

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

Leases / short-term rentals

KION Group entities lease equipment, mainly various industrial trucks, to their customers in order to promote sales. The leases may be of a long-term nature (leasing) or a short-term nature (short-term rental) .

Entities in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, these contracts are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased / rental asset are transferred to the lessee. All other rentals and leases are classified as operating leases, again in accordance with IAS 17.

If a KION Group entity enters into a finance lease as the lessor, the future lease payments to be made by the customer are recognised as lease receivables at an amount equal to the net investment in the lease. Interest income is allocated to each reporting period in order to ensure a constant return on the outstanding net investment in the lease.

Leased assets

If the beneficial ownership of leased assets remains with a KION Group entity as the lessor under an operating lease, the assets are reported as leased assets in a separate item in the statement of financial position. The leased assets are carried at cost and depreciated on a straight-line basis over the term of the underlying leases.

To fund leases, industrial trucks are regularly sold to leasing companies. The industrial trucks are then leased back to entities in the Industrial Trucks & Services segment (head lease), who sub-lease them to external end customers (described below as ‘sale and leaseback sub-leases’). These long-term leases generally have a term of four to five years. If, in the case of sale and leaseback sub-leases, the risks and rewards incidental to the head lease are substantially borne by entities in the Industrial Trucks & Services segment, the corresponding assets are reported as leased assets within non-current assets. These leased assets are reported in the statement of financial position at the lower of the present value of the minimum lease payments and fair value. However, if substantially the risks and rewards incidental to the head lease are transferred to the end customer, a corresponding lease receivable is recognised. In both cases, the funding items for these long-term customer leases, which are funded for terms that match those of the leases, are recognised as lease liabilities.

Rental assets

Rental assets are assets resulting from short-term rentals as well as industrial trucks in relation to which significant risks and rewards remain with the KION Group despite the trucks having been sold ('sale with risk').

In the case of short-term rentals, entities in the Industrial Trucks & Services segment rent industrial trucks to customers directly. Short-term rental agreements usually have a term of one day to one year. The risks and rewards remain substantially with the entities in the Industrial Trucks & Services segment. The industrial trucks are carried at cost and depreciated on a straight-line basis over the normal useful life of between five and seven years, depending on the product group. If a sale-and-leaseback arrangement is in place for refinancing purposes, the assets are reported in the statement of financial position at the lower of the present value of the minimum rental payments and fair value.

In an indirect end customer finance arrangement, industrial trucks are sold to finance partners who then enter into leases with end customers. If entities in the Industrial Trucks & Services segment provide material residual value guarantees or a customer default guarantee ('sale with risk'), these transactions, which are classified as sale agreements under civil law, are recognised in accordance with the provisions relating to lessors with operating leases in conjunction with the IFRS principles for revenue recognition. In this case, the trucks are recognised as assets in the statement of financial position at their cost on the date of the sale and written down to their guaranteed residual value, or zero, on a straight-line basis over the period until the residual value guarantee or the customer default guarantee expires. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under other financial liabilities.

Other property, plant and equipment

Property, plant and equipment is carried at cost less straight-line depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overheads. This includes production-related depreciation and proportionate costs for administration and social insurance/employee benefits.

The cost of property, plant and equipment is reduced by the amount of any government grants received, provided the relevant requirements are met. Expenses for maintenance and repairs are recognised in income to the extent that they are not required to be capitalised. Borrowing costs are capitalised for certain items of property, plant and equipment whose acquisition or production exceeds one year as soon as the definition of a qualifying asset is met. As was the case in the previous year, there were no qualifying assets in 2016.

Depreciation of property, plant and equipment is recognised on a straight-line basis and reported under functional costs. The useful lives and depreciation methods are reviewed annually and adjusted to reflect changes in conditions.

The useful lives below are applied in determining the carrying amounts of items of property, plant and equipment. > TABLE 051

KION Group companies also lease property, plant and equipment for their own use using finance leases, which are recognised as other property, plant and equipment. In this case, the lower of the fair value and present value of future lease payments is recognised at the inception of the lease. A corresponding liability to the lessor is recognised under other financial liabilities in the statement of financial position.

Useful life of other property, plant and equipment TABLE 051

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

Property, plant and equipment covered by finance leases is depreciated over the shorter of its useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the property, plant and equipment is depreciated and the other financial liabilities are reversed over the useful life of the leased assets.

The difference between total finance lease liabilities and the fair value of the financed leased assets represents the finance charge which is recognised in the income statement over the term of the lease at a constant rate of interest on the outstanding balance in each period. At the end of the lease term, the leased assets are either returned or purchased, or the contract is extended.

If there are certain indications of impairment of the property, plant and equipment, the assets are tested for impairment by comparing the residual carrying amount of the assets with their recoverable amount, which is defined as the higher of value in use and fair value less costs to sell. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for an asset. The impairment losses on property, plant and equipment are reported under other expenses.

The KION Group calculates the recoverable amount primarily on the basis of value in use. In determining value in use, the expected future cash flows are discounted using a risk-adjusted discount rate, taking into account the current and future level of earnings and segment-specific, technological, economic and general trends.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer applies, the relevant impairment losses are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its amortised cost. This does not apply to goodwill.

Equity-accounted investments

In accordance with the equity method, associates and joint ventures are measured as the proportion of the interest in the equity of the investee. They are initially carried at cost. Subsequently, the carrying amount of the equity investment is adjusted in line with any changes to the KION Group's interest in the net assets of the investee. The KION Group's interest in the profit or loss generated after acquisition is recognised in income. Other changes in the equity of associates and joint ventures are recognised in other comprehensive income (loss) in the consolidated financial statements in proportion to the Group's interest in the associate or joint venture.

If the Group's interest in the losses made by an associate or joint venture exceeds the carrying amount of the proportionate equity attributable to the Group, no additional losses are recognised. Any goodwill arising from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associate or joint venture.

If there is evidence that an associate or joint venture may be impaired, the carrying amount of the investment in question is tested for impairment. The carrying amount of the asset is compared with its recoverable amount. If the carrying amount is greater than the recoverable amount, an impairment loss is recognised for the equity investment.

Income taxes

In the consolidated financial statements, current and deferred taxes are recognised on the basis of the tax laws of the jurisdictions involved. Deferred taxes are recognised in other comprehensive income (loss) if they relate to transactions also recognised in other comprehensive income (loss).

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the IFRS carrying amounts and the tax base, as well as for temporary consolidation measures.

Deferred tax assets also include tax refund claims that arise from the expected utilisation of existing tax loss carryforwards and interest carryforwards in subsequent years and whose utilisation is reasonably certain according to current forecasts. On the basis of this estimate, deferred tax assets have been recognised on some loss carryforwards and interest carryforwards.

Deferred taxes are determined on the basis of the tax rates that will apply at the recovery date, or have been announced, in accordance with the current legal situation in each country concerned. In accordance with the provisions in IAS 12, deferred tax assets and liabilities are not discounted. Deferred tax assets are offset against deferred tax liabilities to the extent that they have the same maturity and relate to the same taxation authority.

Inventories

Inventories are carried at the lower of cost and net realisable value. The acquisition costs of raw materials and merchandise are calculated on the basis of an average. The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overheads and production-related depreciation directly attributable to the production process. Administrative costs and social insurance / employee benefits are included to the extent that they are attributable to the production process. Borrowing costs as defined by IAS 23 are not a component of cost as they are not qualifying assets as defined by IAS 23.5. The amount recognised is an average value or a value determined in accordance with the FIFO method.

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated costs necessary to make the sale.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability, etc. If the reasons for the recognition of the write-downs no longer apply, they are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its cost.

Construction contracts

Receivables and revenue from construction contracts are recognised according to the stage of completion (percentage-of-completion method). The percentage of completion is the proportion of contract costs incurred up to the reporting date compared to the total estimated contract costs as at the reporting date (cost-to-cost method). Under the percentage-of-completion method, construction contracts are measured at the amount of the contract costs incurred to date plus the pro rata profit earned according to the percentage of completion. If it is probable that the total contract costs will exceed the contract revenue, the expected loss is immediately recognised as an expense in the financial year in which the loss becomes apparent. If the contract costs incurred and the profit and loss recognised exceed the advances received, the excess is recognised as an asset under trade receivables. If the advances received exceed the capitalised costs and recognised profit and loss, the excess is recognised as a liability under other liabilities.

If the outcome of a construction contract cannot be reliably estimated, the likely achievable revenue is recognised up to the amount of the costs incurred. Contract costs are recognised as an expense in the period in which they are incurred. Variations in the contract work, claims and incentive payments are recognised if they are likely to result in revenue and their amount can be reliably estimated.

Trade receivables

In the first period in which they are recognised, trade receivables categorised as loans and receivables (LaR) – with the exception of construction contracts with a net credit balance due from customers – are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Cash and cash equivalents

Cash and cash equivalents comprise cash, credit balances with banks and current financial assets that can be transformed into cash at any time and are only subject to a minor level of volatility.

Other financial assets

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

The KION Group differentiates between financial assets held for trading at fair value through profit or loss (FAHfT), available for sale financial assets (AfS) and financial assets classified as loans and receivables (LaR).

The FAHfT category contains derivative financial instruments that do not form part of a formally documented hedge.

Available-for-sale financial assets (AfS) are carried at fair value. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised. Equity investments for which no market price is available are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted valuation techniques. At present there is no intention to sell these financial instruments.

In the first period in which they are recognised, financial assets categorised as loans and receivables (LaR) are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Carrying amounts of financial assets are tested for impairment on every reporting date and whenever indications of impairment arise. If there is an objective indication of impairment (such as a borrower being in significant financial difficulties), an impairment loss must be recognised directly in the income statement.

If objective facts in favour of reversing impairment losses are present on the reporting date, reversals are carried out to an appropriate extent. The recognition of reversals must not result in a carrying amount greater than the amortised cost that would have arisen if the impairment loss had not been recognised. In the case of debt instruments classified as available-for-sale financial assets (AfS), reversals of impairment losses are recognised in the income statement.

Derivative financial instruments

Derivative financial instruments are measured at their fair value and are reported as financial assets or financial liabilities as at the reporting date. They are initially recognised and derecognised in the financial statements on their settlement dates.

Currently, derivative financial instruments in the KION Group mainly comprise currency forwards that are used for hedging purposes to mitigate currency risk. The KION Group did not have any interest-rate derivatives as at 31 December 2016, as was also the case at 31 December 2015.

In accordance with IAS 39, all derivative financial instruments must be measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. The KION Group currently uses cash flow hedges for currency risk as well as one net investment hedge.

In the case of cash flow hedges, derivatives are employed to hedge future cash flow risks from planned transactions and from firm obligations not reported in the statement of financial position. The effective portion of changes in the fair value of derivatives is initially recognised in other comprehensive income (loss) and is subsequently reclassified to the income statement when the corresponding underlying transaction is also recognised. The ineffective portion of the changes in fair value is recognised immediately in the income statement.

A derivative is used as a net investment hedge to hedge the currency risk arising on translation of a foreign subsidiary's financial statements into the Group's reporting currency. The effective portion of changes in the fair value of the derivative is initially recognised in other comprehensive income (loss) and will not be reclassified to the income statement until the foreign operation is sold. The ineffective portion of the changes in fair value is recognised immediately in the income statement.

If the criteria for hedge accounting are not satisfied, changes in the fair value of derivative financial instruments are recognised in the income statement.

Further information on risk management and accounting for derivative financial instruments can be found in notes [39] and [40].

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the plan assets used to cover the Group's benefit obligations. Plan assets are measured at fair value.

Remeasurements, including deferred taxes, are recognised in other comprehensive income (loss). It is not permitted to reclassify remeasurements recognised in other comprehensive income (loss) to profit or loss in future periods. The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the interest income from plan assets are netted and reported in net financial income / expenses. Further details can be found in note [29].

Other provisions

Other provisions are recognised when the Group has a legal or constructive obligation to a third party as the result of a past event that is likely to lead to a future outflow of resources and that can be reliably estimated. Where there is a range of possible outcomes and each individual point within the range has an equal probability of occurring, a provision is recognised in the amount of the mean of the individual points. Measurement is at full cost. Provisions for identifiable risks and contingent liabilities are recognised in the amount that represents the best estimate of the cost required to settle the obligations. Recourse claims are not taken into account. The settlement amount also includes cost increases identifiable as at the reporting date. Provisions with a maturity of more than twelve months are discounted using the standard market interest rate. The discount rate is a before-tax rate that reflects current market expectations for the time value of money and the specific risks inherent in the liability. The interest cost from unwinding the discount is recognised in interest expenses.

Warranty provisions are recognised on the basis of past or estimated future claim statistics. The corresponding expense is recognised in cost of sales at the date on which the revenue is recognised. Individual provisions are recognised for claims that are known to the Group.

Provisions for expected losses from onerous contracts and other business obligations are measured on the basis of the work yet to be performed.

A restructuring provision is recognised when a KION Group entity has prepared a detailed, formal restructuring plan and this plan has raised the valid expectation in those affected that the entity will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring and not associated with the ongoing activities of the entity concerned.

Share-based payments

IFRS 2 distinguishes between equity-settled and cash-settled share-based payment transactions.

Equity-settled share-based payment transactions are recognised at their fair value at the date of grant. The fair value of the obligation is recognised as an expense under functional costs over the vesting period and offset against capital reserves.

The portion of the fair value of cash-settled share-based payments that is attributable to service provided up to the valuation date is recognised as an expense under functional costs and is also reported as a liability. The fair value is recalculated on each reporting date until the end of the performance period. Any change in the fair value of the obligation must be recognised (pro rata temporis) under expenses.

Financial liabilities and other financial liabilities

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

The FLHfT category contains derivative financial instruments that do not form part of a formally documented hedge. These are reported under other financial liabilities and must be carried at fair value through profit or loss.

All other financial liabilities reported under financial liabilities or other financial liabilities must be categorised as FLaC. These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted. These liabilities are then measured at amortised cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

Trade payables

Trade payables are categorised as FLaC and, in the first period in which they are recognised, are carried at fair value net of the directly attributable transaction costs. In subsequent periods, these liabilities are measured at amortised cost using the effective interest method. Low-interest or non-interest-bearing liabilities due in more than one year are carried at their present value.

Assumptions and estimates

The preparation of the IFRS consolidated financial statements requires the use of assumptions and estimates for certain line items that affect recognition and measurement in the statement of financial position and the income statement. The actual amounts realised may differ from estimates. Assumptions and estimates are applied in particular:

- in assessing the need for and the amount of impairment losses on intangible assets, property, plant and equipment, and inventories;
- in determining the useful life of non-current assets;
- in classifying leases;
- in recognising and measuring defined benefit pension obligations and other provisions;
- in recognising and measuring current and deferred taxes;
- in recognising and measuring assets acquired and liabilities assumed in connection with business combinations;
- in evaluating the stage of completion in the case of long-term construction contracts.

Goodwill is tested for impairment annually at the level of the cash-generating units to which goodwill is allocated, applying the budget for 2017 and the medium-term planning for 2018 to 2019 combined with the growth predicted in the market forecasts for the projections for 2020 to 2021 and assuming division-specific growth rates for the period thereafter. Any material changes to these and other factors might result in the recognition of impairment losses. Further information on goodwill can be found earlier in this note and in note [17].

Information on leases can be found in the sections on leases/short-term rentals, leased assets, rental assets and other property, plant and equipment in this note.

Defined benefit pension obligations are calculated on the basis of actuarial parameters. As differences due to remeasurements are taken to other comprehensive income (loss), any change in these parameters would not affect the net profit for the current period. For further details about sensitivity analysis in relation to the impact of all significant assumptions, please refer to the information about the retirement benefit obligation in note [29].

The recognition and measurement of other provisions is based on an estimate of the probability of the future outflow of resources, supplemented by past experience and the circumstances known to the Group at the reporting date. Accordingly, the actual outflow of resources for a given event may be different from the amount recognised in other provisions. Further details can be found in note [32].

Significant estimates are involved in calculating income taxes. These estimates may change on the basis of new information and experience (see also note [14]). Deferred tax assets on tax loss carryforwards and interest carryforwards are recognised on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carryforwards can be utilised. The actual amount of taxable income in future periods, and hence the actual utilisation of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognised.

On first-time consolidation of an acquisition, all identifiable assets and liabilities are recognised at their fair value at the acquisition date. The fair values of intangible assets are determined using appropriate valuation techniques. These measurements are based on estimates of future cash flows, expected growth rates, exchange rates, discount rates and useful lives. In the event of material changes to assumptions or circumstances, estimates must be reassessed and this can lead to the recognition of an impairment loss for the asset concerned. For further information on acquisitions, see note [5].

Construction contracts are accounted for using the percentage-of-completion method based on management estimates of the contract costs incurred. If estimates change, or if there are differences between planned and actual costs, this is directly reflected in the profit or loss from construction contracts. The operating units continually review the cost estimates and adjust them as appropriate. Further information on construction contracts can be found above in this note.

Where necessary, the KION Group's accounting departments receive assistance from external legal advisors and tax consultants when making the estimates required.

The carrying amounts of the affected line items can be found in the relevant notes/the consolidated statement of financial position.

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

Notes to the consolidated income statement

[8] REVENUE

The revenue generated by the KION Group in the year under review broken down by product category is as follows: > TABLE 052

Revenue with third parties by product category TABLE 052

in € million	2016	2015
Industrial Trucks & Services	**5,200.5**	**5,044.4**
New business	2,860.3	2,779.9
Service business	2,340.2	2,264.5
– Aftersales	1,363.8	1,347.0
– Rental business	558.3	524.1
– Used trucks	285.8	270.4
– Other	132.4	122.9
Supply Chain Solutions	**364.7**	**33.0**
Business Solutions	263.9	25.7
Service business	100.7	7.4
Corporate Services	**22.1**	**20.5**
Total revenue	**5,587.2**	**5,097.9**

The ‘Supply Chain Solutions’ line item includes revenue from construction contracts amounting to €325.4 million (2015: €33.0 million).

Further information on revenue can be found in the segment report in note [41].

[9] OTHER INCOME

The breakdown of other income is as follows: > TABLE 053

Other income TABLE 053

in € million	2016	2015
Foreign currency exchange rate gains	22.0	25.2
Income from reversal of provisions	6.0	5.3
Profit from release of deferred lease profits	9.3	9.9
Gains on disposal of non-current assets	2.4	4.0
Rental income	1.2	1.3
Sundry income	46.7	53.8
Total other income	**87.7**	**99.6**

The change in foreign currency exchange rate gains was attributable to fluctuations in exchange rates.

The sundry income predominantly included earnings from commission of €18.8 million (2015: €20.6 million). Sundry income also included income from non-consolidated subsidiaries and other investments amounting to €3.0 million (2015: €9.7 million).

[10] OTHER EXPENSES

The breakdown of other expenses is as follows: > TABLE 054

Other expenses TABLE 054

in € million	2016	2015
Foreign currency exchange rate losses	25.1	37.2
Losses on disposal of non-current assets	3.0	1.7
Impairment of non-current assets	–	4.1
Sundry expenses	13.8	23.6
Total other expenses	**41.9**	**66.6**

The change in foreign currency exchange rate losses was attributable to fluctuations in exchange rates.

The impairment losses recognised on non-current assets in the previous year of €4.1 million were due to impairment losses on capitalised development costs (see also note [17]).

[11] SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS

The share of profit (loss) of equity-accounted investments in the reporting year amounted to a profit of €6.5 million (2015: €10.6 million). Further details on equity-accounted investments can be found in note [21].

[12] FINANCIAL INCOME

Financial income breaks down as shown in > TABLE 055.

The increase in financial income in 2016 mainly resulted from the change in foreign currency exchange rate gains (financing), which was attributable to fluctuations in exchange rates, and also gains / losses arising on hedging transactions. These gains were offset by foreign currency exchange rate losses (financing) (see note [13]).

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group entities act as lessors (finance leases).

The line item 'Net interest income from defined benefit plans' relates to the net interest income on the net assets of two pension plans in the United Kingdom in which plan assets exceed pension obligations.

Financial income TABLE 055

in € million	2016	2015
Interest income from leases	36.4	34.8
Foreign currency exchange rate gains (financing)	42.2	5.8
Net interest income from defined benefit plans	1.1	0.9
Other interest and similar income	9.1	10.0
Total financial income	**88.9**	**51.4**

[13] FINANCIAL EXPENSES

Financial expenses break down as follows: > TABLE 056

Financial expense TABLE 056

in € million	2016	2015
Interest expense from loans	16.0	10.2
Interest expense from corporate bond	18.9	30.4
Interest cost of leases	50.8	49.9
Net interest expense from defined benefit plans	18.7	17.1
Amortisation of finance costs	7.9	1.3
Foreign currency exchange rate losses (financing)	45.6	7.0
Interest cost of non-current financial liabilities	1.6	0.7
Other interest expenses and similar charges	25.1	27.3
Total financial expense	**184.5**	**144.0**

In 2016, financial expenses rose by €40.5 million year on year. This increase stemmed largely from the change in foreign currency exchange rate losses (financing) as a consequence of the rise in currency risk at the end of the year. The foreign currency exchange rate losses (financing) included gains / losses arising on hedging transactions in addition to the effects from exchange rate fluctuations.

The financial expenses also included one-off expenses in connection with the repayment of the syndicated loan dated 23 December 2006 that took the form of a revolving credit facility of €1,243.0 million and the €450.0 million corporate bond, which had been issued in 2013 and was due to mature in 2020. An amount of €5.4 million representing the deferred borrowing costs relating to the corporate bond at the time of early repayment and a cash payment of €15.2 million representing early repayment charges were recognised as financial expenses. In addition, an amount of €5.1 million representing the deferred borrowing costs relating to the previous syndicated loan at the time of early repayment was included in financial expenses. There was a countervailing effect from the savings on interest payments resulting from the optimised financing structure.

The interest cost of leases relates to the interest portion of lease payments in financial services transactions in which the material risks and rewards are borne by KION Group entities as lessees (finance leases). Sale and finance leaseback operating sub-leases (SALB-FL-OL) incurred interest expenses of €28.3 million (2015: €27.8 million). The income from corresponding customer agreements is, according to IAS 17, a component of the rental and lease payments received and is therefore reported within revenue rather than as interest income.

Net interest expense from defined benefit plans relates to the net interest cost of the net liability of pension plans applying the discount rate for plans in which pension obligations exceed plan assets.

[14] INCOME TAXES

The income tax expense of €93.1 million (2015: expense of €109.2 million) consisted of €86.2 million in current tax expense (2015: €132.5 million) and €6.9 million in deferred tax expense (2015: deferred tax income of €23.3 million). The current tax expense included expenses of €0.3 million (2015: expenses of €24.9 million) relating to previous financial years.

At the reporting date there were income tax assets of €35.2 million receivable from tax authorities (2015: €7.9 million) and income tax liabilities of €63.0 million (2015: €79.8 million).

Deferred taxes are recognised for temporary differences between the tax base and IFRS carrying amounts. Deferred taxes are determined on the basis of the tax rates that will apply at the recovery date, or have been announced, in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent plus the solidarity surcharge (5.5 per cent of corporate income tax). Taking into account the average trade tax rate of 15.03 per cent (2015: 14.93 per cent), the combined nominal tax rate for entities in Germany was 30.85 per cent (2015: 30.75 per cent). The income tax rates for foreign companies used in the calculation of deferred taxes were between 9.0 per cent and 40.0 per cent (2015: between 10.0 per cent and 37.48 per cent).

No deferred taxes have been recognised on temporary differences of €78.7 million (2015: €164.2 million) between the net assets reported in the consolidated financial statements for the Group companies and the tax base for the shares in these Group companies (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to dispose of investments in the foreseeable future.

Deferred tax assets are allocated to the following items in the statement of financial position: > TABLE 057

Deferred tax assets TABLE 057

in € million	2016	2015
Intangible assets and property, plant and equipment	110.3	97.6
Financial assets	1.0	–
Current assets	53.5	41.2
Deferred charges and prepaid expenses	1.7	0.3
Provisions	216.5	163.3
Liabilities	395.5	324.9
Deferred income	37.5	36.2
Tax loss carryforwards and interest carryforwards	52.6	73.7
Offsetting	–448.4	–388.3
Total deferred tax assets	**420.2**	**349.0**

Deferred tax liabilities are allocated to the following items in the statement of financial position: > TABLE 058

Deferred tax liabilities TABLE 058

in € million	2016	2015
Intangible assets and property, plant and equipment	1,075.6	442.6
Financial assets	5.7	3.5
Current assets	214.8	201.3
Deferred charges and prepaid expenses	0.8	1.0
Provisions	15.5	8.7
Liabilities	36.9	31.5
Deferred income	4.4	2.3
Offsetting	–448.4	–388.3
Total deferred tax liabilities	**905.3**	**302.7**

The deferred tax liabilities essentially related to the purchase price allocation in the acquisition of the KION Group and Dematic, particularly for intangible assets and property, plant and equipment.

In 2016, deferred taxes – without the consideration of currencs effects – of €17.2 million were recognised in other comprehensive income (loss), resulting in an increase in equity (2015: minus €5.4 million, resulting in a decrease in equity). Of this amount, deferred taxes of €16.7 million (2015: minus €4.5 million) arose from the remeasurement of the defined benefit obligation. Furthermore, deferred taxes of €0.4 million (2015: minus €0.8 million) were recognised in connection with realised and unrealised changes in the fair value of derivatives in cash flow hedges (€1.1 million; 2015: minus €2.2 million) and net investment hedges (minus €0.7 million; 2015: €1.4 million). Furthermore, the deferred taxes recognised in the statement of financial position rose as a consequence of the purchase price allocation in connection with the following acquisitions: Dematic (deferred tax assets by €105.0 million; deferred tax liabilities by €614.6 million), Retrotech Inc. (deferred tax assets by 0.4 million; deferred tax liabilities by €5.5 million) and other acquisitions (deferred tax assets by €1.5 million; deferred tax liabilities by €1.2 million; 2015 Egemin Automation: deferred tax assets by €0.7 million; deferred tax liabilities by €9.3 million). In addition, the currency translation as at the reporting date led to higher deferred taxes of €27.4 million, which mainly results from the first time consolidation of Dematic. These currency effects were recognised in other comprehensive income (loss) in the position cumulative translation adjustment resulting in a decrease in equity.

In 2016, the parent company and subsidiaries that reported losses for 2016 or 2015 recognised net deferred tax assets on temporary differences and on loss carryforwards totalling €29.4 million (2015: €85.4 million). These assets were considered to be unimpaired because these companies are expected to generate taxable income in future.

No deferred tax assets have been recognised on tax loss carryforwards of €509.3 million (2015: €115.8 million) – of which €29.4 million can only be carried forward on a restricted basis –, on interest carryforwards of €193.5 million (2015: €215.8 million) or on other temporary differences of €4.7 million (2015: €0.0 million).

Deferred taxes on tax loss carryforwards and interest carryforwards are capitalised to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. The total amount of unrecognised deferred tax assets relating to loss carryforwards is therefore €139.6 million (2015: €29.3 million), of which €130.1 million (2015: €27.1 million) concerns tax losses that can be carried forward indefinitely.

The KION Group's corporation-tax loss carryforwards in Germany as at 31 December 2016 amounted to €126.1 million (31 December 2015: €156.5 million), while trade-tax loss carryforwards stood at €97.3 million (31 December 2015: €142.1 million). There were also foreign tax loss carryforwards totalling €547.8 million (31 December 2015: €142.2 million).

The interest that can be carried forward indefinitely in Germany as at 31 December 2016 amounted to €206.1 million (31 December 2015: €296.7 million).

The table below shows the reconciliation of expected income tax expense to effective income tax expense. The Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates, taking into account consolidation effects recognised in income. The expected tax rate applied in the reconciliation is 30.85 per cent (2015: 30.75 per cent). > TABLE 059

Income taxes TABLE 059

in € million	2016	2015
Earnings before taxes	**339.2**	**330.2**
Anticipated income taxes	–104.6	–101.5
Deviations due to the trade tax base	–4.0	–3.9
Deviations from the anticipated tax rate	17.3	11.9
Losses for which deferred taxes have not been recognised	–6.5	–9.5
Change in tax rates and tax legislation	1.1	–7.2
Non-deductible expenses	–5.4	–1.9
Tax-exempt income	8.7	2.3
Taxes relating to other periods	–0.3	–24.9
Deferred taxes relating to prior periods	5.0	28.5
Other	–4.4	–3.0
Effective income taxes (current and deferred taxes)	**–93.1**	**–109.2**

[15] OTHER INCOME STATEMENT DISCLOSURES

The cost of materials rose by €258.8 million in the reporting year to €2,669.1 million (2015: €2,410.2 million).

Personnel expenses went up by €168.6 million to €1,520.3 million in 2016 (2015: €1,351.7 million). These personnel expenses included wages and salaries of €1,198.3 million (2015: €1,058.1 million), social security contributions of €258.4 million (2015: €237.8 million) and expenses for pensions of €63.6 million (2015: €55.9 million). The interest cost from the unwinding of the discount on estimated pension obligations is not recognised under personnel expenses and is instead reported under financial expenses as a component of interest cost of the defined benefit obligation. Pension expenses essentially comprised the pension entitlements of €35.3 million vested in 2016 (2015: €34.7 million) and unrecognised past service income of €0.1 million (2015: unrecognised past service income of €4.3 million) arising from plan amendments and curtailments.

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expenses on intangible assets amounted to €454.7 million in the reporting year (2015: €401.4 million). Inventories were written down by €17.8 million (2015: €12.5 million).

The breakdown of rental and lease payments expensed in the period and arising in connection with operating leases in which KION Group entities are lessees is as follows: > TABLE 060

Lessee: Expenses recognised for operating lease payments TABLE 060

in € million	2016	2015
Procurement lease contracts	89.6	82.6
Sublease contracts	36.3	39.2
Total recognised expenses for lease payments	**125.9**	**121.8**

The expenses in connection with sub-leases relate to leases and rental agreements in which KION Group entities are both lessors and lessees. These expenses were offset by income of €43.8 million in 2016 (2015: €46.2 million).

[16] EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) accruing to the KION GROUP AG shareholders by the weighted average number of shares outstanding during the reporting period (2016: 103,241,256 no-par-value shares; 2015: 98,721,950 no-par-value shares). The net income accruing to the shareholders of KION GROUP AG was €245.5 million (2015: €217.1 million); information about determining the net income (loss) accruing to the KION GROUP AG shareholders can be found in the consolidated income statement. Basic earnings per share for the reporting period came to €2.38 (2015: €2.20). The 164,486 no-par-value treasury shares repurchased by KION GROUP AG were not included in this figure as at 31 December 2016 (31 December 2015: 160,050).

Diluted earnings per share is calculated by adding the potential dilutive no-par-value shares that employees can obtain for free under the employee share option programme (KEEP) to the weighted average number of shares outstanding during the reporting period. The calculation of diluted earnings per share was based on a weighted average of 103,278,542 no-par-value shares issued (2015: 98,740,662 no-par-value shares). Diluted earnings per share for the reporting period came to €2.38 (2015: €2.20).

Notes to the consolidated statement of financial position

[17] GOODWILL AND OTHER INTANGIBLE ASSETS

With effect from 1 December 2016, the activities of the LMH, STILL and FS segments were allocated to the new Industrial Trucks & Services segment (see also note [41] for more details). The goodwill previously reported and monitored by senior management for internal purposes in the LMH and STILL segments is being transferred to the operating units in the Industrial Trucks & Services segment (LMH EMEA, STILL EMEA, KION APAC and KION Americas). The goodwill will therefore be reported and monitored at the level of the four operating units in the future.

Goodwill is broken down by segment as follows: > TABLE 061

Goodwill broken down by segment TABLE 061

in € million	2016	2015
Industrial Trucks & Services	1,504.9	1,497.2
LMH EMEA	813.4	817.1
STILL EMEA	546.5	534.8
KION Americas	23.5	23.5
KION Asia Pacific	121.6	121.8
Supply Chain Solutions	2,100.9	50.9
Dematic	2,024.8	–
Egemin Automation	76.1	50.9
Total goodwill	**3,605.8**	**1,548.1**

The change in goodwill in 2016 mainly resulted from the acquisition of Dematic and other businesses, from which goodwill totalling €1,962.1 million arose. Currency effects also had an impact. The change in the amount of goodwill in 2015 primarily resulted from the acquisition of Egemin Automation, which gave rise to goodwill of €50.9 million.

The Group intends to retain and further strengthen the Linde, STILL, OM STILL and KION brand names on a long-term basis. Brand names worth €466.3 million are assigned to the LMH EMEA CGU (31 December 2015: €466.5 million) and brand names worth €115.0 million to the STILL EMEA CGU (31 December 2015: €115.2 million). These assets are not amortised as they have an indefinite useful life. As at 31 December 2016, the brand names allocated to the KION APAC CGU had a residual value of €8.3 million (31 December 2015: €8.7 million), of which €8.3 million was attributable to brand names with an indefinite useful life (31 December 2015: €8.6 million). In 2016, a value of €349.7 million was attributed to the Dematic brand name and allocated to the Dematic CGU as part of purchase price allocation. As at 31 December 2016, this figure had risen to €367.6 million as a result of currency effects. A value of €1.5 million was originally attributed to the Retrotech brand name, which was integrated into the Egemin Automation CGU. This brand name is being amortised over six years. As a result, the brand names allocated to the Egemin Automation CGU increased to a carrying amount of €9.9 million as at 31 December 2016 (31 December 2015: €8.6 million), of which €8.6 million was attributable to brand names with an indefinite useful life (31 December 2015: €8.6 million). The KION brand name is allocated to the Corporate Services segment and had a carrying amount as at 31 December 2016 of €5.1 million (31 December 2015: €5.1 million). This asset is not amortised as it has an indefinite useful life. > TABLE 062

Intangible assets

TABLE 062

in € million	Goodwill	Brand names	Technology & development	Sundry intangible assets	Total
Balance as at 01/01/2015	**1,497.1**	**595.4**	**210.0**	**110.1**	**2,412.5**
Group changes	48.9	8.6	–	16.3	73.7
Currency translation adjustments	2.2	0.4	0.9	0.7	4.2
Additions	–	–	40.9	13.0	53.8
Disposals	–	–	–0.3	–0.6	–0.9
Amortisation	–	–0.3	–53.3	–33.2	–86.9
Impairment	–	–	–4.1	–	–4.1
Balance as at 31/12/2015	**1,548.1**	**604.1**	**194.1**	**106.2**	**2,452.5**
Gross carrying amount as at 31/12/2015	1,548.1	605.6	451.3	297.0	2,902.1
Accumulated amortisation	–	–1.5	–257.3	–190.8	–449.6
Balance as at 01/01/2016	**1,548.1**	**604.1**	**194.1**	**106.2**	**2,452.5**
Group changes	1,974.9	353.5	519.1	824.3	3,671.8
Currency translation adjustments	82.8	14.9	22.5	34.9	155.1
Additions	–	–	50.6	22.1	72.6
Disposals	–	–	–0.0	–0.1	–0.1
Amortisation	–	–0.3	–57.0	–57.9	–115.2
Balance as at 31/12/2016	**3,605.8**	**972.2**	**729.2**	**929.5**	**6,236.7**
Gross carrying amount as at 31/12/2016	3,605.8	974.1	938.5	1,159.5	6,677.9
Accumulated amortisation	–	–1.9	–209.3	–230.0	–441.2

The carrying amount for technology and development assets went up to €729.2 million as at 31 December 2016 (31 December 2015: €194.1 million), principally as a consequence of the acquisition of Dematic. Development costs of €50.6 million were capitalised in the reporting year (2015: €40.9 million). Total research and development costs of €147.1 million (2015: €130.5 million) were expensed. Amortisation expenses of €57.0 million were also recognised (31 December 2015: €53.3 million); these expenses are reported under cost of sales.

Impairment losses of €4.1 million were recognised on capitalised development costs in 2015 to reflect the lack of opportunities to use them in future following the early discontinuation of production of a model series. They are reported in other expenses. The impairment losses related to the Industrial Trucks & Services segment.

Other intangible assets relate in particular to licences, patents, software and customer relationships.

The change to the basis of consolidation in 2016 was due almost entirely to the acquisition of the Dematic Group (2015: acquisition of Egemin Automation).

[18] LEASED ASSETS

The changes in leased assets in 2016 and 2015 were as follows:
> TABELLE 063

Leased assets are attributable to the Industrial Trucks & Services segment and relate to industrial trucks in the amount of €428.8 million (31 December 2015: €333.6 million) that are leased to external customers under operating leases and to office furniture and equipment in the amount of €0.9 million (31 December 2015: €0.8 million).

Leased assets include assets leased over the long term with a residual value of €367.5 million (31 December 2015: €285.9 million) that are funded by means of sale and leaseback transactions with leasing companies and leased assets with a residual value of €62.2 million (31 December 2015: €48.5 million) that are funded internally or by means of bank loans.

Leased assets resulted in non-cancellable minimum lease payments from customers amounting to €402.7 million (31 December 2015: €325.5 million).

Leased assets TABLE 063

in € million	2016	2015
Balance as at 01/01/	**334.4**	**279.0**
Group changes	7.4	–1.7
Currency translation adjustments	–2.8	1.8
Additions	290.3	241.1
Disposals	–103.0	–104.2
Depreciation	–94.2	–80.6
Reclassification	–2.4	–1.1
Balance as at 31/12/	**429.7**	**334.4**
Gross carrying amount as at 31/12/	747.3	675.3
Accumulated depreciation	–317.6	–340.9

The following table shows the maturity structure of these payments: > TABLE 064

Minimum lease payments TABLE 064

in € million	2016	2015
Cash receipts from minimum lease payments	**402.7**	**325.5**
due within one year	144.7	116.2
due in one to five years	248.5	200.5
due in more than five years	9.6	8.8

[19] RENTAL ASSETS

The changes in rental assets in 2016 and 2015 were as follows: > TABLE 065

Rental assets TABLE 065

in € million	2016	2015
Balance as at 01/01/	**544.0**	**487.1**
Group changes	6.1	–3.1
Currency translation adjustments	–2.9	–4.1
Additions	286.1	294.8
Disposals	–91.8	–72.0
Depreciation	–169.1	–159.3
Reclassification	2.8	0.5
Balance as at 31/12/	**575.3**	**544.0**
Gross carrying amount as at 31/12/	990.0	954.5
Accumulated depreciation	–414.6	–410.5

Rental assets are allocated to the Industrial Trucks & Services segment. The breakdown of rental assets by contract type is shown in the following table: > TABLE 066

Rental assets broken down by contract types TABLE 066

	Operating leases as lessor		Sale with risk		Total	
in € million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Industrial trucks	514.4	475.8	57.9	64.7	572.3	540.6
Truck equipment	3.0	3.4	0.0	0.0	3.0	3.4
Total rental assets	**517.4**	**479.2**	**57.9**	**64.8**	**575.3**	**544.0**

The rental assets item comprises assets resulting from short-term rentals ('operating leases as lessor') and assets in relation to which significant risks and rewards remain with the KION Group although they were sold ('sale with risk').

[20] OTHER PROPERTY, PLANT AND EQUIPMENT

The changes in the carrying amounts of other property, plant and equipment are shown in > TABLE 067.

Other property, plant and equipment TABLE 067

in € million	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
Balance as at 01/01/2015	**308.1**	**164.3**	**21.7**	**494.1**
Group changes	–0.8	1.1	0.1	0.4
Currency translation adjustments	3.7	0.8	0.1	4.5
Additions	8.0	62.7	18.4	89.1
Disposals	–1.9	–7.4	–0.2	–9.5
Depreciation	–14.0	–56.5	–	–70.5
Reclassification	2.5	9.2	–11.1	0.6
Balance as at 31/12/2015	**305.7**	**174.1**	**29.0**	**508.8**
Gross carrying amount as at 31/12/2015	653.0	996.7	29.0	1,678.7
Accumulated depreciation	–347.3	–822.6	–0.0	–1,170.0
Balance as at 01/01/2016	**305.7**	**174.1**	**29.0**	**508.8**
Group changes	70.1	79.8	10.7	160.7
Currency translation adjustments	–2.1	0.3	–0.1	–1.8
Additions	10.0	59.7	24.8	94.5
Disposals	–0.3	–3.9	–2.3	–6.5
Depreciation	–13.9	–62.3	–	–76.2
Reclassification	5.8	18.7	–24.9	–0.4
Balance as at 31/12/2016	**375.4**	**266.3**	**37.3**	**679.1**
Gross carrying amount as at 31/12/2016	729.1	1,059.1	37.3	1,825.5
Accumulated depreciation	–353.7	–792.8	–	–1,146.4

Land and buildings in the amount of €18.3 million (31 December 2015: €18.3 million) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

As in the previous year, the KION Group did not recognise any significant impairment losses in accordance with IAS 36 on other property, plant and equipment in 2016.

Plant & machinery and office furniture & equipment include assets from procurement leases (finance leases) amounting to €17.2 million (31 December 2015: €16.0 million). Depreciation on these assets came to €5.6 million in 2016 (2015: €4.9 million). The corresponding liabilities are reported as other financial liabilities.

[21] EQUITY-ACCOUNTED INVESTMENTS

The KION Group reported equity-accounted investments with a total carrying amount of €72.7 million as at 31 December 2016 (31 December 2015: €73.6 million).

The carrying amount of the equity-accounted investments mainly resulted from the shares (10.0 per cent) in Linde Hydraulics and the shares (45.0 per cent) in Linde Leasing GmbH, Wiesbaden. The associates and joint ventures can be seen in the list of shareholdings (see note [47]). Their financial information is summarised below. > TABLES 068 – 069

Summarised financial information associates TABLE 068

in € million	2016	2015
Total carrying amount	42.5	45.6
Profit (+) / loss (–) from continuing operations	0.2	4.1
Other comprehensive income	0.3	2.1
Total comprehensive income	**0.5**	**6.1**

Summarised financial information joint ventures TABLE 069

in € million	2016	2015
Total carrying amount	30.1	28.0
Profit (+) / loss (–) from continuing operations	6.3	6.5
Other comprehensive income	0.1	0.9
Total comprehensive income	**6.4**	**7.4**

The amounts in the tables are based on the share held by the KION Group in the relevant associate or joint venture.

[22] LEASE RECEIVABLES

In the case of leases under which KION Group entities lease assets directly to customers as part of the Group's financial services activities, the Group's net investment in the lease is reported as a lease receivable.

The amounts recognised as lease receivables are based on the following data: > TABLE 070

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €648.4 million (31 December 2015: €587.1 million).

Lease receivables include unguaranteed residual values of €87.6 million (31 December 2015: €74.5 million).

Lease receivables TABLE 070

in € million	2016	2015
Gross investments	**807.9**	**725.8**
due within one year	225.6	210.8
due in one to five years	552.0	489.6
due in more than five years	30.2	25.4
Present value of outstanding minimum lease payments	**731.5**	**653.7**
due within one year	200.3	181.7
due in one to five years	503.3	447.5
due in more than five years	27.9	24.5
Unrealised financial income	**76.3**	**72.0**

[23] OTHER FINANCIAL ASSETS

The breakdown of other financial assets of €129.4 million (31 December 2015: €104.3 million) is shown in > TABLE 071.

Of the change in non-consolidated subsidiaries and other equity investments, an amount of €19.6 million resulted from the inclusion of the shares in Italian dealer Emhilia Material Handling S.p.A. (formerly Moden Diesel S.p.A.) and LR Intralogistik GmbH in the consolidated financial statements of the KION Group in January 2016.

Other financial assets TABLE 071

in € million	2016	2015
Non-consolidated subsidiaries and other investments	22.2	42.4
Loans receivable	4.6	2.7
Other financial investments	20.7	0.8
Other non-current financial assets	**47.5**	**45.9**
Derivative financial instruments	10.3	5.3
Financial receivables	21.3	15.4
Sundry other financial assets	50.3	37.7
Other current financial assets	**82.0**	**58.4**
Total other financial assets	**129.4**	**104.3**

[24] OTHER ASSETS

Other assets of €98.5 million (31 December 2015: €85.0 million) comprise the following: > TABLE 072

Pension assets relate to asset surpluses from two (31 December 2015: two) defined benefit plans in the United Kingdom in which plan assets exceed the present value of the defined benefit obligation (see note [29]).

Other assets TABLE 072

in € million	2016	2015
Pension assets	12.3	30.2
Other non-current assets	**12.3**	**30.2**
Deferred charges and prepaid expenses	49.5	32.0
Sundry tax receivables	36.6	22.7
Sundry other assets	–	0.1
Other current assets	**86.2**	**54.8**
Total other assets	**98.5**	**85.0**

[25] INVENTORIES

The reported inventories break down as follows: > TABLE 073

Inventories TABLE 073

in € million	2016	2015
Materials and supplies	158.0	115.9
Work in progress	105.3	75.0
Finished goods and merchandise	396.5	359.5
Advances paid	12.6	3.1
Total inventories	**672.4**	**553.5**

The year-on-year expansion in inventories was largely attributable to increases in materials and supplies (36.3 per cent), work in progress (40.4 per cent) and finished goods (10.3 per cent). In 2016, write-downs of €17.8 million were recognised on inventories (2015: €12.5 million). Reversals of write-downs had to be recognised in the amount of €3.2 million (2015: €4.6 million) because the reasons for the write-downs no longer existed.

[26] TRADE RECEIVABLES

The trade receivables break down as follows: > TABLE 074

Trade receivables TABLE 074

in € million	2016	2015
Receivables from third parties	863.6	631.8
thereof receivables from third parties before valuation allowances	904.0	670.3
thereof valuation allowances for overdue receivables > 90 days ≤ 180 days	–4.8	–6.5
thereof valuation allowances for overdue receivables > 180 days	–24.7	–22.1
thereof other valuation allowances for receivables	–11.0	–9.9
Trade receivables from non-consolidated subsidiaries	13.2	16.2
Trade receivables from equity-accounted investments and other investments	19.1	20.9
Construction contracts with a net credit balance due from customers	103.1	1.5
Total trade receivables	**998.9**	**670.5**

Valuation allowances of €40.4 million (31 December 2015: €38.5 million) were recognised for trade receivables.

The breakdown of construction contracts that had not been completed by the reporting date is presented in > TABLE 075. Construction contracts with a net credit balance due from customers are included in trade receivables (see disclosures in this note). Construction contracts with a net debit balance due to customers are reported under other current liabilities (see note [35]).

Advances received in respect of construction contracts for which no work had yet been carried out amounted to €28.3 million as at 31 December 2016 (31 December 2015: €0.0 million). Customer retentions relating to construction contracts came to €0.6 million (31 December 2015: €0.0 million).

Construction contracts TABLE 075

in € million	2016	2015
Contract costs incurred and		
recognised profits (less recognised losses)	2,247.8	71.8
less progress billings	–2,445.4	–80.2
Total	**–197.6**	**–8.3**
thereof gross amount due from customers for contract work	103.1	1.5
thereof gross amount due to customers for contract work	–300.7	–9.9

[27] CASH AND CASH EQUIVALENTS

The change in cash and cash equivalents is shown in the consolidated statement of cash flows. For more detailed information, please also refer to note [37]. > TABLE 076

Cash and cash equivalents TABLE 076

in € million	2016	2015
Balances with banks, cash and cheques	276.0	102.8
Pledged cash	3.5	0.3
Total cash and cash equivalents	**279.6**	**103.1**

[28] EQUITY

Subscribed capital and capital reserves

As at 31 December 2016, the Company's share capital amounted to €108.8 million (31 December 2015: €98.9 million) and was fully paid up. It was divided into 108.8 million no-par-value shares (31 December 2015: 98.9 million).

With the consent of the Supervisory Board, the Executive Board of KION GROUP AG decided on 18 July 2016 to fully utilise the authorised capital that had existed since the 2014 Annual General Meeting. This capital increase was to be used to partly finance the acquisition of Dematic. The Company's share capital was increased by 10.0 per cent in return for cash contributions; shareholders' pre-emption rights were disapplied. The share capital was increased by issuing 9.89 million new no-par-value bearer shares. An amount of €449.4 million was paid into the capital reserves. The capital increase was entered in the commercial register on 20 July 2016.

The costs associated with the capital increase amounting to €2.0 million (net) were recognised directly in equity.

The total number of shares outstanding as at 31 December 2016 was 108,625,514 no-par-value shares (31 December 2015: 98,739,950 no-par-value shares). Between 12 September 2016 and 27 September 2016, a further 50,000 treasury shares were repurchased via the stock exchange at an average price of €55.54 in order to provide the shares for employees' own investments and the free shares under the KEEP 2016 employee share option programme. The total cost was €2.8 million. Due to the issue of 45,564 no-par-value shares (2015: 73,512 no-par-value shares) under KEEP 2016, KION GROUP AG held 164,486 treasury shares at the reporting date (31 December 2015: 160,050). These treasury shares are not dividend-bearing and do not confer any voting rights. Further details on the KEEP employee share option programme can be found in note [44].

As at 31 December 2016, KION Group employees held options on a total of 67,106 no-par-value shares (31 December 2015: 53,220 no-par-value shares). The share options granted under the employee share option programme are not dividend-bearing and do not confer any voting rights.

Retained earnings

The changes in retained earnings are shown in the consolidated statement of changes in equity in > TABLE 043. The retained earnings comprise the net income (loss) for the financial year and past contributions to earnings by the consolidated entities, provided they have not been distributed.

The distribution of a dividend of €0.77 per share (2015: €0.55 per share) to the shareholders of KION GROUP AG resulted in an outflow of funds of €76.0 million in 2016 (2015: €54.3 million).

Appropriation of profit

The Executive Board and the Supervisory Board propose to the Annual General Meeting to be held on 11 May 2017 that an amount of €86.9 million be appropriated from the distributable profit of KION GROUP AG for the 2016 financial year of €129.2 million for the payment of a dividend of €0.80 per dividend-bearing share. It is also proposed that a further sum of €42.3 million be transferred to other revenue reserves and that €0.1 million be carried forward to the next accounting period. Roughly 35 per cent of the net income accruing to the KION Group shareholders will therefore be distributed in dividends.

Accumulated other comprehensive income (loss)

The breakdown of accumulated other comprehensive income (loss) is shown in > TABLE 043.

The currency translation adjustment contains the exchange differences arising from the financial statements prepared in a foreign currency of foreign subsidiaries, associates and joint ventures.

The gains/losses on the defined benefit obligation are the result of remeasuring defined benefit pension obligations (see also note [29]).

The gains/losses on hedge reserves are the effective portion of the changes in the fair value of the hedging instruments for cash flow hedges and net investment hedges. The gains/losses from equity investments contain the share of other comprehensive income (loss) from associates and joint ventures accounted for under the equity method.

Non-controlling interests

Non-controlling interests in companies in the KION Group amounted to €5.7 million (31 December 2015: €7.7 million).

[29] RETIREMENT BENEFIT OBLIGATION

The retirement benefit obligation is recognised for obligations to provide current and future post-employment benefits. Post-employment benefit plans are classified as either defined benefit plans or defined contribution plans, depending on the substance of the plan as derived from its principal terms and conditions.

Defined contribution plans

In the case of defined contribution pension plans, the Group pays contributions to government or private pension insurance providers based on statutory or contractual provisions, or on a voluntary basis. The Group does not enter into any obligations above and beyond the payment of contributions to an external pension fund. The amount of future pension benefits is based solely on the amount of the contributions paid by the employer (and in some cases the beneficiaries themselves) to the external pension fund, including income from the investment of these contributions. The total expense arising from defined contribution plans amounted to €84.5 million in 2016 (2015: €64.2 million). Of this total, contributions paid by employers into government-run schemes came to €75.0 million (2015: €56.3 million). The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

In the case of defined benefit plans, the beneficiaries are granted a specific benefit by the Group or an external pension fund. Due to future salary increases, the benefit entitlement at the retirement age of the beneficiary is likely to be higher than the amount granted as at the reporting date. Pensions are often adjusted after an employee reaches retirement age. The amount of the Group's obligation, which is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary, is expressed as the present value of the defined benefit obligation (DBO) including adjustments for future salary and pension increases.

The KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees. These pensions consist of fixed benefit entitlements and are therefore reported as defined benefit plans in accordance with IFRS. As at 31 December 2016, the KION Group had set up defined benefit plans in 13 countries. For all of the significant defined benefit plans within the Group, the benefits granted to employees are determined on the basis of their individual income, i.e. either directly or by way of intermediate benefit arrangements. The largest of the KION Group's defined benefit plans – accounting for 92.8 per cent of the global defined benefit obligation (31 December 2015: 91.1 per cent) – are in Germany, the United Kingdom and the US.

Germany

In Germany, the pension benefits granted under the 2001 pension benefit conditions and 2002 pension benefit conditions depend on employees' length of service and gross annual remuneration (pension component entitlement). The pension component is calculated by multiplying a certain percentage by an age-dependent annuitisation factor. The contribution rate is 3.4 per cent (2001 pension benefit conditions) or 2.0 per cent (2002 pension benefit conditions) of the gross remuneration that an employee earns in the computation period. Employees receive the pension entitlement that they have earned in the form of a monthly retirement pension or invalidity benefit or, in the event of their death, the entitlement is paid to their surviving dependants in the form of a widow's/widower's pension or orphans' pension. Members of the Executive Board and other executives are predominantly covered by individual pension plans. For details of the pension entitlements of KION GROUP AG Executive Board members, please refer to the information in note [45]. The amount of the benefits paid to executives depends on the type of entitlement. Under the 'old' individual pension plans, executives were entitled to a certain percentage of income as their pension benefit. By contrast, the employer-funded entitlement under the 'new' individual pension plans consists of two components: a fixed basic pension and a variable top-up pension through which annual components are earned within a defined contribution system. Both components depend on the seniority of the executive.

In addition, employees in Germany are able to pay part of their salary into a company pension plan, for which KION provides a defined minimum rate of return to enable employees to build up their personal pension provision. The pension benefits consist of retirement, invalidity and surviving dependants' benefits. Each contribution made is converted into a capital component on the basis of a guaranteed minimum rate of return of 3.0 per cent and depending on the age of the employee. The capital components acquired each calendar year are added up to give the pension capital. When an insured event occurs, the pension capital is converted into an ongoing life-long pension or a one-off capital payment.

In Germany, the KION Group also helps employees to build up their own pension provision with an additional matching contribution for those employees who pay part of their salary into the KION pension plan. The additional matching contribution received by executives is 50.0 per cent of the amount they defer in a calendar year, although the absolute amount of this contribution is limited to a certain percentage of income (ranging from 2.5 per cent to a maximum of 5.0 per cent). All other employees who participate in the company pension scheme receive up to 0.4 per cent of their gross remuneration.

Some of the KION Group's pension obligations in Germany are financed by way of contractual trust arrangements (CTAs), which qualify as plan assets within the meaning of IAS 19. The trustees are required to follow a defined investment strategy and guidelines. There are no statutory minimum funding requirements. In the event of the Company's insolvency, the company pension scheme in Germany is to a large extent protected by law by the insolvency protection scheme (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit, PSVaG).

United Kingdom

In the United Kingdom, defined benefit pension obligations predominantly relate to two plans. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits. The amount of the pension depends on employees' length of service and final salary.

The two plans were closed to new employees more than ten years ago. Each plan is monitored by its own board of trustees, which oversees the running of the plan as well as its funded status and the investment strategy. The members of the board of trustees comprise people appointed by the company involved and selected plan beneficiaries.

Under UK law, the board of trustees is obliged to have a valuation of the plan carried out at least every three years. In connection with the valuation of the pension plans for the employees of the KION Group's UK companies as at 1 January 2015, the Company and the trustees of the pension funds agreed in March 2016 on certain assumptions relevant to the valuation, according to which the deficit for the two pension plans amounted to €11.1 million as at 1 January 2015. On this basis, the KION Group agreed with the trustees that it would pay approximately the equivalent of €4.2 million in 2016 and €3.8 million in 2017 in order to reduce the deficit. However, these payments are subject to the condition that the annual review of the pension plans' funding position continues to reveal a deficit. If a payment would result in the pension plans being overfunded, the KION Group would be exempt from its payment obligation in that year.

In addition, collateral in rem in the form of charges on the real estate of Group companies in the UK and flexible collateral in respect of the rental fleets of UK dealers within a maximum overall limit of approximately €21.1 million were extended for the benefit of the pension funds. The term of this collateral is limited to five years (1 July 2021), and the overall limit will not be reduced by payments made by the KION Group. The likelihood of the guarantee being used is deemed low in view of the position of the individual companies with regard to their current and future financial and earnings situations.

USA

Following the acquisition of Dematic, the KION Group maintains three main defined benefit pension plans in the US. The defined benefits include not only a life-long retirement pension but also surviving dependants' benefits.

Union employees receive pension entitlements on the basis of fixed amounts for each month of service. Salaried employees receive benefits that generally depend on their period of service and on their average final salary fixed on the date the plan concerned was frozen. These defined benefit plans have been frozen for some time now in relation to future periods of service.

Two of the plans are subject to statutory minimum funding provisions that specify a certain coverage ratio and provide for annual payments to maintain the required ratio.

Other countries

Furthermore, significant asset volumes are invested in external pension funds with restricted access in Switzerland and the Netherlands. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. They also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

Measurement assumptions

In accordance with IAS 19 ('Employee Benefits'), pension provisions are recognised to cover obligations arising from the current and future pension entitlements of active and (after the vesting period has expired) former employees of the KION Group and their surviving dependants. The discount rate used to calculate the defined benefit obligation at each reporting date is determined on the basis of current capital market data and long-term assumptions about future salary and pension increases in accordance with the best estimate principle. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations.

Benefit obligations are calculated on the basis of current biometric probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service and about the probability of retirement. The defined benefit obligation is calculated on the basis of the significant weighted-average assumptions as at the reporting date shown in > TABLE 077.

The assumed discount rate is determined on the basis of the yield as at the reporting date on AA-rated, fixed-interest senior corporate bonds with maturities that match the expected maturities of the pension obligations. Pension obligations in foreign companies are calculated on a comparable basis taking into account any country-specific requirements.

Future increases in salaries are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The biometric mortality rates used in the calculation are based on published country-specific statistics and empirical values. Since 31 December 2009, the modified Heubeck 2005 G mortality tables have been used in Germany as the biometric basis; the modified tables include a somewhat higher life expectancy for males than the unmodified tables. The S1NA CMI 2013 tables (standard mortality tables for self-administered pension schemes (SAPS) based on normal health) with a long-term trend of 1.25 per cent p.a. are applied to the two defined benefit plans in the United Kingdom. In the US, calculations use the modified RP-2014 mortality tables with the generational projection from the Mortality Improvement Scale MP-2016.

The actuarial assumptions not listed in > TABLE 077, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts in the companies concerned.

The significant weighted-average assumptions shown in > TABLE 078 were applied to the calculation of the net interest cost and the cost of benefits earned in the current year (current service cost).

Differences between the forecast and actual change in the defined benefit obligation and changes in related assets (known as remeasurements) are recognised immediately in other comprehensive income (loss) in accordance with IAS 19. This serves to ensure that the pension liability in the statement of financial position is the present value of the defined benefit obligation.

In the case of externally funded pension plans, this present value of the defined benefit obligation is reduced by the fair value of the assets of the external pension fund (plan assets). If the plan assets exceed the present value of the defined benefit obligation (net assets), a corresponding asset is recognised in accordance with IAS 19. IAS 19.64 in conjunction with the supplementary explanatory information in IFRIC 14 states that the recognition of an asset for an excess of plan assets is only permitted if the company concerned, in its function as the employer, gains economic benefits in the form of reductions in future contributions to the plan or in the form of refunds from the plan. If the present value of the defined benefit obligation is not covered by the plan assets, the net obligation is reported under the retirement benefit obligation.

In two defined benefit plans in the United Kingdom, plan assets exceed the present value of the defined benefit obligation. Stipulations limiting the asset to be recognised in the statement of financial position do not apply.

Assumptions underlying provisions for pensions and other postemployment benefits TABLE 077

	Germany		UK		USA		Other	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	1.90%	2.35%	2.55%	3.75%	4.05%	–	1.35%	1.61%
Salary increase rate	2.75%	2.75%	4.12%	4.25%	–	–	2.51%	2.50%
Pension increase rate	1.75%	1.75%	3.47%	3.13%	–	–	0.28%	0.42%

Assumptions underlying pensions expenses TABLE 078

	Germany		UK		USA		Other	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	2.35%	2.20%	3.75%	3.55%	3.80%	–	1.61%	1.79%
Salary increase rate	2.75%	2.75%	4.25%	4.25%	–	–	2.50%	2.49%
Pension increase rate	1.75%	1.75%	3.13%	3.18%	–	–	0.42%	0.42%

Statement of financial position

The change in the present value of the defined benefit obligation (DBO) is shown in > TABLE 079.

The DBO in the other countries was predominantly attributable to subsidiaries in Switzerland (2016: €53.7 million; 2015: €57.2 million) and the Netherlands (2016: €36.2 million; 2015: €33.1 million).

The unrecognised past service income in 2015 included income from plan curtailments amounting to €4.2 million. This income arose in connection with an agreement reached with employee representatives in the Netherlands. The employees in the Netherlands switched to a defined contribution plan on 1 January 2016. The change in the fair value of plan assets is shown in > TABLE 080.

Employees in Germany paid a total of €2.9 million (2015: €2.9 million) into the KION pension plan in 2016.

In 2016, employer contributions in the United Kingdom, which amounted to €4.3 million, included one-off payments of €4.2 million (2015: €5.0 million) into pension funds on the basis of contractual agreements. In Germany, one-off payments of €0.4 million (2015: €0.6 million) were also made to a German CTA for the other members of the KION GROUP AG Executive Board.

Changes in defined benefit obligation TABLE 079

	Germany		UK		USA		Other		Total	
in € million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Present value of defined benefit obligation as at 01/01/	**829.7**	**809.6**	**440.5**	**438.4**	**0.4**	**0.3**	**123.6**	**120.5**	**1,394.2**	**1,368.8**
Group changes	38.3	–	–	–	214.8	–	2.0	–	255.1	–
Exchange differences	–	–	–62.7	23.7	10.9	0.0	0.7	5.1	–51.1	28.9
Current service cost	30.4	29.0	0.9	1.1	0.1	0.0	3.9	4.7	35.3	34.7
Past service cost (+) and income (–)	–	–	–	–	–	–	–0.1	–4.3	–0.1	–4.3
Interest expense	19.4	17.7	14.5	16.3	1.3	–	1.9	2.2	37.1	36.2
Employee contributions	2.9	2.9	–	–	–	–	1.0	1.0	4.0	3.9
Pension benefits directly paid by company	–12.8	–14.0	–	–	–	–	–1.1	–1.6	–13.9	–15.6
Pension benefits paid by funds	–2.3	–0.5	–18.5	–19.0	–1.2	–	–5.9	–4.3	–27.9	–23.8
Liability transfer out to third parties	–0.2	–0.2	–	–	–	–	–	–	–0.2	–0.2
Actuarial gains (+) and losses (–) arising from										
changes in demographic assumptions	–	–	–	–	–	–	–0.7	–0.0	–0.7	–0.0
changes in financial assumptions	80.4	–25.3	83.3	–14.4	–8.1	–	5.2	1.6	160.7	–38.1
experience adjustments	–11.1	10.5	–9.5	–5.5	–0.0	–	–2.6	–1.4	–23.2	3.6
Present value of defined benefit obligation as at 31/12/	**974.7**	**829.7**	**448.5**	**440.5**	**218.1**	**0.4**	**127.8**	**123.6**	**1,769.1**	**1,394.2**
thereof unfunded	427.7	342.6	0.0	0.0	7.9	0.4	37.7	33.1	473.2	376.1
thereof funded	547.0	487.0	448.5	440.5	210.3	–	90.2	90.5	1,295.9	1,018.1

Changes in plan assets TABLE 080

	Germany		UK		USA		Other		Total	
in € million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Fair value of plan assets as at 01/01/	**79.8**	**73.6**	**467.2**	**455.5**	**–**	**–**	**79.4**	**73.8**	**626.4**	**603.0**
Group changes	–	–	–	–	156.0	–	–	–	156.0	–
Exchange differences	–	–	–65.7	24.5	8.3	–	0.6	4.4	–56.7	28.8
Interest income on plan assets	1.9	1.7	15.5	17.1	1.0	–	1.1	1.3	19.5	20.1
Employee contributions	2.9	2.9	–	–	–	–	1.0	1.0	4.0	3.9
Employer contributions	0.9	1.1	4.3	5.1	0.0	–	1.3	2.3	6.6	8.5
Pension benefits paid by funds	–2.3	–0.5	–18.5	–19.0	–1.2	–	–5.9	–4.3	–27.9	–23.8
Liability transfer out to third parties	–0.1	–0.1	–	–	–	–	–	–	–0.1	–0.1
Remeasurements	3.1	1.1	52.8	–15.9	2.9	–	4.0	0.8	62.8	–14.0
Fair value of plan assets as at 31/12/	**86.3**	**79.8**	**455.7**	**467.2**	**167.0**	**–**	**81.4**	**79.4**	**790.4**	**626.4**

The payments expected for 2017 amount to €28.5 million (2016: €23.2 million), which includes expected employer contributions of €10.1 million to plan assets (2016: €6.9 million) and expected direct payments of pension benefits amounting to €18.4 million (2016: €16.3 million) that are not covered by corresponding reimbursements from plan assets. According to local valuation rules, there continue to be shortfalls in the coverage of two defined benefit pension plans in the United Kingdom, as a result of which the expected employer contributions for 2017 include one-off payments amounting to €3.8 million in line with the agreements reached with the trustees.

The reconciliation of funded status and net defined benefit obligation to the amounts reported in the consolidated statement of financial position as at 31 December is shown in > TABLE 081.

Overall, the funding ratio (ratio of plan assets to the present value of the defined benefit obligation) in the KION Group was 44.7 per cent (2015: 44.9 per cent).

The changes in the retirement benefit obligations reported in the statement of financial position are shown in > TABLE 082.

Funded status and net defined benefit obligation

TABLE 081

in € million	Germany 2016	Germany 2015	UK 2016	UK 2015	USA 2016	USA 2015	Other 2016	Other 2015	Total 2016	Total 2015
Present value of the funded defined benefit obligation	–547.0	–487.0	–448.5	–440.5	–210.3	–	–90.2	–90.5	–1,295.9	–1,018.1
Fair value of plan assets	86.3	79.8	455.7	467.2	167.0	–	81.4	79.4	790.4	626.4
Surplus (+) / deficit (–)	**–460.7**	**–407.2**	**7.3**	**26.7**	**–43.3**	**–**	**–8.7**	**–11.2**	**–505.5**	**–391.7**
Present value of the unfunded defined benefit obligation	–427.7	–342.6	–0.0	–0.0	–7.9	–0.4	–37.7	–33.1	–473.2	–376.1
Net liability (–) / net asset (+) as at 31/12/	**–888.3**	**–749.9**	**7.3**	**26.7**	**–51.2**	**–0.4**	**–46.4**	**–44.3**	**–978.7**	**–767.8**
Reported as “retirement benefit obligation“	–888.3	–749.9	–5.0	–3.6	–51.2	–0.4	–46.4	–44.3	–991.0	–798.0
Reported as “Other non-current assets“	–	–	12.3	30.2	–	–	–	0.0	12.3	30.2

Changes in retirement benefit obligation

TABLE 082

in € million	Germany 2016	Germany 2015	UK 2016	UK 2015	USA 2016	USA 2015	Other 2016	Other 2015	Total 2016	Total 2015
Balance as at 01/01/	**749.9**	**736.0**	**3.6**	**4.5**	**0.4**	**0.3**	**44.3**	**46.7**	**798.0**	**787.5**
Group changes	38.3	–	–	–	58.8	–	2.0	–	99.1	–
Exchange differences	–	–	–0.6	0.3	2.5	0.0	0.1	0.8	2.1	1.1
Total service cost	30.4	29.0	0.0	0.0	0.1	0.0	3.8	0.4	34.3	29.4
Net interest expense	17.4	16.0	0.1	0.2	0.4	–	0.8	0.9	18.7	17.1
Pension benefits directly paid by company	–12.8	–14.0	–	–	–	–	–1.1	–1.6	–13.9	–15.6
Employer contributions to plan assets	–0.9	–1.1	–0.3	–0.3	–0.0	–	–1.3	–2.3	–2.5	–3.7
Liability transfer out to third parties	–0.2	–0.1	–	–	–	–	–	–	–0.2	–0.1
Remeasurements	66.2	–16.0	2.2	–1.0	–11.0	–	–2.1	–0.6	55.3	–17.6
Balance as at 31/12/	**888.3**	**749.9**	**5.0**	**3.6**	**51.2**	**0.4**	**46.4**	**44.3**	**991.0**	**798.0**

Statement of cash flows

In the case of obligations not covered by external assets, payments to beneficiaries are made directly by the Company and therefore have an impact on cash flow from operating activities. If the benefit obligations are backed by external assets, the payments are made from existing plan assets and have no effect on the Company's cash flow. Instead, any contributions made to the external pension fund by the Company result in a cash outflow for operating activities.

During the reporting year, pension benefits of €41.8 million (2015: €39.4 million) were paid in connection with the main pension entitlements in the KION Group, of which €13.9 million (2015: €15.6 million) was paid directly by the Company and €27.9 million (2015: €23.8 million) was paid from plan assets. Cash contributions to plan assets in 2016 amounted to €6.6 million (2015: €8.5 million). Furthermore, pension benefit payments totalling €0.1 million (2015: €0.1 million) were transferred to external pension funds.

Income statement

In accordance with IAS 19, actuarial computations are performed for benefit obligations in order to determine the amount to be expensed in each period in accordance with fixed rules. The expenses recognised in the income statement for pensions and similar obligations consist of a number of components that must be calculated and disclosed separately.

The service cost is the new pension entitlement arising in the financial year and is recognised in the income statement. It is calculated as the present value of that proportion of the expected defined benefit obligation when the pension is paid attributable to the year under review on the basis of the maximum length of service achievable by each employee.

Past service cost arises if there is a change to the pension entitlement and it is recognised immediately in full.

The net interest cost / income, which is calculated by multiplying the net liability (present value of the defined benefit obligation minus plan assets) or the net assets (if the plan assets exceed the present value of the defined benefit obligation) at the start of the year by the discount rate, is also recognised in the income statement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2016 is shown in > TABLE 083.

The KION Group's net financial income/expenses includes a net interest cost of €17.6 million (2015: €16.2 million). All other components of pension expenses are recognised under functional costs.

The actual total return on plan assets in 2016 was €82.3 million (2015: €6.1 million).

Other comprehensive income (loss)

The breakdown of the remeasurement of the defined benefit obligation recognised in the statement of comprehensive income in 2016 is presented in > TABLE 084.

The components of the remeasurements of the defined benefit obligations are listed in > TABLE 079.

The gains and losses on the remeasurement of plan assets are attributable entirely to experience adjustments. The changes in estimates relating to defined benefit pension entitlements resulted in a €50.1 million decrease in equity as at 31 December 2016 after deduction of deferred taxes (31 December 2015: increase of €12.7 million).

Cost of defined benefit obligation

TABLE 083

in € million	Germany 2016	Germany 2015	UK 2016	UK 2015	USA 2016	USA 2015	Other 2016	Other 2015	Total 2016	Total 2015
Current service cost	30.4	29.0	0.9	1.1	0.1	0.0	3.9	4.7	35.3	34.7
Past service cost (+) and income (–)	–	–	–	–	–	–	–0.1	–4.3	–0.1	–4.3
Total service cost	**30.4**	**29.0**	**0.9**	**1.1**	**0.1**	**0.0**	**3.8**	**0.4**	**35.1**	**30.5**
Interest expense	19.4	17.7	14.5	16.3	1.3	–	1.9	2.2	37.1	36.2
Interest income on plan assets	–1.9	–1.7	–15.5	–17.1	–1.0	–	–1.1	–1.3	–19.5	–20.1
Net interest expense (+)/income (–)	**17.4**	**16.0**	**–1.0**	**–0.8**	**0.4**	**–**	**0.8**	**0.9**	**17.6**	**16.2**
Total cost of defined benefit obligation	**47.9**	**45.0**	**–0.1**	**0.3**	**0.5**	**0.0**	**4.6**	**1.4**	**52.7**	**46.7**

Accumulated other comprehensive income (loss)

TABLE 084

in € million	Germany 2016	Germany 2015	UK 2016	UK 2015	USA 2016	USA 2015	Other 2016	Other 2015	Total 2016	Total 2015
Accumulated other comprehensive income/loss as at 01/01/	**–284.2**	**–300.1**	**–42.8**	**–44.4**	**–**	**–**	**–28.0**	**–27.8**	**–355.0**	**–372.3**
Exchange differences	–	–	6.7	–2.4	0.6	–	–0.1	–0.9	7.1	–3.3
Gains (+) and losses (–) arising from remeasurements of defined benefit obligation	–69.3	14.9	–73.7	19.9	8.2	–	–1.9	–0.2	–136.8	34.6
Gains (+) and losses (–) arising from remeasurements of plan assets	3.1	1.1	52.8	–15.9	2.9	–	4.0	0.8	62.8	–14.0
Accumulated other comprehensive income/loss as at 31/12/	**–350.4**	**–284.2**	**–57.1**	**–42.8**	**11.6**	**–**	**–26.0**	**–28.0**	**–421.9**	**–355.0**

Composition of plan assets

The plan assets of the main pension plans consist of the following components: > TABLE 085

Fair value of plan assets TABLE 085

	Germany		UK		USA		Other		Total	
in € million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Securities	24.7	22.7	87.8	87.9	77.9	–	9.7	8.7	200.0	119.3
Fixed-income securities	26.4	23.9	361.5	376.8	74.5	–	16.3	15.6	478.7	416.4
Real estate	5.9	5.3	–	–	–	–	4.7	4.4	10.6	9.7
Insurance policies	–	–	–	–	–	–	47.2	44.0	47.2	44.0
Other	29.3	27.8	6.5	2.5	14.6	–	3.6	6.6	54.0	36.9
Total plan assets	**86.3**	**79.8**	**455.7**	**467.2**	**167.0**	**–**	**81.4**	**79.4**	**790.4**	**626.4**
thereof total assets that do not have a quoted price in active markets	**9.0**	**9.0**	**–**	**–**	**–**	**–**	**48.9**	**47.9**	**57.9**	**56.9**
Insurance policies	–	–	–	–	–	–	47.2	44.0	47.2	44.0
Other	9.0	9.0	–	–	–	–	1.7	3.8	10.7	12.8

The plan assets do not include any real estate or other assets used by the KION Group itself.

Sensitivity analysis

The present value of the defined benefit obligation is based on the significant assumptions detailed in > TABLE 077 above. If one assumption were to vary and the other assumptions remained unchanged, the impact on the present value of the defined benefit obligation would be as shown in > TABLE 086.

The sensitivity analysis shown in > TABLE 086 is not representative of an actual change in the present value of the defined benefit obligation because variations in the significant assumptions are unlikely to occur in isolation as, to some extent, the assumptions are interrelated. Sensitivity is determined using the same methods (projected unit credit method) as for the measurement of the obligation recognised in the consolidated statement of financial position as at 31 December 2016.

Future pension benefit payments

The pension benefit payments shown in > TABLE 087 are forecast for the next ten years for the defined benefit pension entitlements in existence as at 31 December 2016. The expected pension benefits break down into future benefits to be paid directly by the employer (for 2017: €18.4 million) and future benefits to be paid from existing plan assets (for 2017: €31.3 million).

Sensitivity defined benefit obligation TABLE 086

in € million		2016	2015
Discount rate	Increase by 1.0 percentage point	–284.1	–220.8
	Reduction by 1.0 percentage point	380.5	294.6
Salary increase rate	Increase by 0.5 percentage point	20.6	16.2
	Reduction by 0.5 percentage point	–20.7	–17.4
Pension increase rate	Increase by 0.25 percentage point	40.1	38.7
	Reduction by 0.25 percentage point	–39.5	–37.1
Life expectancy	Increase by 1 year	65.2	47.8

Expected payments for pension benefits TABLE 087

in € million	Germany	UK	USA	Other	Total
2017	17.8	18.5	9.6	3.8	49.7
2018	18.3	18.5	9.1	3.6	49.5
2019	19.6	18.5	9.3	4.5	51.9
2020	20.8	18.5	9.9	4.7	54.0
2021	22.4	18.7	10.4	5.4	56.9
2022 to 2026	138.7	95.1	56.1	27.9	317.8

As at the reporting date, the average duration of the defined benefit obligation, weighted on the basis of the present value of the defined benefit obligation, was 22.7 years in Germany (2015: 22.2 years), 15.4 years in the United Kingdom (2015: 14.5 years), 14.3 years in the US and 16.5 years in the other countries (2015: 16.8 years).

Risks

The funding ratio, the defined benefit obligation and the associated costs depend on the performance of financial markets. The return on plan assets is assumed to equal the discount rate, which is determined on the basis of the yield earned on AA-rated, fixed-interest senior corporate bonds. If the actual return on plan assets falls below the discount rates applied, the net obligation arising out of the pension plans increases. The amount of the net obligation is also particularly affected by the discount rates, and the current low level of interest rates – especially in the eurozone – is resulting in a comparatively large net obligation.

The plan assets are predominantly invested in corporate bonds and inflation-linked UK government bonds, particularly in the United Kingdom. The market risk attaching to plan assets – above all in the case of equities – is mitigated by defining an investment strategy and investment guidelines and constantly monitoring the assets' performance. Moreover, a downward trend on financial markets could have a significant effect on minimum funding requirements, some of which apply outside Germany.

The KION Group also bears the full risk of possible future pension adjustments resulting from changes in longevity and inflation.

Payroll-based contributions to the KION pension plan made by employees in Germany are invested in fund units. If the actual returns on these fund units fall below the rate of return of 3.0 per cent that has been guaranteed to participating employees, the KION Group's personnel expenses rise.

[30] FINANCIAL LIABILITIES

The financial liabilities reported by the KION Group as at 31 December 2016 essentially comprised interest-bearing liabilities to banks, which were predominantly attributable to the bridge loan for the financing of the Dematic acquisition and liabilities under the syndicated loan agreement.

> TABLE 088 shows the contractual maturity structure of the financial liabilities.

Maturity structure of financial liabilities TABLE 088

in € million	2016	2015
Liabilities to banks	**3,175.8**	**225.9**
due within one year	287.1	113.8
due in one to five years	2,888.6	112.1
due in more than five years	–	–
Corporate bond	**–**	**444.5**
due within one year	–	–
due in one to five years	–	444.5
due in more than five years	–	–
Other financial liabilities to non-banks	**7.2**	**6.2**
due within one year	6.8	5.5
due in one to five years	0.4	0.7
due in more than five years	–	–
Total current financial liabilities	**293.9**	**119.3**
Total non-current financial liabilities	**2,889.1**	**557.2**

Liabilities to banks

Senior facilities agreement

KION GROUP AG signed a syndicated loan agreement (senior facilities agreement, SFA) totalling €1,500.0 million with a syndicate of international banks on 28 October 2015. On 25 January 2016, the Executive Board of KION GROUP AG decided to overhaul the financing structure of the KION Group by repaying the syndicated loan dated 23 December 2006, which took the form of a revolving credit facility of €1,243.0 million, and the KION Group corporate bond of €450.0 million that was issued in 2013 and was due to mature in 2020. The associated repayment was made on 15 February 2016 using funds drawn down under the SFA. The SFA can be used for general business purposes and enables the KION Group to obtain finance on far more favourable terms than has been possible in the past.

The SFA comprises a revolving credit facility of €1,150.0 million maturing in February 2021 and a fixed-term tranche of €350.0 million maturing in February 2019 that has been fully drawn down. Both the revolving credit facility and the fixed-term tranche have a variable interest rate. As at 31 December 2016, an amount of €225.3 million had been drawn down from the revolving credit facility, which includes other loan liabilities and contingent liabilities. The drawdowns under the revolving credit facility have been classified as short term.

Arrangement of the revolving credit facility of €1,150.0 million resulted in directly attributable transaction costs of €3.8 million. The transaction costs are recognised as prepaid expenses under current financial assets and expensed over the term of the credit facility. Arrangement of the fixed-term tranche of €350.0 million resulted in directly attributable transaction costs of €1.3 million. The transaction costs were deducted from the fair value of this tranche on initial recognition and will be expensed over subsequent periods.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the SFA. The SFA is not collateralised, as is typical in the current market environment for companies that are on the cusp of an investment-grade rating. Following repayment of the syndicated loan from 23 December 2006, all collateral furnished under the previous loan agreement has now been released.

Acquisition facilities agreement

On 4 July 2016, KION GROUP AG reached agreement with a group of banks on a bridge loan to finance the acquisition of Dematic (acquisition facilities agreement, AFA), originally in an amount of €3,000.0 million. This bridge loan is to be refinanced partly by long-term capital-market and bank debt and partly by equity. KION GROUP AG implemented a capital increase in July 2016 that generated gross proceeds of €459.3 million (see also note [28]). The agreed financing volume was reduced by the proceeds from the issue of shares and, when the AFA was drawn down for the first time on 1 November 2016, amounted to €2,543.2 million.

The drawdown under the AFA comprises a total of three fixed-term, variable-rate tranches: tranche A2 has a value of €343.2 million maturing in February 2018 and tranche B a value of €1,200.0 million maturing in November 2018; the third tranche is a further loan of €1,000.0 million maturing in November 2021. The transaction costs directly assignable in connection with each tranche amounted to €1.3 million for tranche A2, €4.4 million for tranche B and €7.7 million for the loan of €1,000.0 million. The transaction costs were deducted from the fair value of each tranche on initial recognition and will be expensed over subsequent periods.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the AFA. No collateral has been furnished in connection with the AFA.

Changes in net financial debt

The KION Group uses its net financial debt as a key internal figure for analysing the changes in its financial liabilities. Net financial debt is defined as the difference between financial liabilities and cash and cash equivalents.

The breakdown of the KION Group's net financial debt as at 31 December 2016 is shown in > TABLE 089.

> TABLE 090 gives details of the changes in financial liabilities and lists the applicable terms and conditions.

Net financial debt

TABLE 089

in € million	2016	2015
Corporate bond – fixed rate (2013/2020) – gross	–	450.0
Liabilities to banks (gross)	3,188.6	225.9
Other financial liabilities to non-banks	7.2	6.2
./. Capitalised borrowing costs	–12.9	–5.5
Financial liabilities	**3,183.0**	**676.5**
./. Cash and cash equivalents	279.6	103.1
Net financial debt	**2,903.4**	**573.5**

Credit terms

TABLE 090

	Interest rate	Notional amount		Maturity
in € million		2016	2015	
Term Loan Facility H2a (Corporate bond – fixed rate)	Fixed rate	–	450.0	2020
Multicurrency Revolving Credit Facility 3	EURIBOR + Margin	–	142.7	2018
Multicurrency Revolving Credit Facility (SFA)	EURIBOR + Margin	212.1	–	2021
Term Loan Facility B (SFA)	EURIBOR + Margin	350.0	–	2019
Bridge Loan Facility A2 (AFA)	EURIBOR + Margin	343.2	–	2018
Bridge Loan Facility B (AFA)	EURIBOR + Margin	1,200.0	–	2018
Term Loan Facility (AFA)	EURIBOR + Margin	1,000.0	–	2021
Other liabilities to banks	Various currencies and interest terms	83.3	83.2	
Other financial liabilities to non-banks		7.2	6.2	
./. Capitalised borrowing costs		–12.9	–5.5	
Total financial liabilities		**3,183.0**	**676.5**	

Financial covenants

Among other stipulations, the contractual terms of the SFA and AFA require compliance with certain covenants. They also contain a financial covenant that requires adherence to a maximum level of leverage (the ratio of financial liabilities to EBITDA). Non-compliance with the covenants may, for example, give lenders the right to terminate the SFA and AFA.

The financial covenant is reviewed every quarter. All the covenants and the financial covenant were complied with in the past financial year, as had been the case in 2015.

The KION Group works continuously to optimise the financing of the Group (see note [50]).

[31] LEASE LIABILITIES

Lease liabilities relate solely to finance lease obligations arising from sale and leaseback transactions for the funding of long-term leases with end customers.

The amounts recognised as lease liabilities (the present value of future minimum lease payments) are based on the following data: > TABLE 091

Minimum lease payments TABLE 091

in € million	2016	2015
Total minimum lease payments (gross)	**1,084.2**	**922.1**
due within one year	315.4	266.0
due in one to five years	737.6	625.6
due in more than five years	31.2	30.5
Present value of minimum lease payments	**1,007.2**	**855.6**
due within one year	285.2	237.9
due in one to five years	691.9	587.9
due in more than five years	30.1	29.7
Interest included in minimum lease payments	**77.0**	**66.5**

Whereas lease liabilities stood at €1,007.2 million (31 December 2015: €855.6 million), lease receivables arising from sale and leaseback transactions amounted to €663.4 million (31 December 2015: €592.0 million) and leased assets under sale and leaseback transactions totalled €367.5 million (31 December 2015: €285.9 million).

[32] OTHER PROVISIONS

Other provisions relate to the following items: > TABLE 092

Other provisions TABLE 092

in € million	Provisions for product warranties	Provisions for personnel	Other obligations	Total other provisions
Balance as at 01/01/2016	**57.6**	**90.8**	**46.4**	**194.9**
thereof non-current	23.5	43.1	16.9	83.4
thereof current	34.2	47.7	29.6	111.5
Group changes	12.8	11.6	29.5	53.8
Additions	26.0	34.1	20.6	80.6
Utilisations	–18.9	–23.9	–12.2	–55.0
Reversals	–7.6	–2.3	–10.2	–20.0
Additions to accrued interest	–	1.1	0.1	1.2
Currency translation adjustments	–0.6	0.2	–0.7	–1.1
Other adjustments	0.2	–0.6	1.9	1.5
Balance as at 31/12/2016	**69.5**	**110.9**	**75.4**	**255.7**
thereof non-current	18.1	50.6	23.7	92.3
thereof current	51.4	60.4	51.7	163.4

The provisions for product warranties include contractual and statutory obligations arising from the sale of industrial trucks, spare parts and automation solutions. It is expected that the bulk of the costs will be incurred within the next two years after the reporting date.

The provisions for personnel comprise provisions for partial retirement obligations, long-service awards, annual bonuses, severance pay, obligations under social plans and obligations under the employee equity programmes. The provisions for partial retirement obligations are recognised on the basis of individual contractual arrangements and agreements under collective bargaining law.

Other obligations comprise, among others, provisions for restructuring, litigation and expected losses from onerous contracts.

Total restructuring provisions (including obligations under social plans and termination benefits) came to €28.5 million as at 31 December 2016 (31 December 2015: €33.2 million).

[33] TRADE PAYABLES

As at 31 December 2016, trade payables of €802.2 million (31 December 2015: €574.6 million) included liabilities to non-consolidated subsidiaries of €4.7 million (31 December 2015: €6.5 million) and liabilities to equity-accounted investments and other equity investments of €15.0 million (31 December 2015: €11.7 million).

[34] OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following items: > TABLE 093

Other financial liabilities TABLE 093

in € million	2016	2015
Liabilities from finance leases	341.7	311.6
Sundry other financial liabilities	7.5	4.0
Other non-current financial liabilities	**349.3**	**315.6**
Liabilities from finance leases	136.0	127.4
Derivative financial instruments	22.4	12.4
Liabilities from accrued interest	12.4	19.8
Sundry other financial liabilities	51.8	34.7
Other current financial liabilities	**222.6**	**194.4**
Total other financial liabilities	**571.9**	**510.1**

The derivative financial instruments include a call option on the 10 per cent equity investment of the KION Group in Linde Hydraulics amounting to €0.3 million (31 December 2015: €0.6 million). The current sundry other financial liabilities include, for the first time, liabilities from financial services in connection with the funding of the long-term leasing business amounting to €8.3 million (31 December 2015: €0.0 million).

The liabilities from finance leases comprise liabilities arising from the financing of industrial trucks for short-term rental of €440.0 million (31 December 2015: €403.2 million) and residual value obligations of €16.7 million (31 December 2015: €17.8 million). The KION Group has also recognised other financial liabilities amounting to €21.0 million (31 December 2015: €18.1 million) arising from procurement leases classified as finance leases due to their terms and conditions.

The finance lease obligations are based on the following future minimum lease payments: > TABLE 094

Minimum lease payments TABLE 094

in € million	2016	2015
Total minimum lease payments (gross)	**514.2**	**473.2**
due within one year	150.3	141.8
due in one to five years	350.6	318.8
due in more than five years	13.3	12.6
Present value of minimum lease payments	**477.7**	**439.0**
due within one year	136.0	127.4
due in one to five years	329.0	299.4
due in more than five years	12.8	12.2
Interest included in minimum lease payments	**36.5**	**34.1**

[35] OTHER LIABILITIES

Other liabilities comprise the following items: > TABLE 095

Other liabilities TABLE 095

in € million	2016	2015
Deferred income	202.8	185.4
Other non-current liabilities	**202.8**	**185.4**
Deferred income	74.9	77.4
Personnel liabilities	256.5	186.5
Social security liabilities	44.7	36.3
Tax liabilities	92.7	64.7
Advances received	72.6	39.2
Construction contracts with a net debit balance due to customers	300.7	9.9
Other current liabilities	**842.1**	**414.0**
Total other liabilities	**1,044.9**	**599.4**

Please refer to the details in note [26] for further information on construction contracts that had not yet been completed on the reporting date.

[36] CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities

The marked increase in guarantees was predominantly attributable to the inclusion of Dematic in the consolidation. In addition, guarantees of €1.9 million related to contingent liabilities assumed jointly with another shareholder of a joint venture (31 December 2015: €2.5 million). > TABLE 096

Litigation

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The Group companies are a party in a number of pending lawsuits in various countries. The individual companies cannot assume with any degree of certainty that they will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION Group believes it is unlikely that these ongoing lawsuits will require funds to be utilised that exceed the provisions recognised.

Contingent liabilities TABLE 096

in € million	2016	2015
Liabilities on bills of exchange	4.3	6.8
Liabilities on guarantees	86.2	23.5
Total contingent liabilities	**90.5**	**30.3**

Other financial commitments

Sundry other financial commitments included future payment obligations to an associate amounting to €1.3 million (31 December 2015: €2.0 million). > TABLE 097

The maturity structure of the total future minimum lease payments under non-cancellable operating leases is shown in > TABLE 098.

Other financial commitments TABLE 097

in € million	2016	2015
Commitments under non-cancellable operating leases	362.7	272.7
Commitments under licence and support agreements	58.5	55.7
Capital expenditure commitments in property, plant and equipment	30.0	13.8
Other financial commitments	15.4	15.7
Total other financial commitments	**466.6**	**357.8**

Minimum lease payments TABLE 098

in € million	2016	2015
Nominal minimum lease payments (gross)	**362.7**	**272.7**
due within one year	85.5	66.9
due in one to five years	169.4	135.4
due in more than five years	107.8	70.4

The future minimum lease payments relate to payments for leased buildings, machinery, office furniture and equipment (procurement leases) as well as payments for industrial trucks refinanced with a sale and leaseback and sub-leased to end customers (sale and leaseback sub-leases). > TABLE 099

The future minimum lease payments for sale and leaseback transactions not recognised in the statement of financial position amounting to €43.6 million (31 December 2015: €63.4 million) are partially offset by receipts under non-cancellable sub-leases amounting to €6.3 million (31 December 2015: €6.3 million). The future payments also include obligations arising from the refinancing of industrial trucks for which there were no offsetting receipts under short-term sub-leases as at the reporting date.

Minimum lease payments broken down into procurement leases & sale and leaseback sub-leases TABLE 099

	Procurement leases		Sale and leaseback sub-leases	
in € million	2016	2015	2016	2015
Minimum lease payments (cash out)	**319.1**	**209.3**	**43.6**	**63.4**
due within one year	67.0	43.3	18.5	23.7
due in one to five years	144.7	95.8	24.8	39.6
due in more than five years	107.4	70.2	0.4	0.2
Minimum lease payments (cash in)	**–**	**–**	**6.3**	**6.3**
due within one year	–	–	2.2	2.0
due in one to five years	–	–	4.1	4.3
due in more than five years	–	–	0.0	0.0

Other disclosures

[37] CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows shows the changes in cash and cash equivalents in the KION Group resulting from cash inflows and outflows in the year under review, broken down into cash flow from operating, investing and financing activities. The effects on cash from changes in exchange rates are shown separately. Cash flow from operating activities is presented using the indirect method in which the profit or loss for the year is adjusted for non-cash operating items.

In 2016, the KION Group's segment structure was reorganised and external financial reporting was then adjusted in line with the new structure. Henceforward, operational responsibility for leased assets, rental assets and the financial services business will be pooled in the Industrial Trucks & Services segment. This has also given rise to a change in reporting in relation to cash flow from operating activities and cash flow from investing activities. The 'Change in rental assets (excluding depreciation)' item has now been aggregated with another item to become 'Change in rental assets (excluding depreciation) and liabilities for finance leases' and is reported under cash flow from operating activities. The prior-year figures have also been restated as part of this reporting modification. As a result, cash flow from investing activities in 2015 has improved by €222.9 million, while cash flow from operating activities has decreased by the same amount.

The KION Group's net cash provided by operating activities totalled €414.3 million, which was below the prior-year figure (2015: €455.0 million). The rise in the contributions to operating profit and other payment receipts was offset, in particular, by the increase in rental assets (net), higher working capital, the greater volume of leasing and higher tax payments. In addition to the cash transaction costs incurred by KION GROUP AG, Dematic itself also incurred pre-contract expenses in connection with the expected acquisition by the KION Group amounting to €63.1 million that was then reflected in Dematic cash flows after the acquisition date. These payments by Dematic are included in the cash flow from operating activities of the KION Group under 'Change in other operating assets / liabilities'.

Net cash used for investing activities amounted to €2,264.3 million (2015: net cash used of €122.3 million). Cash payments for development (R&D) and for property, plant and equipment amounted to €166.7 million (2015: €142.6 million). Cash payments for acquisitions came to a total of €2,118.7 million. The acquisition of Dematic led to a net cash outflow of €2,091.1 million; the other acquisitions in the reporting year resulted in payments of €27.6 million, of which €23.2 million related to the acquisition of Retrotech Inc. Cash payments for acquisitions in the prior-year period (€84.9 million) had largely been in connection with the acquisition of Egemin Automation.

Free cash flow – the sum of cash flow from operating activities and investing activities – declined by €2,182.8 million in the reporting period to minus €1,850.0 million (2015: plus €332.7 million) as a consequence of the acquisitions.

Cash flow from financing activities came to a significant positive balance of €2,026.3 million in 2016 (2015: minus €329.1 million), caused by the refinancing of the acquisition of Dematic. The net drawdown of financial debt in the year under review amounted to €1,744.0 million (2015: net repayment of €224.0 million). While financial debt taken on during the year came to €4,362.5 million, repayments totalled €2,618.5 million. Net cash of €68.3 million was also used for regular interest payments (2015: net cash used of €43.3 million). The cost of obtaining financing in the year under review amounted to €23.2 million (2015: €5.6 million). The distribution of a dividend of €0.77 per share (2015: €0.55 per share) resulted in a cash outflow of €76.0 million (2015: €54.3 million), while the acquisition of 50,000 treasury shares required an outflow of €2.8 million.

Supported by favourable currency effects of €0.2 million (2015: €0.5 million), this resulted overall in a substantial rise in cash and cash equivalents, which advanced from €103.1 million as at the end of 2015 to €279.6 million as at 31 December 2016. > TABLE 042

[38] INFORMATION ON FINANCIAL INSTRUMENTS

The KION Group uses both primary and derivative financial instruments. The following section summarises the relevance of these financial instruments for the KION Group.

The following tables show the measurement categories defined by IAS 39. In line with IFRS 7, the tables show the carrying amounts and fair values of financial assets and liabilities. Derivative financial instruments forming part of a documented hedge are not assigned to any of the IAS 39 measurement categories and are therefore not included in > TABLES 100–101.

Carrying amounts broken down by class and category 2016 TABLE 100

Classes	Carrying amount	Categories					Fair value
		FAHfT	AfS	LaR	FLaC	FLHfT	
in € million							
Financial assets							
Non-consolidated subsidiaries and other investments	22.2		22.2				22.2
Loans receivable	4.6			4.6			4.6
Financial receivables	21.3			21.3			21.3
Other financial investments	20.7		0.5	20.2			20.7
Lease receivables[1]	731.5						740.8
Trade receivables	998.9			895.9			998.9
thereof construction contracts with a net credit balance due from customers[2]	103.1						103.1
Other financial receivables	60.6						60.6
thereof non-derivative receivables	50.3			50.3			50.3
thereof derivative financial instruments	10.3	7.5					10.3
Cash and cash equivalents	279.6			279.6			279.6
Financial liabilities							
Liabilities to banks	3,175.8				3,175.8		3,188.6
Other financial liabilities to non-banks	7.2				7.2		7.2
Lease liabilities[1]	1,007.2						1,017.5
Trade payables	802.2				802.2		802.2
Other financial liabilities	571.9						576.7
thereof non-derivative liabilities	71.8				71.8		71.8
thereof liabilities from finance leases[1]	477.7						482.5
thereof derivative financial instruments	22.4					13.8	22.4

1 as defined by IAS 17
2 as defined by IAS 11

Carrying amounts broken down by class and category 2015

TABLE 101

Classes	Carrying amount	Categories					Fair value
		FAHfT	AfS	LaR	FLaC	FLHfT	
in € million							
Financial assets							
Non-consolidated subsidiaries and other investments	42.4		42.4				42.4
Loans receivable	2.7			2.7			2.7
Financial receivables	15.4			15.4			15.4
Other financial investments	0.8		0.8				0.8
Lease receivables[1]	653.7						658.4
Trade receivables	670.5			669.0			670.5
thereof construction contracts with a net credit balance due from customers[2]	1.5						1.5
Other financial receivables	43.0						43.0
thereof non-derivative receivables	37.7			37.7			37.7
thereof derivative financial instruments	5.3	2.3					5.3
Cash and cash equivalents	103.1			103.1			103.1
Financial liabilities							
Liabilities to banks	225.9				225.9		225.9
Corporate bond	444.5				444.5		469.5
Other financial liabilities to non-banks	6.2				6.2		6.2
Lease liabilities[1]	855.6						860.0
Trade payables	574.6				574.6		574.6
Other financial liabilities	510.1						512.2
thereof non-derivative liabilities	58.6				58.6		58.6
thereof liabilities from finance leases[1]	439.0						441.2
thereof derivative financial instruments	12.4					6.0	12.4

1 as defined by IAS 17
2 as defined by IAS 11

The change in valuation allowances for trade receivables is presented in > TABLE 102.

The net gains and losses on financial instruments are broken down by IAS 39 category as shown in > TABLE 103.

Gains and losses on financial instruments do not include gains/losses arising on hedging transactions that are part of a documented hedge (see also note [40]).

Offsetting of financial instruments

As at the reporting date, the potential offsetting volume essentially arose from netting arrangements in framework agreements governing derivatives trading that the KION Group had entered into with commercial banks. The potential offsetting volume from issued financial collateral, as disclosed in 2015, related to collateral in connection with the syndicated loan of 23 December 2006. This collateral was released in February 2016 because of the redemption of this loan. The following tables show actual offsetting and potential offsetting volumes for financial assets and financial liabilities. > TABLES 104–107

Change in valuation allowances

TABLE 102

in € million	2016	2015
Valuation allowances as at 01/01/	**38.5**	**40.2**
Group changes	–	–1.8
Additions (cost of valuation allowances)	10.8	11.7
Reversals	–4.1	–3.7
Utilisations	–5.0	–7.4
Currency translation adjustments	0.2	–0.5
Valuation allowances as at 31/12/	**40.4**	**38.5**

Net gains and losses on financial instruments broken down by category

TABLE 103

in € million	2016	2015
Loans and receivables (LaR)	3.2	–9.1
Available-for-sale investments (AfS)	6.2	9.7
Financial instruments held for trading (FAHfT, FLHfT)	–17.6	18.2
Financial liabilities carried at amortised cost (FLaC)	–57.1	–89.6

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

TABLE 104

in € million	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Potential offsetting amount: owing to netting agreements	Potential offsetting amount: in connection with financial collaterals received	Potential net amount
	31/12/2016					
Trade receivables	1,000.6	–1.6	998.9	–	–	998.9
Derivative financial assets	10.3	–	10.3	–4.5	–	5.8
Total	**1,010.9**	**–1.6**	**1,009.3**	**–4.5**	**–**	**1,004.8**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

TABLE 105

in € million	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Potential offsetting amount: owing to netting agreements	Potential offsetting amount: in connection with financial collaterals received	Potential net amount
	31/12/2015					
Trade receivables	670.6	–0.1	670.5	–	–	670.5
Derivative financial assets	5.3	–	5.3	–2.7	–	2.6
Total	**675.9**	**–0.1**	**675.8**	**–2.7**	**–**	**673.1**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements TABLE 106

in € million	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Potential offsetting amount: owing to netting agreements	Potential offsetting amount: in connection with financial collaterals pledged	Potential net amount
	31/12/2016					
Trade payables	803.8	–1.6	802.2	–	–	802.2
Derivative financial liabilities	22.4	–	22.4	–4.5	–	17.9
Total	**826.2**	**–1.6**	**824.6**	**–4.5**	**–**	**820.1**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements TABLE 107

in € million	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Potential offsetting amount: owing to netting agreements	Potential offsetting amount: in connection with financial collaterals pledged	Potential net amount
	31/12/2015					
Financial liabilities	676.5	–	676.5	–	–279.7	396.9
Trade payables	574.7	–0.1	574.6	–	–	574.6
Derivative financial liabilities	12.4	–	12.4	–2.7	–	9.7
Total	**1,263.7**	**–0.1**	**1,263.6**	**–2.7**	**–279.7**	**981.2**

Fair value measurement

The majority of the cash and cash equivalents, financial receivables, other non-derivative receivables and liabilities, trade receivables and trade payables held by the Group have short remaining terms to maturity. The carrying amounts of these financial instruments are roughly equal to their fair values. The fair value of liabilities to banks corresponds to the present value of the outstanding payments, taking account of the current interest-rate curve and the Group's own default risk. This fair value, calculated for the purposes of disclosure in the notes to the financial statements, is classified as Level 2 of the fair value hierarchy.

The fair value of the corporate bond, calculated for disclosure in the notes to the financial statements in 2015, was determined using publicly quoted prices in an active market and was therefore classified as Level 1 of the fair value hierarchy. The calculation was based on the middle rate applicable on 31 December 2015.

The fair value of receivables and liabilities from finance leases corresponds to the present value of the net lease payments, taking account of the current market interest rate for similar leases.

The following tables show the assignment of fair values to the individual classification levels as defined by IFRS 7 for financial instruments measured at fair value. > TABLES 108–109

Financial instruments measured at fair value TABLE 108

	Fair Value Hierarchy			
in € million	Level 1	Level 2	Level 3	2016
Financial assets				**10.8**
thereof other financial investments	0.5			0.5
thereof derivative instruments		10.3		10.3
Financial liabilities				**22.4**
thereof derivative instruments		22.1	0.3	22.4

Financial instruments measured at fair value TABLE 109

	Fair Value Hierarchy			
in € million	Level 1	Level 2	Level 3	2015
Financial assets				**25.7**
thereof non-consolidated subsidiaries and other financial investments			19.6	19.6
thereof other financial investments	0.8			0.8
thereof derivative instruments		5.3		5.3
Financial liabilities				**12.4**
thereof derivative instruments		11.9	0.6	12.4

Level 1 comprises long-term financial assets for which the fair value is calculated using prices quoted in an active market.

All currency forwards are classified as Level 2. The fair value of currency forwards is calculated by the system using the discounting cash flow method based on forward rates on the reporting date. The default risk for the Group and for the counterparty is taken into account on the basis of gross figures.

The shares in non-consolidated subsidiaries allocated to Level 3 in 2015 related to the shares acquired in October 2015 in Emhilia Material Handling S.p.A. (formerly Moden Diesel S.p.A.) and the shares in LR Intralogistik GmbH purchased at the end of October 2015. Because the acquisitions took place shortly before the reporting date, the reported fair value was the same as the purchase consideration. These two subsidiaries were included in the KION Group's basis of consolidation for the first time in January 2016.

The derivative financial liabilities allocated to Level 3 related to a call option of Weichai Power on the 10 per cent shareholding of the KION Group in Linde Hydraulics. The Black-Scholes model and probability-weighted scenario analysis were used to calculate the fair value of the call option.

> TABLE 110 shows the changes in fair value and the impact on the income statement.

As at 31 December 2016, the fair value calculated for the call option on the shares in Linde Hydraulics came to minus €0.3 million (31 December 2015: minus €0.6 million). As at the reporting date, a change in the fair value of the shares in Linde Hydraulics would not have had any material effect on profit or loss as a consequence of the change in the fair value of the call option.

In order to eliminate default risk to the greatest possible extent, the KION Group only enters into derivatives with investment-grade counterparties.

If events or changes in circumstances make it necessary to reclassify financial instruments to a different level, they are reclassified at the end of a reporting period. As had been the case in 2015, no financial instruments were transferred between Levels 1, 2 or 3 in 2016.

Development of financial assets / liabilities classified as level 3 TABLE 110

in € million	2016	2015
Value as at 01/01/	**–0.6**	**31.7**
Gains recognised in net financial expenses	0.3	2.4
Disposals	–	–34.7
Value as at 31/12/	**–0.3**	**–0.6**
Gains for the period relating to financial assets/liabilities classified as Level 3	0.3	2.4
Change in unrealised gains for the period relating to financial liabilities held as at 31/12/	0.3	0.1

[39] FINANCIAL RISK REPORTING

Capital management

One of the prime objectives of capital management is to ensure liquidity at all times. Measures aimed at achieving these objectives include the optimisation of the capital structure, the reduction of liabilities and ongoing Group cash flow planning and management. Close cooperation between local units and the Group head office ensures that the local legal and regulatory requirements faced by foreign group companies are taken into account in capital management.

Net financial debt – defined as the difference between financial liabilities and cash and cash equivalents – is the key performance measure used in liquidity planning at Group level (see note [30]) and amounted to €2,903.4 million as at 31 December 2016 (31 December 2015: €573.5 million).

On 15 February 2016, the KION Group repaid the corporate bond of €450.0 million that was still outstanding and all other remaining liabilities under the syndicated loan of 23 December 2006. The associated repayment was made using funds drawn down under a new senior facilities agreement (SFA). The SFA comprises a revolving credit facility of €1,150.0 million maturing in February 2021 and a fixed-term tranche of €350.0 million maturing in February 2019 that has been fully drawn down (see note [30]).

On 4 July 2016, KION GROUP AG reached an agreement with a group of banks for a bridge loan to finance the acquisition of Dematic. KION GROUP AG also implemented a capital increase in July 2016 that generated gross proceeds of €459.3 million (see note [28]). As at 31 December 2016, the drawdown of the bridge loan comprised a total of three fixed-term, variable-rate tranches: tranche A2 has a value of €343.2 million maturing in February 2018 and tranche B a value of €1,200.0 million maturing in November 2018; the third tranche is a further loan of €1,000.0 million maturing in November 2021 (see also note [30]).

Taking into account credit facilities that had not yet been utilised, the unrestricted cash and cash equivalents available to the KION Group as at 31 December 2016 amounted to €1,200.8 million (31 December 2015: €1,193.6 million).

The KION Group works continuously to optimise the financing of the Group (see note [50]).

Credit risk

In certain finance and operating activities, the KION Group is subject to credit risk, i.e. the risk that partners will fail to meet their contractual obligations. This risk is limited by diversifying business partners based on certain credit ratings. The Group only enters into transactions with business partners and banks holding a good credit rating and subject to fixed limits. Counterparty risks involving our customers are managed by the individual Group companies.

> TABLE 111 shows the age structure of receivables as at the reporting date.

Valuation allowances are based on the credit risk associated with the receivables, the risk being assessed mainly using factors such as customer credit rating and failure to adhere to payment terms.

Some of the receivables that were overdue as at the reporting date, but for which no valuation allowances had been recognised, were offset by corresponding trade payables. Apart from this item, the Group did not hold any significant collateral.

Age structure analysis of receivables TABLE 111

	Carrying amount	Thereof: Neither overdue nor impaired at the reporting date	Thereof: Impaired at the reporting date	Thereof: Not impaired at the reporting date and overdue in the following timebands	
				up to and including 90 days overdue	more than 90 days overdue
in € million 2016					
Financial receivables	21.3	21.3	–	–	–
Lease receivables	731.5	731.5	–	–	–
Trade receivables	998.9	764.0	67.2	153.7	14.0
Other non-derivative receivables/assets	50.3	46.6	0.6	0.0	3.1
in € million 2015					
Financial receivables	15.4	15.4	–	–	–
Lease receivables	653.7	653.7	–	–	–
Trade receivables	670.5	537.6	6.1	117.6	9.1
Other non-derivative receivables/assets	37.7	34.2	0.5	3.0	–

Liquidity risk

Based on IFRS 7, a liquidity risk arises if an entity is unable to meet its financial liabilities. The KION Group maintains a liquidity reserve in the form of lines of credit and cash in order to ensure financial flexibility and solvency. The age structure of financial liabilities is reviewed continually. Since the announcement of the Dematic acquisition in June 2016, Standard & Poor's has rated the KION Group as BB+ with a negative outlook (2015: stable outlook). Moody's has rated the KION Group at Ba1 with a negative outlook (2015: Ba2 with a positive outlook).

The following tables show all of the contractually agreed payments under recognised financial liabilities as at 31 December 2016 and 2015, including derivative financial instruments with negative fair values. > TABLES 112–113

Liquidity analysis of financial liabilities and derivatives 2016 TABLE 112

in € million	Carrying amount 2016	Cash flow 2017	Cash flow 2018 – 2021	Cash flow from 2022
Primary financial liabilities				
Liabilities to banks	3,175.8	–293.1	–3,026.5	–
Other financial liabilities to non-banks	7.2	–6.8	–0.4	–
Trade payables	802.2	–802.2	–	–
Lease liabilities	1,007.2	–315.4	–737.6	–31.2
Other financial liabilities	549.4	–222.1	–350.6	–13.3
Derivative financial liabilities				
Derivatives with negative fair value	22.1			
+ Cash in		452.7	210.7	–
– Cash out		–472.6	–222.8	–

Liquidity analysis of financial liabilities and derivatives 2015 TABLE 113

in € million	Carrying amount 2015	Cash flow 2016	Cash flow 2017 – 2020	Cash flow from 2021
Primary financial liabilities				
Liabilities to banks	225.9	–117.2	–120.3	–
Corporate bond	444.5	–30.4	–556.3	–
Other financial liabilities to non-banks	6.2	–5.5	–0.7	–
Trade payables	574.6	–574.6	–	–
Lease liabilities	855.6	–266.0	–625.6	–30.5
Other financial liabilities	497.6	–200.4	–318.8	–12.6
Derivative financial liabilities				
Derivatives with negative fair value	11.9			
+ Cash in		345.7	60.5	
– Cash out		–352.7	–65.5	

The calculation of future cash flows for derivative financial liabilities includes all currency forwards that have negative fair values as at the reporting date.

In 2016, KION Group sold financial assets with a total value of €101.3 million (2015: €75.1 million) in factoring transactions. In some cases, the KION Group retains insignificant rights and duties in connection with fully derecognised financial assets, primarily the provision of limited reserves for defaults. The recognised assets that serve as reserves for defaults and are reported under other current financial assets stood at €1.4 million as at 31 December 2016 (31 December 2015: €1.0 million). The short residual maturity of these financial assets means their carrying amount was almost the same as their fair value. The maximum downside risk arising on the transferred and fully derecognised financial assets amounted to €7.4 million as at 31 December 2016 (31 December 2015: €5.0 million).

Default risk

For financial assets, default risk is defined as the risk that a counterparty will default, and hence is limited to a maximum of the carrying amount of the assets relating to the counterparty involved. The potential default risk attaching to financial assets is mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees, and potential netting agreements.

Specific valuation allowances for defaults are recognised to reflect the risk arising from primary financial instruments. Financial transactions are only entered into with selected partners holding good credit ratings. Investments in interest-bearing securities are limited to securities with an investment-grade credit rating.

Risks arising from financial services

The leasing activities of the Industrial Trucks & Services segment mean that the KION Group may be exposed to residual value risks from the marketing of trucks that are returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecast. The KION Group regularly assesses its aggregate risk position arising from financial services.

The risks identified are immediately taken into account by the Company in the costing of new leases by recognising write-downs or valuation allowances and adjusting the residual values. Risk-mitigating factors include the demand for used trucks, which stabilises the residual values of the KION Group's industrial trucks. The majority of the residual values have underlying remarketing agreements that transfer any residual-value risk to the leasing company. This had a positive impact on the financial results in 2016. Groupwide standards to ensure that residual values are calculated conservatively, combined with an IT system for residual-value risk management, reduce risk and provide the basis on which to create the transparency required.

The KION Group mitigates its liquidity risk and interest-rate risk attaching to financial services by ensuring that most of its transactions and funding loans have matching maturities and by constantly updating its liquidity planning. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

In order to exclude currency risk, the KION Group generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the Group. The KION Group has not identified any material changes between 2015 and 2016. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. In addition, receivables management has been improved by enhancing the dunning process. The credit portfolio management system was updated during 2016. Besides the design of the business processes, it also encompassed the risk management and control processes.

Moreover, the KION Group offers the majority of financial services indirectly via selected financing partners that bear the risks of the finance transaction. As far as these financial services are concerned, the KION Group bore the counterparty risk in under 3 per cent of cases (2015: 3 per cent).

Currency risk

In accordance with its treasury risk policy, the KION Group hedges exchange rate risks both locally at the level of the individual companies and centrally via KION GROUP AG using prescribed hedging ratios.

The main hedging instruments employed are foreign-currency forwards, provided that there are no country-specific restrictions on their use.

At company level, hedges are entered into for highly probable future transactions on the basis of rolling 15-month forecasts, as well as for firm obligations not reported in the statement of financial position. Currency risk arising from customer-specific construction contracts is hedged at individual company level on a project basis. Some of these hedges are classified as cash flow hedges for accounting purposes in accordance with IAS 39 (see note [40]).

The currency risk arising on translation of a foreign subsidiary's financial statements into the Group's reporting currency is also eliminated using a foreign-currency forward. In accordance with IAS 39, this hedge is classified as a net investment hedge for accounting purposes (see note [40]).

Foreign-currency forwards are also employed to hedge the currency risks arising in the course of internal financing.

> TABLE 114 shows an overview of the foreign-currency forwards entered into by the KION Group. As at the reporting date, significant currency risk arising from financial instruments was measured for the first time using a currency sensitivity method because the value-at-risk method previously used in the risk management system is no longer being applied as a result of the new organisational and strategic focus in the KION Group. The prior-year figures have been restated accordingly.

Foreign-currency forwards TABLE 114

in € million		Fair value 2016	Fair value 2015	Notional amount 2016	Notional amount 2015
Foreign-currency forwards (assets)	Hedge Accounting	2.9	3.1	83.1	142.5
	Held for Trading	7.5	2.3	552.7	153.3
Foreign-currency forwards (liabilities)	Hedge Accounting	8.7	6.4	279.3	181.1
	Held for Trading	13.5	5.5	384.4	269.7

Currency risks from financial instruments as defined by IFRS 7 are only included in calculating currency sensitivity if the financial instruments are denominated in a currency other than the functional currency of the reporting entity concerned. This means that currency risks resulting from the translation of the separate financial statements of subsidiaries into the Group reporting currency, i.e. currency translation risks, are not included.

Currency risk in the KION Group arises mainly in connection with derivative financial instruments, trade receivables and trade payables. It is assumed that the portfolio of financial instruments as at the reporting date is representative of the portfolio over the whole of the year.

The sensitivity analysis for currencies that give rise to significant risk in the view of the KION Group is shown in > TABLE 115.

Foreign-currency sensitivity TABELLE 115

	Net income +10%	Net income −10%	Other comprehensive income +10%	Other comprehensive income −10%
in € million 2016				
CNY	0.2	−0.2	5.1	−6.3
GBP	2.2	−2.7	7.7	−9.5
USD	12.9	−16.1	3.6	−4.4
in € million 2015				
CNY	−0.6	1.0	5.2	−6.4
GBP	−0.2	0.2	7.6	−9.3
USD	0.1	−0.2	3.1	−3.7

Interest-rate sensitivity TABLE 116

	+50 bps	–50 bps	+100 bps	–100 bps
in € million	2016	2016	2015	2015
Net income	–1.1	–0.9	–0.9	0.9

The table shows the after-tax impact from changes in exchange rates considered to be possible (+10 per cent: increase in the value of the euro against the other currencies of 10.0 per cent; –10 per cent: fall in the value of the euro against the other currencies of 10.0 per cent).

Interest-rate risk

Interest-rate risk within the KION Group is managed centrally. The basis for decision-making includes sensitivity analyses of interest-rate risk positions in key currencies.

A shift in the relevant yield curve of +/–50 basis points (bps) (2015: +/–100 bps) was simulated to assess interest-rate risk. The cumulative effect after tax resulted from variable-rate exposures and is shown in > TABLE 116.

[40] HEDGE ACCOUNTING

Hedging currency risk

In accordance with its treasury risk policy, the KION Group applies cash flow hedge accounting in hedging the currency risks arising from highly probable future transactions and firm obligations not reported in the statement of financial position in various currencies. Foreign-currency forwards with settlement dates in the same month as the expected cash flows from the Group's operating activities are used as hedges.

The effectiveness of the Group's hedging transactions is assessed on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. The effective portion of the changes in the fair value of foreign-currency forwards is recognised in accumulated other comprehensive income (loss) and only reversed when the corresponding hedged item is recognised in income.

On account of the short-term nature of the Group's payment terms, reclassifications to the income statement and the recognition of the corresponding cash flows generally take place in the same reporting period. A foreign-currency receivable or liability is recognised when goods are despatched or received. Until the corresponding payment is received, changes in the fair value of the derivative are recognised in the income statement such that they largely offset the effect of the measurement of the foreign-currency receivable or liability at the reporting date.

The changes in fair value recognised and reclassified in other comprehensive income in 2016 are shown in the consolidated statement of comprehensive income. In matching transactions with the recognition of the hedged item, income from hedging transactions amounting to €0.1 million was reclassified to revenue, and an amount of €14.1 million was reclassified to cost of sales. In 2015, the gains/losses arising on hedging transactions amounting to a net loss of €20.9 million had largely been included in other income and other expenses. There were no significant ineffective portions in 2016, as had been the case in the previous year.

In total, foreign-currency cash flows of €362.4 million (2015: €323.6 million) were hedged and designated as hedged items, of which €284.5 million is expected by 30 September 2017 (2015: €188.0 million expected by 30 September 2016). The remaining cash flows designated as hedged items essentially fall due in the period up to 31 December 2017.

In addition, the KION Group hedges currency risk arising on translation of a foreign subsidiary's financial statements into the Group's reporting currency using a foreign-currency forward. For this purpose, it applies net investment hedge accounting, in which only the spot rate element of the foreign-currency forward is designated as the hedging instrument. The effectiveness of the Group's hedging transaction is determined on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. The effective portion of the changes in the fair value of the foreign-currency forward is recognised – on a cumulative basis and after taking into account deferred taxes – in accumulated other comprehensive income (loss) and is not reversed and recognised in the income statement until the foreign operation is sold.

The spot rate element of the foreign-currency forward designated as the hedging instrument had a fair value of minus €2.3 million as at 31 December 2016 (31 December 2015: minus €4.5 million) and, in the reporting year, resulted in an unrealised gain of €2.2 million (2015: unrealised loss of €4.5 million), which was recognised in other comprehensive income (loss). There were no ineffective portions of the net investment hedge in 2016, as had also been the case in 2015. In 2016, an expense of €3.2 million (2015: €0.3 million) arising in connection with the interest element of the foreign-currency forward was recognised under financial expenses.

In 2016, the KION Group made use of transaction-related foreign-currency forwards to hedge currency risk in connection with the acquisition of Dematic. The notional amount of these currency forwards totalled €2.3 billion. Currency forwards with a total notional amount of €1.9 billion served to hedge the purchase price obligation for the shares and were accounted for as cash flow hedges. The resulting changes in exchange rates were included in the reclassified changes in fair value under gains/losses on hedge reserves and were recognised as a basis adjustment (see note [5]).

[41] SEGMENT REPORT

The segment structure in the KION Group was modified with effect from 1 December 2016. The strategic profile of the KION Group has undergone a fundamental change as a consequence of the acquisition of Dematic. The Executive Board, as the chief operating decision-maker (CODM), has managed the KION Group since December 2016 on the basis of the following segments: Industrial Trucks & Services, Supply Chain Solutions and Corporate Services. Segment reporting therefore takes into account the new organisational and strategic focus of the KION Group. As a result of the change in segment structure, the brands and financing activities previously reported under the Linde Material Handling (LMH), STILL and Financial Services (FS) segments have now been transferred to the new Industrial Trucks & Services segment. Henceforward, the Supply Chain Solutions segment will encompass not only Dematic but also the activities of Egemin and Retrotech, which were previously reported under the Other segment. This segment will therefore bring together the activities related to planning, implementing and optimising supply chains. The segment disclosures for the prior period have been restated using the new segment structure.

Description of the segments

Industrial Trucks & Services

So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers key steps of the value chain: product development, manufacturing, sales and logistics, spare parts business, truck rental and used trucks, fleet management and financial services that support the core industrial truck business. The segment operates a multi-brand strategy involving the three international brands Linde, STILL and Baoli plus the national brands Fenwick, OM STILL and Voltas.

Supply Chain Solutions

The Supply Chain Solutions segment, with its Dematic operating unit, is a strategic partner to customers in a variety of industries, supplying them with integrated technology and software solutions with which to optimise their supply chains. Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multishuttle warehouse systems to picking and value-added packing. Through its Dematic, Egemin Automation and Retrotech brand companies, this segment is primarily involved in customer-specific, longer-term project business. With global resources, ten production facilities worldwide and regional teams of experts, Dematic is able to plan and deliver logistics solutions with varying degrees of complexity anywhere in the world.

Corporate Services

The Corporate Services segment comprises the other activities of the holding and service companies in the KION Group. The service companies provide services for all segments in the KION Group. The bulk of the total revenue in this segment is generated by internal IT and logistics services.

Segment report 2016 TABELLE 117

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation / Reconciliation	Total
Revenue from external customers	5,200.5	364.7	22.1	–	5,587.2
Intersegment revenue	2.1	1.3	220.0	–223.4	–
Total revenue	5,202.6	366.0	242.0	–223.4	5,587.2
Earnings before taxes	**511.7**	**–42.8**	**230.6**	**–360.4**	**339.2**
Financial income	52.2	7.5	44.7	–15.5	88.9
Financial expenses	–93.5	–18.6	–89.0	16.5	–184.5
= Net financial expenses / income	–41.3	–11.1	–44.3	1.1	–95.7
EBIT	**553.0**	**–31.7**	**274.9**	**–361.5**	**434.8**
+ Non-recurring items	5.4	5.7	31.0	–0.0	42.2
+ PPA items	28.5	31.9	0.0	–	60.4
= Adjusted EBIT	**586.9**	**6.0**	**305.9**	**–361.5**	**537.3**
Segment assets	8,914.0	5,207.1	1,588.2	–4,350.1	11,359.2
Segment liabilities	4,700.7	2,573.1	5,910.9	–4,360.6	8,824.2
Carrying amount of equity-accounted investments	72.7	0.0	0.0	–	72.7
Profit from equity-accounted investments	6.5	0.0	0.0	–	6.5
Capital expenditure[1]	142.7	9.4	14.5	–	166.7
Amortisation and depreciation[2]	137.1	36.7	17.6	–	191.4
Order intake	5,383.2	431.2	242.0	–223.3	5,833.1
Number of employees[3]	23,064	6,810	670	–	30,544

1 Capital expenditure including capitalised development costs, excluding leased and rental assets
2 On intangible assets and property, plant and equipment excluding leased and rental assets
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

Segment management

The KPIs used to manage the segments are order intake, revenue and adjusted EBIT. Segment reporting therefore includes a reconciliation of externally reported consolidated earnings before interest and tax (EBIT) – including effects from purchase price allocations and non-recurring items – to the adjusted EBIT for the segments ('adjusted EBIT'). Intra-group transactions are generally conducted on an arm's-length basis. Segment reports are prepared in accordance with the same accounting policies as the consolidated financial statements, as described in note [7].

> TABLES 117–118 show information on the KION Group's operating segments for 2016 and 2015.

Segment report 2015 TABLE 118

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation / Reconciliation	Total
Revenue from external customers	5,044.4	33.0	20.5	–	5,097.9
Intersegment revenue	0.3	0.0	199.0	–199.3	–
Total revenue	5,044.7	33.0	219.4	–199.3	5,097.9
Earnings before taxes	**440.1**	**1.2**	**76.0**	**–187.0**	**330.2**
Financial income	46.2	0.0	19.7	–14.5	51.4
Financial expenses	–88.6	–0.0	–70.0	14.5	–144.0
= Net financial expenses / income	–42.4	0.0	–50.2	0.0	–92.6
EBIT	**482.5**	**1.2**	**126.2**	**–187.0**	**422.8**
+ Non-recurring items	20.0	0.9	27.1	–15.0	33.0
+ PPA items	27.0	0.0	0.1	–	27.0
= Adjusted EBIT	**529.5**	**2.0**	**153.3**	**–202.0**	**482.9**
Segment assets	8,354.1	104.3	617.6	–2,635.8	6,440.2
Segment liabilities	4,118.2	31.1	3,072.0	–2,629.8	4,591.5
Carrying amount of equity-accounted investments	73.6	0.0	0.0	–	73.6
Profit from equity-accounted investments	10.6	0.0	0.0	–	10.6
Capital expenditure[1]	126.0	0.4	16.2	–	142.6
Amortisation and depreciation[2]	139.0	1.2	17.2	–	157.4
Order intake	5,146.3	48.8	219.8	–199.3	5,215.6
Number of employees[3]	22,637	323	545	–	23,506

1 Capital expenditure including capitalised development costs, excluding leased and rental assets
2 On intangible assets and property, plant and equipment excl. leased and rental assets
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

Revenue with third parties broken down by customer location TABLE 119

in € million	2016	2015
Western Europe	3,982.7	3,724.1
Eastern Europe	459.6	432.0
Middle East and Africa	100.3	92.9
North America	295.9	119.6
Central and South America	148.6	143.4
Asia-Pacific	600.1	585.8
Total revenue	**5,587.2**	**5,097.9**

External revenue by region is presented in > TABLE 119.

Revenue in Germany came to €1,321.1 million in 2016 (2015: €1,276.3 million). There are no relationships with individual customers that generate revenue deemed to be significant as a proportion of total consolidated revenue.

Financial income and expenses including all interest income and expenses are described in notes [12] and [13].

The non-recurring items mainly comprised consultancy costs – in particular, costs relating to the acquisition of Dematic – as well as costs incurred in connection with severance payments. They totalled €42.2 million in 2016 (2015: €33.0 million).

The effects from purchase price allocations comprised net write-downs and other expenses in relation to the hidden reserves and charges identified as part of the acquisition processes.

Capital expenditure includes additions to intangible assets and property, plant and equipment. Leased assets are described in note [18]. > TABLE 120

Capital expenditure in Germany came to €100.9 million in 2016 (2015: €88.2 million).

Depreciation/amortisation relates to intangible assets with finite useful lives and property, plant and equipment.

The regional breakdown of non-current assets excluding financial assets, financial instruments, deferred tax assets and post-employment benefits is shown in > TABLE 121.

Non-current assets attributable to Germany amounted to €2,537.2 million as at 31 December 2016 (31 December 2015: €2,606.0 million).

Capital expenditures broken down by company location (excl. leased and rental assets)

TABLE 120

in € million	2016	2015
Western Europe	133.4	113.1
Eastern Europe	3.7	7.5
Middle East and Africa	0.2	0.1
North America	16.6	2.2
Central and South America	1.0	0.9
Asia-Pacific	11.8	18.8
Total capital expenditures	**166.7**	**142.6**

Non-current assets broken down by company location

TABLE 121

in € million	2016	2015
Western Europe	3,497.9	3,310.2
Eastern Europe	152.2	129.4
Middle East and Africa	6.6	6.8
North America	3,836.9	35.1
Central and South America	56.4	36.7
Asia-Pacific	370.8	321.4
Total non-current assets (IFRS 8)	**7,920.8**	**3,839.6**

[42] EMPLOYEES

The KION Group employed an average of 24,957 full-time equivalents (including trainees and apprentices) in the reporting year (2015: 23,129). The number of employees (with part-time staff included on a pro rata basis) is shown by region in > TABLE 122.

The KION Group employed an average of 536 trainees and apprentices in 2016 (2015: 524). The number of employees increased by 6,318 following the acquisition of Dematic.

[43] RELATED PARTY DISCLOSURES

In addition to the subsidiaries included in the consolidated financial statements, the KION Group has direct or indirect business relationships with a number of non-consolidated subsidiaries, joint ventures and associates in the course of its ordinary business activities. According to IAS 24, related parties also include entities that have control or significant influence over KION GROUP AG. An entity is usually assumed to have control (parent) if it holds more than 50 per cent of the shares in another entity. Significant influence generally exists if an entity holds between 20 per cent and 50 per cent of the shares in another entity.

The related parties that are solely or jointly controlled by the KION Group or over which significant influence can be exercised are included in the list of shareholdings as at 31 December 2016 (see note [47]). Another related party is Weichai Power Co. Ltd., Weifang, China, which indirectly holds a 43.3 per cent stake in KION GROUP AG (31 December 2015: 38.3 per cent) and is thus the largest single shareholder.

The revenue that the KION Group generated in 2016 and 2015 from selling goods and services to related parties, and vice versa, is shown in > TABLES 123 – 124 along with the associated receivables and liabilities as at the reporting date. The receivables include a loan that the KION Group has granted to Linde Hydraulics GmbH & Co. KG, Aschaffenburg. The commitment included an amount of €5.3 million (31 December 2015: €7.0 million). This resulted in a loan receivable for the KION Group of €4.0 million as at 31 December 2016 (31 December 2015: €1.0 million); it has a variable interest rate. No valuation allowances for trade receivables had been recognised as at the reporting date, a situation that was unchanged on the end of 2015.

Employees (average) TABELLE 122

	2016	2015
Germany	8,460	8,395
France	3,293	3,181
UK	1,937	1,782
Italy	899	811
Rest of Europe	4,437	3,939
USA	801	162
Asia	3,845	3,796
Rest of world	1,286	1,063
Total employees	**24,957**	**23,129**

Related party disclosures 2016 TABLE 123

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	22.8	13.1	24.7	19.7
Associates (equity-accounted)	19.7	9.2	163.0	121.1
Joint ventures (equity-accounted)	2.3	54.4	50.7	77.4
Other related parties*	4.7	1.6	15.1	18.2
Total	**49.5**	**78.3**	**253.5**	**236.5**

* 'Other related parties' include, among others, transactions with Weichai Power and its affiliated companies

Related party disclosures 2015 TABLE 124

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	24.9	13.6	19.4	34.0
Associates (equity-accounted)	19.3	8.2	152.8	126.4
Joint ventures (equity-accounted)	1.3	53.7	48.1	57.2
Other related parties*	4.3	0.2	12.7	12.5
Total	**49.8**	**75.7**	**232.9**	**230.1**

* 'Other related parties' include, among others, transactions with Weichai Power and its affiliated companies

The members of the Executive Board and Supervisory Board of KION GROUP AG are also related parties. Details of the remuneration of the Executive Board and Supervisory Board can be found in note [45].

[44] VARIABLE REMUNERATION

KEEP employee share option programme

On 4 October 2016, the Executive Board decided to launch a further share option programme for employees (KEEP 2016) in the countries that had been included in the previous year and also for employees in Belgium, the Czech Republic, the Netherlands, Poland, Portugal and Spain. The period during which eligible employees could take up this offer by making a declaration of acceptance ran from 5 to 31 October 2016. To be eligible to participate in KEEP 2016, employees needed, at the start of the offer phase, to have had a permanent, uninterrupted employment contract with a participating KION Group company for at least one year. Currently, KION GROUP AG plus 14 German (2015: twelve) and 53 foreign (2015: 34) subsidiaries are taking part in KEEP. The Company is considering whether to extend the employee share option programme to other countries over the coming years.

The KEEP programme is a share matching plan. Participating employees acquire KION shares for their own investment purposes. Each set of three KION shares represents a block of shares. Once the three-year holding period has expired, employees are entitled to one free matching share (bonus share) for each block. However, KION GROUP AG has the right to satisfy each programme participant's entitlement by paying a cash settlement instead of granting a bonus share. For employees taking part for the first time, the KION Group offers a special incentive in the form of starter blocks. Under KEEP 2016, the KION Group will bear the cost of one KION share (free share) in each of the first six blocks of shares that an employee takes up.

The right to obtain a bonus share lapses if participants sell their own investment in KION shares or cease to work for the KION Group. The change in the number of bonus shares to be granted is shown in > TABLE 125.

In 2016, 2,282 free shares were issued to employees as part of their starter blocks (2015: 8,740 free shares).

The free shares to be issued are measured at their fair value on the day on which employees obtain the right to acquire shares as their own investment. The fair value on the grant date is determined on the basis of Monte Carlo simulation. The measurement parameters used are shown in > TABLE 126.

For the 2016 programme, the fair value of a bonus share was €52.51 (2015 programme: €38.57).

The fair value of the bonus shares to be granted is recognised as an expense and paid into capital reserves over the three-year holding period.

In 2016, an expense totalling €0.7 million was recognised under functional costs for free shares and bonus shares in connection with the employee share option programme (2015: €0.6 million). Of this amount, €0.3 million related to KEEP 2015 and €0.2 million to KEEP 2014 (2015: €0.2 million relating to KEEP 2014).

Development of the granted bonus shares TABLE 125

in units	2016	2015
Balance as at 01/01/	**53,220**	**29,116**
Granted bonus shares	15,188	24,504
Forfeited bonus shares	–1,302	–400
Balance as at 31/12/	**67,106**	**53,220**

Significant measurement parameters for the KION GROUP AG employee share option programme TABLE 126

Measurement parameters	KEEP 2016	KEEP 2015
Expected dividend yield	€0.88	€0.88
Price of the KION share as at grant date	€55.02	€41.01

Each year, the Executive Board of KION GROUP AG decides whether there will be an offer made under the share option programme that year and which companies will participate.

KION performance share plan (PSP) for managers

In March 2016, a multiple-year variable remuneration component in the form of a performance share plan (the KION Long-Term Incentive Plan for Top Management 2016) with a three-year term was promised retrospectively from 1 January 2016 for the managers in the KION Group. The remuneration component measured over the long term is based in equal parts on the total shareholder return (TSR) of KION GROUP AG shares compared with the STOXX Europe TMI Industrial Engineering index as a measure of market performance, and with return on capital employed (ROCE) as an internal measure. It also depends on the performance of KION GROUP AG shares during the relevant period.

The performance period for the 2016 tranche ends on 31 December 2018 (2015 tranche: 31 December 2017). The 2014 tranche expired on 31 December 2016 and will be paid out in the second quarter of 2017. At the beginning of the performance period on 1 January 2016 (2015 tranche: 1 January 2015; 2014 tranche: 1 January 2014), the managers were allocated a total of 0.2 million virtual shares for this tranche (2015 tranche: 0.2 million virtual shares; 2014 tranche: 0.2 million virtual shares). The allocation was based on a particular percentage of each manager's individual gross annual remuneration at the time of grant. At the end of the performance period, the number of the virtual shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of virtual shares multiplied by the smoothed price of KION GROUP AG shares at the end of the performance period determines the amount of cash actually paid. The KION Group has the right to adjust the amount payable at the end of the performance period in the event of exceptional occurrences or developments. The maximum amount payable is limited to 200 per cent of the value of the shares allotted to an individual at the grant date.

The pro-rata expense calculation based on the fair value of the virtual shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 127 were used to value the virtual shares on the reporting date.

Significant measurement parameters of the PSP for Executive Employees TABLE 127

	Valuation date 31/12/2016	
Measurement parameters	Tranche 2016	Tranche 2015
Expected volatility of the KION share	30.0%	25.0%
Expected volatility of the STOXX Europe TMI Industrial Engineering Index	20.0%	20.0%
Risk-free interest rate	−0.80%	−0.83%
Expected dividend yield	€0.88	€0.88
Price of the KION share	€53.00	€53.00
Price of the STOXX Europe TMI Industrial Engineering Index at valuation date	€243.00	€243.00
Initial value of the KION share (60 days average)	€43.45	€29.06
Initial value of the STOXX Europe TMI Industrial Engineering Index (60 days average)	€209.26	€200.94

Taking account of the remaining term of two years (2016 tranche) and one year (2015 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2016, the fair value of one virtual share was €54.00 for the 2015 tranche (31 December 2015: €39.80) and €42.86 for the 2016 tranche. On that date, the total fair value based on 0.2 million virtual shares was €10.9 million (2015 tranche; 31 December 2015: €8.2 million) and €7.7 million (2016 tranche). The amount of €10.9 million that is expected to be paid out for the 2014 tranche is calculated on the basis of a preliminary total target achievement rate.

The total carrying amount for liabilities in connection with share-based remuneration was €20.6 million as at 31 December 2016 (31 December 2015: €8.5 million). Of this amount, €10.9 million related to the 2014 tranche (31 December 2015: €5.7 million), €7.1 million to the 2015 tranche (31 December 2015: €2.7 million) and €2.6 million to the 2016 tranche. In 2016, a pro-rata expense of €5.2 million in respect of the 2014 tranche (2015: €4.1 million), a pro-rata expense of €4.3 million for the 2015 tranche (2015: €2.7 million) and a pro-rata expense of €2.6 million for the 2016 tranche were recognised for twelve months under functional costs.

KION performance share plan (PSP) for the Executive Board

The members of the Executive Board have been promised a multiple-year variable remuneration component in the form of a performance share plan with a three-year term in each case. The remuneration component measured over the long term is based in equal parts on the total shareholder return (TSR) of KION GROUP AG shares compared with the STOXX Europe TMI Industrial Engineering index as a measure of market performance, and with return on capital employed (ROCE) as an internal measure. It also depends on the performance of KION GROUP AG shares during the relevant period.

The performance period for the 2016 tranche ends on 31 December 2018 (2015 tranche: 31 December 2017). The 2014 tranche expired on 31 December 2016 and will be paid out in the spring of 2017. At the beginning of the performance period on 1 January 2016 (2015 tranche: 1 January 2015; 2014 tranche: 1 January 2014), the Executive Board members were allocated a total of 0.1 million virtual shares for this tranche (2015 tranche: 0.2 million virtual shares; 2014 tranche: 0.2 million virtual shares) with a specific fair value. The shares were allocated on the basis of an allocation value in euros specified in each Executive Board member's service contract.

At the end of the performance period, the number of the virtual shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of virtual shares multiplied by the smoothed price of KION GROUP AG shares at the end of the performance period determines the amount of cash actually paid. The Supervisory Board can also use a discretionary personal performance multiplier to adjust the final payment at the end of the performance period by +/−20 per cent. The maximum amount payable is limited to 200 per cent of the value of the shares allotted to an individual at the grant date.

The pro-rata expense calculation based on the fair value of the virtual shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 128 were used to value the virtual shares on the reporting date.

Taking account of the remaining term of two years (2016 tranche) and one year (2015 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2016, the fair value of one virtual share was €52.89 for the 2015 tranche (31 December 2015: €39.25) and €42.19 for the 2016 tranche. On that date, the total fair value based on 0.2 million and 0.1 million virtual shares respectively was €8.1 million (2015 tranche; 31 December 2015: €6.0 million) and €4.4 million (2016 tranche). The amount of €9.3 million that is expected to be paid for the 2014 tranche is calculated on the basis of a preliminary total target achievement rate and is subject to the performance-based adjustment made by the Supervisory Board for individual Executive Board members, which could mean that a marginally lower amount is paid out.

The total carrying amount for liabilities in connection with share-based remuneration was €16.9 million as at 31 December 2016 (31 December 2015: €17.8 million). Of this amount, €9.3 million related to the 2014 tranche (31 December 2015: €5.3 million), €6.0 million to the 2015 tranche (31 December 2015: €2.2 million)

Significant measurement parameters for the KION GROUP AG performance share plan TABLE 128

Measurement parameters	Valuation date 31/12/2016 Tranche 2016	Tranche 2015
Expected volatility of the KION share	30.0%	25.0%
Expected volatility of the STOXX Europe TMI Industrial Engineering Index	20.0%	20.0%
Risk-free interest rate	–0.80%	–0.83%
Expected dividend yield	€0.88	€0.88
Price of the KION share	€53.00	€53.00
Price of the STOXX Europe TMI Industrial Engineering Index at valuation date	€243.00	€243.00
Initial value of the KION share (60 days average)	€43.54	€29.06
Initial value of the STOXX Europe TMI Industrial Engineering Index (60 days average)	€209.26	€200.94

and €1.6 million to the 2016 tranche. In 2016, a pro-rata expense of €4.0 million in respect of the 2014 tranche (2015: €3.4 million), a pro-rata expense of €3.8 million for the 2015 tranche (2015: €2.0 million) and a pro-rata expense of €1.6 million for the 2016 tranche were recognised for twelve months under functional costs. In April 2016, the first payment from the 2013 tranche was made on the basis of the achievement of the long-term targets that were defined in 2013 at the start of the performance period.

[45] REMUNERATION OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Responsibilities

Gordon Riske, Chief Executive Officer (CEO), is responsible for the LMH EMEA, STILL EMEA, and KION Americas operating units in the Industrial Trucks & Services segment and the Dematic operating unit in the Supply Chain Solutions segment. He also remains in charge of the following group functions: corporate strategy, corporate communications, corporate office, internal audit, corporate compliance and KION Warehouse Systems.

Dr Eike Böhm, in his role as Chief Technology Officer (CTO), has groupwide responsibility for research and development (R&D) and for product and technology strategy, including innovation, the production system, quality assurance and procurement.

Ching Pong Quek, Chief Asia Pacific Officer, heads up the KION APAC operating unit and thus the entire Asia business within the Industrial Trucks & Services segment.

Dr Thomas Toepfer is Chief Financial Officer (CFO) and his responsibilities include corporate accounting & tax, financial services, corporate finance, corporate controlling, corporate HR/Labour Relations Director, legal affairs, KION Group IT, data protection, health, safety & environment and logistics/Urban.

Remuneration

The remuneration paid to the Executive Board comprises a fixed salary and non-cash benefits, pension entitlements and performance-related components. The variable performance-related components comprise an annually recurring component linked to business performance and a multi-year performance-related component in the form of the KION performance share plan for all members of the Executive Board. The pension entitlements consist of retirement, invalidity and surviving dependants' benefits.

An expense of €15.5 million was recognised for the total remuneration for members of the Executive Board in 2016 (2015: €16.7 million). This consisted of short-term remuneration amounting to €5.0 million (2015: €4.8 million), post-employment benefits totalling €1.0 million (2015: €0.9 million), termination benefits of €0.4 million (2015: €1.5 million) and share-based payments of €9.0 million (2015: €9.6 million). The short-term remuneration comprised non-performance-related components amounting to €2.6 million (2015: €2.3 million) and performance-related components amounting to €2.4 million (2015: €2.5 million). The current service cost resulting from pension provisions for the Executive Board is reported under post-employment benefits. The long-term incentive components take the form of a performance share plan (see also note [44]).

Under section 314 HGB, disclosure of the expense for share-based payments is not required. Rather, the payments must be included in the Executive Board members' remuneration for the year in which they are paid on the basis of the fair value at the individual grant dates. The fair value of the share-based payments at their individual grant dates, including tax equalisation, amounted to €4.8 million (2015: €4.6 million). Furthermore, disclosure of post-employment benefits (expense of €1.0 million; 2015: expense of €0.4 million) and of termination benefits (expense of €0.4 million; 2015: expense of €1.5 million) is not required. On this basis, the total remuneration of the members of the Executive Board pursuant to section 314 HGB came to €9.8 million (2015: €9.4 million).

As in the previous year, no loans or advances were made to members of the Executive Board in 2016. The present value of the defined benefit obligation in respect of Executive Board members as at 31 December 2016 was €7.5 million (31 December 2015: €6.1 million).

The total remuneration paid to former members of the Executive Board in 2016 amounted to €0.2 million (2015: €0.2 million). Defined benefit obligations to former members of the Executive Board or their surviving dependants amounting to €9.8 million (31 December 2015: €8.8 million) were recognised in accordance with IAS 19.

Further details of Executive Board remuneration, including the individual amounts for each member, can be found in the remuneration report on pages 37 to 53 of this annual report.

Supervisory Board

The total remuneration paid to the members of the Supervisory Board for the performance of their tasks at the parent company and subsidiaries in 2016 amounted to €1.2 million (2015: €1.2 million). There were no loans or advances to members of the Supervisory Board in 2016. Furthermore, the members of the Supervisory Board did not receive any remuneration or benefits for services provided as individuals, such as consulting or brokerage activities.

Members of the Supervisory Board also received short-term employee benefits of €0.8 million for employee services (2015: €0.8 million).

[46] MEMBERS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Gordon Riske
Chief Executive Officer / CEO

Chief Executive Officer of KION Material Handling GmbH, Wiesbaden (until 15 August 2016)
Member of the Executive Board of KION Holding 2 GmbH, Wiesbaden
Chief Executive Officer of STILL GmbH, Hamburg (until 31 March 2016)
Chairman of the Board of Directors of Linde (China) Forklift Truck Co., Ltd., Xiamen, People's Republic of China
Chairman of the Board of Directors of Egemin NV, Zwijndrecht, Belgium
Non-Executive Director of Weichai Power Co., Ltd., Weifang, People's Republic of China
Member of the Executive Board of the non-profit Hertie Foundation, Frankfurt am Main

Dr Eike Böhm
Member of the Executive Board / CTO

Member of the Supervisory Board of e.GO Mobile AG, Aachen

Ching Pong Quek
Member of the Executive Board / Chief Asia Pacific Officer

Member of the Board of KION South Asia Pte Ltd., Singapore, Singapore
President and CEO of KION Asia Ltd., Hong Kong, People's Republic of China
Chairman of KION Baoli Forklift Co., Ltd., Jiangsu, People's Republic of China
Member of the Board of Directors of KION India Pvte. Ltd., Pune, India
Member of the Board of Directors of Linde Material Handling Asia Pacific Pte., Ltd., Singapore, Singapore
Chairman of the Board of Directors of Linde Material Handling Hong Kong Ltd., Hong Kong, People's Republic of China

Dr Thomas Toepfer
Member of the Executive Board / CFO

Chairman of the Supervisory Board of STILL GmbH, Hamburg
Chairman of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg
Chairman of the Board of Directors of KION North America Corp., Summerville, USA
Member of the Board of Directors of Superlift UK Ltd., Basingstoke, United Kingdom

Supervisory Board

Dr John Feldmann
Chairman of the Supervisory Board

Former member of the Board of Executive Directors of BASF SE, Ludwigshafen
Member of the Supervisory Board of Bilfinger SE, Mannheim (until 11 May 2016)
Member of the Supervisory Board of HORNBACH Baumarkt AG, Bornheim
Member of the Supervisory Board of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße
Member of the Supervisory Board of HORNBACH Management AG, Annweiler am Trifels

Özcan Pancarci[1]
Deputy Chairman of the Supervisory Board

Chairman of the Plants I and II Works Council, Linde Material Handling GmbH, Aschaffenburg
Chairman of the Group Works Council of the KION Group
Deputy Chairman of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg

Birgit A. Behrendt
Vice President and Corporate Officer, Global Programs and Purchasing Operations at the Ford Motor Company, Dearborn, Michigan, USA

Holger Brandt[2]
Head of Sales Germany at STILL GmbH, Hamburg
Member of the Supervisory Board of STILL GmbH, Hamburg

Dr Alexander Dibelius
Managing Partner at CVC Capital Partners (Deutschland) GmbH, Frankfurt am Main
Member of the Board of Directors of CVC Capital Partners (Luxemburg) SARL, Luxembourg
Chairman of the Supervisory Board of Diebold Nixdorf AG, Paderborn
Chairman of the Supervisory Board of Diebold Nixdorf International GmbH, Paderborn
Member of the Board of Directors of Diebold Nixdorf Inc., Ohio, USA
Member of the Supervisory Board of Douglas GmbH, Düsseldorf
Member of the Supervisory Board of Douglas Holding AG, Düsseldorf
Member of the Supervisory Board of Kirk Beauty Investments SA, Luxembourg
Member of the Shareholders' Committee of Tipico Group Ltd., Malta

Wolfgang Faden
(until 12 May 2016)
Former Managing Director for Germany and Central Europe at Allianz Global Corporate & Specialty AG, Munich
Member of the Supervisory Board of Albatros Versicherungsdienste GmbH, Cologne

Joachim Hartig[1]
Organisational Development Advisor, Linde Material Handling GmbH, Aschaffenburg

Denis Heljic[1]
Spokesperson for the STILL branches, Chairman of the European Works Council and Deputy Chairman of the Works Council of STILL GmbH, Dortmund plant

Jiang Kui
President and Director of Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China
Member of the Board of Directors of Ferretti International Holding S.p.A., Milan, Italy
Member of the Board of Directors of Ferretti S.p.A., Milan, Italy
Member of the Executive Board of Hydraulics Drive Technology Beteiligungs GmbH, Aschaffenburg
Member of the Supervisory Board of Linde Hydraulics Verwaltungs GmbH, Aschaffenburg
Member of the Board of Directors of Shandong Heavy Industry India Private Ltd., Pune, India
Member of the Board of Directors of Weichai Power Co. Ltd., Weifang, People's Republic of China

Olaf Kunz[1]
Secretary (Collective Bargaining)/Lawyer at IG Metall, District Office for the Coast, Hamburg
Member of the Supervisory Board of STILL GmbH, Hamburg

Jörg Milla[1]
Chairman of the Works Council of STILL GmbH, Hamburg
Deputy Chairman of the Supervisory Board of STILL GmbH, Hamburg (since 1 November 2016)

Kay Pietsch[1]
(until 31 October 2016)
Industrial Engineering Senior Manager in Production Systems at KION GROUP AG, Wiesbaden
Deputy Chairman of the Supervisory Board of STILL GmbH, Hamburg (until 31 October 2016)

Dr Christina Reuter
(since 12 May 2016)
Head of Performance & Improvement and Manufacturing Engineering, Space Equipment Operations at Airbus Defence and Space GmbH, Ottobrunn

Hans Peter Ring
Management Consultant, Munich
Member of the Supervisory Board of Airbus Defence and Space GmbH, Ottobrunn
Member of the Supervisory Board of Bilfinger SE, Mannheim (until 11 May 2016)
Member of the Supervisory Board of Elbe Flugzeugwerke GmbH, Dresden
Member of the Supervisory Board of Fokker Technologies Holding B.V., Papendrecht, Netherlands

Alexandra Schädler[1]
Trade Union Secretary on the National Executive of IG Metall, Frankfurt am Main
Member of the Supervisory Board of Fujitsu Technology Solutions GmbH, Munich (until 4 October 2016)

Tan Xuguang
Chairman of the Board of Directors and President of Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China
Chairman of the Board of Directors of Ferretti International Holding S.p.A., Milan, Italy
Chairman of the Board of Directors of Ferretti S.p.A., Milan, Italy
Chairman of the Board of Directors of Weichai Holding Group Co., Ltd., Weifang, People's Republic of China
Chairman of the Board of Directors and Chief Executive Officer of Weichai Power Co. Ltd., Weifang, People's Republic of China

Claudia Wenzel[1]
(since 1 November 2016)
Deputy Chairwoman of the Plants I and II Works Council of Linde Material Handling GmbH, Aschaffenburg
Member of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg

Xu Ping
Partner and member of the Management Committee of King & Wood Mallesons, Beijing, People's Republic of China

1 Employee representatives
2 Executive representatives

[47] LIST OF THE SHAREHOLDINGS OF KION GROUP AG, WIESBADEN

The shareholdings of the KION Group as at 31 December 2016 are listed below. > TABLE 129

List of shareholdings as of December 31, 2016 TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
1	KION GROUP AG	Wiesbaden	Germany				
Consolidated subsidiaries							
Domestic							
2	BlackForxx GmbH	Stuhr	Germany	22	100.00%	100.00%	
3	Dematic GmbH	Heusenstamm	Germany	86	100.00%	–	[1]
4	Dematic Logistics GmbH	Bielefeld	Germany	69	100.00%	–	[1]
5	Dematic Services GmbH	Heusenstamm	Germany	3	100.00%	–	[1]
6	Egemin GmbH	Bremen	Germany	30	100.00%	100.00%	
7	Eisenwerk Weilbach GmbH	Wiesbaden	Germany	14	100.00%	100.00%	
8	Fahrzeugbau GmbH Geisa	Geisa	Germany	22	100.00%	100.00%	
9	KION Financial Services GmbH	Wiesbaden	Germany	14	100.00%	100.00%	
10	KION Holding 2 GmbH	Wiesbaden	Germany	1	100.00%	100.00%	
11	KION Information Management Services GmbH	Wiesbaden	Germany	10	100.00%	100.00%	
12	KION Warehouse Systems GmbH	Reutlingen	Germany	22	100.00%	100.00%	
13	Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan	Germany	14	100.00%	100.00%	
14	Linde Material Handling GmbH	Aschaffenburg	Germany	10	100.00%	100.00%	
15	LMH Immobilien GmbH & Co. KG	Aschaffenburg	Germany	14 & 16	99.64%	99.64%	
16	LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg	Germany	14	94.00%	94.00%	
17	LMH Immobilien Holding Verwaltungs-GmbH	Aschaffenburg	Germany	14	100.00%	100.00%	
18	LMH Immobilien Verwaltungs-GmbH	Aschaffenburg	Germany	14	100.00%	100.00%	
19	LR Intralogistik GmbH	Wörth a. d. Isar	Germany	22	100.00%	100.00%	
20	Schrader Industriefahrzeuge GmbH & Co. KG	Essen	Germany	14	100.00%	100.00%	
21	STILL Financial Services GmbH	Hamburg	Germany	9	100.00%	100.00%	
22	STILL Gesellschaft mit beschränkter Haftung	Hamburg	Germany	14	100.00%	100.00%	

List of shareholdings as of December 31, 2016 (continued)

TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
23	Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim	Germany	14	100.00%	100.00%	
24	Willenbrock Fördertechnik GmbH & Co. KG	Bremen	Germany	26	74.00%	74.00%	
25	Willenbrock Fördertechnik GmbH & Co. KG	Hannover	Germany	26	74.00%	74.00%	
26	Willenbrock Fördertechnik Holding GmbH	Bremen	Germany	14	74.00%	74.00%	
Foreign							
27	Dematic Holdings Pty. Ltd.	Belrose	Australia	86	100.00%	–	[1]
28	Dematic Pty. Ltd.	Belrose	Australia	27	100.00%	–	[1]
29	Linde Material Handling Pty. Ltd.	Huntingwood	Australia	14	100.00%	100.00%	
30	Egemin Group NV (formerly: Egemin NV)	Zwijndrecht	Belgium	10 & 1	100.00%	100.00%	
31	STILL NV	Wijnegem	Belgium	22 & 95	100.00%	100.00%	
32	Dematic Sistemas e Equipamentos de Movimentação de Materiais Ltda.	São Paulo	Brazil	86 & 3	100.00%	–	[1]
33	KION South America Fabricação de Equipamentos para Armazenagem Ltda.	Indaiatuba / São Paulo	Brazil	22	100.00%	100.00%	
34	Dematic Logistics de Chile Ltda.	Santiago de Chile	Chile	52 & 117	100.00%	–	[1]
35	STILL DANMARK A/S	Kolding	Denmark	22	100.00%	100.00%	
36	BARTHELEMY MANUTENTION SAS	Vitrolles	France	42	83.50%	83.50%	
37	Bastide Manutention SAS	Bruguières	France	42	100.00%	100.00%	
38	Bretagne Manutention S.A.	Pacé	France	42	100.00%	100.00%	
39	Dematic SAS	Bussy-Saint-Georges	France	86	100.00%	–	[1]
40	Egemin SAS	Heillecourt	France	30	100.00%	100.00%	
41	FENWICK FINANCIAL SERVICES SAS	Elancourt	France	43	100.00%	100.00%	
42	FENWICK-LINDE S.A.R.L.	Elancourt	France	43 & 14	100.00%	100.00%	
43	KION France SERVICES SAS	Elancourt	France	14	100.00%	100.00%	
44	LOIRE OCEAN MANUTENTION SAS	Saint-Herblain	France	42	77.01%	79.99%	
45	Manuchar S.A.	Gond Pontouvre	France	42	100.00%	100.00%	
46	MANUSOM SAS	Rivery	France	50	100.00%	100.00%	
47	Société Angoumoisine de Manutention (SAMA) SAS	Champniers	France	50	100.00%	100.00%	
48	SM Rental SAS	Roissy Charles de Gaulle	France	42	100.00%	100.00%	
49	STILL Location Services SAS	Marne la Vallée	France	43	100.00%	100.00%	
50	STILL SAS	Marne la Vallée	France	43	100.00%	100.00%	

List of shareholdings as of December 31, 2016 (continued)

TABLE 129

No.	Name	Registered office	Country	Parent company	Shareholding 2016	Shareholding 2015	Note
51	URBAN LOGISTIQUE SAS	Elancourt	France	23	100.00%	100.00%	
52	Dematic Ltd.	Banbury	U.K.	86	100.00%	–	[1]
53	Dematic Group Ltd.	Banbury	U.K.	89	100.00%	–	[1]
54	Dematic Services Ltd.	Banbury	U.K.	88	100.00%	–	[1]
55	Egemin UK Ltd.	Huntingdon	U.K.	30	100.00%	100.00%	
56	FSU Investments Ltd.	Banbury	U.K.	86	100.00%	–	[1]
57	KION FINANCIAL SERVICES Ltd.	Basingstoke	U.K.	72	100.00%	100.00%	
58	Linde Castle Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
59	Linde Creighton Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
60	Linde Holdings Ltd.	Basingstoke	U.K.	72	100.00%	100.00%	
61	Linde Jewsbury's Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
62	Linde Material Handling (UK) Ltd.	Basingstoke	U.K.	60	100.00%	100.00%	
63	Linde Material Handling East Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
64	Linde Material Handling Scotland Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
65	Linde Material Handling South East Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
66	Linde Severnside Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
67	Linde Sterling Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
68	Mirror Bidco Ltd.	Banbury	U.K.	89	100.00%	–	[1]
69	SDI Group Ltd.	Banbury	U.K.	56 & 86	100.00%	–	[1]
70	SDI Group UK Ltd.	Banbury	U.K.	69	100.00%	–	[1]
71	STILL Materials Handling Ltd.	Exeter	U.K.	72	100.00%	100.00%	
72	Superlift UK Ltd.	Basingstoke	U.K.	14	100.00%	100.00%	
73	Egemin Asia Pacific Automation Ltd.	Causeway Bay	Hong Kong	30	100.00%	100.00%	
74	KION ASIA (HONG KONG) Ltd.	Kwai Chung	Hong Kong	14	100.00%	100.00%	
75	Linde Material Handling Hong Kong Ltd.	Kwai Chung	Hong Kong	14	100.00%	100.00%	
76	KION India Pvt. Ltd.	Pune	India	113	100.00%	100.00%	
77	Linde Material Handling (Ireland) Ltd.	Walkinstown	Ireland	60	100.00%	100.00%	
78	Dematic S.r.l.	Cernusco sul Naviglio	Italy	86	100.00%	–	[1]
79	Emhilia Material Handling S.p.A. (formerly: Moden Diesel S.p.A)	Modena	Italy	81	100.00%	100.00%	
80	KION Rental Services S.p.A.	Milan	Italy	81 & 82 & 83	100.00%	100.00%	
81	Linde Material Handling Italia S.p.A.	Buguggiate	Italy	14	100.00%	100.00%	
82	OM Carrelli Elevatori S.p.A.	Lainate	Italy	14 & 83	100.00%	100.00%	
83	STILL ITALIA S.p.A.	Lainate	Italy	22	100.00%	100.00%	

List of shareholdings as of December 31, 2016 (continued) TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
84	Dematic Ltd.	Mississauga	Canada	86	100.00%	–	[1]
85	HISCO Systems of Canada Ltd.	Halifax	Canada	130	100.00%	–	[1]
86	Dematic Group S.à r.l.	Senningerberg	Luxembourg	87	100.00%	–	[1]
87	Dematic Holding S.à r.l.	Senningerberg	Luxembourg	53	100.00%	–	[1]
88	DH Services Luxembourg Holding S.à r.l.	Senningerberg	Luxembourg	1	100.00%	–	[1]
89	DH Services Luxembourg S.à r.l.	Senningerberg	Luxembourg	54	100.00%	–	[1]
90	Dematic (Malaysia) Sdn. Bhd.	Shah Alam	Malaysia	111	100.00%	–	[1]
91	Dematic Logistics de Mexico S. de R.L. de C.V.	Monterrey	Mexico	52 & 117	100.00%	–	[1]
92	DMTC Technology Services, S. de. R.L. de C.V.	Monterrey	Mexico	52 & 117	100.00%	–	[1]
93	Dematic Trading de Mexico S. de. R.L. de C.V.	Mexico City	Mexico	52 & 117	100.00%	–	[1]
94	Egemin Handling Automation B.V.	Gorinchem	Netherlands	30	100.00%	100.00%	
95	STILL Intern Transport B.V.	Hendrik Ido Ambacht	Netherlands	22	100.00%	100.00%	
96	STILL Norge AS	Heimdal	Norway	22	100.00%	–	[1]
97	AUSTRO OM PIMESPO Fördertechnik GmbH	Linz	Austria	82	100.00%	100.00%	
98	Linde Fördertechnik GmbH	Linz	Austria	14 & 97	100.00%	100.00%	
99	STILL Gesellschaft m.b.H.	Wiener Neudorf	Austria	22	100.00%	100.00%	
100	Dematic Poland Sp.z.o.o.	Poznań	Poland	3	100.00%	–	[1]
101	Linde Material Handling Polska Sp. z o.o.	Warsaw	Poland	14	100.00%	100.00%	
102	STILL POLSKA Sp. z o.o.	Gadki	Poland	22	100.00%	100.00%	
103	STILL MATERIAL HANDLING ROMANIA SRL (formerly: STILL MOTOSTIVUITOARE S.R.L.)	Giurgiu	Romania	14 & 22	100.00%	100.00%	
104	OOO “Linde Material Handling Rus”	Moscow	Russia	14 & 7	100.00%	100.00%	
105	OOO “STILL Forklifttrucks”	Moscow	Russia	14 & 22	100.00%	100.00%	
106	Linde Material Handling AB	Örebro	Sweden	14	100.00%	100.00%	
107	STILL Sverige AB	Malmö	Sweden	22	100.00%	100.00%	
108	Dematic Suisse Sagl	Lugano	Switzerland	56	100.00%	–	[1]
109	Linde Material Handling Schweiz AG	Dietlikon	Switzerland	14	100.00%	100.00%	
110	STILL AG	Otelfingen	Switzerland	22	100.00%	100.00%	
111	Dematic S.E.A. Pte. Ltd.	Singapore	Singapore	86	100.00%	–	[1]
112	KION South Asia Pte. Ltd.	Singapore	Singapore	14	100.00%	100.00%	
113	Linde Material Handling Asia Pacific Pte. Ltd.	Singapore	Singapore	14	100.00%	100.00%	

List of shareholdings as of December 31, 2016 (continued) TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
114	Linde Material Handling Slovenská republika s.r.o.	Trenčin	Slovakia	14 & 123	100.00%	100.00%	
115	STILL SR, spol. s r.o.	Nitra	Slovakia	22 & 126	100.00%	100.00%	
116	Linde Viličar d.o.o.	Celje	Slovenia	14	100.00%	100.00%	
117	Dematic Logistic Systems S.A.U.	Coslada	Spain	86	100.00%	–	[1]
118	Islavista Spain S.A.U.	L'Hospitalet de Llobregat	Spain	14	100.00%	100.00%	
119	KION Rental Services S.A.U.	Barcelona	Spain	118	100.00%	100.00%	
120	Linde Material Handling Ibérica, S.A.U.	Pallejá	Spain	118	100.00%	100.00%	
121	STILL, S.A.U.	L'Hospitalet de Llobregat	Spain	118	100.00%	100.00%	
122	Linde Material Handling (Pty) Ltd.	Linbro Park	South Africa	14	100.00%	100.00%	
123	Linde Material Handling Česká republika s r.o.	Prague	Czech Republic	14 & 22	100.00%	100.00%	
124	Linde Material Handling Parts Distribution CZ s.r.o.	Český Krumlov	Czech Republic	14	100.00%	100.00%	
125	Linde Pohony s r.o.	Český Krumlov	Czech Republic	14	100.00%	100.00%	
126	STILL ČR spol. s r.o.	Prague	Czech Republic	14 & 22	100.00%	100.00%	
127	STILL ARSER Iş Makineleri Servis ve Ticaret A.Ş.	Izmir	Turkey	22	51.00%	51.00%	
128	Linde Magyarország Anyagmozgatási Kft.	Dunaharaszti	Hungary	14	100.00%	100.00%	
129	STILL Kft.	Környe	Hungary	22	100.00%	100.00%	
130	Dematic Corp.	Grand Rapids	United States	134	100.00%	–	[1]
131	Egemin Automation Inc.	Holland	United States	132	100.00%	100.00%	
132	Egemin Group, Inc.	Bingham Farms	United States	30	100.00%	100.00%	
133	KION North America Corp.	Summerville	United States	14	100.00%	100.00%	
134	Mirror Bidco Corp.	Atlanta	United States	68	100.00%	–	[1]
135	Retrotech Inc.	Rochester	United States	132	100.00%	–	[1]
136	Dematic International Trading Ltd.	Shanghai	People's Republic of China	86	100.00%	–	[1]
137	Dematic Logistics Systems Ltd.	Suzhou	People's Republic of China	86	100.00%	–	[1]
138	Egemin (Shanghai) Trading Company Ltd.	Shanghai	People's Republic of China	73	100.00%	100.00%	

List of shareholdings as of December 31, 2016 (continued)

TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
139	KION Baoli (Jiangsu) Forklift Co., Ltd.	Jiangjiang	People's Republic of China	74	100.00%	100.00%	
140	Linde (China) Forklift Truck Corporation Ltd.	Xiamen	People's Republic of China	14	100.00%	100.00%	
Non-consolidated subsidiaries							
Domestic							
141	Klaus Pahlke Betriebsführungs-GmbH	Haan	Germany	14	100.00%	100.00%	
142	OM Deutschland GmbH	Neuhausen a. d. Fildern	Germany	82	100.00%	100.00%	[R]
143	proplan Transport- und Lagersysteme GmbH	Aschaffenburg	Germany	1	100.00%	100.00%	
144	Schrader Industriefahrzeuge Verwaltung GmbH	Essen	Germany	14	100.00%	100.00%	
145	Trainingscenter für Sicherheit und Transport GmbH	Bremen	Germany	26	74.00%	74.00%	
146	Willenbrock Fördertechnik Beteiligungs-GmbH	Bremen	Germany	26	74.00%	74.00%	
147	Willenbrock Fördertechnik Beteiligungs-GmbH	Hannover	Germany	26	74.00%	74.00%	
Foreign							
148	Lansing Bagnall (Aust.) Pty. Ltd.	Huntingwood	Australia	62 & 14	100.00%	100.00%	[R]
149	NDC Automation Pty. Ltd.	Belrose	Australia	28	100.00%	–	[1], [R]
150	NDC Manage Pty. Ltd.	Belrose	Australia	28	100.00%	–	[1], [R]
151	Baoli France SAS	Elancourt	France	43	100.00%	100.00%	
152	SCI Champ Lagarde	Elancourt	France	42	100.00%	100.00%	
153	Castle Lift Trucks Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
154	Creighton Materials Handling Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
155	D.B.S. Brand Factors Ltd.	Basingstoke	U.K.	67	100.00%	100.00%	[R]
156	Fork Truck Rentals Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
157	Fork Truck Training Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
158	Lancashire (Fork Truck) Services Ltd.	Basingstoke	U.K.	67	100.00%	100.00%	[R]
159	Linde Heavy Truck Division Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	
160	McLEMAN FORK LIFT SERVICES LTD.	Basingstoke	U.K.	59	100.00%	100.00%	
161	Reddwerks Ltd.	Banbury	U.K.	130	100.00%	–	[1], [R]

List of shareholdings as of December 31, 2016 (continued) TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
162	SDI Group Support Ltd.	Banbury	U.K.	69	100.00%	–	[1], [R]
163	Stephensons Enterprise Fork Trucks Ltd.	Basingstoke	U.K.	67	100.00%	100.00%	[R]
164	Sterling Mechanical Handling Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
165	Trifik Services Ltd.	Basingstoke	U.K.	62	100.00%	100.00%	[R]
166	Urban Logistics (UK) Ltd.	Basingstoke	U.K.	23	100.00%	100.00%	
167	Handling & Storage Equipment (Ireland) Ltd.	Walkinstown	Ireland	77	100.00%	100.00%	[R]
168	Carest SRL	Lainate	Italy	82	100.00%	100.00%	[R]
169	COMMERCIALE CARRELLI S.r.l.	Lainate	Italy	83 & 80	100.00%	100.00%	[R]
170	QUALIFT S.p.A.	Verona	Italy	81	100.00%	100.00%	
171	URBAN LOGISTICA S.R.L.	Lainate	Italy	23	100.00%	100.00%	
172	Reddwerks Inc.	Toronto	Canada	130	100.00%	–	[1], [R]
173	Retrotech Systems Canada, Inc.	Calgary	Canada	135	100.00%	–	[1], [R]
174	WHO Real Estate UAB	Vilnius	Lithuania	26	74.00%	74.00%	
175	Linde Material Handling (Malaysia) Sdn. Bhd.	Petaling Jaya	Malaysia	113	100.00%	100.00%	
176	Linde Viljuškari d.o.o.	Vrčin	Serbia	98	100.00%	100.00%	
177	IBER-MICAR S.L.	Gavà	Spain	14	100.00%	100.00%	
178	Dematic Thailand Co. Ltd.	Bangkok	Thailand	111 & 205	73.89%	–	[1]
179	Linde Material Handling (Thailand) Co., Ltd.	Pathum Thani	Thailand	113	100.00%	100.00%	
180	Baoli Material Handling Europe s.r.o.	Prague	Czech Republic	139	100.00%	100.00%	
181	KION Supply Chain Solutions Czech, s.r.o.	Český Krumlov	Czech Republic	125	100.00%	–	[1]
182	Použitý Vozík CZ, s.r.o.	Prague	Czech Republic	123	100.00%	100.00%	
183	Urban Transporte spol. s.r.o.	Moravany u Brna	Czech Republic	23	100.00%	100.00%	
184	TOV “Linde Material Handling Ukraine”	Kiev	Ukraine	14 & 7	100.00%	100.00%	

Associates (equity-accounted investments)

Domestic

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
185	Carl Beutlhauser Kommunal- und Fördertechnik GmbH & Co. KG	Hagelstadt	Germany	14	25.00%	25.00%	
186	Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Hamburg	Germany	14	21.00%	21.00%	
187	Linde Hydraulics GmbH & Co. KG	Aschaffenburg	Germany	14	10.00%	10.00%	
188	Pelzer Fördertechnik GmbH	Kerpen	Germany	14	24.96%	24.96%	

List of shareholdings as of December 31, 2016 (continued)

TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
Foreign							
189	Linde High Lift Chile S.A.	Santiago de Chile	Chile	14	45.00%	45.00%	
190	Labrosse Equipement S.A.	Saint-Péray	France	42	34.00%	34.00%	
191	Normandie Manutention S.A.	Saint-Etienne du Rouvray	France	42	34.00%	34.00%	
Joint Ventures (equity-accounted investments)							
Domestic							
192	Linde Leasing GmbH	Wiesbaden	Germany	14	45.00%	45.00%	
Foreign							
193	JULI Motorenwerk s.r.o.	Moravany u Brna	Czech Republic	14 & 22	50.00%	50.00%	
Joint Ventures (at cost)							
Domestic							
194	Eisengießerei Dinklage GmbH	Dinklage	Germany	22	50.00%	50.00%	
Associates (at cost)							
Domestic							
195	JETSCHKE GmbH	Hamburg	Germany	14	21.00%	21.00%	
196	Linde Hydraulics Verwaltungs GmbH	Aschaffenburg	Germany	14	10.00%	10.00%	
197	MV Fördertechnik GmbH	Blankenhain	Germany	14	25.00%	25.00%	
198	Supralift Beteiligungs- und Kommunikations-gesellschaft mbH	Hofheim am Taunus	Germany	14	50.00%	50.00%	
199	Supralift GmbH & Co. KG	Hofheim am Taunus	Germany	14	50.00%	50.00%	
Foreign							
200	Chadwick Materials Handling Ltd.	Corsham	U.K.	62	48.00%	48.00%	
201	Warehouse Control Solutions Ltd.	Loughborough	U.K.	70	49.00%	–	[1]
202	Bari Servizi Industriali S.C.A R.L.	Modugno	Italy	82	25.00%	25.00%	
203	Nordtruck AB	Örnsköldsvik	Sweden	106	25.00%	25.00%	
204	Carretillas Elevadoras Sudeste S.A.	Murcia	Spain	120	38.54%	38.54%	
205	Dematic Holding (Thailand) Co., Ltd.	Bangkok	Thailand	111	48.90%	–	[1]

List of shareholdings as of December 31, 2016 (continued) TABLE 129

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
206	Motorové závody JULI CZ s r.o.	Moravany u Brna	Czech Republic	14	50.00%	50.00%	
207	DEMATIC ELECTROMECHANICAL SYSTEMS MIDDLE EAST L.L.C	Dubai	United Arab Emirates	3	49.00%	–	[1]

Financial investments (at cost)

Foreign

No.	Name	Registered office	Country	Parent company	Share-holding 2016	Share-holding 2015	Note
208	TPZ Linde Viličari Hrvatska d.o.o.	Zagreb	Croatia	14	20.00%	20.00%	[2]
209	Balyo SA	Moissy-Cramayel	France	14	10.00%	10.00%	[2]

[1] New during 2016
[2] No material influence
[R] Dormant company

[48] AUDITORS' FEES

The fees recognised as an expense and paid to the auditors of the consolidated financial statements in 2016 amounted to €1.2 million (2015: €1.1 million) for the audit of the financial statements, €0.6 million (2015: €0.6 million) for other attestation services, €0.0 million (2015: €0.0 million) for tax consultancy services and €0.1 million (2015: €0.8 million) for other services.

[49] COMPLY-OR-EXPLAIN STATEMENT REGARDING THE GERMAN CORPORATE GOVERNANCE CODE (DCGK)

In December 2016, the Executive Board and Supervisory Board of KION GROUP AG submitted their comply-or-explain statement for 2016 relating to the recommendations of the German Corporate Governance Code government commission pursuant to section 161 AktG. The comply-or-explain statement has been made permanently available to shareholders on the website of KION GROUP AG at kiongroup.com/comply_statement.

[50] EVENTS AFTER THE REPORTING DATE

In January 2017, 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 2022.

Furthermore, in February 2017, KION GROUP AG partly refinanced the bridge loan that it had taken out for the acquisition of Dematic. The outstanding amount of tranche A2 of €343.2 million, which was agreed under the AFA, was repaid in full. Of the total amount of tranche B under the AFA, amounting to €1,200.0 million, an amount of €611.8 million was repaid. The bridge loan was refinanced by promissory notes (Schuldscheindarlehen) amounting to €958.0 million. The promissory notes are repayable as bullet payments on maturity in May 2022, April 2024 or April 2027 and have a fixed or floating-rate coupon. They are not collateralised.

[51] INFORMATION ON PREPARATION AND APPROVAL

The Executive Board of KION GROUP AG prepared the consolidated financial statements on 22 February 2017 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of examining and deciding whether to approve the consolidated financial statements.

Wiesbaden, 22 February 2017

The Executive Board

Gordon Riske

Dr Eike Böhm

Ching Pong Quek

Dr Thomas Toepfer

Auditors' report

We have audited the consolidated financial statements prepared by KION GROUP AG, Wiesbaden / Germany, – comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements – and the Group management report combined with the Parent's management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under Sec. 315a (1) German Commercial Code (HGB) are the responsibility of the entity's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the financial statements of the consolidated entities, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KION GROUP AG, Wiesbaden / Germany, comply with IFRS, as adopted by the EU, as well as the regulations under German commercial law complementarily applicable under Sec. 315a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 22 February 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Crampton)	(Gräbner-Vogel)
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for consolidated financial reporting, the consolidated financial statements give a true and fair view of the financial performance and financial position of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, 22 February 2017

The Executive Board

Gordon Riske Dr Eike Böhm

Ching Pong Quek Dr Thomas Toepfer

ADDITIONAL INFORMATION

Quarterly information

KION Group overview TABLE 130

in € million	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Order intake	1,782.7	1,326.6	1,427.1	1,296.7
Revenue	1,739.5	1,283.2	1,343.8	1,220.6
EBIT	116.6	112.4	116.8	89.0
Adjusted EBIT	171.2	126.8	140.8	98.6
Adjusted EBIT margin	9.8%	9.9%	10.5%	8.1%
Adjusted EBITDA	277.6	224.1	238.2	191.7
Adjusted EBITDA margin	16.0%	17.5%	17.7%	15.7%

Multi-year overview

KION Group multi-year overview

TABLE 131

in € million	2016	2015	2014	2013	2012
Order intake	5,833.1	5,215.6	4,771.2	4,489.1	4,590.3
Revenue	5,587.2	5,097.9	4,677.9	4,494.6	4,559.8
Order book[1]	2,244.7	864.0	764.1	693.3	807.8
Financial performance					
EBITDA	889.5	824.2	714.2	708.8	914.4
Adjusted EBITDA[2]	931.6	850.0	780.4	721.5	700.5
Adjusted EBITDA margin[2]	16.7%	16.7%	16.7%	16.1%	15.4%
EBIT	434.8	422.8	347.0	374.2	549.1
Adjusted EBIT[2]	537.3	482.9	442.9	416.5	408.3
Adjusted EBIT margin[2]	9.6%	9.5%	9.5%	9.3%	9.0%
Net income	246.1	221.1	178.2	138.4	161.4
Financial position[1]					
Total assets	11,359.2	6,440.2	6,128.5	6,026.4	6,213.2
Equity	2,535.1	1,848.7	1,647.1	1,610.0	660.7
Net financial debt	2,903.4	573.5	810.7	979.3	1,790.1
ROCE[3]	6.8%	11.9%	11.4%		
Cash flow					
Free cash flow[4]	–1,850.0	332.7	305.9	195.6	513.6
Capital expenditure[5]	166.7	142.6	133.1	125.8	155.1
Employees[6]	**30,544**	**23,506**	**22,669**	**22,273**	**21,215**

1 Figures as at balance sheet date 31/12/
2 Adjusted for PPA items and non-recurring items
3 ROCE is defined as the proportion of EBIT adjusted to capital employed
4 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities;
Last year figures were adjusted due to a change in presentation, for details see ‚Additional information of the condensed statement of cash flows'
5 Capital expenditure including capitalised development costs, excluding leased and rental assets
6 Number of employees (full-time equivalents) as at balance sheet date 31/12/

DISCLAIMER

Forward-looking statements
This annual report contains forward-looking statements that relate to the current plans, objectives, forecasts and estimates of the management of KION GROUP AG. These statements only take into account information that was available up and including the date that this annual report was prepared. The management of KION GROUP AG makes no guarantee that these forward-looking statements will prove to be right. The future development of the KION GROUP AG and its subsidiaries and the results that are actually achieved are subject to a variety of risks and uncertainties which could cause actual events or results to differ significantly from those reflected in the forward-looking statements. Many of these factors are beyond the control of KION GROUP AG and its subsidiaries and therefore cannot be precisely predicted. Such factors include, but are not limited to, changes in economic conditions and the competitive situation, changes in the law, interest rate or exchange rate fluctuations, legal disputes and investigations, and the availability of funds. These and other risks and uncertainties are set forth in the 2016 group management report. However, other factors could also have an adverse effect on our business performance and results. The KION GROUP AG neither intends to nor assumes any separate obligation to update forward-looking statements or to change these to reflect events or developments that occur after the publication of this annual report.

Rounding
Certain numbers in this annual report have been rounded up or down. There may therefore be discrepancies between the actual totals of the individual amounts in the tables and the totals shown as well as between the numbers in the tables and the numbers given in the corresponding analyses in the text of the annual report. All percentage changes and key figures were calculated using the underlying data in thousands of euros (€ thousand).

FINANCIAL CALENDAR

2 March 2017
Publication of 2016 annual report / Financial statements press conference and analyst call

27 April 2017
Interim notification for the period ended 31 March 2017 and analyst call

11 May 2017
Annual General Meeting

26 July 2017
Interim report for the period ended 30 June 2017 and analyst call

26 October 2017
Interim notification for the period ended 30 September 2017 and analyst call

Subject to change without notice

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