KION GROUP

DIGITALISATION

ENERGY

AUTOMATION

SHAPING THE FUTURE

INNOVATION

ANNUAL REPORT
2019

PERFORMANCE

KION Group
Key figures for 2019

KION Group overview

in € million	2019	2018	2017*	Change 2019/2018
Order intake	9,111.7	8,656.7	7,979.1	5.3%
Revenue	8,806.5	7,995.7	7,598.1	10.1%
Order book[1]	3,631.7	3,300.8	2,614.6	10.0%
Financial performance				
EBITDA	1,614.6	1,540.6	1,457.6	4.8%
Adjusted EBITDA[2]	1,657.5	1,555.1	1,495.8	6.6%
Adjusted EBITDA margin[2]	18.8%	19.4%	19.7%	–
EBIT	716.6	642.8	561.0	11.5%
Adjusted EBIT[2]	850.5	789.9	777.3	7.7%
Adjusted EBIT margin[2]	9.7%	9.9%	10.2%	–
Net income	444.8	401.6	422.5	10.7%
Financial position[1]				
Total assets	13,765.2	12,968.8	12,337.7	6.1%
Equity	3,558.4	3,305.1	2,992.3	7.7%
Net financial debt	1,609.3	1,869.9	2,095.5	–13.9%
ROCE[3]	9.7%	9.3%	9.3%	–
Cash flow				
Free cash flow[4]	568.4	519.9	474.3	9.3%
Capital expenditure[5]	287.4	258.5	218.3	11.2%
Employees[6]	**34,604**	**33,128**	**31,608**	**4.5%**

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 adjusted EBIT to capital employed
4 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities
5 Capital expenditure including capitalised development costs, excluding right-of-use assets
6 Number of employees (full-time equivalents) as at balance sheet date 31/12/
* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

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

SHAPING THE FUTURE

FIRM FOCUS ON OUR CUSTOMERS

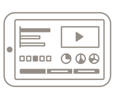
When it comes to finding the right answers to our customers' questions and requests, the KION Group is ahead of the pack. What drives us day after day is a desire to provide customers with bespoke, efficient and intelligent solutions for their intralogistics needs in conjunction with a full range of premium services and advice. With our KION 2027 strategy, we have put everything in place to ensure that we, and our customers, can continue to go from strength to strength. The five fields of action in KION 2027 – energy, digital, automation, innovation and performance – set out the path that we need to take in order to generate further profitable growth and meet the needs of our customers both now and in future.

Contents

Intralogistics 4.0
How the KION Group is adding value

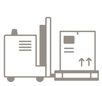
INTELLIGENT TRUCKS

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



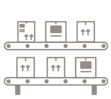
CLOUD-BASED DATA MANAGEMENT

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



AUTOMATED GUIDED VEHICLES (AGVs)

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



AUTOMATION SYSTEMS

- Customised and integrated hardware and software solutions
- Robotics solutions for order picking

Company profile

The KION Group is a global leader in industrial trucks, warehouse technology, 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 automation technology and software solutions.

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. The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks in the economy segment. Among the regional KION brands, Fenwick is the largest supplier of material handling products in France. OM Voltas is a leading provider of industrial trucks in India.

More than 1.4 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.

Segments

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 regional brands Fenwick and OM Voltas.

Industrial Trucks & Services is made up of four 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 for North and South America respectively.

OPERATING UNITS

BRANDS

Linde
FENWICK
STILL
OM VOLTAS
Baoli

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 Supply Chain Solutions segment comprises the Dematic brand.

OPERATING UNITS

BRANDS

DEMATIC

PRODUCTS

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

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

A

TO OUR SHAREHOLDERS

Letter to Shareholders

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

Our employees made 2019 a year of impressive success for the KION Group, demonstrating their talent, experience, huge commitment and a great deal of passion in their efforts on behalf of our customers. We easily outperformed the market as a whole and strengthened our market position. Moreover, we not only achieved our ambitious business objectives but in some cases even exceeded them significantly, despite increasingly difficult conditions for the industry that were brought about by macroeconomic challenges, several delays to Brexit, trade disputes and bilateral protectionist tariffs. These pleasing results for 2019 are the work of our more than 34,000 highly skilled employees. Our success represents a fantastic team effort, and my Executive Board colleagues and I would like to say a big thank you.

In 2019, the global market for industrial trucks contracted by 2.1 per cent compared with the prior year. Yet the value of the KION Group's order intake increased by a total of 5.3 per cent on 2018, mainly because of the strong growth in the Supply Chain Solutions segment. The consolidated revenue generated in the period January to December 2019 rose by a robust 10.1 per cent year on year. Adjusted EBIT was also higher than in the previous year, increasing by 7.7 per cent to €850.5 million. At 444.8 million, our net income was also up significantly by 10.7 per cent. We hit our targets for all of the key performance indicators, partly thanks to the global boom in e-commerce.

Once again, we have delivered proof of our leading role in the industry. The strong results illustrate how we have succeeded in making an enduring improvement to the Group's resilience in recent years. They also show that we are able to maintain our course, even in choppy waters. And we have put everything in place to ensure that we can write further chapters in our story of success over the coming years.

GORDON RISKE
CEO

Paving the way for success: KION 2027

Our corporate strategy, KION 2027, provides the basis for our success, and we are now reaping the rewards of our rigorous implementation of the strategy. We are steadily strengthening our market-leading position through our efforts in five fields of action: energy, digital, automation, innovation and performance.

We are already a leading player in every part of the material handling market. One such area is efficient energy use. The New Energy Systems department brings together the KION Group's knowledge and skills relating to current and future drive technologies. Powerful lithium-ion batteries are a particular focus. The advantages of this technology for our customers are high energy efficiency, top-up charging to save time, zero-emission operation and user-friendly processes. Fuel cells are another important focus in the field of energy, because worldwide interest in hydrogen as an alternative energy source is increasing. Here too, our Linde and STILL brands are already taking the lead.

A crucial competitive edge

The digital transformation will become the decisive distinguishing factor for many industries.

In the years ahead, digital transformation and the increasing degree of automation will be the decisive distinguishing factor for many industries and businesses. These trends are also significantly shaping and changing the intralogistics sector, as rapid, reliable and efficient supply chains create a crucial competitive edge in the web economy.

In modern warehouses, digitalisation and automation go hand in hand. A prime example is the latest innovation from our automation specialist Dematic. As well as large distribution centres, small decentralised warehouses are springing up in towns and cities in response to consumer demand for ever-shorter delivery times and to enable omnichannel fulfilment. These small storage areas, which can be found at the back of local supermarkets, for example, are known as micro-fulfilment solutions. We are one of the driving forces in this area of innovation. But digitalisation is not only making logistics execution easier, it is also improving the planning of end-to-end flows of goods. The Dematic iQ Virtual software provides customers with a ‘digital twin’ that simulates an entire warehouse. These days, more and more industrial trucks can move around the warehouse autonomously thanks to automation technology. Driverless trucks are already used wherever there are recurring processes. The KION Group is the global market leader in this rapidly expanding market. This trend will continue to grow, leading to more accurate analysis and activity in real time once the 5G communications standard is introduced. As a result, our customers will be able to operate even more efficiently.

Innovation is in our DNA

Dematic is not the only company that embodies the KION Group's capacity to innovate. Two brand-new generations of Linde and STILL counterbalance trucks with a load capacity of 2.0 to 3.5 tonnes are bringing the future a step closer. Linde's new forklift trucks are designed with the demands of Industry 4.0 firmly in mind. Thanks to connectivity as a standard feature, data from the trucks can be sent to the KION cloud. As a result, the new generation of trucks can be adapted throughout their lifecycle to changing customer requirements, including to ones that we do not even know about today. Connectivity, remote diagnostics and predictive maintenance increase the trucks' uptime and help our customers to reduce their costs.

> We are ensuring that our customers have a crucial competitive edge.

STILL, the KION Group's other premium brand company, is particularly focused on fitting its industrial trucks with powerful electric drives. In a new model series, developers have managed to significantly increase handling capacity in the load category up to 3.5 tonnes and, at the same time, improve energy efficiency. The range is also outstanding: the trucks can easily complete a three-shift operation without needing to have their battery changed.

All these – and many other exciting new products – show that around the world the KION Group is bringing together exceptional people with a truly innovative mindset. Our strength lies in listening to customers, understanding their problems and finding individually tailored solutions for their complex requirements. In different ways and in different fields, we are ensuring that our customers have a crucial competitive edge. We are using our strength in innovation to continually set new standards in the industry.

Investment for further growth

To maintain our rate of innovation at a high level going forward, we are continuing to forge ahead with the optimisation of our manufacturing operations and investing in the expansion of our worldwide capacity. Fiscal year 2020 is expected to be characterised by strategic capital expenditure in medium- to long-term growth. Alongside the modernisation of existing plants in Aschaffenburg, Hamburg, Châtellerault and Luzzara, we are currently planning to build new factories in Poland and China. Two further plants – in Pune (India) and near the city of Xiamen in China – were completed just recently. And with KION Battery Systems GmbH, KION Group has established a new joint venture with BMZ Holding GmbH for the development and production of lithium-ion batteries.

The planned expansion of our business in China is a key part of our growth strategy. By constructing another factory for counterbalance trucks in Jinan, eastern China, we are extending our product portfolio, seizing opportunities for growth in the value segment and taking even greater advantage of the increasing electrification of industrial trucks in China, one of the fastest-growing and most important markets in the world. As well as capital expenditure of around €100 million, we will create more than 800 new jobs at our new site in the province of Shandong by 2025. Our new highly automated plant, the adjoining KION Value Competence Center and the expansion of our sales and service network will enable us to harness further potential in this important market and significantly strengthen our position.

In addition to expanding our product range and capacities, we will strengthen the software development for automation solutions and at the same time further develop our range of products with respect to energy systems. We will also press ahead with the ongoing expansion of our global sales and service network and the Group's digital transformation.

Positive prospects despite growing challenges

The KION Group is excellently placed to continue benefiting from global megatrends in the coming years. The main drivers here remain the growing tendency of consumers to buy online, increasingly fragmented supply chains in the global economy and the desire for new drive systems and energy sources. Although the economy is expected to weaken and the market for industrial trucks is losing momentum, we anticipate that we will continue to generate profitable growth and further improve our market position in 2020. In recent years, we have become industry leaders in terms of profitability and achieved a strong cash flow position. This will allow us to make substantial strategic investments in 2020, creating an even stronger foundation for profitable growth in future.

The KION Group has evolved a great deal over the past twelve months. Nonetheless, we remain true to the aspiration that is embodied by our name: In the east African Masai language, the word 'Kion(gozi)' means the one who leads. To be a leader, we need an edge. We work tirelessly for this every day on behalf of our customers, deploying the most effective technology, the best people and outstanding ideas.

With best wishes,

Gordon Riske
Chief Executive Officer
KION GROUP AG

Executive Board of KION GROUP AG

GORDON RISKE

- Chief Executive Officer (CEO)
- born in 1957 in Detroit (USA)

ANKE GROTH

- Chief Financial Officer (CFO) and Labour Relations Director
- born in 1970 in Gelsenkirchen (Germany)

DR EIKE BÖHM

- Chief Technology Officer (CTO)
- born in 1962 in Pforzheim (Germany)

CHING PONG QUEK

- Chief APAC & Americas Officer (CAPAO)
- born in 1967 in Batu Pahat / Johor (Malaysia)

Ching Pong Quek Anke Groth Gordon Riske Dr. Eike Böhm

Report of the Supervisory Board of KION GROUP AG

Dear shareholders,

I am delighted to be reporting for the first time as chairman on the work of our Company's Supervisory Board in 2019.

Targets achieved despite difficult conditions

The KION Group proved to be a reliable performer yet again in 2019. Every aspect of the outlook for the past reporting year was borne out by the results achieved and, in some cases, comfortably exceeded. The Company enjoyed a successful year, although 2019 was not always easy. Economic conditions proved challenging. International trade disputes and uncertainty surrounding other major issues, such as Brexit, took their toll on the investment climate in markets important to our Company. And yet the KION Group was able to keep the effects of these difficult conditions in check, outperform the market as a whole and strengthen its own market position thanks to the fantastic efforts of the entire workforce. Global demand for highly efficient industrial trucks remains firmly at unprecedented levels, although the individual regional markets present a distinctly mixed picture. There has been robust growth in demand for integrated, connected and increasingly automated intralogistics solutions for customers in industry, retail and wholesale. The steps taken by the Company after acquiring Dematic are having an effect, yielding measurable success that is clearly reflected in the Company's overall results. This is confirmation of the disciplined operational management of the Company and of the focus on the fields of action defined in the KION 2027 strategy.

DR MICHAEL MACHT
Chairman

Against this backdrop, it was only logical to work with the Executive Board last year to tackle the next phase in the implementation of KION 2027. A clear sign of the Company's commitment to taking the necessary steps is the earmarking of significant funds for capital expenditure on projects in the five fields of action (energy, digital, automation, innovation and performance). The Supervisory Board sees 2020 as a year of transition. Building on the very solid results for the financial years spanned by the first phase of the strategy, the Company now plans to invest at locations where products and services will bring lasting added value for its customers in future. One prominent example is the announcement that the Company will be pursuing a growth strategy in the Chinese market involving the local development of a brand-new line of modular material handling equipment for the mid-price product segment. These trucks are to be produced at a new factory in China.

The Supervisory Board held extensive and in-depth discussions with the Executive Board on this willingness to invest while economic conditions are difficult to forecast. Although the volume of the capital expenditure programme means that the Company will have to take a short break from improving its profitability in 2020, the Supervisory Board agreed with the Executive Board that it was the right time to take action for the future.

Personnel matters relating to the Executive Board

In view of the aforementioned new strategy for the Asia-Pacific region, it made sense to ensure that the Company had the right people in place to successfully implement the strategy. Consequently, Ching Pong Quek's term of appointment as a member of the Executive Board and as Chief Asia Pacific Officer was extended for a further five years. Mr Quek will play an important role in the strategic realignment of the Company in the Chinese market over the coming years. To achieve its very ambitious goals, the Company needs an experienced and successful officer in the region who is familiar with its day-to-day business and its strengths and weaknesses and who is able to implement the strategic path that has been laid out. Mr Quek meets this brief in all respects.

The Supervisory Board and Ms Schneeberger, whose responsibilities on the Executive Board include the Supply Chain Solutions segment (Dematic) and digitalisation topics, reached agreement by amicable and mutual consent that she will leave the KION Group due to differing views on corporate strategy. Ms Schneeberger therefore stepped down as a member of the Executive Board of KION GROUP AG on 12 January 2020. The Supervisory Board would like to thank Ms Schneeberger for her contributions during her time at the Company.

Strengthening of corporate governance in the Company

Over the course of the year, the Supervisory Board scrutinised the initiatives announced by German lawmakers and the government commission responsible for the German Corporate Governance Code. Although the provisions of the law to implement the second Shareholder Rights' Directive and the new German Corporate Governance Code did not come into effect in 2019, despite earlier announcements to the contrary, the Supervisory Board made significant preparations in the reporting year that will enable the KION Group to adequately apply these new rules for listed companies in Germany. The Supervisory Board of KION GROUP AG hopes that the lawmakers and government commission will now maintain a phase of stability for the legislation and Code and will refrain from introducing further new rules over the next few years.

With regard to its own arrangements, the Supervisory Board has resolved to make changes so that the terms of office of shareholder representatives on the Supervisory Board end on different dates rather than on the same date. The aim of introducing a 'staggered board' is to ensure that not all shareholder representatives have to be elected by the Annual General Meeting at the same time. The main reason for switching the end dates in this way is because holding elections for the full contingent of shareholder representatives can result in major changes and the loss of continuity of experience and expertise on the Supervisory Board. The elections may also come at the same time as key Executive Board members have to be re-appointed. This can lead to the perception, particularly among investors, that the management of the Company is (temporarily) uncertain and unstable.

Collaboration between the Supervisory Board and Executive Board

Last year, the Supervisory Board continued to fulfil the tasks and responsibilities imposed on it by the law, the Company's articles of association and the German Corporate Governance Code with dedication and diligence.

As in previous years, the Supervisory Board discussed numerous other issues and transactions requiring consent, made necessary decisions, regularly advised the Executive Board on all significant matters relating to managing the Company and monitored the Executive Board's running of the Company's business. The Supervisory Board was always fully involved in major decisions affecting the Company from an early stage. 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 association 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. Between meetings of the Supervisory Board and between those of its committees, the chairmen of the Supervisory Board and Audit Committee remained in close contact at all times with the Chief Executive Officer and Chief Financial Officer. There was also regular contact between the chairman of the Audit Committee and those responsible for internal audit and compliance in the Company.

Corporate governance matters handled by the Supervisory Board

The Supervisory Board and its committees held in-depth discussions on the Supervisory Board's own obligations in relation to the Company's corporate governance decisions and declarations before adopting unanimous resolutions.

Contrary to expectations, no amendments were made to the German Corporate Governance Code in 2019. At its meeting on 19 December 2019, the Supervisory Board held its final discussion on the KION Group's compliance with the unchanged recommendations and suggestions of the Code and issued an unchanged declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). This has been made permanently available to the public on the KION GROUP AG website.

The Supervisory Board must review the content of the non-financial Group report, which the Company is obliged to publish in accordance with section 315b of the German Commercial Code (HGB). The Supervisory Board engaged our Company's auditors for the preparation of this review of the 2018 report, which was presented to the Supervisory Board for a decision in April 2019 and published on 30 April 2019, and of the upcoming report for 2019. No concerns were raised as a result of the Supervisory Board's review of the report. As was the case in the previous year, the Supervisory Board will take account of the auditors' assessment in its own review of the 2019 non-financial Group report, which will take place in April 2020, i.e. after this report of the Supervisory Board has been submitted. After carrying out detailed preparations, the Supervisory Board will make a decision promptly to ensure that the report can be published on time by the end of April.

The Executive Board and Supervisory Board provide a detailed report on corporate governance at KION GROUP AG in the corporate governance report. This is combined with the declaration on corporate governance and can be found on pages 32 to 41 of this annual report and on the KION GROUP AG website at kiongroup.com/GovernanceReport.

Relationships with affiliated entities (dependency)

The Supervisory Board also examined the report concerning relationships with affiliated entities (dependency report), which the Executive Board signed off on 21 February 2020. The auditors reviewed this report and issued an auditors' report. Based on their audit, which they completed on 21 February 2020 without having identified any deficiencies, the auditors issued the following opinion:

Based on our audit and assessment in accordance with professional standards, we confirm that

- 1. the facts in the report are stated accurately,
- 2. the consideration given by the entity for the transactions specified in the report was not unreasonably high,
- 3. there are no circumstances in respect of the measures specified in the report that would justify an opinion materially different from the opinion of the Executive Board.

The dependency report and the auditors' report about it were submitted to all the members of the Supervisory Board in good time. Both reports were discussed in detail in the presence of the auditors at the Supervisory Board meeting on 2 March 2020 after the auditors had presented their report in person. The Supervisory Board agreed with the findings of the audit. Based on the final outcome of its own review, the Supervisory Board did not raise any objections to the Executive Board's declaration at the end of the report concerning relationships with affiliated entities.

Work of the committees

KION GROUP AG's Supervisory Board had four standing 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. The chairman of the Supervisory Board is also chairman of all committees except the Audit Committee. The chairmen of the committees each report regularly to the full Supervisory Board on their committee's deliberations. In addition, the minutes of the committee meetings are distributed to the other members of the Supervisory Board for information purposes once the committee members have approved them.

In 2019, the Supervisory Board and its committees dealt with the matters at hand and made the necessary decisions at a total of 17 meetings. These consisted of seven meetings of the full Supervisory Board, four of the Executive Committee, five of the Audit Committee and one of the Nomination Committee. The Mediation Committee did not meet in the reporting period. There were also several conference calls for the purpose of providing the members of the Supervisory Board or the relevant committees with advance information. In 2019, 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 (of the seven) Supervisory Board meetings at each of which one member sent apologies and two committee meetings at each of which one member sent apologies. There was also one Supervisory Board meeting at which two members sent apologies. In the period since 9 May 2019, during which Mr Tan Xuguang has been a member of the Supervisory Board, he has attended one of the five meetings.

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

The Company's independent auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte), Munich, Frankfurt am Main branch office, audited the separate financial statements, consolidated financial statements and combined management report for KION GROUP AG and the Group for the year ended 31 December 2019 following their engagement by the Annual General Meeting on 9 May 2019. The corresponding proposal to the Annual General Meeting had been prepared in meetings held between the chairman of the Audit Committee and the auditors. The proposal was discussed at the Audit Committee's meeting on 20 February 2019, and committee members were given the opportunity to speak to the auditors in person.

The auditors were appointed by the chairman of the Supervisory Board on 23 July 2019. The key audit matters were discussed and set out accordingly at the Audit Committee's meeting on 23 October 2019.

The auditors submitted their report and the documents relating to the 2019 financial statements to the members of the Audit Committee and the members of the Supervisory Board, in each case with the required lead time. The Audit Committee and Supervisory Board each discussed the report extensively, in both cases in the presence of the auditors. The auditors reported in detail on the main findings of the audit on each occasion.

The auditors issued an unqualified opinion for the separate financial statements, consolidated financial statements and group management report, which was combined with the Company's management report, on 21 February 2020. Having itself scrutinised the Company's separate financial statements, consolidated financial statements and combined management report for the year ended 31 December 2019, the Supervisory Board – on the basis of a recommendation from the Audit Committee – agreed with the findings of the audit by the auditors after further discussing these findings at its meeting on 2 March 2020. Based on the final outcome of its own review, the Supervisory Board did not raise any objections. The Supervisory Board approved the Company's separate financial statements and consolidated financial statements for the year ended 31 December 2019 prepared by the Executive Board, thereby adopting the annual financial statements.

At its meeting on 2 March 2020, 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 €1.30 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.

Personnel changes on the Supervisory Board

On 9 May 2019, there was a change at the helm of the Supervisory Board. After Dr John Feldmann stepped down as a shareholder representative on the Supervisory Board and thus as its chairman, the Supervisory Board elected me as its new chairman during its constitutive meeting on 9 May 2019. We owe a debt of gratitude to Dr Feldmann for his great dedication and significant contributions to the Company during his tenure as chairman of the Supervisory Board. He played a key role in the KION Group's transformation from a European industrial truck manufacturer into one of the world's leading providers of intralogistics and automation solutions. While Dr Feldmann was chairman of the Supervisory Board, the Company also put in place an Executive Board that is diverse, international and equipped with the necessary expertise for the future.

As I was initially appointed as a member of the Supervisory Board by the court for a limited period, the Annual General Meeting elected me as a shareholder representative on the Supervisory Board on 9 May 2019. The Annual General Meeting also elected Mr Tan Xuguang as a shareholder representative on the Company's Supervisory Board on 9 May 2019.

The details of this report were discussed thoroughly at the Supervisory Board meeting on 2 March 2020 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 2019.

Dr Michael Macht
Chairman

KION shares

Significant rally in the equity markets despite concerns about the economy

Although the global economy was experiencing a period of weakness and tensions surrounding trade and other geopolitical issues remained high, equity markets worldwide staged a marked recovery over the course of 2019, with some reaching record highs. This was influenced by improved expectations, which had previously assumed a significant economic slowdown in places, or even a recession. Moreover, various risk factors diminished noticeably, including the threat of a hard Brexit, destabilisation of the euro due to a lack of budgetary discipline and interest-rate hikes in the US. Widespread falls in company profits had already been largely priced in and had triggered a major downturn in the stock markets in 2018. Consequently, an upward trend emerged in 2019. The interest-rate environment provided a tailwind as, apart from equities and products based on them, few investments with good returns were available. Over the year as a whole, the DAX added 25.5 per cent while the MDAX gained 31.2 per cent.

Sharp rises in the KION share price

Over the course of 2019, KION shares recouped most of the losses that they had suffered in the previous year. The first four months of trading were characterised by a strong uptrend. The shares then lost momentum on the back of a contracting industrial truck market and fresh concerns about restrictions on global trade. After reaching their low for the year in August, the share price returned to a positive course that continued until the end of the year. The shares ended 2019 at €61.56, which was an increase of 38.9 per cent compared with the close of 2018. At the end of 2019, market capitalisation stood at €7.3 billion, of which €4.0 billion was attributable to shares in free float. The average daily Xetra trading volume in 2019 was 283.4 thousand shares or €14.8 million (2018: 295.7 thousand shares or €18.7 million).
> DIAGRAM 001

Share price performance in 2019 compared with the DAX and MDAX DIAGRAM 001

Further increase planned after record dividend in 2019

The Annual General Meeting on 9 May 2019, at which 87.4 per cent of the voting share capital was represented, adopted the resolution on the appropriation of profit for 2018 with an overwhelming majority. The payment of €1.20 per dividend-bearing share was 21.2 per cent higher than in the prior year. The total dividend payout rose from approximately €116.8 million to €141.5 million, which equates to a dividend payout rate of around 35 per cent.

The Executive Board and Supervisory Board of KION GROUP AG will propose a dividend of €1.30 per share (2018: €1.20) to the Annual General Meeting on 12 May 2020. This equates to a total dividend payout of €153.4 million and thus a rise of 8.4 per cent compared with the prior year. With earnings per share for 2019 of €3.86, this equates to a dividend payout rate of around 34 per cent. > TABLE 001

Stable shareholder structure

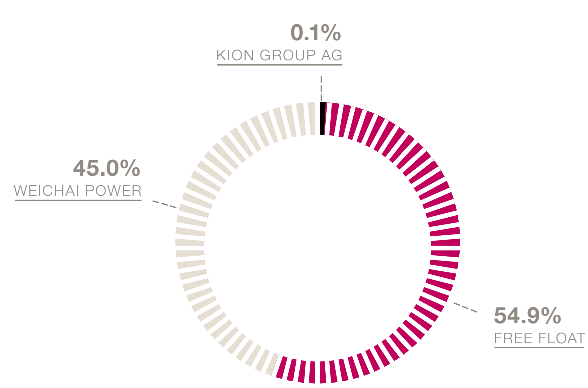
The shareholder structure remained almost unchanged in the reporting year. Weichai Power Co., Ltd., Weifang, People's Republic of China, KION GROUP AG's anchor shareholder, has retained its 45.0 per cent stake and thus is still the largest single shareholder, while KION GROUP AG continues to hold 0.1 per cent of the shares. The free float therefore accounted for 54.9 per cent at the end of 2019.

Between 9 and 20 September 2019, KION GROUP AG repurchased a total of 60,000 shares (around 0.05 per cent of the share capital) for use in the KION Employee Equity Programme (KEEP). By 31 December 2019, a total of 67,104 shares had been purchased by staff (2018: 38,691 shares). The number of shares held in treasury stood at 130,644 as at the reporting date. > DIAGRAM 002

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, MSCI World, STOXX Europe 600, FTSE EuroMid, FTSE4Good

Shareholder structure as at 31 December 2019 DIAGRAM 002



KION shares mainly recommended as a buy

As at 31 December 2019, 22 brokerage houses were following and reporting on the KION Group (2018: 21). Of this total, ten analysts recommended KION shares as a buy, eight rated them as neutral and four advised selling them. The median target price specified by the share analysts was €62.50 (31 December 2018: €64.00). > TABLE 002

Stable credit ratings

The KION Group continues to have an investment-grade credit rating. In October 2019, Fitch Ratings confirmed the Group's long-term issuer rating of BBB– with a stable outlook. Standard & Poor's has classified the KION Group as BB+ with a stable outlook since December 2019.

Share data

TABLE 002

Closing price at the end of 2018	€44.33
High for 2019	€66.64
Low for 2019	€40.29
Closing price at the end of 2019	€61.56
Market capitalisation at the end of 2019	€7,269.6 million
Performance in 2019	38.9%
Average daily XETRA trading volume in 2019 (no. of shares)	283.4 thousand
Average daily XETRA trading volume in 2019 (€)	€14.8 million
Share capital	€118,090,000
Number of shares	118,090,000
Earnings per share for 2019	€3.86
Dividend per share for 2019*	€1.30
Dividend payout rate*	33.7%
Total dividend payout*	€153.4 million
Equity ratio as at 31/12/2019	25.9%

* Proposed dividend for the fiscal year 2019

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 many investor conferences in Germany and abroad and held numerous roadshows and one-on-one meetings.

The Annual General Meeting of KION GROUP AG on 9 May 2019, at which 87.4 per cent of the share capital was represented, approved the Supervisory Board and Executive Board's proposals with a large 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 2018 annual report was published on 28 February 2019, the Executive Board of KION GROUP AG held a financial statements press conference and conference call. It also held an Analyst Day, at which it presented Dematic's project business and provided insights into the KION Group's digital activities. In addition, the Executive Board held conference calls to report on each set of quarterly results. Recordings from the financial statements press conference and the transcripts from the annual and quarterly conference calls, along with the associated presentations, form part of the extensive information for investors that 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 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. The contact details of the investor relations team can be found under IR Contact. Information on corporate governance in the Group is published at kiongroup.com/Governance.

kiongroup.com/
Ir

B

CORPORATE GOVERNANCE

Corporate governance report

Also constitutes the declaration on corporate governance pursuant to section 289f and section 315d HGB

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 a commitment, born from responsibility for the Company, to rigorous corporate governance in accordance with the accepted 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 the German Corporate Governance Code (the 'Code') as amended on 7 February 2017 and the content of the declaration on corporate governance required by section 289f and section 315d 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 below in accordance with section 3.10 of the Code. The declaration on corporate governance pursuant to section 289f and section 315d HGB is part of the combined management report. According to section 317 (2) sentence 6 HGB, the information provided in accordance with section 289f and section 315d HGB does not have to be reviewed by the auditor.

1. Declaration of conformity pursuant to section 161 (1) AktG

Section 161 (1) of the German Stock Corporation Act (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.

The Executive Board and Supervisory Board submitted the Company's previous declaration of conformity on 3/12 December 2018.

Both decision-making bodies again considered the recommendations of the Code in detail and, on 2/19 December 2019, issued the following declaration of conformity for KION GROUP AG as required by section 161 (1) AktG:

Since issuing the last declaration of conformity in December 2018, KION GROUP AG has complied with all but one of the recommendations of the German Corporate Governance Code (the 'Code') as amended on 7 February 2017 and intends to do so in the future.

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

Frankfurt am Main, 2/19 December 2019

For the Executive Board:

Gordon Riske Anke Groth

For the Supervisory Board:

Dr Michael Macht

The declaration of conformity is permanently available to the public on the website of KION GROUP AG at kiongroup.com/conformity.

2. Corporate governance practices

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 2019, 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. The Supervisory Board's Audit Committee, which was set up to support this task, received regular reports on the standard accounting processes, on changes to the regulatory environment and the internal control and risk management systems, and on the audit of financial statements and the effectiveness of this, 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.

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 rigorously to broad-ranging compliance standards is essential to sustained financial success. That is why a detailed 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 all employees 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 that all employees should receive regular training on the most important compliance subjects, in particular anti-corruption, liability of senior management / directors' and officers' liability, data protection and IT security, communications, competition law, and foreign trade / export controls. Compliance activities are also focused on these areas.

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 the performance of compliance duties to the Chief Compliance Officer. The presidents of the Operating Units are responsible for compliance within the operating business, while the functional managers are responsible for core administrative processes in the departments at the Group's headquarters. Ultimate responsibility for the compliance management system of course remains with the Chief Executive Officer 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.

Actual or suspected incidents of non-compliance can be reported anonymously or otherwise by contacting an external 24-hour compliance hotline, by sending an email or letter, by calling an internal KION Group hotline or by contacting a compliance officer directly.

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, which is staffed by the heads of these departments and chaired by the Chief Compliance Officer, operates as a cross-functional committee that primarily advises on and examines reported incidents of non-compliance and, if appropriate, issues a punishment.

2.5 Audit of the financial statements

The Company's independent auditors, which are appointed by means of a resolution of the Annual General Meeting, audit the separate financial statements prepared by the Executive Board of KION GROUP AG, the consolidated financial statements and the combined management report. Since the audit of the 2014 separate and consolidated financial statements, Ms Kirsten Gräbner-Vogel has been the global lead service partner at the appointed independent auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte). The separate financial statements, consolidated financial statements, combined management report and non-financial report are discussed by the Audit Committee and then reviewed and approved by the Supervisory Board.

The independent auditors review the condensed consolidated interim financial statements and condensed interim group management report in the half-year financial report. They also review the non-financial report. The Executive Board discusses the two quarterly statements and the half-year financial report 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 may be harmful to the Company. KION GROUP AG and its governing bodies therefore adhere strictly to the recommendations of the German Corporate Governance Code on this subject. The employees of KION GROUP AG and its subsidiaries 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. 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.

The Company attaches high priority to preventing possible conflicts of interest from occurring in the first place. This is especially important given that Weichai Power has a stake of 45.0 per cent in KION GROUP AG. 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 and issuing clear communications.

The Company's Chief Executive Officer, Mr Gordon Riske, was appointed a non-executive director of Weichai Power Co., Ltd., with effect from 24 June 2013. On 14 June 2018, the term of his appointment was extended to 31 December 2020, for which the Supervisory Board had previously given its consent. Appropriate precautions have been taken to ensure that this role at a parent company 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 Co., Ltd., 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 Co., Ltd., 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

3.1 Working methods of the Executive Board

The Executive Board of KION GROUP AG comprises five 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 or her own area of responsibility and keeps the other board members informed of developments on an ongoing basis.
> TABLE 003

Responsibilities of Executive Board members as at 31 December 2019 TABLE 003

Member	Responsibilities
Gordon Riske	**CEO of KION GROUP AG** LMH EMEA STILL EMEA KION Americas Corporate Office Corporate Communications Corporate Strategy Internal Audit Corporate Compliance KION Invest
Dr Eike Böhm	**CTO of KION GROUP AG** Product & Technology Strategy Product Development Module & Component Development Procurement Quality Production System KION New Energy Systems
Anke Groth	**CFO of KION GROUP AG** Corporate Accounting / Tax Corporate Controlling Corporate Finance / M&A Investor Relations Financial Services Corporate HR / Labour Relations Director Legal Health, Safety & Environment Performance Excellence
Ching Pong Quek	**Chief Asia Pacific Officer of KION GROUP AG** KION APAC
Susanna Schneeberger	**CDO of KION GROUP AG** Dematic Software Development KION Group IT Data Protection Digital Campus Mobile Automation

The distribution of responsibilities has been adjusted, after Susanna Schneeberger had stepped down from the Executive Board in January 2020.

The 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 Chief Executive Officer. 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, must be approved by the full Executive Board. Resolutions of the full Executive Board are passed by simple majority unless a greater majority is required by law. The Chief Executive Officer 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.

In accordance with its articles of association, the Company is represented by two members of the Executive Board or by one member of the Executive Board acting conjointly with a Prokurist (person with full commercial power of representation).

3.2 Working methods of the Supervisory Board

The Supervisory Board of KION GROUP AG appoints the members of the Executive Board and advises and monitors the Executive Board in its management of the Company. The Supervisory Board is fully involved from an early stage in all decisions that are fundamental to KION GROUP AG. The Executive Board and Supervisory Board of KION GROUP AG have a close and trusting working relationship focused on ensuring the sustained success of the Company. The members of the Executive Board attend Supervisory Board meetings, although the Supervisory Board also meets regularly without the Executive Board.

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 that apply in addition to the requirements of the articles of association. According to these rules, the chairman of the Supervisory Board coordinates its work and the cooperation with the Executive Board, chairs the meetings of the Supervisory Board 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. In 2019, there were seven Supervisory Board meetings in total. The focus of the Supervisory Board's advisory activities is detailed in the Supervisory Board's report to the Annual General Meeting. 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. The Supervisory Board regularly reviews the efficiency of its work with support from an external advisor.

3.3 Working methods and composition of the committees of the Supervisory Board

KION GROUP AG's Supervisory Board had four standing committees in the year under review. These are defined in the Supervisory Board's rules of procedure. Their 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 minutes of the committee meetings are made available to all Supervisory Board members. The standing 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 declaration of conformity pursuant to section 161 AktG reflecting changed circumstances and the checking of adherence to the declaration of conformity. 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. In consultation with the Executive Board, the Executive Committee regularly discusses long-term succession planning for the Executive Board.

Members of the Executive Committee as at 31 December 2019:

Dr Michael Macht (chairman)
Özcan Pancarci (deputy chairman)
Dr Alexander Dibelius
Jiang Kui
Olaf Kunz
Jörg Milla
Hans Peter Ring
Claudia Wenzel

Mediation Committee

The Mediation Committee comprises the chairman of the Supervisory Board, his deputy, an employee representative and a shareholder representative. It only convenes in exceptional cases. 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.

Members of the Mediation Committee as at 31 December 2019:

Dr Michael Macht (chairman)
Özcan Pancarci (deputy chairman)
Jörg Milla
Hans Peter Ring

Audit Committee

The Audit Committee comprises four members. Its primary purpose is to monitor financial reporting (including non-financial reporting), the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the auditing of the financial statements and compliance, thereby supporting the Supervisory Board in its task of monitoring the Company's management. 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.

Members of the Audit Committee as at 31 December 2019:

Hans Peter Ring (chairman)
Alexandra Schädler (deputy chairwoman)
Dr Michael Macht
Jörg Milla

The chairman of the Audit Committee, Hans Peter Ring, is an independent member of the Supervisory Board 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 task is to propose new candidates for the Supervisory Board to the Company's Annual General Meeting.

Members of the Nomination Committee as at 31 December 2019:

Dr Michael Macht (chairman)
Dr Alexander Dibelius (deputy chairman)
Birgit A. Behrendt
Jiang Kui

4. Diversity

One of the main concerns of good corporate governance is to ensure that appointments to the Executive Board and Supervisory Board are appropriate to the specific needs of the business. Key criteria in this regard include the professional and personal skills and qualifications of the members of the Executive Board and Supervisory Board as well as diversity in the composition of both boards – including an appropriate degree of female representation – and the independence of the Supervisory Board.

Composition of the Supervisory Board

The Supervisory Board has laid down specific requirements and objectives for its composition in recognition of its responsibilities and obligations and taking into account the business needs of KION GROUP AG. Besides having the minimum professional skills required to be a Supervisory Board member, as specified by law and the highest courts, all members of the Supervisory Board of KION GROUP AG should meet the following criteria:

- Identification with the fundamental values and beliefs of KION GROUP AG
- Positive attitude towards the basic principles of responsible corporate governance
- Personal integrity and a responsible approach to dealing with potential conflicts of interest
- Ability to devote the expected amount of time required and compliance with the limit on the number of mandates that may be held at any one time.

Other targets set by the Supervisory Board with regard to its composition are a standard age limit of no more than 70 at the time of appointment/election and a maximum limit for length of membership of four terms of office. All of the current Supervisory Board members meet these requirements.

In addition, the Supervisory Board redefined in 2019 what it considers to be an adequate number of independent Supervisory Board members. Accordingly, four shareholder representatives on the Supervisory Board should be independent within the meaning of section 5.4.2 of the Code. These four members are currently Ms Behrendt, Dr Reuter, Dr Dibelius and Mr Ring.

As regards the employee representatives, the Supervisory Board believes their role as representatives of the employees does not, per se, compromise their independence.

The Supervisory Board is of the opinion that the priority in aiming for a board composition based on diversity is the expertise of the individual members and a balanced mix of personal qualities, experience, skills, qualifications and knowledge in line with the requirements of the business. This is the basis on which the Supervisory Board has drawn up its profile of skills and expertise. The following profile of skills and expertise defines the knowledge acquired through professional practice (experience) and theoretical/academic knowledge (expertise) that should be represented on the Supervisory Board:

- Experience
  – Automotive industry, components and drive technologies
  – Intralogistics
  – Automation, particularly automation in intralogistics
  – Service/aftersales business, particularly in intralogistics
  – Development of international marketing strategies and product portfolio strategies
- Expertise
  – Development and assessment of technology
  – Service/aftersales business models and technological developments in this area
  – Digitalisation and automation
  – In-depth understanding of the markets in EMEA, the Americas and Asia
- Experience
  – Management of companies with an international presence, including the development of corporate cultures and organisational structures
  – Supervisory board membership in companies with an international presence
  – Acquisitions and strategic alliances
- Experience and expertise
  – Corporate governance and compliance principles as well as their implementation in at least two of the regions relevant to the Company
  – Accounting and auditing
  – Capital markets and international finance.

Each of these fields of competence is currently covered by at least six members of the Supervisory Board.

As 31.25 per cent of its members are female (five of 16), the Supervisory Board meets the statutory requirements regarding gender representation on supervisory boards pursuant to section 96 (2) AktG. The shareholder representatives and the employee representatives are agreed that attaining the objectives in relation to diversity, in particular the objectives relating to the involvement of women and people from different cultural backgrounds, is considered to be in the interests of KION GROUP AG and a task that forms part of the collective responsibility of the entire Supervisory Board. The Supervisory Board therefore supports the inclusion of additional female members and members from different cultural backgrounds who meet the above criteria insofar as the skills requirements are met.

When proposing candidates to the Annual General Meeting in future, the Nomination Committee and Supervisory Board will take all of the aforementioned targets into account and strive to ensure that the profile of skills and expertise is still achieved. The Nomination Committee and Supervisory Board have no influence on the composition of the group of employee representatives on the Supervisory Board because the employees in Germany are free to choose whom they elect.

Composition of the Executive Board

Against the background of the aforementioned diversity considerations as well as demographic requirements and strategic operating challenges, the Supervisory Board strives for diversity at Executive Board level, not only in terms of appropriate female representation but also in respect of experience, skills, expertise, cultural background and personality. Ultimately, however, the Supervisory Board is guided exclusively by the skills and qualifications of the persons concerned when making appointments to the Executive Board.

When implementing these objectives during the process of appointing successors or recruiting for a new position, the Supervisory Board draws up a shortlist of candidates who appear to be suitable for the Company as a result of their strategic management experience, expertise, skills and qualifications. Demographic criteria (including the standard retirement age of 65 for Executive Board members) and diversity criteria are then also taken into account. However, these criteria are of a subordinate nature when making a final decision on the person to appoint. In 2017, the Supervisory Board therefore set the target for the minimum proportion of women on the Executive Board of KION GROUP AG at 0 per cent, to be achieved by 31 December 2021. The specification of this type of target is required by Germany's 'Act for the equal participation of women and men in managerial positions in the private and public sectors'.

In 2019, two of the five Executive Board members were female: Ms Anke Groth and Ms Susanna Schneeberger. The proportion of women on the Executive Board of KION GROUP AG was therefore 40 per cent as at 31 December 2019.

Appointments to management positions below the level of the Executive Board of KION GROUP AG

When selecting candidates for senior management levels, the Executive Board generally considers that it is under an obligation to make such selections on the basis of diversity, capability, character and experience.

As regards the number of women appointed to senior management positions in the Company, the Executive Board is striving in its implementation of the new KION 2027 strategy to increase the current proportion of women in management positions. In this context, the Executive Board set the target at 10 per cent for the first management level below the Executive Board of KION GROUP AG and at 30 per cent for the second management level, to be achieved by 31 December 2021. The specification of this type of target is required by Germany's 'Act for the equal participation of women and men in managerial positions in the private and public sectors'.

In 2018, as part of the HR initiative under the KION 2027 strategy, a dedicated diversity programme was launched whose initial areas of activity were defined in workshops involving participants drawn from various Operating Units and sites. The Female Mentoring Programme, in which the Company's high-potential female employees are systematically coached by managers from the highest management level in the Company, was run successfully in 2019, for example. KION GROUP AG is also an active member of the initiative 'Chefsache. Drive the Change – For Men and Women'. This network of companies and leaders from industry and science, the public sector and the media advocates equal opportunities for women and men. By participating in this initiative, KION GROUP AG's ambition and objective is to promote the change of mindset that is required throughout society by exploring new concepts and approaches.

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COMBINED MANAGEMENT REPORT

Preliminary remarks

COMBINED MANAGEMENT REPORT

The combined management report published in the 2019 annual report combines the group management report and the management report of KION GROUP AG. Unless stated otherwise, the description of the course of business (including business performance), position and expected development 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 integrated supply chain solutions. Its portfolio encompasses industrial trucks such as forklift trucks and warehouse trucks, as well as automation and software solutions and related services for the optimisation of supply chains. Across more than 100 countries worldwide, the KION Group designs, builds and supports logistics solutions that optimise material and information flow within factories, warehouses and distribution centres.

In terms of unit sales, the KION Group is the largest manufacturer of industrial trucks in Europe and second-largest worldwide. The Linde and STILL brands serve the premium industrial truck segment. Baoli focuses on industrial trucks at the lower end of the volume segment and in the economy segment. Among KION's regional industrial truck brand companies, Fenwick is the top material-handling provider in France and OM Voltas is a leading provider of industrial trucks in India. Dematic is a leading global supplier of integrated automation technology, software and services for the optimisation of supply chains. Around 1.5 million of the Group's industrial trucks and over 6,000 of its installed intralogistics 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, the MSCI World and MSCI Germany Small Cap indices, 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 [27] 'Equity' in the notes to the consolidated financial statements.

The parent company of KION GROUP AG is Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg ('Weichai Power'), a subsidiary of Weichai Power Co. Ltd., Weifang, People's Republic of China, which, to the knowledge of the Company, held 45.0 per cent of the shares at the end of 2019. The free float accounted for 54.9 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 289f and section 315d 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 declaration of conformity pursuant to section 161 AktG, which was issued by the Executive Board and Supervisory Board of KION GROUP AG on 2/19 December 2019, 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 and is a component of the combined management report.

The essential features of the remuneration system are described in the 'Remuneration report' section. The total amounts for Executive Board remuneration and Supervisory Board remuneration are also reported in the notes to the consolidated financial statements (note [46]).

Non-financial declaration

A separately published sustainability report provides detailed information on the sustainable management of the KION Group. It contains the KION Group's report on non-financial matters as required under the German law to implement the corporate social responsibility (CSR) directive. The non-financial Group report focuses on targets, action steps and due diligence processes relating to the key environmental, social and employee-related aspects of the KION Group's business model, the observance of human rights and the fight against corruption and bribery.

In accordance with the statutory disclosure deadlines defined in section 325 of the German Commercial Code (HGB), the KION Group publishes its annual sustainability report (including the non-financial report) by no later than the end of April each year on its website (www.kiongroup.com), where it will remain available for at least ten years.

Executive Board

The Executive Board of KION GROUP AG was responsible for the operational management of the KION Group in 2019 and its five members remained unchanged during the reporting period. The Executive Board maintains a relationship of trust with, and is monitored by, the Company's Supervisory Board.

The Supervisory Board and Ms Schneeberger, whose responsibilities on the Executive Board include the Supply Chain Solutions segment (Dematic) and digitalisation topics, reached agreement by amicable and mutual consent that she will leave the KION Group due to differing views on corporate strategy. Ms Schneeberger stepped down as a member of the Executive Board of KION GROUP AG on 12 January 2020.

In September 2019, the Supervisory Board of KION GROUP AG passed a resolution to reappoint Ching Pong Quek as a member of the Executive Board and Chief Asia Pacific Officer for a further five years. His new term of office starts on 1 July 2020 and will continue until 30 June 2025. Responsibility for Logistics/Urban was passed from Anke Groth, CFO, to Dr Eike Böhm, CTO, with effect from 1 April 2019. The new central Logistics System unit now brings together the internal logistics processes for the two segments Industrial Trucks & Services and Supply Chain Solutions. The responsibilities of the Executive Board members as at 31 December 2019 are listed in the declaration on corporate governance.

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 standing committees: the Nomination Committee, the Executive Committee, the Audit Committee and the Mediation Committee.

On 9 May 2019, the Annual General Meeting of KION GROUP AG elected Dr Michael Macht and Tan Xuguang, Chairman of Weichai Power, to the Supervisory Board as shareholder representatives for a term of three years. Dr Michael Macht, who has been a court-appointed member of the Supervisory Board since 9 October 2018, was then elected as chairman of the Supervisory Board. He succeeds Dr John Feldmann, whose resignation from the Supervisory Board took effect at the conclusion of the Annual General Meeting. Tan Xuguang had previously been a member of the Supervisory Board from 9 June 2013 until he stepped down from his position on 30 September 2018.

Business model and organisational structure

The KION Group's business model is designed so that customers of all sizes and from all sectors 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 is able to bring a comprehensive portfolio of such products and services to the market.

The KION Group's market activities are divided into five operating units: LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic. LMH EMEA and STILL EMEA each concentrate on Europe, the Middle East and Africa. KION APAC and KION Americas hold cross-brand responsibility for industrial truck business in the Asia-Pacific region and the Americas respectively. Dematic is the global supply chain solutions business. 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.

For internal management purposes, the KION Group has divided its operating business into two segments that correspond to the segments as required by international financial reporting standards (IFRS 8). The industrial truck business, including the supporting financial services, is shown in the Industrial Trucks & Services segment, while activities focusing on end-to-end supply chain solutions make up the Supply Chain Solutions segment. The two segments complement each other in terms of their respective market position and regional presence. The Corporate Services segment comprises the other activities and holding functions of the KION Group. These include service companies that provide services such as IT and logistics across all segments.

Industrial Trucks & Services segment

The Industrial Trucks & Services segment encompasses the activities of the international brand companies Linde, STILL and Baoli, the local brand companies Fenwick and OM Voltas plus the financial services business.

- Linde is an international premium brand and technology leader that manufactures forklift and warehouse trucks and provides accompanying fleet management solutions, driver assistance systems and service options, meeting even the most demanding customer requirements in terms of technology, efficiency, functionality and design. In France, Linde products are sold under the Fenwick brand.
- STILL, a provider of forklift trucks, warehouse trucks and intralogistics systems, is a leading innovator in its field and has a particular focus on the European and Latin American markets.
- Baoli is the international brand for the lower end of the volume segment and the economy segment.
- OM Voltas is the local 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 & Services segment, providing finance solutions to support sales.

So that it can fully cater to the needs of material handling customers worldwide, the business model of the Industrial Trucks & Services segment covers the key steps of the value chain: product development, manufacturing, sales and service, truck rental and used trucks, fleet management and financial services that support the core industrial truck business.

The segment earns just over half of its revenue from the sale of 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 covering all load ranges. Worldwide research and development activities enable the Industrial Trucks & Services segment to consolidate its technology leadership, which it is extending in the areas of energy-efficient and low-emission drive technologies and automation solutions. In this field, the KION Group operates 16 production facilities for industrial trucks and components in eight countries. 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. Networked fleet management solutions and the advantages for customers in terms of total cost of ownership (TCO) support the international Linde and STILL brands' premium positioning. The segment is underpinned by an extensive sales and service network comprising around 1,800 outlets in over 100 countries and staffed by more than 18,000 service employees, roughly half of whom are employed by the KION Group.

The worldwide vehicle fleet, which consisted of around 1.5 million industrial trucks at the end of 2019, provides a broad base for the service business. This business helps to smooth out fluctuations in the segment's revenue, reduces dependency on market cycles and supports new truck sales by maintaining lasting customer relationships. Extensive services such as software-based fleet management are offered, mainly for premium products. There are also individual orders for repairs and maintenance work as well as for spare parts. In addition, the Operating Units 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. Its activities comprise the financing of long-term lease 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 lease activities, legally independent FS companies handle this business. About half of all new trucks are financed via the KION Group itself or via external banks and financing partners. Offering financial services is therefore part of the truck sales process. Leases are generally linked to a service contract covering the term of the finance agreement.

Supply Chain Solutions segment

Through the Dematic brand, the Supply Chain Solutions segment is, in terms of revenue, the leading global supplier of state-of-the-art integrated automation technology, software and services for the optimisation of supply chains.

Manual and automated solutions are provided for all functions along customers' supply chains, from goods inward and multi-shuttle warehouse systems to picking, automated palletising and automated guided vehicle systems. Picking equipment controlled by radio, voice or light is available for nearly all goods and packaging types. Automated storage and retrieval systems (ASRS), robotic picking systems and compact, powerful split-case and pallet picking stations 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. The micro-fulfilment system was developed to speed up the processing of retailers' online orders.

Real-time management of the supply chain solutions is based on the proprietary software platform Dematic iQ, which can be easily integrated into the customer's existing application landscape. By providing real-time material flow data analyses, among other things, Dematic iQ can help with the data-based optimisation of all processes to ensure seamless order processing. It also supports performance management functions for measuring and controlling performance.

The segment is primarily involved in customer-specific, longer-term project business. With nine production facilities in North America, Europe, China and Australia and regional teams of experts, Dematic is able to plan and deliver logistics solutions with varying degrees of complexity anywhere in the world.

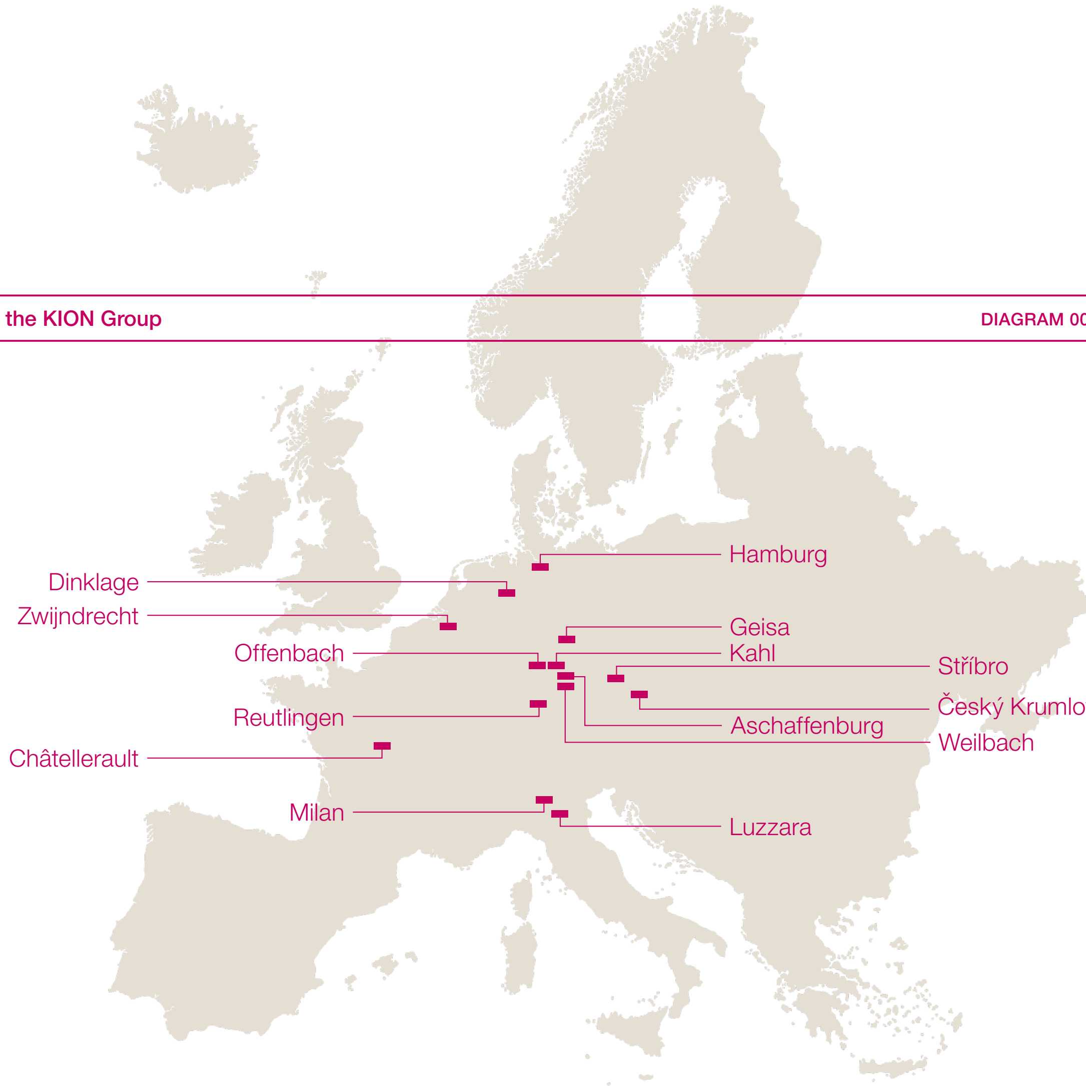
The (new) project business (business solutions) covers every phase of a new installation: analysis of the customer's needs and the general parameters, provision of appropriate advice, computer simulation of bespoke intralogistics solutions in the customer's individual environment, technical planning 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 or, in some cases, by third parties.

Modernisation work and services (customer services), which usually cover the entire lifetime of an installed system, are provided to local customers by approximately 1,500 employees in over 20 countries. The service business benefits from an installed base of more than 6,000 systems. > DIAGRAM 003

Production sites of the KION Group

DIAGRAM 003



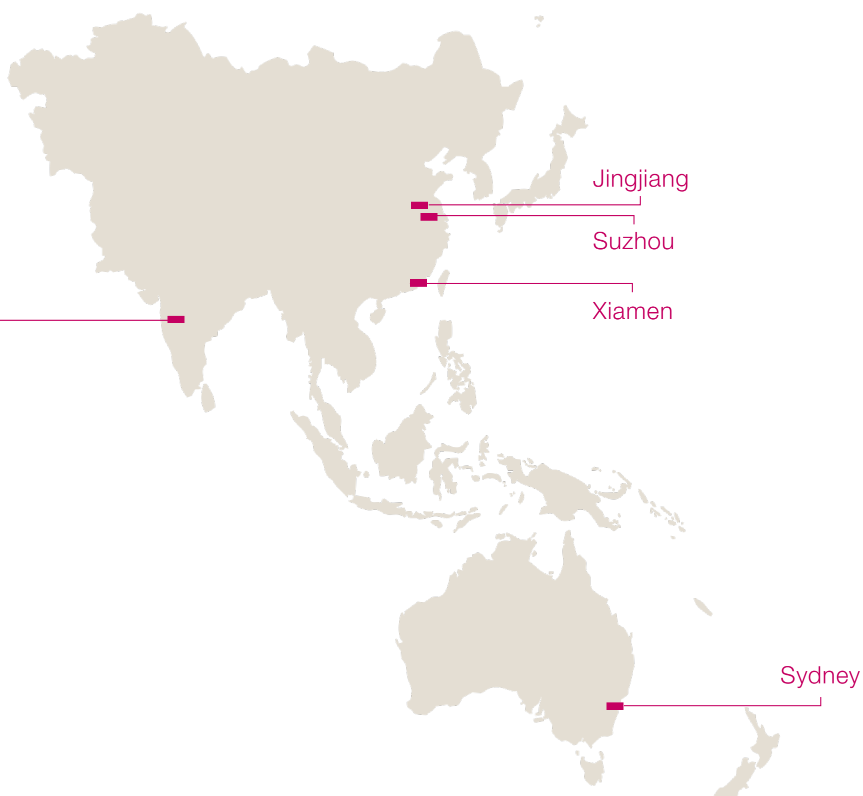
Industrial Trucks & Services

Brazil	
Indaiatuba / São Paulo: Counterbalance trucks with electric drive or IC engine, warehouse technology	
People's Republic of 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	
Dinklage: Component production	
Geisa: Component production	
Hamburg: Counterbalance trucks with electric drive or IC engine, warehouse technology, components	
Kahl: Spare parts centre, 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: Conveyor and sortation systems, automated guided vehicle systems, system components, and racking
Belgium
Zwijndrecht: Automated guided vehicle systems
People's Republic of China
Suzhou: Conveyor, sortation, storage and retrieval systems
Germany
Offenbach: Conveyor, sortation, storage and retrieval systems
Italy
Milan: Sortation systems
Czech Republic
Stříbro: Conveyor systems
Mexico
Monterrey: Conveyor, sortation, storage and retrieval systems, system components
United States
Holland: Automated guided vehicle systems
Salt Lake City: Conveyor, sortation, storage and retrieval systems, automated guided vehicle systems, system components



Market and influencing factors

According to the KION Group's estimates, the material handling market – comprising industrial trucks and supply chain solutions and related services – has expanded at a faster rate than global economic growth over the past five years. The value of the market has increased at an average annual rate of around 6 per cent in that time.

Of the relevant market volume, almost 60 per cent is estimated to be attributable to industrial trucks and related services, which are essential elements in the production and logistics processes of many manufacturers as well as in the wholesale and retail sectors. The remaining market volume is accounted for by supply chain solutions, the growth of which is fuelled in no small part by the increasing automation and digitalisation of production and logistics processes in various industries. The main overarching growth drivers are the advancing interconnectivity of the global economy and the demand for decentralised warehouse and logistics capacity in response to value chains and supply chains that are becoming increasingly fragmented. The strong growth of e-commerce and the increasing prevalence of omnichannel approaches in all kinds of industries is boosting capital expenditure on the reconfiguration of supply chains.

Economic conditions in the different regions and the rates of growth in global trade have a major influence on customers' willingness to invest. Historically, new business in the Industrial Trucks & Services segment has shown a very strong correlation with the performance of broad economic indicators, such as industrial output. By contrast, the Supply Chain Solutions segment tends to be less cyclical owing to longer project cycles, often lasting for several years, and to the stable growth of e-commerce. In both segments, the service business is generally more stable than the product or project business as it is linked to the installed base of trucks and systems over their entire lifetime. The economic situation is also affected by competition levels, exchange rates and changes in commodity prices.

Economic trends within individual customer sectors are another important factor. The most significant of these sectors are manufacturing, the food industry, general merchandise and grocery wholesale and retail, logistics services and pure e-commerce, which has the highest growth rates.

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. The KION Group fulfils all of these requirements as well as all the legal provisions pertaining to exports and financing business.

Influencing factors in the Industrial Trucks & Services segment

Despite a decline in orders in 2019, the value of the global market for industrial trucks has, according to the KION Group's estimates, increased by an average of 4 per cent annually over the past five years. This is due in equal measure to the growth in the volume of new truck business and the rise in the contribution from the service business compared to the past. Measured in terms of units ordered, 36 per cent of the global market was attributable to IC counterbalance trucks in 2019, while electric forklift trucks accounted for 16 per cent and warehouse technology 48 per cent. It should be noted that the per-unit price for warehouse technology is considerably lower than for counterbalance trucks, which is why the breakdown by value shows that counterbalance trucks clearly dominate. IC counterbalance trucks continue to make up a comparatively high proportion of the total unit volume in growth regions. The strongest growth in the new truck business in recent years has been for forklift trucks and warehouse trucks powered by an electric motor. Much of the additional volume is attributable to the electrification of manual hand pallet trucks, which are being replaced by entry-level trucks in the lower weight categories. Better drive technologies, in particular lithium-ion drives, are also contributing to the growth in electric trucks and equipment. Moreover, driverless transport solutions developed by automating standard warehouse trucks are becoming more and more appealing to customers.

All price segments continue to benefit from customers' growing requirements regarding the quality, efficiency and eco-friendliness of industrial trucks and from higher expectations in terms of service, availability of spare parts and flexible rental solutions. In this segment, customers are much more focused than before on optimising total cost of ownership and, increasingly, on the ability to integrate the trucks into fully automated intralogistics solutions. At the same time, there is mounting competitive pressure worldwide as some manufacturers in the economy segment based in emerging markets are pursuing an international expansion strategy. In mature markets and, increasingly, in growth regions, the large number of trucks in use also provides a strong base for replacement business and rising demand for services.

Influencing factors in the Supply Chain Solutions segment

According to the KION Group's estimates, the market for supply chain solutions has expanded much faster than the market for industrial trucks and services over the past five years owing to growing demand in the main customer industries. Both the project business (business solutions) and downstream services (customer services) have contributed to this expansion. The service business benefits from the growing number of installed systems and the trend towards the outsourcing of logistics processes.

The growth of e-commerce has a major influence on demand for supply chain solutions, including warehouse automation and solutions for sorting and for automated goods transport. According to market analysis by the Ecommerce Foundation, global online trade (B2C) expanded at an average rate of around 14 per cent between 2014 and 2019. Increasing complexity, cost pressures and shifting customer expectations require shorter lead times, a more efficient flow of goods, a wider product range and process reliability. This is pushing up demand for 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 industrial production and supply chains and the omnichannel strategies being adopted in traditional industries – for example supermarket chains, grocery wholesale and retail, fashion, food and beverage manufacturing, and parcel and courier services – are also contributing to this. At the same time, the focus of technological progress is increasingly shifting towards software and robotics solutions. According to the market research company Interact Analysis, there will be strong growth in the market for robotic sorting systems as key components of automated distribution centres, in automated guided vehicles (AGVs) and in autonomous mobile robots (AMRs), and these solutions will become increasingly prevalent as a result.

Market position

In 2019, the Industrial Trucks & Services segment achieved a 14.2 per cent share of the global market based on unit sales (2018: 14.1 per cent) and is thus still the second-largest manufacturer of industrial trucks. It significantly expanded its position as market leader in Europe thanks to a smaller decline in orders than the market as a whole. At the same time, the KION Group is a leading global producer of electric forklift and warehouse trucks. In China, it is still the leading foreign manufacturer in terms of revenue and number three overall. The KION Group is also among the leading providers in Brazil and India.

The Supply Chain Solutions segment (Dematic) is the biggest provider in the global market for warehouse automation in terms of revenue. This is supported by data from 2018 gathered by Interact Analysis, which also puts Dematic as the leading vendor in the fast-growing AGV and AMR segment.

STRATEGY OF THE KION GROUP

Objectives of the KION 2027 strategy

The KION Group forged ahead with the implementation of its KION 2027 strategy during the reporting year. The KION 2027 strategy provides the framework for profitable growth in the Group and specifies groupwide targets. The strategy is aligned with the KION Group's vision: 'We are the best company in the world at understanding our customers' material handling needs and providing the right solutions.'

The KION 2027 strategy is unlocking the potential of both operating segments and placing an even greater focus on a shared, customer-centric innovation, sales and brand strategy. The emphasis is on developing and marketing integrated, automated and sustainable supply chain solutions and mobile automation solutions for customers around the world. In the Industrial Trucks & Services segment, products and services are being transitioned to sustainable energy concepts and being complemented with consultancy and project work. And in the Supply Chain Solutions segment, the range of options for customers is being expanded through system solutions for special requirements in the relevant customer segments. The KION 2027 strategy provides the framework in the Group and sets groupwide targets:

- Growth: The KION Group aims to grow at a faster rate than the global material handling market by evolving into a solutions provider in both segments.
- Profitability: The KION Group wants to retain its position as the most profitable supplier in the industry and improve its adjusted EBIT margin so that it is permanently in double digits.
- Efficient use of capital: The KION Group continually strives to optimise the return on capital employed (ROCE). Besides increasing earnings, the focus here is on asset management and efficient use of capital.
- Resilience: Profitability throughout the various market cycles is to be guaranteed by a robust business model. This will involve greater diversification in terms of regions and customer sectors alongside efforts to expand the service business and further optimise the production network.

During the reporting year, the KION Group paved the way for further expansion of the business in the key growth market of China. For example, plans were finalised for an additional plant for counterbalance trucks in Jinan in Eastern China, which will form an important base for the further successful implementation of the KION Group's growth strategy. Particular attention was also paid to increasing the Company's resilience through even greater international diversification of new business and through a strong service business. By expanding its production capacity in southern China, Poland and India and by continuing to invest significantly in the development of products and solutions, the KION Group intends to become even more robust in the face of downturns in the market cycle and disruptions to global trade.

Strategic fields of action and measures in 2019

Five fields of action have been defined for the KION 2027 strategy – energy, digital, automation, innovation and performance – for which a wide range of strategic measures were implemented in 2019:

FIELDS OF ACTION

Energy

The KION Group continually develops its products and solutions so that its customers are able to use energy as efficiently and sustainably as possible. Electric-powered forklift trucks and warehouse trucks already make up 85.5 per cent of the KION Group's order intake in terms of units. A focus of the strategy is to develop and commercialise new energy sources for industrial trucks and related services, such as the provision of advice on energy matters.

The joint venture KION Battery Systems GmbH, agreed with BMZ Holding GmbH in 2019, is an important part of this. Both partners can draw on comprehensive expertise in the field of lithium-ion technology. At the BMZ site in Karlstein am Main, Germany, a production facility is being created that is set to initially manufacture batteries for counterbalance trucks and then at a later point in time also make batteries for warehouse trucks. The collaboration is strengthening the KION Group's position in the energy-efficient drive technology segment and creating capacity to equip everything from entire future truck fleets to heavy-duty trucks capable of handling large loads.

In a parallel development, Linde and STILL have expanded their lithium-ion battery portfolio and are now covering the main load ranges in various capacity classes in response to customer requirements. The new models that Linde and STILL have brought to the market are available with a lithium-ion battery, as is the N20 low-lift order picker, now much improved in terms of ergonomics and safety, and the RX series of electric forklift trucks from STILL, including the new RX 60. Linde's portfolio of fuel cell trucks was also expanded (see 'Research and development').

Digital

The KION Group is gearing its business to customers' increasingly digitalised processes in order to improve their intralogistics efficiency. The digitalisation of customer solutions – including through the use of the proprietary warehouse management system Dematic iQ – is being accompanied by the digitalisation of internal processes and resulting improvements in performance. The KION Group is not only integrating software into its solutions but is also increasingly marketing software solutions as standalone products. Internal organisational structures are also being modernised in order to pave the way for agile development and embed it across the Group.

Dematic launched iQ Virtual onto the market in the reporting year, an emulation and simulation platform that enables automated intralogistics systems to be visualised and validated. The digital networking of industrial trucks is also playing an ever greater role. The H20–H35 IC counterbalance trucks from the 1202 product line that Linde has recently introduced onto the market reflect this trend and offer digital networking capability as standard. As part of the digitalisation of internal processes, fleet management solutions have been migrated to KION's corporate cloud so that they can be made available to customers even more quickly than before.

Automation

In the field of automation, the KION Group offers specific and scalable solutions for a wide range of customer requirements, from single forklift trucks right up to fully automated large-scale warehouses. These are helping customers move closer to the goal of a 'lights-out' warehouse. Since 2019, because of their huge importance for the intralogistics of the future, mobile automation activities have been coordinated on a cross-segment basis by the Mobile Automation unit, which forms part of KION's digital function.

The mobile automation team has forged ahead with incorporating autonomous trucks and automated guided vehicle systems (AGVs) into end-to-end solutions for warehouses. Dematic Compact, an automated system for the transport of pallets, is one of the new solutions on offer in this segment. The IFOY Award presented to STILL in the category AGV & Intralogistics Robot in 2019 (see 'Customers') provided further confirmation of the company's prominent position in the market.

The piloting of Dematic's PackMyRide, the first fully automated parcel-loading solution for the 'last mile' stage of delivery, was another step taken last year. PackMyRide integrates the intralogistics systems with automated guided vehicle systems and thus uses the full breadth of the KION Group's technology. A further innovation is Dematic's micro-fulfilment automation system, which was introduced in the fourth quarter of 2019 and is tailored to the requirements of omnichannel retailers with high throughput rates.

Innovation

The KION Group develops technologies on a cross-segment basis and in doing so drives forward innovation in the material handling market. It is continuing to invest significantly in research and development at a rate of 2.7 per cent of revenue.

In addition to efficient development processes, the KION Group also works with an effective innovation ecosystem. It partners with research institutes, universities and companies so that it can go to market with new products and solutions within a short space of time. Support comes from KION Invest, which since early 2019 has been working with start-ups to drive forward new technologies and business models that will benefit KION Group customers in the future.

KION Digital Campus, the KION Group's agile innovation laboratory for new digital solutions and business models, continued to provide support last year in important product developments, including digitally networked forklifts and warehouse trucks for Industry 4.0 applications.

Performance

The KION Group is continually improving internal efficiency, optimising the performance of its products from a customer perspective and fully leveraging synergies.

The efficiency drive continued at European production sites in the Industrial Trucks & Services segment in 2019 and in some areas was completed. From early 2021, efficiency is set to be further enhanced by the relocation of a product series from Aschaffenburg to the new Polish site in Kołbaskowo, near Szczecin.

In the past year, a group-wide programme (Performance Excellence) was launched to optimise processes and increase efficiency. The programme, which addresses various areas for increasing earnings and reducing costs, already showed first signs of success and led to cost savings in the fiscal year under review. It is also expected to contribute to the Company's success in the coming fiscal years.

Efforts also continued to be focused on making product development even more efficient, based on a global, modular platform strategy that allows for localisation with minimal effort.

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. The performance targets of the Group and the segments are based on selected financial indicators, as is the performance-based remuneration paid to managers. It uses five core key performance indicators (KPIs), which remained unchanged in the reporting year, to continuously monitor market success, profitability, financial strength and liquidity. The KPIs used to manage the segments are order intake, revenue and adjusted EBIT. The KPIs are measured and made available to the Executive Board on a monthly basis as part of the internal reporting process. > TABLE 004

Key performance indicators TABLE 004

in € million	2019	2018
Order intake	9,111.7	8,656.7
Revenue	8,806.5	7,995.7
Adjusted EBIT*	850.5	789.9
Free cash flow	568.4	519.9
ROCE	9.7%	9.3%

* Adjusted for PPA items and non-recurring items

Alternative performance measures

The KION Group's financial reports are prepared in line with International Financial Reporting Standards (IFRS). As well as reporting on the financial key performance indicators defined under IFRS, the KION Group also uses alternative performance measures (APM). APMs are company-specific indicators that are not directly based on any laws or accounting standards. Some are company-specific adjustments of certain financial KPIs, for example the adjustment of these KPIs for non-recurring items (e.g. 'adjusted EBIT'). APMs are used both internally for management purposes and externally for communicating and reporting to a range of stakeholders.

KPIs used by the KION Group

The following is an overview of the KPIs used by the KION Group to comply with the reporting obligations prescribed by law.

Order book

The order book provides a record of all customer orders on a particular reporting date that are yet to be invoiced. In the Industrial Trucks & Services segment, this only includes orders for new trucks. For long-term construction contracts in the Supply Chain Solutions segment, services that have already been rendered are deducted from the total value of the contract with the customer. The order book is shown in the section 'Financial position and financial performance of the KION Group'.

Order intake

Order intake comprises all orders received from customers within a specific period minus any cancellations. Order intake is 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 future revenue. The length of time between receipt and invoicing of an order varies depending on the segment, region and product category. Order intake is shown in > TABLE 004.

EBIT (earnings before interest and tax)

Earnings before interest and tax (EBIT) is a measure of performance that is adjusted for company-specific financing activities and the effects of differing international tax regimes. EBIT is shown in > TABLE 037 in the consolidated income statement.

Adjusted EBIT

The key figure used for operational management and analysis of the KION Group's financial performance is adjusted EBIT. It is EBIT adjusted for company-specific purchase price allocation effects and non-recurring items. A reconciliation of EBIT to adjusted EBIT is presented in > TABLE 011.

Adjusted EBIT margin

The adjusted EBIT margin is the ratio of adjusted EBIT to revenue. It is shown in the section 'Financial position and financial performance of the KION Group'.

EBITDA (earnings before interest, tax, depreciation and amortisation)

EBITDA is defined as earnings before interest and tax plus amortisation, depreciation and impairment minus reversals of impairment on non-current assets. EBITDA is a measure of performance that is adjusted for company-specific financing activities, the effects of differing international tax regimes and the effects of the company-specific application of amortisation and depreciation methods and margins of discretion in valuations. Amortisation, depreciation, impairment and reversals of impairment on non-current assets are shown in the statement of cash flows in > TABLE 041.

Adjusted EBITDA

Adjusted EBITDA is EBITDA adjusted for company-specific purchase price allocation effects and non-recurring items. A reconciliation of EBITDA to adjusted EBITDA is presented in > TABLE 012.

Adjusted EBITDA margin

The adjusted EBITDA margin is the ratio of adjusted EBITDA to revenue. It is shown in the section ‘Financial position and financial performance of the KION Group’.

EBITDA for the long-term lease business

EBITDA for the long-term lease business comprises the earnings before interest, tax, depreciation and amortisation generated by long-term direct and indirect leases in the Industrial Trucks & Services segment (with the Company as lessor) and is used to measure the performance of the lease business. EBITDA for the long-term lease business is shown in the section ‘Financial position and financial performance of the KION Group’.

Earnings before tax

Earnings before tax is a measure of performance that is adjusted for company-specific the effects of differing international tax regimes. Earnings before tax is shown in the consolidated income statement in > TABLE 037.

Net financial debt

Net financial debt is an indicator of the Company’s liquidity situation and capital structure. It is the sum of long-term and short-term financial liabilities less cash and cash equivalents. Net financial debt is shown in > TABLE 019.

Industrial net operating debt

Industrial net operating debt is an indicator of the liquidity situation and capital structure for the operating business excluding lease activities of the lessor. It is therefore defined as net financial debt plus liabilities from short-term rental fleet financing and liabilities from procurement leases. A reconciliation of net financial debt to industrial net operating debt is presented in > TABLE 019.

Leverage on net financial debt

Leverage on net financial debt is the ratio of net financial debt to adjusted EBITDA for the previous twelve months and is shown in the section ‘Financial position and financial performance of the KION Group’.

Capital employed

Capital employed is the working capital that is required to achieve the operational objectives. > TABLE 005 shows how the figure for capital employed is arrived at.

ROCE (return on capital employed)

ROCE is a measure of the profitability and efficiency of the capital employed. It is the ratio of adjusted EBIT to capital employed as at the reporting date and is calculated annually. ROCE is shown in > TABLE 005.

Free cash flow

Free cash flow is the main KPI for managing the KION Group's liquidity and financing. It is determined by the KION Group's operating activities and investing activities. Carefully targeted management of working capital and detailed planning of capital expenditure are thus important tools in the generation of free cash flow. Free cash flow describes the cash flow that is available to pay dividends and interest and to repay liabilities. It is the sum of cash flow from operating activities and cash flow from investing activities. Free cash flow is shown in > TABLE 004.

Return on capital employed (ROCE)

TABLE 005

in € million	2019	2018
Total assets	13,765.2	12,968.8
– less selected assets[1]	–2,120.6	–1,730.4
– less selected liabilities[2]	–2,861.8	–2,708.0
Capital employed	**8,782.7**	**8,530.3**
Adjusted EBIT	**850.5**	**789.9**
ROCE	**9.7%**	**9.3%**

1 Lease receivables, income tax receivables, cash and cash equivalents, PPA items and several items of other financial assets/other assets
2 Sundry other provisions, trade payables, the majority of other liabilities as well as several items of other financial liabilities

Capital expenditure

For the KION Group, this item includes capitalised development costs and spending on property, plant and equipment and excludes right-of-use assets. The KION Group's capital expenditure is shown in the section 'Financial position and financial performance of the KION Group'.

Net working capital

Net working capital is defined as the sum of inventories, trade receivables and contract assets less trade payables and contract liabilities. It is shown in the section 'Financial position and financial performance of the KION Group'.

R&D spending as a percentage of revenue

The item R&D spending as a percentage of revenue is the ratio of expenditure on research and development to revenue and is shown in > TABLE 025.

Currency-adjusted changes

Currency-adjusted changes shows the percentage change in a KPI (e.g. order intake, revenue) during the reporting period excluding the effects of changes in exchange rates.

Projected KPIs

The projected KPIs reflect the Company's expectations regarding future developments and are therefore forward-looking. They are calculated in the same way as the APMs that are described in this section.

Report on the economic position

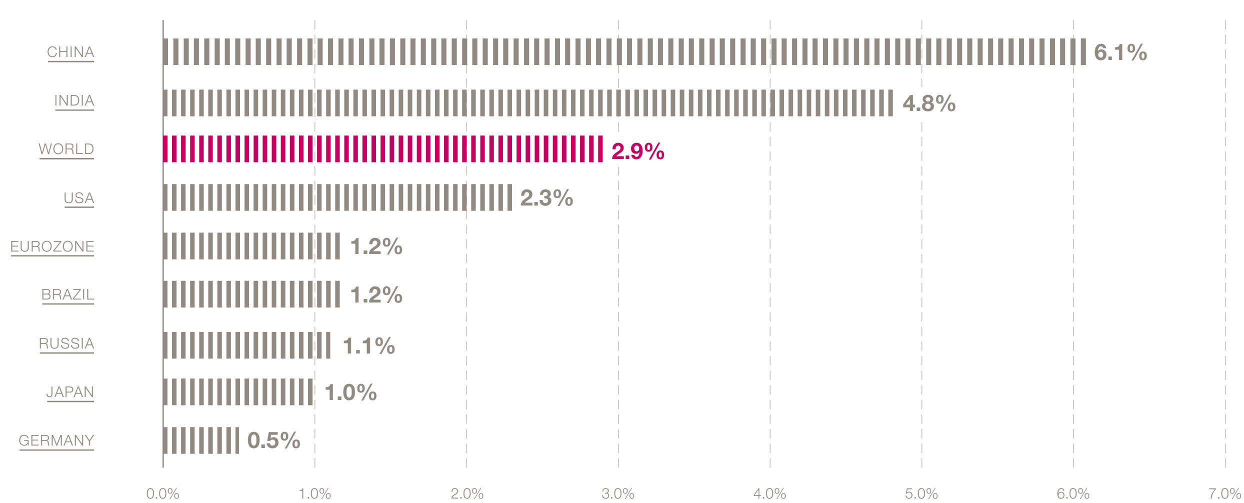
MACROECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Macroeconomic conditions

The rate at which the world's economy is expanding slowed significantly in 2019. According to the International Monetary Fund, global economic growth for 2019 stood at only 2.9 per cent, compared with 3.6 per cent in the prior year. The developed economies and the emerging markets both recorded falls in their growth rates. The decline in the pace of expansion was particularly pronounced in the eurozone, which is heavily reliant on exports. In the US, impetus for growth declined over the course of the year as tax incentives expired. The downturn in growth in the emerging markets was mainly due to the economic slowdown in China and India.

Both global industrial output and the volume of global trade were down significantly on the prior year. These trends were driven mainly by the fact that businesses were much less willing to invest in the face of heightened risks related to the geopolitical situation and trade policy. The US dispute with China, the European Union and other key trading partners as well as the unpredictable impact of an imminent Brexit were particular sources of ongoing uncertainty. > DIAGRAM 004

Gross domestic product in 2019 – real year-on-year change DIAGRAM 004



Source: International Monetary Fund (as at 21/01/2020)

Sectoral conditions

The global material handling market, which comprises industrial trucks and supply chain solutions, expanded in the reporting year according to the KION Group's estimates. However, the global market for industrial trucks contracted slightly in 2019 in terms of unit sales after several consecutive years of growth. The escalation of the trade dispute during the reporting period and the resultant weakening of global trade depressed demand in key sales regions. At the same time, however, demand rose sharply for warehouse automation and for sorting and picking solutions. Contributing factors here included the creation of additional warehouse and sorting capacity for the growing e-commerce market and the implementation of omnichannel strategies.

Industrial Trucks & Services

In 2019, order numbers in the global market for industrial trucks fell by 2.1 per cent year on year to around 1.5 million trucks. The market picked up slightly in the second half of the year, mainly due to an uptrend in the APAC (Asia-Pacific) region. In the EMEA region (western Europe, eastern Europe, Middle East and Africa), the KION Group's main sales region, new orders were down by 6.2 per cent compared with the prior year. Both western Europe and eastern Europe also fell short of the level of new orders achieved in 2018.

The Americas region (North, Central and South America) saw a year-on-year decline of 6.7 per cent. Whereas North America registered a significant contraction, the Central and South American market was close to its prior-year level. The APAC region recorded moderate growth of 3.9 per cent, mainly because of a rise in unit sales of warehouse trucks in China.

Across the regions, new orders of warehouse trucks were up slightly on the prior-year level (+1.0 per cent). One of the main reasons for this growth was again that manual equipment was being replaced by entry-level electric trucks in the lower price segment. By contrast, order numbers for IC trucks were down by 5.2 per cent and for electric forklift trucks by 3.6 per cent. > TABLE 006

Supply Chain Solutions

The market for supply chain solutions delivered strong growth in 2019. According to market research company Interact Analysis, the rate of expansion was more than 10 per cent again. The increase was disproportionally high in the APAC region in comparison to the US market, which is dominated by e-commerce, and to the EMEA market.

Global industrial truck market (order intake) TABLE 006

in thousand units	2019	2018	Change
Western Europe	406.1	435.0	–6.7%
Eastern Europe	88.8	94.1	–5.6%
Middle East and Africa	35.6	36.2	–1.8%
North America	266.8	288.8	–7.6%
Central and South America	39.5	39.5	–0.1%
Asia-Pacific	672.5	647.3	3.9%
World	**1,509.2**	**1,540.9**	**–2.1%**

Source: WITS/FEM

E-commerce activities and the related realignment of supply chains towards an omnichannel approach remained the main growth drivers. In order to speed up processing times and make the flow of goods more efficient, a growing number of companies invested in the expansion and optimisation of their warehousing and logistics capacity. This included not only automated warehouse systems but also solutions for individual processes, such as picking and packing, plus fully integrated end-to-end solutions.

Procurement markets

Price trends for the commodities used by the KION Group were mixed over the course of 2019. The price of steel, the most important commodity, fell steadily as the year progressed and at the end of 2019 was well below its average price for 2018. The copper price was also down at year-end on the high average price of the prior year. The price of Brent crude did increase in the first months of the year but at the end of 2019 was lower than the average value for the previous year. The rubber price bounced back significantly after weakening for a period in 2018, but then experienced a sharp correction in the middle of the year. However, the average price for the year as a whole was higher than for 2018.

Financial markets

In the reporting year, the KION Group billed 48.2 per cent of revenue in foreign currencies, the most important of which in addition to the US dollar were the Chinese renminbi and pound sterling. The euro continued to record moderate falls against the US dollar over the course of 2019. Relative to the dollar, the euro was worth 5.2 per cent less on average in 2019 than in 2018. The weaker euro boosted the export business, but made commodities more expensive, as they are mainly traded in US dollars. Overall, however, the effects of exchange rate fluctuations on the business situation and financial performance in the reporting year were negligible.

Business performance in the Group

In 2019, the KION Group laid the foundations for expanding its market share in the growth regions of the material handling market by making significant investments in new production facilities. It also entered into a strategic partnership that greatly improved its positioning in the growing market of energy-efficient drive technology.

A new plant at the production site in Pune is contributing to the expansion of KION's presence in the APAC region. In terms of unit sales, the KION Group is already a leading supplier of industrial trucks in India. The additional capacity will help to consolidate this leading position. The work on converting and modernising the plant, which was purchased in the first quarter of 2019, was completed before the end of the year, meaning that production was able to commence. The new factory, in which capital of around €15 million is being invested, incorporates a research and development centre, a training centre for service personnel and an additional space to support Dematic's growth in India.

The KION Group is investing over €60 million in the construction of a new factory for industrial trucks in Kołbaskowo, near Szczecin in Poland. The aim is to expand the Group's production facilities in Europe and unlock even more of the market potential in the EMEA region. In line with the groupwide growth strategy, the new plant will produce Linde electric and IC counterbalance trucks, including model series that are currently manufactured at the factories in Aschaffenburg and Xiamen. The cutting-edge production facility in Poland is due to go into operation in early 2021.

In July 2019, KION GROUP AG and BMZ Holding GmbH signed an agreement to develop and manufacture lithium-ion batteries for industrial trucks in the EMEA region within the framework of a joint venture. The objective is to meet the rapidly growing demand for lithium-ion battery systems in the intralogistics market. The joint venture, which was launched in the beginning of 2020, underlines the KION Group's unchanged strategic focus on the development of more energy-efficient drive technologies for use in electric-powered intralogistics vehicles.

In order to comprehensively exploit the potential of the North American market for warehouse automation, a complete product line of automated very narrow aisle trucks, including fleet management software, was launched onto the market by Linde and integrated with Dematic's intralogistics systems. As a result of the synergy potential thereby created, Industrial Trucks & Services is now able to offer a full range of material handling solutions specifically focussed on the North American market. And thus, a major order was already secured in the past financial year.

FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF THE KION GROUP

Overall assessment of the economic situation

The KION Group continued along its path of profitable growth in 2019, successfully consolidating its position despite very challenging market conditions. Order intake rose by 5.3 per cent from €8,656.7 million to €9,111.7 million and revenue by 10.1 per cent from €7,995.7 million to €8,806.5 million. Both these KPIs were therefore higher than in 2018. Adjusted EBIT also went up, increasing by 7.7 per cent to €850.5 million (2018: €789.9 million). Earnings in 2019 were helped not only by the healthy revenue growth but also by the fact that material prices rose only moderately. The adjusted EBIT margin contracted by 0.2 percentage points year on year, from 9.9 per cent to 9.7 per cent. This was because the two operating segments saw disproportionately strong growth in their lower-margin businesses – new trucks and business solutions – compared with the growth of the service business.

At €444.8 million, net income was up by 10.7 per cent (2018: €401.6 million). This improvement can primarily be explained by better operating profit and declining purchase price allocation effects. Basic earnings per share attributable to the shareholders of the KION Group came to €3.86 in 2019 (2018: €3.39) based on a weighted average of 117.9 million no-par-value shares outstanding during the reporting year. KION GROUP AG will propose a dividend of €1.30 per share to the 2020 Annual General Meeting (2018: €1.20), which is a rise of 8.3 per cent.

Free cash flow increased significantly year on year to reach €568.4 million (2018: €519.9 million), largely thanks to the higher level of earnings. Net financial debt equated to 1.0 times adjusted EBITDA, representing a further year-on-year improvement (2018: 1.2 times).

In the Industrial Trucks & Services segment, the KION Group was able to stand up to fierce competition and again recorded increases in order intake and revenue compared with the previous year. Key factors in its competitiveness were a product portfolio that is geared to customers' needs and a broad range of services. The growth in revenue enabled the segment to further improve its operating profit in 2019. Over the course of the year, the segment also overcame the negative effects of the bottlenecks that had occurred at individual suppliers.

The Supply Chain Solutions segment capitalised on the still favourable market conditions and, bolstered by the high level of orders received in 2018, notched up significant gains in revenue and earnings. Dematic secured major orders in important customer segments throughout the reporting year. This was partly thanks to the addition of new fully automated solutions and systems to the product portfolio that enable even simpler and faster processes. Product innovation also helped the segment to further strengthen its position in the most promising functional areas of warehouse automation, for example micro-fulfilment solutions.

Comparison between actual and forecast growth

The KION Group achieved, and in some cases significantly exceeded, the targets that it had set itself for its core KPIs in 2019.

The value of the KION Group's order intake totalled €9,111.7 million, which was higher than the target range (€8,250 million to €8,950 million) specified in the outlook for 2019. This was due in no small part to the Group's strong finish to the year. The level of orders was actually very good throughout the year, which meant revenue at €8,806.5 million was also above the expected range (€8,150 million to €8,650 million). At €850.5 million, adjusted EBIT was in the top half of the target range (€805 million to €875 million). Free cash flow amounted to €568.4 million and was therefore well above the 2019 target range (€380 million to €480 million). This made it possible to reduce the liquidity tied up in net working capital to a greater extent by the end of the year than had been expected. At 9.7 per cent, the KION Group's ROCE was as predicted (target range: 9.0 per cent to 10.0 per cent).

In the Industrial Trucks & Services segment, revenue exceeded expectations, whereas order intake and adjusted EBIT were within the target ranges.

In the Supply Chain Solutions segment, order intake and adjusted EBIT were above the target range, whereas revenue was at the upper end of the range. > TABLES 007–008

Comparison between actual and forecast growth – KION Group TABLE 007

	KION Group	
in € million	2019 Outlook	2019 Actual
Order intake	8,250–8,950	9,111.7
Revenue	8,150–8,650	8,806.5
Adjusted EBIT	805–875	850.5
Free cash flow	380–480	568.4
ROCE	9.0%–10.0%	9.7%

Comparison between actual and forecast growth – segments TABLE 008

	Industrial Trucks & Services		Supply Chain Solutions	
in € million	2019 Outlook	2019 Actual	2019 Outlook	2019 Actual
Order intake*	6,250–6,450	6,330.5	2,000–2,500	2,771.0
Revenue*	6,050–6,250	6,410.2	2,100–2,400	2,378.8
Adjusted EBIT*	685–720	695.1	190–225	228.1

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

Business situation and financial performance of the KION Group

Level of orders

The KION Group's order intake amounted to €9,111.7 million, which was 5.3 per cent higher than the figure for the previous year (2018: €8,656.7 million). The value of order intake improved by 1.9 per cent in the Industrial Trucks & Services segment, which bucked the downward trend in the wider market to some extent. In the EMEA region, where the segment generates a lot of its orders, the market contracted significantly. However, the strength of the service business meant that order intake increased nonetheless. In the Supply Chain Solutions segment, the value of order intake went up by 14.3 per cent, primarily driven by a robust performance in the second half of the year. It was also helped by major customer orders that were secured before the end of the year. Currency effects had a positive impact on the value of the KION Group's overall order intake, raising it by €91.6 million. These effects were predominantly due to the US dollar being stronger on average during the year. Partly due to the uptick in business at the end of the year, the Group's order book rose by 10.0 per cent to €3,631.7 million as at the reporting date (2018: €3,300.8 million). This provides a good starting point for 2020.

Revenue

Consolidated revenue also surged, increasing by 10.1 per cent to €8,806.5 million (2018: €7,995.7 million). In the Industrial Trucks & Services segment, revenue generated from external customers went up by 8.2 per cent to €6,403.7 million (2018: €5,916.3 million), predominantly thanks to strong new truck business. The revenue generated by the Supply Chain Solutions segment from external customers jumped by 15.8 per cent year on year to reach €2,376.1 million (2018: €2,052.1 million). Double-digit growth rates in both the project business (business solutions) and the service business contributed to this result. At Group level, the share of consolidated revenue attributable to the service business decreased to 41.5 per cent (2018: 43.1 per cent) owing to the disproportionately strong growth in new truck business and business solutions. Currency effects – particularly the resurgent US dollar – had a positive impact on consolidated revenue, increasing it by a total of €84.5 million. > TABLE 009

Revenue with third parties by product category TABLE 009

in € million	2019	2018	Change
Industrial Trucks & Services	**6,403.7**	**5,916.3**	**8.2%**
New business	3,345.6	3,009.1	11.2%
Service business	3,058.2	2,907.2	5.2%
– Aftersales	1,600.9	1,513.9	5.7%
– Rental business	926.2	900.1	2.9%
– Used trucks	361.1	327.8	10.2%
– Other	169.9	165.4	2.7%
Supply Chain Solutions	**2,376.1**	**2,052.1**	**15.8%**
Business solutions	1,780.2	1,514.0	17.6%
Service business	595.9	538.1	10.7%
Corporate Services	**26.7**	**27.3**	**–2.1%**
Total revenue	**8,806.5**	**7,995.7**	**10.1%**

Revenue by sales region

The KION Group achieved significant revenue growth in each of its main sales regions, despite the disparate performance of the different markets. One of the reasons for the increase of 10.1 per cent in the EMEA region was the growth of unit sales in the Industrial Trucks & Services segment. Much of the growth in Western Europe (up by 9.7 per cent) was generated in France, Germany, Italy and the United Kingdom, while Eastern Europe (up by 14.6 per cent) saw a sharp rise in Poland. Another reason was the contribution to the overall growth in the European markets from the Supply Chain Solutions segment, which registered strong increases in both Western Europe (up by 21.8 per cent) and Eastern Europe (up by 20.8 per cent). In the Americas region (North, Central and South America), the KION Group posted a rise in revenue of 14.0 per cent – helped by currency effects – and thus boosted its strong market position in North America, especially in the Supply Chain Solutions segment. Revenue rose by 3.1 per cent in the Asia-Pacific region, largely thanks to the positive business performance of the Supply Chain Solutions segment. In the Industrial Trucks & Services segment, however, the revenue generated in the core Chinese market declined slightly owing to a shift in the sales mix towards entry-level trucks in the lower weight categories. Emerging markets accounted for 19.8 per cent of the KION Group's revenue in the reporting year (2018: 20.3 per cent), while 80.7 per cent of consolidated revenue (2018: 80.8 per cent) was generated outside Germany. > TABLE 010

Earnings and profitability

EBIT, EBITDA and ROCE

Earnings before interest and tax (EBIT) totalled €716.6 million, which was a substantial 11.5 per cent above the figure for the previous year (2018: €642.8 million). Gross profit improved by 11.2 per cent thanks to the increase in revenue and, in comparison, a smaller increase in the cost of sales. The total rise in selling expenses and administrative expenses was slightly less than the growth of revenue, whereas development costs went up at a faster rate than revenue due to the continued strategic expansion of the KION Group's product and solution portfolio. As expected, the negative purchase price allocation effects fell sharply to €91.0 million (2018: €126.2 million). By contrast, non-recurring items increased from €21.0 million in 2018 to €42.9 million in the reporting year due to restructuring and reorganisation-related measures initiated in the fourth quarter of 2019 in connection with implementation of the KION 2027 strategy.

EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) rose by 7.7 per cent to €850.5 million (2018: €789.9 million). The adjusted EBIT margin stood at 9.7 per cent, which was slightly lower than the margin of 9.9 per cent for 2018. This was because the two operating segments saw disproportionately strong growth in new truck business and business solutions, which tend to have narrower margins than the service business. > TABLE 011

Revenue with third parties by customer location TABLE 010

in € million	2019	2018	Change
Western Europe	5,234.3	4,769.9	9.7%
Eastern Europe	678.6	592.3	14.6%
Middle East and Africa	93.8	94.5	–0.8%
North America	1,680.5	1,486.3	13.1%
Central and South America	212.5	173.5	22.5%
Asia-Pacific	906.9	879.3	3.1%
Total revenue	**8,806.5**	**7,995.7**	**10.1%**

EBIT

TABLE 011

in € million	2019	2018	Change
EBIT	**716.6**	**642.8**	**11.5%**
+ Non-recurring items	42.9	21.0	> 100%
+ PPA items	91.0	126.2	–27.9%
Adjusted EBIT	**850.5**	**789.9**	**7.7%**
Adjusted EBIT margin	9.7%	9.9%	–

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to €1,614.6 million (2018: €1,540.6 million). Adjusted EBITDA came to €1,657.5 million (2018: €1,555.1 million). The adjusted EBITDA margin decreased from 19.4 per cent in 2018 to 18.8 per cent in 2019. > TABLE 012

EBITDA for the long-term lease business, which is derived from internal reporting and assumes a minimum rate of return on the capital employed, amounted to €333.3 million (2018: €321.1 million).

Return on capital employed (ROCE), which is the ratio of adjusted EBIT to capital employed, was up year on year at 9.7 per cent (2018: 9.3 per cent). The improvement in this KPI was partly due to the smaller rise in capital employed at the end of 2019 relative to the increase in revenue.

Key influencing factors for earnings

The cost of sales increased by 9.8 per cent, which was a slightly slower rate than the rise in revenue of 10.1 per cent. The fallout from the production inefficiencies that had arisen from bottlenecks at suppliers in the Industrial Trucks & Services segment in 2018 disappeared over the course of 2019. Furthermore, the predicted decrease in purchase price allocation effects and, overall, an only moderate increase in material prices meant that the gross margin improved to 26.5 per cent (2018: 26.2 per cent). In 2018, the gross margin had been squeezed by temporary underutilisation of project-related personnel capacity in the Supply Chain Solutions segment resulting from delays in the awarding of projects.

EBITDA

TABLE 012

in € million	2019	2018	Change
EBITDA	**1,614.6**	**1,540.6**	**4.8%**
+ Non-recurring items	42.9	14.6	> 100%
+ PPA items	–	–0.0	100.0%
Adjusted EBITDA	**1,657.5**	**1,555.1**	**6.6%**
Adjusted EBITDA margin	18.8%	19.4%	–

The 10.2 per cent increase in selling expenses, development costs and administrative expenses to a total of €1,642.4 million (2018: €1,490.3 million) was almost on a par with the revenue growth rate. Within this total, selling expenses went up at a much slower rate in 2019 than in 2018, when there had been significant expansion of market-specific and customer-specific activities. Development costs rose to €155.3 million (2018: €137.7 million), reflecting the firm focus on implementing the innovation strategy under KION 2027. Administrative expenses also jumped, by 17.1 per cent, to reach €546.9 million (2018: €467.1 million). This was also due to restructuring and reorganisation-related measures initiated as part of this strategy. The change in the cost of sales and in other functional costs is shown in > TABLE 013.

The 'other' item is a net figure and includes not only other operating income and expenses but also the share of profit (loss) of equity-accounted investments, which amounted to a profit of €12.1 million (2018: €12.2 million).

Net financial expenses

The net financial expenses, representing the balance of financial income and financial expenses, improved slightly to reach €95.1 million (2018: €97.4 million). This positive trend was primarily a reflection of the continual reduction of financial liabilities and the optimisation of financing across the Group. As a result, there was a further decrease in current interest expense on financial liabilities.

Income taxes

Income tax expenses amounted to €176.8 million (2018: €143.7 million), equating to an effective tax rate of 28.4 per cent (2018: 26.3 per cent). The main positive effects on the tax expense were reductions in local tax rates, tax breaks for R&D activities in the US and adjustments to tax provisions for prior years. The lower effective tax rate in 2018 had primarily been due to the positive impact of an amendment to tax law in Germany (section 8c of the German Corporation Tax Act (KStG)).

Net income and appropriation of profit

Net income increased to €444.8 million (2018: €401.6 million). This figure included a net loss attributable to non-controlling interests of €10.0 million (2018: net income of €1.8 million). The net income attributable to the shareholders of KION GROUP AG was €454.8 million (2018: €399.9 million). Basic earnings per share rose to €3.86 (2018: €3.39) based on 117.9 million (2018: 117.9 million) no-par-value shares; this was the weighted average number of shares outstanding during the reporting year. Diluted earnings

(Condensed) income statement TABLE 013

in € million	2019	2018	Change
Revenue	8,806.5	7,995.7	10.1%
Cost of sales	–6,474.6	–5,898.1	–9.8%
Gross profit	**2,331.9**	**2,097.6**	**11.2%**
Selling expenses and administrative expenses	–1,487.1	–1,352.6	–9.9%
Research and development costs	–155.3	–137.7	–12.8%
Other	27.2	35.4	–23.3%
Earnings before interest and tax (EBIT)	**716.6**	**642.8**	**11.5%**
Net financial expenses	–95.1	–97.4	2.4%
Earnings before tax	**621.6**	**545.3**	**14.0%**
Income taxes	–176.8	–143.7	–23.0%
Net income	**444.8**	**401.6**	**10.7%**

per share, which is calculated by adding the potential dilutive no-par-value shares under the employee share option programme, amounted to €3.86 (2018: €3.39) based on a weighted average number of shares of 117.9 million (2018: 117.9 million).

KION GROUP AG's net profit for 2019 was €156.9 million, of which €3.5 million will be transferred to other revenue reserves. The Executive Board and the Supervisory Board will propose to the Annual General Meeting to be held on 12 May 2020 that an amount of €153.4 million be appropriated from the distributable profit of €153.5 million for the payment of a dividend of €1.30 per dividend-bearing share. It is also proposed that the remaining sum of €0.2 million be carried forward to the next accounting period. This equates to a proposed dividend payout rate of around 34 per cent of the net income attributable to the shareholders of KION GROUP AG.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

In terms of order numbers, new truck business in the Industrial Trucks & Services segment outperformed the global market in all key sales regions. Whereas the global market declined by 2.1 per cent, unit sales in the segment, at 213.7 thousand, were almost level with the high figure reported for 2018 (down by 1.4 per cent). The fall in forklift truck orders was mitigated by a moderate rise in unit sales of warehouse trucks, including entry-level trucks in the lower weight categories.

The value of order intake rose by 1.9 per cent to €6,330.5 million (2018: €6,210.6 million). Higher sales prices and the expanding service business contributed to this growth. > TABLE 014

Key figures – Industrial Trucks & Services TABLE 014

in € million	2019	2018	Change
Order intake	6,330.5	6,210.6	1.9%
Total revenue	6,410.2	5,922.0	8.2%
EBITDA	1,381.0	1,332.3	3.7%
Adjusted EBITDA	1,409.5	1,340.2	5.2%
EBIT	661.7	625.2	5.8%
Adjusted EBIT	695.1	655.4	6.1%
Adjusted EBITDA margin	22.0%	22.6%	–
Adjusted EBIT margin	10.8%	11.1%	–

Revenue

The total revenue of the Industrial Trucks & Services segment amounted to €6,410.2 million, an increase of 8.2 per cent compared with the previous year (2018: €5,922.0 million). Revenue from new trucks jumped by 11.2 per cent thanks to the strong order book at the end of 2018 and a small increase in sales prices. In the service business, revenue was up by 5.2 per cent year on year. The aftersales business, which accounted for 52.3 per cent of service revenue (2018: 52.1 per cent), increased by 5.7 per cent. In the used truck business, the segment reported a rise of 10.2 per cent. As a result of the disproportionately strong growth of revenue from new truck business, the share of external segment revenue contributed by the service business fell to 47.8 per cent (2018: 49.1 per cent).

Earnings

The sharp rise in revenue had a positive impact on the segment's adjusted EBIT, which was up by 6.1 per cent year on year at €695.1 million (2018: €655.4 million). The fallout from the bottlenecks at suppliers that had continued to have an effect in 2018 no longer had any significant impact on segment earnings. The adjusted EBIT margin fell from 11.1 per cent in 2018 to 10.8 per cent in the year under review. This was due to higher development costs for work on innovation and to stronger growth of new truck business relative to the higher-margin service business in the reporting year. Non-recurring items – particularly relating to restructuring and reorganisation measures initiated in 2019 – and purchase price allocation effects amounted to €33.5 million (2018: €30.2 million). Including these effects, EBIT grew by 5.8 per cent to €661.7 million (2018: €625.2 million).

Adjusted EBITDA increased to €1,409.5 million (2018: €1,340.2 million). The adjusted EBITDA margin fell to 22.0 per cent (2018: 22.6 per cent). > TABLE 014

Supply Chain Solutions segment

Business performance and order intake

Following a significant increase in the previous year, the Supply Chain Solutions segment saw a further 14.3 per cent rise in its order intake to €2,771.0 million in 2019 (2018: €2,425.2 million). The segment secured significant orders from new customers in EMEA and Asia over the course of 2019, and the strong finish to the year resulted in an even bigger order book. Currency effects, mainly from the resurgent US dollar, boosted the value of order intake by €87.7 million.

Revenue

The total revenue of the Supply Chain Solutions segment increased by a substantial 15.7 per cent year on year to reach €2,378.8 million (2018: €2,055.2 million), thanks in large part to the strong order book at the end of 2018. The rise in segment revenue was driven both by the project business (business solutions) and by the service business, which reported revenue growth of 17.6 per cent and 10.7 per cent respectively. The share of segment revenue generated by the service business stood at 25.1 per cent (2018: 26.2 per cent). As a result of the growing volume of business in the European and Asian markets, the proportion of the segment's external revenue generated by the North American business declined to 64.1 per cent (2018: 65.7 per cent).

Earnings

The segment's adjusted EBIT jumped by 26.6 per cent to €228.1 million (2018: €180.2 million), mainly due to the increase in revenue. More efficient project execution also helped to improve profitability. In 2018, delays in the awarding of projects by customers had led to temporary underutilisation of project-related personnel capacity. Overall, the adjusted EBIT margin improved

Key figures – Supply Chain Solutions TABLE 015

in € million	2019	2018	Change
Order intake	2,771.0	2,425.2	14.3%
Total revenue	2,378.8	2,055.2	15.7%
EBITDA	276.3	226.1	22.2%
Adjusted EBITDA	288.9	231.5	24.8%
EBIT	129.6	64.4	>100%
Adjusted EBIT	228.1	180.2	26.6%
Adjusted EBITDA margin	12.1%	11.3%	–
Adjusted EBIT margin	9.6%	8.8%	–

substantially from 8.8 per cent to 9.6 per cent. After taking into account non-recurring items and greatly reduced purchase price allocation effects, the segment's EBIT more than doubled to reach €129.6 million (2018: €64.4 million).

Adjusted EBITDA increased significantly to €288.9 million (2018: €231.5 million), giving an adjusted EBITDA margin of 12.1 per cent (2018: 11.3 per cent). > TABLE 015

Corporate Services segment

Business performance

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

Revenue and earnings

Total segment revenue, which came to €334.1 million (2018: €299.2 million), mainly resulted from internal IT and logistics services.

The segment's adjusted EBIT was down year on year at €315.1 million (2018: €369.6 million). This was a reflection of lower intra-group dividend income compared with 2018 and an increase in administrative expenses resulting from implementation of the KION 2027 strategy. Adjusted EBIT excluding intra-group dividend income amounted to minus €72.9 million (2018: minus €45.8 million). Adjusted EBITDA stood at €347.0 million, or minus €41.1 million if intra-group dividend income is excluded (2018: €398.8 million, or minus €16.6 million). > TABLE 016

Key figures – Corporate Services TABLE 016

in € million	2019	2018	Change
Order intake	334.1	299.2	11.6%
Total revenue	334.1	299.2	11.6%
EBITDA	345.1	397.6	–13.2%
Adjusted EBITDA	347.0	398.8	–13.0%
EBIT	313.2	368.5	–15.0%
Adjusted EBIT	315.1	369.6	–14.7%

Net assets

The condensed consolidated statement of financial position as at 31 December 2019 showing current and non-current assets and liabilities together with equity is presented in > TABLE 017.

Non-current assets

Non-current assets increased to €10,696.4 million as at the reporting date (2018: €10,150.6 million). The total carrying amount of intangible assets rose to €5,732.5 million (2018: €5,721.6 million). The goodwill included in this figure was up slightly due to currency effects, reaching €3,475.8 million (2018: €3,424.8 million). There was an increase in other property, plant and equipment to €1,236.3 million (2018: €1,077.8 million). This was due not only to higher capital expenditure on modernisation and site expansion but also to additional right-of-use assets related to procurement leases, which stood at €452.7 million at the end of 2019 (2018: €390.7 million). Right-of-use assets amounted to €325.9 million for land and buildings (2018: €276.4 million) – including two major new leases for the rental of buildings – and €126.8 million for plant & machinery and office furniture & equipment (2018: €114.3 million).

The short-term rental fleet was largely stable in 2019. Rental assets stood at €632.9 million at the end of the year, which was slightly less than at the end of the previous year (2018: €670.5 million). Leased assets for direct and indirect leases with end customers that are classified as operating leases increased to €1,361.2 million (2018: €1,261.8 million). Long-term lease receivables arising from leases with end customers that are classified as finance leases also rose, amounting to €1,080.9 million as at 31 December 2019 (2018: €826.2 million).

The amount of deferred tax assets recognised in the statement of financial position was €449.7 million as at the reporting date (2018: €421.7 million).

Current assets

Overall, there was a moderate increase in current assets to €3,068.8 million (2018: €2,818.2 million). The growth of inventories during the year, predominantly in the Industrial Trucks & Services segment, was mostly scaled back again in the fourth quarter. At the end of the year, the Group's inventories amounted to €1,085.3 million (2018: €994.8 million). Within this figure, finished goods were up by 16.0 per cent year on year owing to the increase in volume. > TABLE 018

(Condensed) statement of financial position

TABLE 017

in € million	2019	in %	2018	in %	Change
Non-current assets	10,696.4	77.7%	10,150.6	78.3%	5.4%
Current assets	3,068.8	22.3%	2,818.2	21.7%	8.9%
Total assets	**13,765.2**	**–**	**12,968.8**	**–**	**6.1%**
Equity	3,558.4	25.9%	3,305.1	25.5%	7.7%
Non-current liabilities	6,277.8	45.6%	5,999.1	46.3%	4.6%
Current liabilities	3,929.0	28.5%	3,664.6	28.3%	7.2%
Total equity and liabilities	**13,765.2**	**–**	**12,968.8**	**–**	**6.1%**

Trade receivables were up slightly at €1,074.2 million (2018: €1,036.4 million). Contract assets mainly related to project business in the Supply Chain Solutions segment and, at €150.2 million, were also higher than at the end of the previous year (2018: €119.3 million).

The KION Group's net working capital, which comprises inventories, trade receivables and contract assets less trade payables and contract liabilities, rose to €828.9 million at the reporting date (2018: €676.1 million). This was due to the increase in inventories and trade receivables on the back of the larger volume of business and to the incremental fulfilment of customer orders in the project business over their scheduled period. Cash and cash equivalents rose from €175.3 million as at 31 December 2018 to €211.2 million as at 31 December 2019.

Current lease receivables from end customers increased to €340.1 million (2018: €271.2 million).

Inventories

TABLE 018

in € million	2019	2018	Change
Materials and supplies	276.6	284.2	−2.7%
Work in progress	143.3	132.3	8.3%
Finished goods and merchandise	638.5	550.6	16.0%
Advances paid	26.9	27.8	−3.3%
Total inventories	**1,085.3**	**994.8**	**9.1%**

Financial position

Principles and objectives of financial management

The KION Group pursues a conservative financial policy of maintaining a strong credit profile with reliable access to debt capital markets. By pursuing an appropriate financial management strategy, the KION Group makes sufficient cash and cash equivalents available at all times to meet the Group companies' operational and strategic funding requirements. As part of its financial management activities, the KION Group aims to continually reduce its financial liabilities and, to an increasing extent, optimise the financing of the long-term lease business. In addition, the KION Group manages its financial relationships with customers and suppliers and mitigates the financial risk to its enterprise value and profitability, notably currency risk, interest-rate risk, price risk, counterparty risk and country risk. In this way, the KION Group creates a stable funding position from which to maintain profitable growth.

The financial resources within the KION Group are provided on the basis of an internal funding approach. The KION Group collects liquidity surpluses of the Group companies in central or regional cash pools and, where possible, covers subsidiaries' funding requirements with intercompany loans. This funding enables the KION Group to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants. The Group occasionally arranges additional credit lines for KION Group companies with local banks or leasing companies in order to comply with legal, tax and other regulations.

The KION Group is a publicly listed corporate group and therefore ensures that its financial management takes into account the interests of shareholders, promissory note investors and the banks providing its funding. For the sake of all stakeholders, the KION Group makes sure that it maintains an appropriate ratio of internal funding to borrowing. The KION Group's borrowing is based on a generally long-term approach, with an age structure extending until 2027.

Depending on requirements and the market situation, the KION Group will also avail itself of the funding facilities offered by the public capital markets in future. The KION Group therefore seeks to implement proactive risk management by rigorously pursuing its corporate strategy and to maintain an investment-grade credit rating in the capital and funding markets by ensuring a solid funding structure.

The KION Group has an investment-grade credit rating that helps it to secure more advantageous funding conditions in the capital markets. Fitch Ratings, for example, awarded a rating of BBB– with a stable outlook in January 2017 and reaffirmed it in October 2019. Furthermore, the rating agency Standard & Poor's has rated KION GROUP AG at BB+ with a stable outlook since December 2019.

The KION Group has issued guarantees to the banks for all payment obligations and is the borrower in respect of all the payment obligations resulting from the promissory notes.

The KION Group maintains a liquidity reserve in the form of agreed and confirmed credit lines and cash in order to ensure long-term financial flexibility and solvency. In addition, it uses derivatives to hedge currency risk. It enters into interest-rate swaps in order to hedge interest-rate risk and the risk of changes in fair value.

Among other stipulations, the contractual terms of some lending agreements and the promissory notes set out certain covenants. In addition, there is a financial covenant that involves ongoing testing of adherence to a defined maximum level of leverage. Non-compliance with the covenants or with the defined maximum level of leverage as at a particular reporting date may give lenders a right of termination or lead to an increase in interest payments.

All covenants were complied with in the past financial year, as had been the case in 2018.

Main corporate actions in the reporting period

In April 2019, KION GROUP AG issued a variable-rate promissory note in a nominal amount of €120.5 million. In return, €20.5 million of the fixed-rate tranche of the promissory note from 2018 was repaid ahead of schedule. The liabilities under the acquisition facilities agreement (AFA) were reduced earlier than planned in 2019 by repaying a total of €400.0 million. As at 31 December 2019, the outstanding balance of the AFA, which has a variable interest rate and matures in October 2021, was thus €200.0 million. The early repayment was funded with cash received from operating activities, additional borrowing from banks and the issuance of the aforementioned new promissory note.

As at the end of the year, KION GROUP AG had issued a total volume of €318.0 million under the commercial paper programme that it had launched in November 2019. This amount had been repaid in full by the reporting date.

Between 9 and 20 September 2019, KION GROUP AG repurchased a total of 60,000 shares for use in the KION Employee Equity Programme (KEEP). By 31 December 2019, a total of 67,104 shares had been purchased by staff under KEEP 2019 (2018: 38,691 shares). The number of shares held in treasury stood at 130,644 as at the reporting date.

Analysis of capital structure

Current and non-current liabilities rose by €543.0 million to €10,206.8 million as at the reporting date (2018: €9,663.7 million). The larger volume of business led to a significant increase in liabilities attributable to financing of the long-term lease business. Non-current liabilities included deferred tax liabilities of €570.9 million (2018: €626.7 million).

Financial debt

Non-current financial liabilities were reduced to €1,716.8 million as at 31 December 2019 (2018: €1,818.7 million). This figure can essentially be broken down into promissory notes with a carrying amount of €1,317.3 million (2018: €1,214.3 million) and liabilities to banks of €399.5 million (2018: €604.5 million).

Over the course of 2019, net cash provided by operating activities was used to lower current financial liabilities to €103.7 million as at the reporting date (2018: €226.5 million).

Net financial debt (non-current and current financial liabilities less cash and cash equivalents) thus amounted to €1,609.3 million (2018: €1,869.9 million). This equated to 1.0 times adjusted EBITDA in the year under review (2018: 1.2 times).

As at 31 December 2019, the unused portion of the revolving credit facility stood at €1,150.0 million (2018: €1,048.2 million). > TABLE 019

Industrial net operating debt TABLE 019

in € million	2019	2018
Promissory notes	1,317.3	1,214.3
Liabilities to banks	498.3	826.4
Other financial liabilities	4.9	4.6
Financial liabilities	**1,820.5**	**2,045.2**
Less cash and cash equivalents	–211.2	–175.3
Net financial debt	**1,609.3**	**1,869.9**
Liabilities from financial services (short-term rental fleet)	437.2	307.1
Other financial liabilities (short-term rental fleet)	178.6	289.9
Liabilities from short-term rental fleet financing	**615.8**	**597.0**
Liabilities from procurement leases	**486.1**	**421.2**
Industrial net operating debt	**2,711.2**	**2,888.1**

Retirement benefit obligation

The KION Group maintains pension plans in many countries. These plans comply with legal requirements applicable to standard local practice and thus the situation in the country in question. They are either defined benefit pension plans, defined contribution pension plans or multi-employer benefit plans. As at 31 December 2019, the retirement benefit obligation under defined benefit pension plans amounted to a total of €1,263.4 million, which was significantly higher than the figure of €1,043.0 million at the end of 2018 largely owing to lower discount rates. The net obligation under defined benefit pension plans increased year on year to reach €1,211.7 million (2018: €1,009.7 million). Changes in estimates relating to defined benefit pension entitlements resulted in a substantial decrease in equity of €115.9 million (including deferred taxes).

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 2019 in connection with the main pension plans totalled €22.0 million, comprising €17.8 million for direct pension payments and €3.6 million for employer contributions to plan assets.

Liabilities from financial services, leases, and rental business

Further expansion of the long-term lease business with end customers again led to a higher overall funding requirement in 2019.

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

Overall, liabilities from financial services increased to €2,500.2 million as at 31 December 2019 (2018: €1,472.4 million). Of this total, €2,062.9 million was attributable to financing of the direct and indirect long-term lease business (2018: €1,165.3 million). The total also includes residual value obligations resulting from the indirect lease business. These obligations fell to €297.2 million (2018: €319.5 million). Lease liabilities decreased by €308.5 million to €432.1 million as at the reporting date (2018: €740.6 million) because new business has been included in liabilities from financial services since the start of 2018. Overall, liabilities from financial services and lease liabilities together totalling €2,495.0 million were attributable to financing of the direct and indirect long-term lease business (2018: €1,906.0 million).

A sum of €437.2 million, representing some of the financing of the short-term rental fleet, was recognised under liabilities from financial services (2018: €307.1 million). The remaining amount of €178.6 million (2018: €289.9 million) relating to the financing of the short-term rental fleet was recognised under other financial liabilities.

Other financial liabilities also included liabilities from procurement leases amounting to €486.1 million (2018: €421.2 million), for which right-of-use assets were recorded.

Other financial liabilities

Current and non-current other financial liabilities totalled €784.9 million as at the reporting date (2018: €813.2 million).

Contract liabilities

Contract liabilities, of which a large proportion related to the long-term project business, decreased to €504.9 million (2018: €570.1 million). This was mainly due to the incremental fulfilment of customer orders in the long-term project business over their scheduled period.

Equity

Consolidated equity rose to €3,558.4 million as at 31 December 2019 (2018: €3,305.1 million), driven in large part by the increase in net income to €444.8 million. Currency translation effects had a positive impact of €76.1 million. Conversely, equity was reduced by actuarial losses of €115.9 million (after deferred taxes) arising from the measurement of the defined benefit obligation due to the far lower level of interest rates. KION GROUP AG's dividend payout of €141.5 million also lowered the level of equity. The equity ratio increased to 25.9 per cent as at the reporting date (2018: 25.5 per cent).

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (excluding right-of-use assets from procurement leases) totalled €287.4 million in the reporting year (2018: €258.5 million).

Spending in the Industrial Trucks & Services segment continued to be focused on capital expenditure for product development and on the expansion and modernisation of production and technology facilities, including the purchase of a new plant in Pune, India and the start of construction of a new production site in Poland. Capital expenditure in the Supply Chain Solutions segment primarily related to development costs.

Analysis of liquidity

Liquidity management is an important aspect of central financial management in the KION Group. The sources of liquidity are cash and cash equivalents, cash flow from operating activities and amounts available under credit facilities. Using cash pools, liquidity is managed in such a way that the Group companies can always access the cash that they need.

Cash and cash equivalents increased by €35.9 million during the reporting year to reach €211.2 million (2018: €175.3 million). Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group as at the reporting date amounted to €1,357.4 million (2018: €1,219.8 million).

Net cash provided by operating activities totalled €846.3 million, which was much higher than the prior-year figure of €765.5 million. This year-on-year improvement in cash flow from operating activities was due to the higher level of earnings and a reduction in spending on the ongoing renewal and expansion of the short-term rental fleet. Conversely, the growth of net working capital lowered cash flow from operating activities by €146.8 million (2018: by €54.3 million), primarily because of a decline in advance payments from customers in the project business.

Net cash used for investing activities amounted to €277.9 million and was therefore €32.3 million higher than in the previous year (2018: €245.6 million). Within this figure, cash payments for capital expenditure on production facilities, product development and purchased property, plant and equipment rose to €287.4 million (2018: €258.5 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – increased to €568.4 million (2018: €519.9 million).

Net cash used for financing activities came to €534.9 million (2018: €514.5 million), partly due to net repayments of financial debt amounting to €226.0 million. One new promissory note was issued, whereas a further amount was repaid towards the remaining long-term tranches under the AFA. Overall, financial debt taken on during the reporting period reached €2,940.1 million (2018: €1,811.7 million); repayments amounted to €3,166.2 million (2018: €2,042.6 million). Payments made for interest portions and principal portions under procurement leases totalled €126.5 million (2018: €114.0 million). Current interest payments decreased from €42.9 million in 2018 to €36.7 million in 2019 due to a year-on-year fall in average net debt. The payment of a dividend to the shareholders of KION GROUP AG in May 2019 resulted in an outflow of funds of €141.5 million (2018: €116.8 million). The acquisition of employee shares caused a cash outflow of €2.9 million (2018: €3.6 million). > TABLE 020

(Condensed) statement of cash flows TABLE 020

in € million	2019	2018	Change
EBIT	716.6	642.8	11.5%
Cash flow from operating activities	846.3	765.5	10.6%
Cash flow from investing activities	–277.9	–245.6	–13.1%
Free cash flow	**568.4**	**519.9**	**9.3%**
Cash flow from financing activities	–534.9	–514.5	–4.0%
Effect of exchange rate changes on cash	2.4	–3.2	>100%
Change in cash and cash equivalents	**35.9**	**2.2**	**>100%**

KION GROUP AG

Business activities

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

The annual financial statements of KION GROUP AG have been prepared in accordance with the provisions in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The management report has been combined with the group management report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the additional provisions in section 315e (1) HGB. Differences between the accounting policies in accordance with HGB and those in accordance with IFRSs arise primarily in connection with the accounting treatment of financial instruments, provisions and deferred taxes.

Management system, future development and risk position

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

Business performance in 2019

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 of €47.2 million (2018: €30.5 million) largely arose from the performance of services for affiliated companies.

Other operating income fell by €5.0 million to €28.4 million and includes, in particular, gains on the measurement of bank accounts and cash pools in foreign currencies.

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

Personnel expenses went up by €16.4 million to €53.9 million. This year-on-year increase was due to the higher addition to provisions for share-based remuneration and short-term incentives, and to the growth in the number of employees and annual salary rises.

Other operating expenses rose by €27.6 million to €107.8 million, mainly because of higher costs for external services and consultancy. Other operating expenses also includes foreign currency exchange rate losses resulting from the measurement of bank accounts and cash pools in foreign currencies.

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

- Of the total income from profit-transfer agreements, €332.1 million related to Linde Material Handling GmbH (2018: €343.4 million).
- Interest expense and similar charges, which amounted to €52.9 million (2018: €54.9 million), arose mainly from the external financing of the KION Group via the promissory notes and loan agreements and, to a smaller extent, from interest charged on intercompany liabilities and the unwinding of the discount on pension provisions.
- Other interest and similar income amounting to €62.4 million (2018: €61.6 million) for the most part consisted of interest income on intercompany receivables.

KION GROUP AG incurred tax expenses of €94.6 million as a result of its role as the parent company of the tax group in 2019 (2018: €55.5 million). The tax expenses had been lower in 2018 because of a positive tax effect of €29.4 million resulting from an amendment to tax law in Germany.

A total net profit of €156.9 million was generated in the year under review (2018: €236.3 million). > TABLE 021

Net assets

At the end of 2019, the total assets of KION GROUP AG had increased by approximately 1.4 per cent year on year to €7,680.5 million.

The financial assets largely comprise the carrying amounts of the equity investments in Dematic Holdings GmbH (€2,862.2 million) and Linde Material Handling GmbH (€1,368.4 million).

The receivables mainly consist of loans and cash pool receivables due from other Group companies and the Company's entitlement to the transfer of profits from Linde Material Handling GmbH of €332.1 million (2018: €343.4 million). There are long-term loans to Group companies of €606.1 million.

After taking into account the dividend payment of €141.5 million and the €1.7 million decrease in the volume of treasury shares, the net profit of €156.9 million meant that equity rose to €3,828.6 million (2018: €3,811.6 million). Further disclosures on

Financial performance TABLE 021

in € million	2019	2018	Change
Revenue	47.2	30.5	54.8%
Other operating income	28.4	33.5	–15.1%
Material expenses	–0.6	–0.7	20.1%
Personnel expenses	–53.9	–37.5	–43.7%
Other operating expenses	–107.8	–80.2	–34.5%
Depreciation expense	–0.5	–0.4	–17.3%
Operating loss	**–87.2**	**–54.9**	**–58.8%**
Net financial income	338.7	346.7	–2.3%
Income taxes	–94.6	–55.5	–70.5%
Net income	**156.9**	**236.3**	**–33.6%**

Net assets

TABLE 022

in € million	2019	2018	Change
Assets			
Property, plant and equipment	2.8	3.3	–14.5%
Financial assets	4,231.2	4,231.2	0.0%
Receivables and other assets	3,405.7	3,321.6	2.5%
Cash and cash equivalents	40.7	18.3	> 100%
Deferred income	0.0	–	–
Total assets	**7,680.5**	**7,574.5**	**1.4%**
Equity and liabilities			
Equity	3,828.6	3,811.6	0.4%
Retirement benefit obligation	47.4	39.3	20.4%
Tax provisions	44.3	23.2	90.9%
Other provisions	33.4	22.9	45.8%
Liabilities	3,726.8	3,677.5	1.3%
Total equity and liabilities	**7,680.5**	**7,574.5**	**1.4%**

treasury shares can be found in the notes to the financial statements of KION GROUP AG. The equity ratio was 49.8 per cent as at the reporting date (2018: 50.3 per cent).

The €39.6 million rise in provisions to €125.1 million was mainly the result of additions in tax provisions and to the provisions for share-based remuneration and short-term incentives. Pension provisions include provisions of €10.3 million (2018: €9.5 million) for former members of the Executive Board of KION GROUP AG and its legal predecessors. KION GROUP AG recognised tax provisions of €44.3 million (2018: €23.2 million) including those in connection with its role as the parent company of the tax group.

Liabilities mainly consist of liabilities to banks of €1,739.5 million (2018: €1,978.7 million) as well as loan liabilities and cash pool liabilities to other Group companies. The liabilities to banks comprise the financing via the promissory notes, the acquisition facilities agreement (AFA) and other loan liabilities. > TABLE 022

Financial position

By pursuing an appropriate financial management strategy, the KION Group – through 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.

KION GROUP AG has a multi-currency revolving credit facility of €1,150.0 million. It has a variable interest rate and, as it currently stands, can be drawn down until February 2023. As at 31 December 2019, the amount drawn down was €0.0 million (2018: €101.8 million). The drawdowns under the revolving credit facility are classified as short term.

KION GROUP AG also has liabilities to banks from variable-rate loans in the amount of €400.0 million (2018: €600.0 million) that mature in October 2021. These include the liabilities under the AFA, of which €400.0 million was repaid early in 2019 using cash received from operating activities, additional borrowing and the issuance of a new promissory note. As at 31 December 2019, the remaining liability under the AFA amounted to €200.0 million (2018: €600.0 million).

In April 2019, KION GROUP AG issued a new variable-rate promissory note in a nominal amount of €120.5 million. In return, €20.5 million of the fixed-rate tranche of the promissory note from 2018 was repaid ahead of schedule. Promissory notes that mature between 2022 and 2027, and have variable-rate or fixed coupons, have been issued in a nominal amount totalling €1,310.0 million (2018: €1,210.0 million). KION GROUP AG has entered into a number of interest-rate derivatives in order to hedge the interest-rate risk resulting from the variable-rate tranches. Moreover, the risk of a change in the fair value of a fixed-rate tranche of the promissory note that was issued in 2018 is hedged using an interest-rate swap, thereby creating a EURIBOR-based variable-rate obligation.

The liabilities to banks and the promissory notes are not hedged. KION GROUP AG has issued guarantees to the banks for all of the payment obligations under its liabilities to them and it is the borrower in respect of all the payment obligations resulting from the promissory notes.

As at 31 December 2019, liabilities to banks amounted to €1,739.5 million (2018: €1,978.7 million). After deduction of cash and cash equivalents, net debt amounted to €1,698.8 million (2018: €1,960.4 million).

Employees

The average number of employees at KION GROUP AG was 249 in 2019 (2018: 217). KION GROUP AG employed 262 people as at 31 December 2019 (2018: 230).

Concluding declaration on the report on relationships with affiliated entities (dependency report), section 312 (3) sentence 3 AktG

With respect to the legal transactions and other measures mentioned in the report on relationships with affiliated entities, we hereby declare that in each case the Company received appropriate consideration in accordance with the circumstances of which we were aware at the time when the legal transactions were concluded or the measures were taken or omitted and that it did not suffer any disadvantages as a result of such measures having been taken or omitted.

Frankfurt am Main, 21 February 2020

The Executive Board

Gordon Riske

Anke Groth

Dr Eike Böhm

Ching Pong Quek

NON-FINANCIAL PERFORMANCE INDICATORS

The KION Group's enterprise value is determined not only by financial KPIs but also by non-financial factors. They are based on the Company's relations with its customers and employees, on its technological position and on environmental considerations. The KION Group can only achieve the targets that it has formulated for itself in the KION 2027 strategy if it is an attractive and responsible employer that is able to retain competent and committed employees at all sites. It also needs to develop products and solutions that are closely tailored to customers' needs and environmental requirements now and in the future, and to continually increase the customer benefits provided by its products and services. Furthermore, production processes must be designed 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 ultimate objective of the KION Group's HR strategy is to provide the best possible support for the targeted implementation of the KION 2027 strategy. The KION Group's success in the implementation of KION 2027 is founded on the capabilities and commitment of its employees.

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 our workforce, the various labour markets, demographic change and digitalisation.

The KION Group's employer brands are very important in this regard. Familiarity with the three main employer brands, Linde Material Handling, STILL and Dematic, remains very high and was further strengthened during the reporting period. In 2019, STILL was recognised as a top employer for the eighth year in succession by the Top Employers Institute, a certification organisation.

Our shared KION Group values

The shared values and leadership principles of the KION Group, which were developed and introduced in 2017 as part of an international bottom-up and top-down process, were in the spotlight once again in 2019 with the objective of further embedding them in the Company. The Operating Units formulated and implemented a host of measures at local level to facilitate and strengthen employees' identification with the shared values.

Regular communications via the KION intranet played an important role alongside the local measures in 2019. For example, a series of features on employees who embody the values particularly well was expanded, as was a series of regular communications on the 2027 strategy and the values.

Headcount

The average number of employees (full-time equivalents (FTEs), including trainees and apprentices) in the KION Group was 34,002 in 2019 (2018: 32,524 FTEs).

As at 31 December 2019, the KION Group companies employed 34,604 FTEs, 1,476 more than a year earlier. > TABLE 023

Employees (full-time equivalents)* TABLE 023

31/12/2019	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
Western Europe	18,077	2,376	849	21,302
Eastern Europe	2,821	197	263	3,281
Middle East and Africa	88	13	–	101
North America	243	2,990	–	3,233
Central and South America	504	715	–	1,219
Asia-Pacific	4,398	1,070	–	5,468
Total	**26,131**	**7,361**	**1,112**	**34,604**
31/12/2018				
Western Europe	17,641	2,210	796	20,647
Eastern Europe	2,642	131	–	2,773
Middle East and Africa	206	4	–	210
North America	232	2,745	–	2,977
Central and South America	486	739	–	1,225
Asia-Pacific	4,326	970	–	5,296
Total	**25,533**	**6,799**	**796**	**33,128**

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

Personnel expenses amounted to €2,292.8 million. The main reason for this increase of 9.2 per cent compared with 2018 was the rise in average headcount for 2019 and changes to collective bargaining agreements. > TABLE 024

Personnel expenses TABLE 024

in € million	2019	2018	Change
Wages and salaries	1,820.6	1,653.4	10.1%
Social security contributions	398.7	364.2	9.5%
Post-employment benefit costs and other benefits	73.5	82.6	–11.0%
Total	**2,292.8**	**2,100.2**	**9.2%**

Diversity

The KION Group sees itself as a global company with strong intercultural awareness: as at 31 December 2019, people from around 95 different countries were employed across the KION Group.

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

The KION Group is taking various steps to tackle the challenges of demographic change, for example by providing working conditions that are suited to employees' age-related requirements and organising healthy-living programmes so that it can continue to benefit from older employees' experience. As at 31 December 2019, 26.7 per cent of employees were over the age of 50 (2018: 26.6 per cent).

The proportion of the KION Group's total workforce made up of women rose to 16.7 per cent in 2019 compared with 16.2 per cent in 2018. To help increase the proportion of management positions occupied by women, the Executive Board set targets that are published in the corporate governance report. Going forward, the KION Group intends to fill more management positions internationally in order to better fulfil the continually growing requirements placed on the Company. The KION Group offers flexible working-time models that promote a good work-life balance. In addition, various initiatives were launched in 2019 aimed at increasing diversity in the Company, while the Female Mentoring Programme that started in 2018 welcomed a second group of managers.

Development of specialist workers and executives

Further good progress was made in the implementation of the new global process introduced in 2017/2018 for performance management and succession planning. Measures to actively manage the performance of executives were strengthened, for example. Succession planning was also stepped up, resulting in an increase in the number of candidates earmarked for key positions. There was an additional focus on identifying young high-potential candidates who will be put on targeted development programmes. In 2019, the first group of global high-potential candidates successfully completed a new training course to set them on the path to fulfilling an executive function. Some members of this group have already been promoted to a senior management position.

As well as introducing programmes targeted at specific groups, the KION Group remains committed to generally offering its employees 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 across the Group who have potential, who are high performers or who are experts in key functions.

The Operating Units STILL, Linde MH and Dematic also have academies that run subject-specific and interdisciplinary training courses to develop employees' skills, particularly in sales and service.

Training and professional development

The companies in the KION Group currently offer training for 23 professions in Germany. Besides providing dual vocational training schemes, KION Group companies offer work placements for students combining vocational training with a degree course in cooperation with various universities. The total number of trainees and apprentices was 672 as at 31 December 2019 (2018: 601).

Sharing in the Company's success

The KION Group launched the KION Employee Equity Programme (KEEP) in 2014. Initially limited to Germany, the programme was then rolled out to more countries. Around 1,850 employees participated in this share matching programme in 2019, roughly 7 per cent of the total number who are eligible to do so.

Since 2014, the remuneration of the approximately 500 top executives has included a remuneration component running over several years that is based on the long-term success of the Company and is granted annually.

Employee commitment

The KION Group's products and services destined for its customers are produced by committed employees. That is why all KION companies aim to ensure a high level of employee commitment. Based on the manager survey conducted in 2015 and the action plan derived from it, a package of measures was defined and implemented in 2016 as part of the 'Lift up' transformation initiative, in particular to ensure the organisational structure is firmly embedded and to communicate the KION Group's strategy more widely. A new manager survey was carried out in 2017 which revealed that the action plan derived from the earlier survey had been successfully implemented and the KION Group was therefore able to improve on the results of the 2015 survey.

The third manager survey conducted in autumn 2019 showed further significant improvements. The large number of completed action plans, many the product of team workshops, had a very positive impact again, and this was again confirmed by the comparison with other companies.

Health and safety in the workplace

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

HSE activities in 2019 continued to centre on an internal audit programme that covers the KION Group's production facilities as well as sales and service. The programme systematically documents HSE measures and processes and provides specific ideas for how they can be developed further. It also takes into account the requirements of the ongoing certification of all production facilities and sales and service outlets to ISO 14001, which is scheduled to be completed by the end of 2021. Last year, 20 central HSE audits were carried out within the KION Group. Further progress was also made in the implementation of comprehensive minimum HSE standards, which are mandatory for all sites. Employees can access these via the intranet.

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

HSE managers at the KION Group's production facilities and in its sales and service units have the opportunity to meet and talk with one another at international conferences that take place once a year.

Numerous activities aimed at improving health, such as fitness programmes and advice on nutrition and healthcare, also have a positive effect on health and safety in the Group. The vast majority of employees have access to voluntary health-related activities at their site. The Nilkheim site, for example, launched a new exercise programme developed in partnership with sports physicians that is tailored to specific work situations.

At 2.8 per cent on average, the illness rate for 2019 remained at a satisfactory level (2018: 2.8 per cent). The illness rate is the figure for illness-related or accident-related absences from the workplace. The lost time injury frequency rate (LTIFR) fell slightly from 10.8 in 2018 to 8.7 last year. The long-term target is for this to remain permanently below 8.

Further information on this, on the other HSE key performance indicators and on the measures initiated and implemented in 2019 will be included in the KION Group's separate sustainability report, which will be published in April 2020 on the KION GROUP AG website.

Research and development

Strategic focus of research and development

Under the KION 2027 strategy, research and development is set up so as to facilitate the sustained success of the KION Group as a leading global supplier of integrated, automated supply chain solutions and mobile automation solutions. The innovativeness of the portfolio is being significantly increased by concentrating heavily on automation and robotics solutions that are based on a cross-segment software platform.

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

Key R&D figures

Spending on research and development rose to €237.3 million in 2019 (2018: €221.7 million), which equates to 2.7 per cent of revenue (2018: 2.8 per cent). Total R&D expenditure included €81.9 million in capitalised development costs (2018: €84.0 million). Alongside this addition to capitalised development costs, there were amortisation and impairment charges of €82.1 million (2018: €76.6 million) (see note [16] in the notes to the consolidated financial statements). A total of €155.3 million (2018: €137.7 million) was expensed. > TABLE 025

The number of full-time equivalents in R&D teams went up by 3.9 per cent to 1,583 employees compared to 31 December 2018.

The KION Group takes comprehensive measures to protect the products it develops against imitations and pursues a dedicated patent strategy. In 2019, the KION companies applied for a total of 81 new patents (2018: 105). As at 31 December 2019, the companies of the KION Group held a total of 2,912 patent applications and issued patents (2018: 2,923 patent applications and issued patents).

Research and development (R&D) TABLE 025

in € million	2019	2018	Change
Research and development costs (P&L)	155.3	137.7	12.8%
Capitalised development costs	81.9	84.0	–2.5%
Total R&D spending	**237.3**	**221.7**	**7.0%**
R&D spending as percentage of revenue	2.7%	2.8%	–

Focus of R&D in 2019

Energy

The availability of lithium-ion technology was further improved during the reporting period. Virtually all new products can, at the customer's request, be fitted with the new battery system. This includes the new generation of the Linde N20 C low-lift order picker, which makes order picking in the 1.2 to 2.5 tonne capacity range more cost effective, and the new RX 60-25/35 electric forklift truck range from STILL, which also offers improved hoisting speeds. A trade magazine attested that the RX 60 was the first electric forklift truck to offer greater productivity than comparable IC trucks.

The proportion of industrial trucks equipped with lithium-ion technology rose again, in part because of significant new orders, including one for Linde to supply a fleet of energy-efficient pallet stackers. Having a safe and quality-assured all-in-one system comprising the truck, battery and charger is a major plus point. Decentralised chargers enable the batteries to be topped up regularly, which eliminates the need for battery changes.

The fuel cell portfolio was also expanded in 2019. The hydrogen-powered variant of the Linde P250 tow tractor offers the advantages of extremely short refuelling times and long-lasting fuel cells.

Digital

iQ Virtual is a new simulation and emulation platform from Dematic that provides a virtual environment to explore new configurations of existing systems. It can be directly integrated with the warehouse execution software Dematic iQ Optimize to test in advance how efficiently a particular system would run under different operating conditions and in different scenarios. The virtual emulation model uses graphical rendering technology to provide an accurate portrayal of labour productivity and the automated flow of materials, thus making a significant contribution to warehousing efficiency with the aid of integrated software control. The innovative iQ Virtual is suitable both for analysing and optimising the design of new facilities and for optimising facilities that are already in operation.

In addition, significant progress was made in integrating fleet management into a single software platform and in digital connectivity. For example, the H20–H35 IC counterbalance trucks from the new Linde 1202 range offer digital networking capability thanks to a data transmission unit as part of the standard specification. This allows information about the trucks' condition and usage to be analysed by special software that can also be used to optimally plan essential maintenance and efficiently calculate running costs. Linde also presented a new service manager app that allows service jobs to be created on a smartphone.

As part of the digitalisation of internal processes, the fleet management solutions from STILL (neXXt fleet) and Linde (connect:desk) and Dematic's iQ InSights asset performance management platform were migrated to the corporate cloud. This means, for example, that software can be activated for customers within a matter of minutes and they can be provided with real time analyses and visualisations. The KION Product Development Optimisation (KPDO) initiative, meanwhile, is bringing greater efficiency and greater customer focus to the product development process and helping to bring products to market more quickly. One of the improvement projects, the IC.IDO virtual reality system for visualising integrated products in three dimensions, has already been made available to STILL and Linde and is reducing the need for physical prototypes. Making greater use of artificial intelligence for products and software solutions is a further long-term focus in the field of digitalisation.

Automation

The new modular automated guided vehicle (AGV) solution Dematic Compact is one of the ways in which the Mobile Automation unit accommodates the automated point-to-point transfer of pallets, skids, racks, tubs and rolls, including pick-up, transport and drop-off, for low to mid capacity applications. Its compact design makes it suitable for tight spaces and for repetitive material transport tasks in multi-shift operations. The onboard vehicle control software is standardised for all vehicle formats to enable fast and easy configuration. Mobile Automation also focused on developing products for the Industrial Trucks & Services segment that would drive forward the automation and networking of warehouse and logistics solutions using driverless vehicles.

PackMyRide, the world's first fully automated parcel-loading solution, is revolutionising how parcels are handled prior to the 'last mile' stage of delivery. The subsystem collects the parcels from the existing intralogistics system and transports them into mobile racking units that communicate with automated guided vehicle systems. This fully automates the process of loading delivery vehicles, which should mean huge time and cost savings for parcel delivery services and customers from other industries. Parcel delivery service DPD has successfully completed a trial of the system.

Dematic's micro-fulfilment automation system, which was introduced in the fourth quarter of 2019, is tailored to the requirements of omnichannel retailers with high throughput rates. Orders are put together fully automatically within a maximum of one hour. The micro-fulfilment facilities comprise proven technology such as Dematic's Multishuttle and goods-to-person picking solutions together with customised Dematic iQ software. The compact design of the fully automated system means that fulfilment centres can be installed close to the end consumer, which brings down delivery times even further.

Efficiency gains are also being achieved with the new subsystem for returns management, which runs on Dematic iQ software: it accelerates all processing steps from inspection to repackaging and allows omnichannel retailers and online retailers to significantly increase the number of returns they are able to handle on a daily basis and thus raise customer satisfaction and productivity. Pouch sorting systems are also being used more and more in e-commerce distribution centres. Thanks to the newly developed automatic pouch emptier, which uses a durable, cost-effective and fully automated mechanism to open the bottom of the pouch, Dematic has significantly increased the speed at which its space-saving omnichannel solution operates.

Since 2019, new and updated automation products have been fitted as standard with the kinds of sensors and communication equipment that will make them suitable for the broad rollout of IoT services and for better pre-emptive maintenance options as a means of further increasing uptime.

Customers

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

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

The Supply Chain Solutions segment benefits from long-standing customer relationships with major players in the e-commerce and logistics sectors. They influence the success of the segment's new business and service business. Specific solutions, such as micro-fulfilment, help Dematic to further consolidate its position in major customer sectors, including general merchandise, grocery wholesale and retail, fashion, food and beverage manufacturing, and parcel and courier services. The KION Group is already a global player in most of these sectors and enjoys established relationships with its customers. It has been able to extend these relationships through joint development projects and other initiatives. These efforts are supported by targeted customer retention formats, such as the Dematic customer day that was launched in 2019 for small and medium-sized enterprises and focuses mainly on compact and versatile automation solutions as well as aftersales services.

The KION brand companies again exhibited at the sector's leading trade fairs in various regions in 2019 in order to consolidate their standing among customers and partners.

In the EMEA region, the Linde, STILL and Baoli brand companies, as well as Dematic, presented their most important innovations in the fields of automation, energy and safety at the 2019 LogiMAT trade fair in Stuttgart. Dematic also exhibited its comprehensive range of solutions for the optimisation of supply chains at the Warehouse Tech Middle East 2019 in Dubai.

The presence of the two operating segments in Asia and North America was significantly expanded. At CeMAT ASIA, the flagship intralogistics trade fair for Asia, Linde, Baoli and Dematic teamed up to exhibit their products and technologies for automation, digitalisation and alternative drive systems. The three brand companies also intend to work closely together to make Industry 4.0 a reality in China. At ProMat 2019 in Chicago, the KION Group was represented alongside Dematic and KION North America and exhibited numerous new process solutions and technologies. The market launch of Linde's product line for warehouse automation marked a significant milestone for KION North America in its efforts to expand its North America business. Dematic, meanwhile, sponsored the Material Handling & Logistics Conference in Utah, where customers and industry experts engaged in dialogue in a wide range of workshops and lectures on new trends and applications.

In 2019, the level of appreciation from customers and the strength in innovation demonstrated by the KION Group's brand companies were again recognised in the form of major awards. STILL collected yet another IFOY Award, this time for the automated LiftRunner with LTX 50 in the AGV & Intralogistics Robot category and for its online portal for intelligent fleet management, STILL neXXt fleet. At inter airport Europe 2019, Linde picked up the event's Excellence Award in the interRAMP category for its innovative assistance system Linde Safety Guard. Dematic received the 2019 German Brand Award in the year that it celebrates its 200th anniversary, and its Imagination Center at the Heusenstamm site won the coveted Red Dot design award.

Sustainability

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

The KION Group's commitment to sustainability has been recognised by investors, banks and rating agencies. The KION Group was added to the FTSE4Good Index Series for the first time in June 2019, following an independent assessment. Its corresponding FTSE Russel ESG Rating was 3.4. The KION Group was also given a rating (B) by the global environmental impact charity CDP and an industry-specific Prime Status rating (C+) by ISS ESG. These ratings are supporting the KION Group's efforts to be categorised as a sustainable investment for environmentally conscious investors.

In addition, the KION Group's Operating Units further improved their sustainability profile last year. LMH EMEA, for example, received a gold ranking from the rating agency Ecovadis.

The groupwide sustainability report for 2019, which will be published in April 2020, contains information on strategy, the management approach and structures for sustainability as well as data on relevant key performance indicators. It also contains the KION Group's non-financial declaration as required under German law. For this reason, the KION Group has not provided detailed information in the 2019 combined management 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.

Assumptions

The forecasts in this section are derived from the KION Group's multiple-year market, business and financial planning, which is based on various 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, labour costs, sale prices and movements in exchange rates.

Expected macroeconomic conditions

In its outlook for 2020 published in January 2020, the International Monetary Fund (IMF) predicts a modest increase in the rate of global growth to 3.3 per cent, which will be driven mainly by the anticipated rally in the economies of the emerging markets and developing nations. The IMF expects higher growth rates particularly for India, Russia and Central and South America, whereas growth in China is likely to slow a little. By contrast, the pace of expansion in the developed economies – including the eurozone – will remain at the low level achieved in 2019. According to the IMF's prediction, the worldwide volume of trade will grow at a much faster rate than last year.

Initial indications that the manufacturing industry and global trade appear to have turned the corner are positive signals for the global economy. They are accompanied by an intensification of expansionary monetary policy by the central banks, the first signs of a rapprochement in the US-China trade dispute. The UK's withdrawal from the EU on 31 January 2020 and the associated transition phase also supports the assessment of a possible economic recovery.

This outlook from the IMF is lower than its previous expectations, which it primarily attributes to unexpected macroeconomic difficulties in some emerging markets.

The organisation makes explicit reference to risks that may result, for example, from an escalation in the trade dispute between the US and some of its trading partners or from geopolitical factors.

Expected sectoral conditions

The overall market for industrial trucks and warehouse systems is likely to see further strong growth in 2020 if economic conditions stabilise slightly as expected. The ongoing expansion of the supply chain solutions market and a stabilisation of the global market for industrial trucks are primed to be the engines of growth. Overall, the global material handling market is once again expected to grow at a much faster rate than global GDP. The KION Group believes that this is primarily because the fundamental growth drivers will remain intact, particularly the fragmentation of value chains and consumers' increasing preference for e-commerce. Growth at regional level, particularly in the cyclical market for industrial trucks, will again depend heavily on the economic conditions in the main sales markets.

Following the market correction in 2019, the KION Group is expecting new business with industrial trucks in terms of unit sales to hold steady in 2020, but to be below the long-term growth trend of around 4 per cent. Further geopolitical tensions and global economic uncertainty cannot be ruled out for the year 2020. The KION Group is in an excellent position from which to take advantage of the continued progress that is expected in the electrification of warehouses. The high number of trucks in operation worldwide provides a sustainable customer base for the service business.

In 2020, demand for supply chain solutions in the form of warehouse automation is likely to again be underpinned by the strong inclination to invest seen in the main customer industries in connection with omnichannel and e-commerce strategies. In the medium-term, market growth is expected to be in the high single digits.

Expected business situation and financial performance of the KION Group

In 2020, the KION Group aims to build on its successful performance in 2019 and, based on the forecasts for market growth, record a moderate increase in revenue. The KION Group's adjusted EBIT for 2020 will be adversely affected by the substantial volume of strategic capital expenditure aimed at further expanding the business.

The order intake of the KION Group is expected to be between €9,050.0 million and €9,750.0 million. The target figure for consolidated revenue is in the range of €8,650.0 million to €9,250.0 million. The target range for adjusted EBIT is €770.0 million to €850.0 million. Free cash flow is expected to be in a range between €270.0 million and €370.0 million. The target figure for ROCE is in the range of 8.5 per cent to 9.5 per cent.

Order intake in the Industrial Trucks & Services segment is expected to be between €6,250.0 million and €6,550.0 million. The target figure for revenue is in the range of €6,150.0 million to €6,450.0 million. The target range for adjusted EBIT is €610.0 million to €650.0 million.

Order intake in the Supply Chain Solutions segment is expected to be between €2,800.0 million and €3,200.0 million. The target figure for revenue is in the range of €2,500.0 million to €2,800.0 million. The target range for adjusted EBIT is €240.0 million to €280.0 million. > TABLE 026

Outlook TABLE 026

	KION Group		Industrial Trucks & Services		Supply Chain Solutions	
in € million	2019 Actual	2020 Outlook	2019 Actual	2020 Outlook	2019 Actual	2020 Outlook
Order intake*	9,111.7	9,050.0–9,750.0	6,330.5	6,250.0–6,550.0	2,771.0	2,800.0–3,200.0
Revenue*	8,806.5	8,650.0–9,250.0	6,410.2	6,150.0–6,450.0	2,378.8	2,500.0–2,800.0
Adjusted EBIT*	850.5	770.0–850.0	695.1	610.0–650.0	228.1	240.0–280.0
Free cash flow	568.4	270.0–370.0	–	–	–	–
ROCE	9.7%	8.5 %–9.5 %	–	–	–	–

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

Expected financial position of the KION Group

Having significantly reduced its net financial debt as at 31 December 2019, the KION Group does initially not plan to further reduce financial liabilities in view of the upcoming capital expenditure.

Overall statement on expected performance

The KION Group believes it will continue along its path of growth and aims to further improve its market position worldwide in 2020. The higher level of strategic capital expenditure will adversely affect adjusted EBIT and thus profitability in 2020. The outlook for the fiscal year 2020 does not take into account possible effects from global pandemics or comparable events, as a valid estimate of the resulting effects is not possible due to insufficient data.

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 a 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. Risk management is embedded in the corporate controlling function and plays an active and wide-ranging role due to the strategic focus of corporate controlling. The Operating Units' business models, strategic perspectives and specific plans of action are examined systematically. This ensures that risk management is 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 online reporting system designed specifically for the requirements of risk management. Risks affecting more than one Group company, such as market risks and competition risks, 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 the Group accounting process.

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

The employees involved in the (Group) 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. Specially trained KION Group employees carry 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. A team is responsible for monitoring the system-based controls, which it supplements 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:

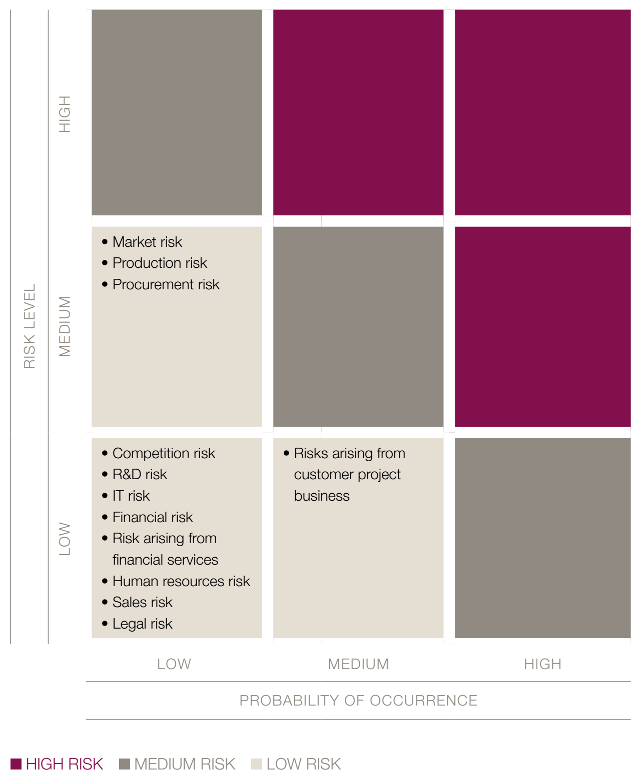
- appropriateness and effectiveness of the internal control systems for avoiding financial losses
- compliance with legal requirements, directives from the Executive Board, other policies and internal instructions
- correct performance of tasks and compliance with business principles

Risk

Aggregate risk

The aggregate risk position was largely unchanged compared with the prior year. With regard to 2020, the risks in the risk matrix below will be continually observed and evaluated in terms of their extent and probability of occurrence. For example, unlike in the prior year, the KION Group considers there to be a low probability of the materialisation of procurement risks that would lead to a negative deviation from the assumptions underlying the forecast. This is mainly because of the generally improved ability of suppliers to supply. 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

Risk matrix 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 resulting from the Company's general funding situation 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. Following the decline in the Industrial Trucks & Services segment in the reporting year, the KION Group expects market growth to stabilise or increase slightly at best, and for the strong rate of expansion in the market for supply chain solutions to continue. These expectations have been factored into the outlook.

Cyclical fluctuations in macroeconomic activity affect both the market for industrial trucks and the market for supply chain solutions, although the latter has greater immunity to economic cycles. Customers' decisions on whether to invest depend to a large degree on the macroeconomic situation and conditions in their particular sector. In the event of hightened economic uncertainty, global pandemics or even economic downturns, customers tend to postpone their capital expenditure plans. Although demand for services is less cyclical than new business with industrial trucks, 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 significant proportion of revenue generated outside the eurozone (due in part to the strong North American business of the Supply Chain Solutions segment and the expansion of business in China), the bulk of revenue continues to be billed in euros. As a result, the market conditions that prevail in the eurozone impact significantly on the KION Group's financial performance.

Following the significant slowdown in growth in 2019, a moderate economic recovery is expected for 2020. The rate of expansion is poised to increase more in the emerging markets, driven in particular by growth in India, Russia and Central and South America. This base forecast is subject to risks that would result in particular from any new escalation in the US-China trade dispute, despite the recent rapprochement between the two countries, and to geopolitical tensions that could potentially weaken growth. In the medium-term, the barriers to trade could significantly hamper productivity and even lead to disruption in global supply chains. Financial market risks, for example in the form of higher risk premiums for emerging markets, could make it more difficult to finance capital expenditure.

All these factors could have a negative impact on customers' willingness to invest and thus on demand for the KION Group's products. However, it is not currently foreseeable whether these market risks will become relevant and then have a material effect on the business situation and financial performance.

The geopolitical situation is monitored closely. Various measures aimed at making cost structures more flexible – such as the consolidation of production facilities, leveraging of cost synergies 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, changes to customs rules, capital controls, expropriations and social unrest.

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 mainly 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, especially China, are also looking for opportunities to expand. As developments in the competitive landscape during the course of the year showed, the high quality expectations and the service needs of customers in developed markets still present a barrier to growth for many of these manufacturers but the bar is getting lower. 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 excellent customer benefits provided by its products have enabled the KION Group to charge appropriate prices until now, it is taking a variety of steps to contain competition risk. Alliances, partnerships, acquisitions and other measures are increasingly playing a role in improving the KION Group's competitiveness in terms of resources, market access, product range and digitalisation expertise. 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 the construction and expansion of production facilities, proactive cross-selling by the two operating segments, 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 build on its leading technological position in respect of individual products and system solutions in order to become the leading supplier of automated supply chain solutions and mobile automation solutions. 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 – including the growing use of digital technologies in value chains – 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 general availability of parts and components and the rising cost of raw materials, energy, inputs and intermediate products. In particular, capacity bottlenecks on the part of suppliers could result in the KION Group facing backlogs in the supply of individual raw materials and components. These backlogs can lead to temporary decreases in revenue and liquidity as well as to inefficiencies in production. 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, despite an easing of the situation on the supplier side. The KION Group mitigates this risk by further diversifying 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 2019, around 19.8 per cent of the cost of materials for new trucks was directly influenced by changes in commodity prices (2018: around 25.5 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 to operational procedures or production downtime at individual sites. They can also materialise as secondary risks resulting from the aforementioned procurement risks. 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. The process of ramping up new production sites is another potential source of risk. 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 risks involved in the process of ramping up new production sites remained insignificant in the reporting year and are minimised by means of project management and contractual provisions. The Company has taken out a commercially appropriate level of insurance to limit the risk of potential losses. 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 schedule originally agreed with the customer, potentially 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 over the term of the project 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 financial 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.

The potential risks that may arise in the project realisation phase are analysed in every individual project using detailed continuous reviews based on the individual items of work that make up the project. This keeps 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. Because of its customer project business, the Supply Chain Solutions segment generally has a greater dependence on individual sectors and individual customers than the Industrial Trucks & Services segment. Nevertheless, the concentration risk for the KION Group overall 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 migration risk when updating software and any IT-related risks that may arise from the failure of IT systems and IT infrastructure. Internal IT resources are pooled in the cross-segment KION Group IT function, which has well-established processes for portfolio management and project planning and control. Independent external reviews are conducted to provide additional quality assurance. Various technical and organisational measures protect the data of the KION Group and the Group companies against unauthorised access, misuse and loss. These measures include procedures to validate and log access to the Group's infrastructure.

Further IT risks exist in connection with potential breaches of data privacy laws, including in relation to the processing of personal data and the documentation of such processing. For example, serious breaches of the European General Data Protection Regulation (GDPR) can lead to fines of up to 4 per cent of the previous year's revenue. In the reporting year, the KION Group completed its groupwide project to ensure full compliance with the GDPR's provisions related to data protection and documentation. Furthermore, employees were reminded that all of the Group's stakeholders have privacy rights that must be upheld. Given that the KION Group maintains consistently high compliance standards, the probability of data protection laws being breached is regarded as very low. The developments in 2019 have confirmed this assessment.

Financial risks

Corporate Treasury is responsible for ensuring that sufficient financial resources are always available for the KION Group. The main types of financial risk managed by Corporate 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.

A risk management policy issued by Corporate Treasury stipulates how to deal with the aforementioned risks. Risk arising out of the lending and promissory note conditions that have been agreed was not regarded as material as at 31 December 2019. 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 obligations in this regard in the reporting year.

Some of the Group's financing takes the form of variable-rate or fixed-rate financial liabilities. Interest-rate swaps are used to hedge the resultant interest-rate risk and the risk of a change in the liabilities' fair value.

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. In the Industrial Trucks & Services segment, at least 75 per cent of the currency risk related to the planned operating cash flows based on liquidity planning is normally hedged by currency forwards in accordance with the risk management policy. The Supply Chain Solutions segment hedges itself against currency risk on a project-by-project basis. Corporate 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. Corporate Controlling 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 with an indefinite useful life represented 32.1 per cent of total assets as at 31 December 2019 (2018: 33.7 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 2019. 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 lease 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-rented. 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 provisions 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. In many cases, the residual values have underlying remarketing agreements that transfer any residual-value risk to the lease company. This had a positive impact on the financial results in 2019. 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 arranged on a fixed-interest basis. If they are financed using variable-rate instruments, interest-rate derivatives are entered into in order to hedge the interest-rate risk. Hedging is carried out at regular intervals and is based either on the carrying amount of the assets or the outstanding cash flows from the underlying end customer contracts.

The credit facilities provided by various banks and an effective dunning process ensure that the Group has sufficient liquidity.

In order to exclude currency risks, the KION Group generally finances its lease business in the local currency used in each market.

The counterparty risk inherent in the lease business continues to be insignificant. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. Furthermore, receivables management and credit risk management are refined on an ongoing basis. Besides the design of the business processes, this also encompasses the risk management and control processes.

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 necessary to secure the Company's long-term competitiveness may result in a risk of strikes and reactions of other kinds by the workforce. The KION Group is committed to doing all it can to limit the negative impact on the workforce of such measures and, if job losses are necessary, taking steps to ensure they are achieved with the minimum possible social impact. At sites where codetermination arrangements provide for the workforce to be involved in decision-making, the KION Group engages in constructive talks on these matters with the employee representatives.

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 decommissioned sites, for example because of 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 2019, 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 previous experience. There is no management system for the evaluation of opportunities comparable to the system for risk management.

Categorisation of opportunities

'Opportunities' are understood as positive deviations from the expectations set out in the outlook relating to the economic situation and the KION Group's business situation. 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 2020. 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. Moreover, a weakening of the euro could bring positive currency effects that have not been factored into the planning.

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 efficiency increases that are needed due to limited warehouse space and changing consumer requirements
- high demand for replacement investments, especially in developed markets
- the trend towards outsourcing of service functions for industrial trucks, outsourcing of entire logistics processes in the supply chain solutions business 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, including in regard to lithium-ion technology
- growing demand for automation solutions and fleet management solutions, including networked automated guided vehicle systems and industry-specific system solutions, in connection with the rapidly expanding e-commerce sector and the implementation of Industry 4.0 projects
- the advancing digitalisation and automation of production and supply chains through the use of robotics solutions and their integration into the respective software application environment

Strategic opportunities

The positive impact of the strategic activities under the KION 2027 strategy is already appropriately reflected in the expectations regarding the KION Group's financial performance in 2020. 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:

- achievement of a leading global market and technology position with regard to truck automation and innovative drive technologies as an integral element of automated warehouse solutions
- a greater presence in the economy and volume price segments, particularly as a result of the systematic implementation of the segment-wide platform strategy
- stronger involvement in the electrification of warehousing and logistics processes, including by ensuring availability of lithium-ion technology across the entire product range and expanding market share in the lightweight warehouse truck sector
- further strengthening of its market-leading position in the EMEA region and achievement of a stronger position in the APAC and Americas regions, in particular by boosting its technological expertise, making greater use of shared modules and harnessing potential for cross-selling
- 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 and the installed base of supply chain solutions

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

- further expansion of its position in the market for intralogistics solutions based on the growing acceptance of automation concepts
- the development and establishment in the market of solutions for systems and subsystems that meet specific customer requirements in specific industries, for example to allow automated and rapid fulfilment in close proximity to end customers
- further strengthening of its market-leading position in automated guided vehicle systems (AGV) and
- expansion of the market position in the EMEA regions, particularly central and eastern Europe, and APAC by sharing sales and production structures with Industrial Trucks & Services

Business-performance opportunities

Business-performance opportunities arise firstly 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 and expanding existing ones, 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. Secondly, activities are carried out under the KION strategy aimed at improving operational excellence in logistics, technology & product development and production and at lowering material and quality costs, for example by reducing the complexity of the product range.

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

- Ongoing efficiency increases in the production network, including through the integration of additional sites, may boost sales and improve the gross margin.
- Effective use and centralised coordination of global development capacities may create synergies and economies of scale.
- Activities to improve operational excellence and lower costs may help the KION Group to achieve future growth with a disproportionately small rise in costs.

Disclosures relevant to acquisitions, section 315a and 289a HGB

1. Composition of subscribed capital

The subscribed capital (share capital) of KION GROUP AG amounted to €118.09 million as at 31 December 2019. It is divided into 118.09 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 2019, the Company held 130,644 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 (Luxembourg) Holding S.à r.l., Luxembourg ('Weichai Power') directly or indirectly held more than 10 per cent of the voting rights in KION GROUP AG as at 31 December 2019 and its shareholding was 45.0 per cent.

- According to the disclosures pursuant to the German Securities Trading Act (WpHG), the shareholding held by Weichai Power is deemed to belong to the following other companies: > TABLE 027

Companies and countries to which Weichai Power is deemed to belong

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 these changes are subject to report 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 association

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 Company's articles of association, 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 association, 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 association be passed by resolution of the Annual General Meeting. In accordance with article 23 of the articles of association in conjunction with section 179 (2) sentence 2 AktG, resolutions at the Annual General Meeting on amendments to the articles of association 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 association.

The Supervisory Board is authorised in article 10 (3) of the articles of association to amend the articles of association 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 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.

In 2019, the Company again made use of this authorisation, purchasing 60,000 shares in the period 9 to 20 September 2019. From these newly acquired shares plus those that were already in treasury, a total of 67,104 shares were used during the reporting year as part of KEEP 2019 and 14,136 bonus shares were used as part of KEEP 2016 for the employees of the Company and certain Group companies. In February 2020, a further 7,338 treasury shares will be used for US participants' own investments under KEEP 2019.

- On the basis of a resolution of the Company's Annual General Meeting on 11 May 2017, the Executive Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by up to €10.88 million by issuing up to 10.88 million new no-par-value ordinary bearer shares for cash and/or non-cash contributions up to and including 10 May 2022 (2017 Authorised Capital). The 2017 Authorised Capital became effective when the corresponding change to the articles of association was entered in the commercial register at the Wiesbaden local court (HRB 27060) on 12 May 2017.

With the consent of the Supervisory Board's ad-hoc transaction committee set up for this purpose, the Executive Board resolved on 22 May 2017 to use part of the 2017 Authorised Capital and, disapplying shareholders' pre-emption rights, to increase the Company's share capital by a nominal €9.3 million to €118.090 million by issuing 9.3 million new no-par-value bearer shares in the Company. This equates to an 8.55 per cent rise in the Company's share capital in existence on the effective date and at the time of use of the 2017 Authorised Capital. The capital increase took effect when its implementation was entered in the commercial register at the Wiesbaden local court under HRB 27060 on 23 May 2017. Consequently, the Executive Board is currently authorised by the Annual General Meeting to increase the Company's share capital by up to €1.579 million by issuing up to 1.579 million new no-par-value bearer shares for cash and/or non-cash contributions.

- On the basis of a resolution of the Annual General Meeting on 11 May 2017, the Executive Board was also authorised, in the period up to and including 10 May 2022, 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 €1 billion, 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 10.88 million new shares of KION GROUP AG with a pro-rata amount of the share capital of up to €10.88 million ('2017 Authorisation'). The 2017 Conditional Capital of €10.88 million was created to service the debt instruments. The 2017 Authorisation has not been used so far.

The 2017 Conditional Capital will be reduced by, among other things, the portion of the share capital attributable to shares issued on the basis of the 2017 Authorised Capital. As part of the capital increase in May 2017, 9.3 million new shares were issued on the basis of the 2017 Authorised Capital. Consequently, conditional capital of up to €1.579 million 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 significant contracts (still in force on 31 December 2019) 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.

- Promissory note agreements (seven tranches with different coupons and different maturities) dated 13 February 2017 / 29 March 2017, concluded between KION GROUP AG and Landesbank Baden-Württemberg; the latter subsequently passed them on to its investors
- Promissory note agreements (two tranches with different coupons) dated 26 June 2018, concluded between KION GROUP AG and Landesbank Hessen-Thüringen; the latter subsequently passed them on to its investors
- Promissory note agreement dated 10 April 2019, concluded between KION GROUP AG and Landesbank Hessen-Thüringen; the latter subsequently passed part of it on to its investors

The provisions in these promissory note agreements that apply in the event of a change of control are largely identical to those in the senior facilities agreement dated 28 October 2015.

9. Compensation agreements that the Company has signed with the Executive Board members or employees and 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

In accordance with statutory requirements and the recommendations of the German Corporate Governance Code (DCGK) as amended on 7 February 2017, this remuneration 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 2019. The report also reflects the requirements of German accounting standard (GAS) 17 and the German Commercial Code (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.

Because the act implementing the second Shareholder Rights' Directive ('ARUG II') and the recommendations of the new German Corporate Governance Code come into force on 1 January 2020, the Supervisory Board will be approving a new remuneration system for the members of the Executive Board of KION GROUP AG in 2020. This will incorporate feedback from investors on the current remuneration system. The Supervisory Board put together a task force to deal with this matter in 2019. The new remuneration system will be finalised during the course of 2020 and presented to the 2021 Annual General Meeting for approval. This is in accordance with the rules regarding first-time application of ARUG II and the obligation to declare compliance with the new recommendations of the German Corporate Governance Code at the time the next declaration of conformity is due to be issued.

EXECUTIVE BOARD REMUNERATION

I. 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.

As recommended by the Executive Committee, the Supervisory Board approved the remuneration system by adopting resolutions at its meetings on 29 June 2016 and 28 September 2016, taking account of the requirements of stock company law and the DCGK.

The remuneration system described below for the members of the Executive Board of KION GROUP AG has applied since 1 January 2017 and was approved by the Annual General Meeting of KION GROUP AG on 11 May 2017 with a majority of 71.68 per cent. The Supervisory Board acknowledged these voting results from the 2017 Annual General Meeting and believes that it therefore has an ongoing duty to review the remuneration system.

1) Essential features of the Executive Board remuneration system

The Supervisory Board based the level of remuneration for the members of our Executive Board on benchmark analyses of executive board pay in the MDAX. These analyses were conducted on behalf of the Supervisory Board by a consultancy that is independent of KION.

The Supervisory Board's decision on changing the remuneration system was guided by KION GROUP AG's positioning in the top quartile of the MDAX on the basis of its size, market position and total assets.

The remuneration of the Executive Board of KION GROUP AG is determined in accordance with the requirements of the German Stock Corporation Act 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. The financial and individual targets used in the Executive Board remuneration system are in line with the business strategy. The Supervisory Board regularly reviews the structure and appropriateness of Executive Board remuneration.

In doing so, the Supervisory Board focuses on the sustainability of the Company's long-term performance and has therefore given a high weighting to the multiple-year variable remuneration components. The granting of a long-term incentive in the form of performance shares with a three-year term means that this component is linked to the share price and incentivises Executive Board members to ensure the Company performs well over the long term.

The total remuneration of the Executive Board comprises a non-performance-related salary, non-performance-related non-cash benefits, non-performance-related pension entitlements and performance-related (variable) remuneration. The system specifically allows for both positive and negative developments.

2) Upper limits on total remuneration

In accordance with the DCGK, remuneration is subject to upper limits on the amounts payable, both overall and 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 roughly 1.7 times the target remuneration (2018: 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. The specific figures are shown in > TABLE 032.

3) Overview of the structure and parameters of Executive Board remuneration

Structure and parameters of Executive Board remuneration TABLE 028

Component	Proportion of target value	Measurement basis	Range	Basis and criteria	Payment
Basic remuneration	32%–37%	Function, remit, responsibility	Fixed	Specified in service contract	Monthly instalments
One-year variable remuneration (STI)	20%–22%	KION Group's overall success/results, Group targets, individual targets, overall performance	0%–200% (full achievement = 100%)	Achievement of financial targets for year (adjusted EBIT and free cash flow) and assessment of individual performance	After adoption of annual financial statements
Multiple-year variable remuneration (LTI)	42%–49%	KION Group's overall success/results, Group targets, individual targets, overall performance	0%–200% (full achievement = 100%) + share price performance	Achievement of ROCE target and relative total shareholder return compared with the MDAX and assessment of individual performance	After expiry of three-year period and adoption of annual financial statements
Pension plan		Defined contribution pension entitlements and defined benefit entitlement	Annual pension contribution / annual service cost	Pension entitlement for retirement, insured event, early termination	Capital/ annuity
Non-cash remuneration and additional benefits				Specified in service contract	

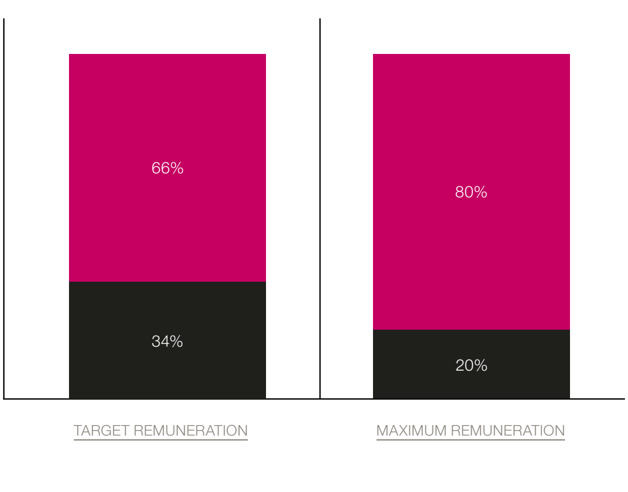
The regular cash remuneration for a particular year, consisting of a non-performance-related fixed annual salary and performance-related (variable) remuneration, has a heavy emphasis on performance. If the targets set by the Supervisory Board are completely missed, only the fixed salary is paid. The cash remuneration is structured as follows in the event that the target value/maximum value is reached:

Target value:
32 to 37 per cent fixed annual salary
20 to 22 per cent one-year variable remuneration
42 to 49 per cent multiple-year variable remuneration

Maximum value:
19 to 23 per cent fixed annual salary
23 to 26 per cent one-year variable remuneration
52 to 58 per cent multiple-year variable remuneration

The variable components of the cash remuneration make up between 63 and 68 per cent of the target value and between 77 and 81 per cent of the maximum remuneration. In each case, multiple-year components account for two-thirds of the total.

Ratio of fixed to variable pay on average DIAGRAM 006



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 KPIs relevant to one-year variable remuneration are adjusted earnings before interest and tax (EBIT) and free cash flow. The relevant KPIs for multiple-year variable remuneration are return on capital employed (ROCE) and relative total shareholder return (TSR).

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.

II. The components of Executive Board remuneration in detail

A. Non-performance-related remuneration

1) Fixed salary and additional benefits

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.

2) 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 2019, this additional amount totalled €496 thousand (2018: €420 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 2019, the additional benefits for Mr Quek amounted to a total of €135 thousand (2018: €136 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.

3) 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.

Fixed annual contributions of €250 thousand for Ms Groth, €150 thousand for Ms Schneeberger and Dr Böhm and €124.5 thousand for Mr Quek are 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.

B. Performance-related remuneration

1) One-year variable remuneration (short-term incentive)

The one-year variable remuneration is a remuneration component linked to the profitability and productivity of the KION Group in the relevant financial year. This is the same as the arrangement in our remuneration system for senior managers. Its amount is determined by the achievement of the following targets:

- Adjusted earnings before interest and tax (adjusted EBIT), weighting of 50 per cent
- Free cash flow, weighting of 50 per cent

The target values for the financial components are derived from the annual budget and specified in target agreements between the Supervisory Board and Executive Board.

No bonus is paid if target achievement is 70 per cent or less (lower target limit). In cases where the targets are significantly exceeded (upper target limit of 130 per cent), the bonus can be doubled at most (payment cap of 200 per cent). > DIAGRAM 007

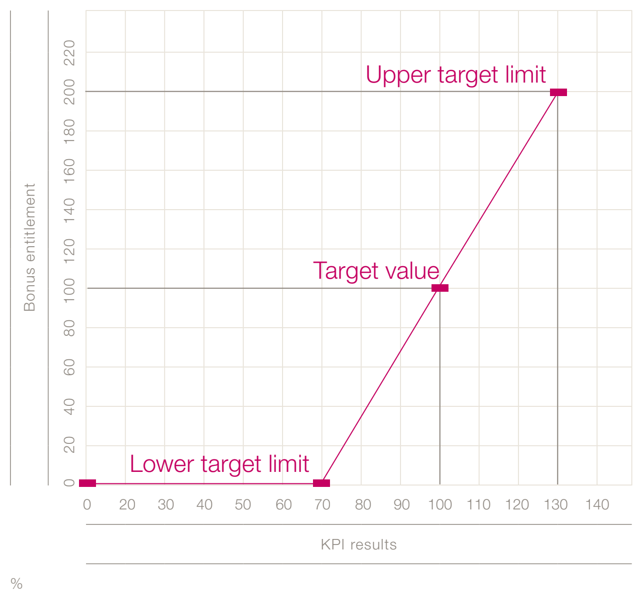
If the targets derived from the annual budget are achieved in full, target achievement is 100 per cent. The target achievement levels for the weighted targets (adjusted EBIT and free cash flow) are added together to give the total target achievement.

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 0.7 and 1.3. The main criteria used for this performance-based adjustment are growth of market share, successful innovations and the Organizational Health Index (OHI), which measures the improvement in the Company's management culture. There are also agreements relating to special operational and, in particular, strategic projects that are very important to the Company's long-term development. The discretionary performance multiple 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 30 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 financial statements for the year in question have been adopted. > DIAGRAM 008

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.

1 a) Bonus curve for the short-term incentive

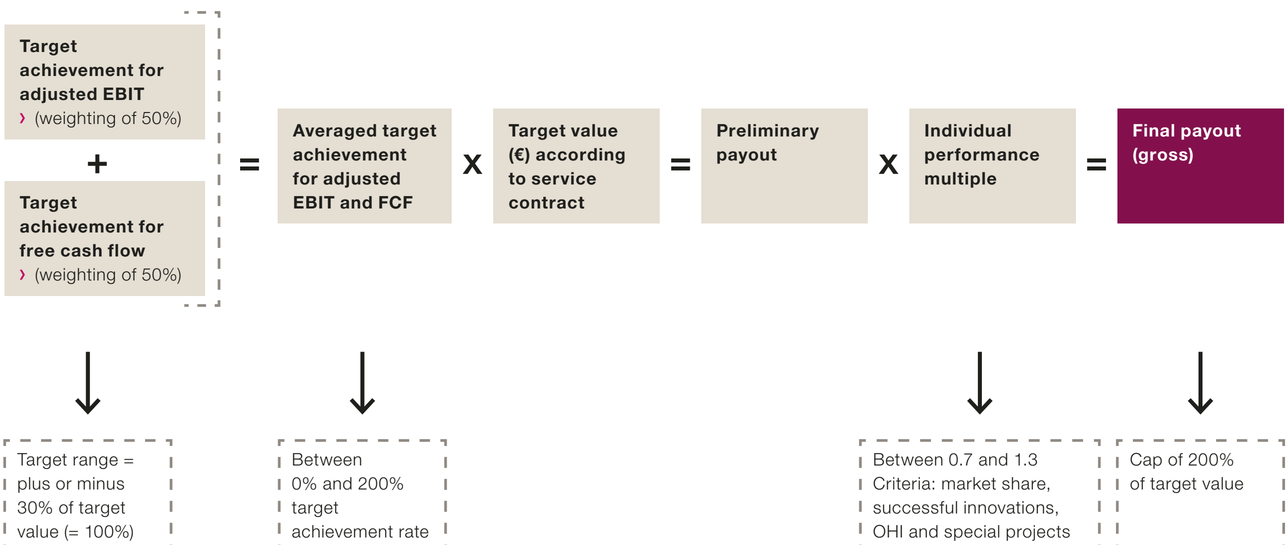
STI bonus entitlement DIAGRAM 007



1 b) Diagram showing the calculation of one-year variable remuneration (short-term incentive)

STI

DIAGRAM 008



2) Multiple-year variable remuneration (long-term incentive)

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 in place for the Group's senior managers. The basis of measurement has been defined as the total shareholder return (TSR) for KION shares compared with the MDAX and return on capital employed (ROCE). Each has a weighting of 50 per cent. The annual tranches promised 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 share price on the relevant date at the start of the performance period. This share price, which is calculated to two decimal places, is determined from the average Xetra closing price of KION shares (closing auction prices) on the Frankfurt Stock Exchange (or a successor system that replaces it) over the last 60 trading days prior to the start of the performance period.

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.

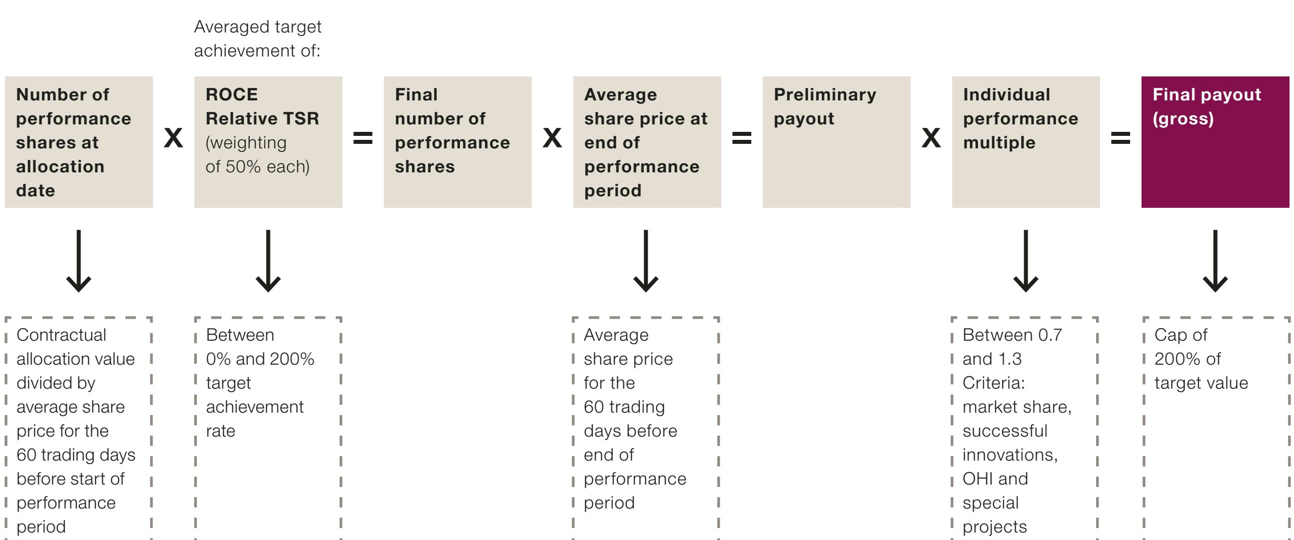
In respect of the ROCE target, there is no entitlement if target achievement is 70 per cent or less. If the target is significantly exceeded (target achievement of 130 per cent or more), the entitlement is capped at 200 per cent. Regarding the relative TSR target, there is no entitlement if KION shares underperform the MDAX. If the KION shares outperform this index by 20 per cent or more, the entitlement is capped at 200 per cent. If KION shares outperform the MDAX by 6.67 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 targets for the three-year period. For the performance share plan, the criteria used to assess individual performance are – as for the one-year variable remuneration – growth of market share, successful innovations and the Organizational Health Index (OHI), which measures the improvement in the Company's management culture. For the LTI too, there are also agreements relating to special operational and, in particular, strategic projects that are very important to the Company's long-term development. 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 30 per cent, although the maximum payment may not exceed 200 per cent of the allocation value. > DIAGRAMS 009–010.

2 a) Diagram showing the calculation of multiple-year variable remuneration (long-term incentive)

LTI — **DIAGRAM 009**



2 b) Target ranges for relative TSR and ROCE

LTI — DIAGRAM 010

Target achievement	External measurement basis: relative TSR (weighting of 50%)	Internal measurement basis: ROCE (weighting of 50%)
0%	Underperformance	70% of budgeted figure
50%	Outperformance of 0%	85% of budgeted figure
100%	Outperformance of 6.67%	Budgeted figure
200%	Outperformance of 20%	130% of budgeted figure

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 GAS 17, IFRS 2 and the 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. > TABLES 029–031

The total expense in 2019 amounted to €4,084 thousand (2018: income of €1,763 thousand).

2017 performance share plan — TABLE 029

	Contractual allocation value of the performance share plan on the date of grant	Number of performance shares granted [1]	Fair value per performance share on date of grant	Expense for share-based remuneration in 2018 [2]	Expense for share-based remuneration in 2019 [2]
Gordon Riske	€1,600 thousand	29,712	€53.85	–€179 thousand	€324 thousand
Dr Eike Böhm	€1,000 thousand	18,570	€53.85	–€112 thousand	€203 thousand
Ching Pong Quek	€830 thousand	15,413	€53.85	–€149 thousand	€159 thousand
Dr Thomas Toepfer [3]	€1,000 thousand	18,570	€53.85	€0 thousand	€0 thousand
Total	**€4,430 thousand**	**82,265**		**–€440 thousand**	**€686 thousand**

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 29 per cent in 2019 (2018: 53 per cent) as part of a tax equalisation agreement.
3 All of Dr Toepfer's entitlements under the performance share plan have expired because he left the Company on 31 March 2018.

2018 performance share plan

TABLE 030

	Contractual allocation value of the performance share plan on the date of grant	Number of performance shares granted[1]	Fair value per performance share on date of grant	Expense for share-based remuneration in 2018[2]	Expense for share-based remuneration in 2019[2]
Gordon Riske	€1,600 thousand	22,906	€69.85	€185 thousand	€441 thousand
Dr Eike Böhm	€1,000 thousand	14,316	€69.85	€116 thousand	€275 thousand
Anke Groth[3]	€861 thousand	12,328	€69.85	€68 thousand	€242 thousand
Ching Pong Quek	€830 thousand	11,883	€69.85	€147 thousand	€272 thousand
Susanna Schneeberger[4]	€750 thousand	10,737	€69.85	€29 thousand	€216 thousand
Total	**€5,041 thousand**	**72,170**		**€544 thousand**	**€1,446 thousand**

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 29 per cent in 2019 (2018: 53 per cent) as part of a tax equalisation agreement.
3 The contractual allocation value of the performance share plan on the date of grant was recognised pro rata from the date of appointment to the Executive Board (1 June 2018).
4 The contractual allocation value of the performance share plan on the date of grant was recognised pro rata from the date of appointment to the Executive Board (1 October 2018).

2019 performance share plan

TABLE 031

	Contractual allocation value of the performance share plan on the date of grant	Number of performance shares granted[1]	Fair value per performance share on date of grant	Expense for share-based remuneration in 2019[2]
Gordon Riske	€1,600 thousand	32,868	€48.68	€551 thousand
Dr Eike Böhm	€1,000 thousand	20,542	€48.68	€344 thousand
Anke Groth	€1,000 thousand	20,542	€48.68	€344 thousand
Ching Pong Quek	€830 thousand	17,050	€48.68	€369 thousand
Susanna Schneeberger	€1,000 thousand	20,542	€48.68	€344 thousand
Total	**€5,430 thousand**	**111,544**		**€1,952 thousand**

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 29 per cent as part of a tax equalisation agreement.

3) 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. 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 a reason 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 €300 thousand per annum on the basis of previous contracts. 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.

4) Share ownership guidelines

In connection with the updated remuneration system for Executive Board members that has been in force since 1 January 2017, the Supervisory Board decided to introduce share ownership guidelines, under which all Executive Board members are required to hold shares worth 100 per cent of their basic remuneration. They have to build up their shareholding to this percentage and hold the shares for as long as they remain on the Executive Board. The obligation to hold the full number of shares begins no later than four years after the start of the obligation to hold shares. In the first four years, they are permitted to increase their shareholding incrementally: they must hold 25 per cent of the full number of shares no later than twelve months after the start of the obligation, 50 per cent by the end of the second year and 75 per cent by the end of the third year. The Executive Board members to whom these guidelines apply held the required number of shares as at 31 December 2019 and thus fulfilled this obligation.

The relevant number of shares is determined on the basis of the arithmetic mean (rounded to two decimal places) of the Xetra closing prices (closing auction prices) of the Company's shares on the Frankfurt Stock Exchange (or a successor system that replaces it) over the last 60 trading days prior to the start of the obligation to hold the shares and then rounded to the nearest whole number.

It is not necessary to acquire further shares once the full number of shares has been reached, nor will there be an obligation to purchase additional shares if the share price falls. There is only an obligation to purchase additional shares if there is a change to the fixed annual remuneration in the member's Executive Board service contract or if a capital reduction, capital increase or stock split takes place.

III. Remuneration for members of the Executive Board in 2019

In accordance with the recommendations of the DCGK, as amended on 7 February 2017, 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 032

Secondly, > TABLE 033 shows the total remuneration allocated/ earned, comprising fixed remuneration, short-term variable remuneration and long-term variable remuneration, broken down by reference year.

1) Benefits granted pursuant to the DCGK

The total remuneration granted to Executive Board members for 2019 was €14,025 thousand (minimum: €5,826 thousand, maximum: €22,224 thousand) (2018: €13,148 thousand). Of this amount, €4,276 thousand (2018: €3,628 thousand) was attributable to fixed non-performance-related remuneration components, €8,199 thousand (minimum: €0 thousand, maximum: €16,398 thousand) (2018: €7,722 thousand) to variable one-year and multiple-year performance-related remuneration components, €272 thousand (2018: €841 thousand) to non-performance-related non-cash remuneration and other benefits and €1,277 thousand (2018: €957 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 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more). The figure shown for multiple-year variable remuneration is the fair value of the performance share plan 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 032

Benefits granted in 2019

TABLE 032

€ thousand			Gordon Riske – CEO of KION GROUP AG 2018	2019	2019 (min.)	2019 (max.)	Dr Eike Böhm – CTO of KION GROUP AG 2018	2019	2019 (min.)	2019 (max.)
Non-performance-related components		Fixed remuneration	1,400	1,400	1,400	1,400	650	650	650	650
		Non-cash remuneration and other benefits [1]	34	34	34	34	15	17	17	17
		Total	**1,434**	**1,434**	**1,434**	**1,434**	**665**	**667**	**667**	**667**
Performance-related components	Short-term incentive	**One-year variable remuneration [2,3]**	**800**	**800**	**0**	**1,600**	**400**	**400**	**0**	**800**
	Share-based long-term incentive	**Multiple-year variable remuneration [4,5,6]**	**1,600**	**1,600**	**0**	**3,200**	**1,000**	**1,000**	**0**	**2,000**
		Performance share plan (1 Jan 2018–31 Dec 2020)	1,600				1,000			
		Performance share plan (1 Jan 2019–31 Dec 2021)		1,600	0	3,200		1,000	0	2,000
		Total	**3,834**	**3,834**	**1,434**	**6,234**	**2,065**	**2,067**	**667**	**3,467**
		Pension expense [7]	631	620	620	620	147	144	144	144
		Total remuneration	**4,464**	**4,454**	**2,054**	**6,854**	**2,212**	**2,211**	**811**	**3,611**

Reconciliation to total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17

			Gordon Riske 2018	2019	2019 (min.)	2019 (max.)	Dr Eike Böhm 2018	2019	2019 (min.)	2019 (max.)
		Minus the one-year variable remuneration granted	–800	–800			–400	–400		
		Plus the expected one-year variable remuneration (allocation)	663	1,156			331	578		
		Minus the pension expense	–631	–620			–147	–144		
		Plus the adjustment of the one-year variable remuneration for the previous year	170				1	–33		
		Total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17	**3,866**	**4,190**			**1,997**	**2,212**		

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 58 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 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more).
4 Fair value on the date of grant.
5 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 53 per cent) as part of a tax equalisation agreement.
6 All of Dr Toepfer's entitlements under the performance share plan have expired because he left the Company on 31 March 2018.
7 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

Benefits granted in 2019

TABLE 032

€ thousand			Anke Groth, CFO of KION GROUP AG from 1 June 2018 2018	2019	2019 (min.)	2019 (max.)	Ching Pong Quek, Chief Asia Pacific Officer of KION GROUP AG 2018	2019	2019 (min.)	2019 (max.)
Non-performance-related components		Fixed remuneration	467	800	800	800	749	776	776	776
		Non-cash remuneration and other benefits[1]	320	13	13	13	136	135	135	135
		Total	**787**	**813**	**813**	**813**	**885**	**911**	**911**	**911**
Performance-related components	Short-term incentive	**One-year variable remuneration[2,3]**	**292**	**500**	**0**	**1,000**	**525**	**428**	**0**	**857**
	Share-based long-term incentive	**Multiple-year variable remuneration[4,5,6]**	**861**	**1,000**	**0**	**2,000**	**1,270**	**1,071**	**0**	**2,141**
		Performance share plan (1 Jan 2018–31 Dec 2020)	861				1,270			
		Performance share plan (1 Jan 2019–31 Dec 2021)		1,000	0	2,000		1,071	0	2,141
		Total	**1,939**	**2,313**	**813**	**3,813**	**2,679**	**2,410**	**911**	**3,909**
		Pension expense[7]		247	247	247	120	118	118	118
		Total remuneration	**1,939**	**2,560**	**1,060**	**4,060**	**2,800**	**2,528**	**1,029**	**4,027**
Reconciliation to total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17										
		Minus the one-year variable remuneration granted	–292	–500			–525	–428		
		Plus the expected one-year variable remuneration (allocation)	242	723			435	619		
		Minus the pension expense		–247			–120	–118		
		Plus the adjustment of the one-year variable remuneration for the previous year					40	–81		
		Total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17	**1,889**	**2,536**			**2,630**	**2,520**		

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 58 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 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more).
4 Fair value on the date of grant.
5 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 53 per cent) as part of a tax equalisation agreement.
6 All of Dr Toepfer's entitlements under the performance share plan have expired because he left the Company on 31 March 2018.
7 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

Benefits granted in 2019

TABLE 032

€ thousand			Susanna Schneeberger 2018	2019	2019 (min.)	2019 (max.)	Dr Thomas Toepfer 2018	2019	2019 (min.)	2019 (max.)
			CDO of KION GROUP AG from 1 October 2018				CFO of KION GROUP AG until 31 March 2018			
Non-performance-related components		Fixed remuneration	163	650	650	650	200	–	–	–
		Non-cash remuneration and other benefits [1]	332	73	73	73	5	–	–	–
		Total	**494**	**723**	**723**	**723**	**205**	**–**	**–**	**–**
Performance-related components	Short-term incentive	**One-year variable remuneration [2,3]**	**100**	**400**	**0**	**800**	**125**	**–**	**–**	**–**
	Share-based long-term incentive	**Multiple-year variable remuneration [4,5,6]**	**750**	**1,000**	**0**	**2,000**	**0**	**–**	**–**	**–**
		Performance share plan (1 Jan 2018–31 Dec 2020)	750					–	–	–
		Performance share plan (1 Jan 2019–31 Dec 2021)		1,000	0	2,000		–	–	–
		Total	**1,344**	**2,123**	**723**	**3,523**	**330**	**–**	**–**	**–**
		Pension expense [7]		148	148	148	59	–	–	–
		Total remuneration	**1,344**	**2,270**	**870**	**3,670**	**389**	**–**	**–**	**–**
Reconciliation to total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17										
		Minus the one-year variable remuneration granted	–100	–400			–125	–		
		Plus the expected one-year variable remuneration (allocation)	83	578			104	–		
		Minus the pension expense	0	–148			–59	–		
		Plus the adjustment of the one-year variable remuneration for the previous year					2	–		
		Total remuneration as defined by section 285 no. 9a, section 314 (1) no. 6a HGB in conjunction with GAS 17	**1,327**	**2,301**			**311**	**–**		

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 58 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 70 per cent or less, maximum: 200 per cent for target achievement of 130 per cent or more).
4 Fair value on the date of grant.
5 The amount shown for Mr Quek includes a flat-rate allowance of 29 per cent (2018: 53 per cent) as part of a tax equalisation agreement.
6 All of Dr Toepfer's entitlements under the performance share plan have expired because he left the Company on 31 March 2018.
7 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

2) Allocation pursuant to the DCGK

The total remuneration allocated to/earned by Executive Board members for 2019 was €11,303 thousand (2018: €9,320 thousand). Of this amount, €4,276 thousand (2018: €3,628 thousand) was attributable to fixed non-performance-related remuneration components, €5,477 thousand (2018: €3,894 thousand) to variable one-year and multiple-year performance-related remuneration components, €272 thousand (2018: €841 thousand) to non-performance-related non-cash remuneration and other benefits and €1,277 thousand (2018: €957 thousand) to the pension expense in accordance with IFRS. The figure shown for one-year variable remuneration is derived from a preliminary total target achievement rate of about 113 per cent based on the budgeted figure. This target achievement rate was calculated using preliminary earnings figures at the beginning of 2020 and equates to a payout of around 145 per cent of the target value for one-year variable remuneration. The preliminary variable remuneration for each Executive Board member is also subject to adjustment by the Supervisory Board in line with the individual performance of the Executive Board member. This adjustment may vary by plus or minus 30 per cent of the variable remuneration. Ms Schneeberger's performance multiple was set at 1.0 for year 2019, i.e. there was no individual adjustment. For the multiple-year variable remuneration, a payment from the 2017 tranche of the performance share plan will be made in spring 2020 on the basis of the achievement of the long-term targets that were defined in 2017 at the start of the performance period. The value shown for 2019 is also calculated on the basis of a preliminary total target achievement rate of about 46 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. Under the terms of the plan at the grant date, this performance-based adjustment may vary by plus or minus 30 per cent.

The additional benefits were measured at the value calculated for tax purposes. > TABLE 033

Allocation in 2019

TABLE 033

€ thousand			Gordon Riske CEO of KION GROUP AG 2018	Gordon Riske CEO of KION GROUP AG 2019	Dr Eike Böhm CTO of KION GROUP AG 2018	Dr Eike Böhm CTO of KION GROUP AG 2019
Non-performance-related components		Fixed remuneration	1,400	1,400	650	650
		Non-cash remuneration and other benefits [1]	34	34	15	17
		Total	**1,434**	**1,434**	**665**	**667**
Performance-related components	Short-term incentive	**One-year variable remuneration [2]**	**663**	**1,156**	**298**	**578**
	Share-based long-term incentive	**Multiple-year variable remuneration**	**1,002**	**795**	**557**	**497**
		Performance share plan [3] (1 Jan 2016 – 31 Dec 2018)	1,002		557	
		Performance share plan (1 Jan 2017 – 31 Dec 2019)		795		497
		Total	**3,098**	**3,385**	**1,519**	**1,742**
		Pension expense [4]	631	620	147	144
		Total remuneration	**3,729**	**4,005**	**1,667**	**1,886**

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The figure shown for one-year variable remuneration for 2018 is the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements. The discretionary performance multiple for Ms Schneeberger has already been set to 1.0 for 2019.
3 The figure shown for multiple-year variable remuneration is for the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements.
4 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

Allocation in 2019

TABLE 033

€ thousand			Anke Groth CFO of KION GROUP AG from 1 June 2018 2018	2019	Ching Pong Quek Chief Asia Pacific Officer of KION GROUP AG 2018	2019
Non-performance-related components		Fixed remuneration	467	800	749	776
		Non-cash remuneration and other benefits [1]	320	13	136	135
		Total	**787**	**813**	**885**	**911**
Performance-related components	Short-term incentive	**One-year variable remuneration [2]**	**242**	**723**	**354**	**619**
	Share-based long-term incentive	**Multiple-year variable remuneration**	**0**	**0**	**593**	**532**
		Performance share plan [3] (1 Jan 2016 – 31 Dec 2018)			593	
		Performance share plan (1 Jan 2017 – 31 Dec 2019)				532
		Total	**1,028**	**1,536**	**1,832**	**2,062**
		Pension expense [4]		247	120	118
		Total remuneration	**1,028**	**1,783**	**1,952**	**2,180**

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The figure shown for one-year variable remuneration for 2018 is the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements. The discretionary performance multiple for Ms Schneeberger has already been set to 1.0 for 2019.
3 The figure shown for multiple-year variable remuneration is for the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements.
4 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

Allocation in 2019

TABLE 033

€ thousand			Susanna Schneeberger CDO of KION GROUP AG from 1 October 2018 2018	Susanna Schneeberger 2019	Dr Thomas Toepfer CFO of KION GROUP AG until 31 March 2018 2018	Dr Thomas Toepfer 2019
Non-performance-related components		Fixed remuneration	163	650	200	–
		Non-cash remuneration and other benefits [1]	332	73	5	–
		Total	**494**	**723**	**205**	**–**
Performance-related components	Short-term incentive	**One-year variable remuneration** [2]	**83**	**578**	**104**	**–**
	Share-based long-term incentive	**Multiple-year variable remuneration**	**0**	**0**	**0**	**–**
		Performance share plan [3] (1 Jan 2016 – 31 Dec 2018)				–
		Performance share plan (1 Jan 2017 – 31 Dec 2019)				–
		Total	**577**	**1,301**	**309**	**–**
		Pension expense [4]		148	59	–
		Total remuneration	**577**	**1,448**	**368**	**–**

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. The amounts for Ms Groth and Ms Schneeberger also contain a one-off compensation payment in 2018 (€314 thousand for Ms Groth, €328 thousand for Ms Schneeberger).
2 The figure shown for one-year variable remuneration for 2018 is the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements. The discretionary performance multiple for Ms Schneeberger has already been set to 1.0 for 2019.
3 The figure shown for multiple-year variable remuneration is for the actual amount paid out, which may differ from the estimated value listed in the 2018 consolidated financial statements.
4 Service cost in accordance with IFRS (the service cost in accordance with the HGB is shown in table 035).

In its meeting on 19 December 2019, the Supervisory Board authorised the chairman of the Supervisory Board to hold talks with Ms Susanna Schneeberger regarding the early termination of her appointment as a member of the Executive Board of KION GROUP AG, the termination of her Executive Board service contract including the conclusion of a termination agreement, and regarding the appropriate arrangements required in accordance with the law and her contract. As a result of the talks, mutual agreement was reached with Ms Schneeberger that she would step down on 12 January 2020 and that her Executive Board service contract would be terminated on 31 March 2020.

Of the total amount of €4,771 thousand paid to Ms Schneeberger resulting from the termination agreement, €4,461 thousand was attributable to non-performance-related remuneration components, €87 thousand to a performance-related component with no long-term incentive, €118 thousand to a performance-related component with a long-term incentive (a pro rata amount for the 2018 and 2019 tranches in accordance with the rules of the performance share plan as at 31 December 2019), €73 thousand to the pro rata allocation of this component for 2020 and €33 thousand to pension expenses.

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 and HGB > TABLES 034–035.

Pension entitlements under IFRS TABLE 034

€ thousand	Service cost 2019	Service cost 2018	Present value (DBO) 31 Dec 2019	Present value (DBO) 31 Dec 2018
Gordon Riske	620	631	8,621	6,897
Dr Eike Böhm	144	147	733	502
Anke Groth	247		430	148
Ching Pong Quek	118	120	951	670
Susanna Schneeberger	148		209	38
Dr Thomas Toepfer [1]		59		

1 Left the Company on 31 March 2018; the present value (DBO) as at 31 December 2018 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 035

€ thousand	Service cost 2019	Service cost 2018	Present value (DBO) 31 Dec 2019	Present value (DBO) 31 Dec 2018
Gordon Riske	520	482	6,702	5,714
Dr Eike Böhm	136	134	733	469
Anke Groth	216		419	129
Ching Pong Quek	128	129	951	615
Susanna Schneeberger	125		193	32
Dr Thomas Toepfer [1]		65		

1 Left the Company on 31 March 2018; the present value (DBO) as at 31 December 2018 was recognised under provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants in accordance with IAS 19.

The total remuneration paid to former members of the Executive Board in 2019 amounted to €262 thousand (2018: €258 thousand). Provisions for defined benefit obligations to former members of the Executive Board or their surviving dependants amounting to €11,672 thousand (2018: €10,463 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.

SUPERVISORY BOARD REMUNERATION

Remuneration system

The Supervisory Board's remuneration is defined in article 18 of KION GROUP AG's articles of association. Members of the Supervisory Board receive fixed remuneration plus reimbursement of out-of-pocket expenses. The fixed annual remuneration of an ordinary member amounts to €55,000. The chairman of the Supervisory Board receives three times the amount of an ordinary member, i.e. €165,000, and his deputy receives two times the amount of an ordinary member, i.e. €110,000.

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 the Executive Committee is usually €8,000, while the chairman of the Executive Committee receives double this amount, i.e. €16,000. Ordinary members of the Audit Committee receive €15,000, the chairman of the Audit Committee €45,000 and his deputy €30,000 in view of their greater responsibilities and thus the greater amount of their time taken up.

If a member of the Supervisory Board or one of its committees does not hold their position for a full financial year, remuneration is paid pro rata in the amount of one twelfth of the annual amount for each full or partial month that they were a member. The same formula is applied if the chair of the Supervisory Board or one of its committees does not hold their position for a full financial year.

The members of the Supervisory Board receive an attendance fee of €1,500 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.

In the interests of the Company, a D&O insurance policy without an excess has been taken out for the members of the Supervisory Board. The Company pays the premiums for this.

Remuneration paid to members of the Supervisory Board in 2019

The total remuneration paid to the Supervisory Board in 2019 was €1,469 thousand (2018: €1,455 thousand). Of this amount, €1,063 thousand (2018: €1,050 thousand) was attributable to fixed remuneration for activities carried out by the Supervisory Board. The remuneration paid for committee work (including attendance fees) totalled €406 thousand (2018: €406 thousand). The following table shows the breakdown of remuneration paid to each Supervisory Board member for 2019. > TABLE 036

In 2019, 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.

Remuneration of the Supervisory Board of KION GROUP AG in 2019 (net)

TABLE 036

	Fixed remuneration	Committee remuneration (fixed)	Attendance fee	Total
Dr Feldmann, John (until 9 May 2019)	€68,750.00	€12,916.67	€9,000.00	€90,666.67
Behrendt, Birgit	€55,000.00		€7,500.00	€62,500.00
Dr Dibelius, Alexander	€55,000.00	€8,000.00	€13,500.00	€76,500.00
Jiang, Kui*	€55,000.00	€8,000.00	€13,500.00	€76,500.00
Dr Reuter, Christina	€55,000.00		€7,500.00	€62,500.00
Ring, Hans Peter	€55,000.00	€53,000.00	€19,500.00	€127,500.00
Tan, Xuguang* (from 9 May 2019)	€36,666.67		€1,500.00	€38,166.67
Dr Macht, Michael	€132,916.67	€20,666.67	€15,000.00	€168,583.33
Xu, Ping*	€55,000.00		€7,500.00	€62,500.00
Pancarci, Özcan	€110,000.00	€8,000.00	€18,000.00	€136,000.00
Casper, Stefan	€55,000.00		€12,000.00	€67,000.00
Kunz, Olaf	€55,000.00	€8,000.00	€16,500.00	€79,500.00
Fahrendorf, Martin	€55,000.00		€12,000.00	€67,000.00
Schädler, Alexandra	€55,000.00	€30,000.00	€19,500.00	€104,500.00
Wenzel, Claudia	€55,000.00	€8,000.00	€18,000.00	€81,000.00
Dr Schepp, Frank	€55,000.00		€12,000.00	€67,000.00
Milla, Jörg	€55,000.00	€23,000.00	€24,000.00	€102,000.00
Total	**€1,063,333.33**	**€179,583.33**	**€226,500.00**	**€1,469,416.67**
* Withholding tax (pursuant to section 50a of the German Income Tax Act (EStG)) incl. the reunification surcharge was also paid over in the following amounts:	€67,915.14	€3,704.46	€10,418.80	€82,038.40

D

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

Consolidated income statement TABLE 037

in € million	Note	2019	2018
Revenue	[7]	8,806.5	7,995.7
Cost of sales	[8]	–6,474.6	–5,898.1
Gross profit		**2,331.9**	**2,097.6**
Selling expenses	[8]	–940.2	–885.5
Research and development costs	[8]	–155.3	–137.7
Administrative expenses	[8]	–546.9	–467.1
Other income	[9]	69.5	86.5
Other expenses	[10]	–54.5	–63.3
Profit (loss) from equity-accounted investments	[11]	12.1	12.2
Earnings before interest and tax		**716.6**	**642.8**
Financial income	[12]	105.5	99.9
Financial expenses	[13]	–200.6	–197.3
Net financial expenses		**–95.1**	**–97.4**
Earnings before tax		**621.6**	**545.3**
Income taxes	[14]	**–176.8**	**–143.7**
Current taxes		–212.8	–166.5
Deferred taxes		36.0	22.9
Net income		**444.8**	**401.6**
Attributable to shareholders of KION GROUP AG		454.8	399.9
Attributable to non-controlling interests		–10.0	1.8
Earnings per share	[15]		
Average number of shares (in million)		117.9	117.9
Basic earnings per share (in €)		3.86	3.39
Diluted earnings per share (in €)		3.86	3.39

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income TABLE 038

in € million	Note	2019	2018
Net income		**444.8**	**401.6**
Items that will not be reclassified subsequently to profit or loss		**–117.8**	**–6.8**
Gains / losses on defined benefit obligation	[28]	–115.9	–0.2
thereof changes in unrealised gains and losses		–168.1	–3.9
thereof tax effect		52.3	3.7
Changes in unrealised gains / losses on financial investments	[22]	–1.9	–6.4
Changes in unrealised gains and losses from equity-accounted investments		–0.0	–0.1
Items that may be reclassified subsequently to profit or loss		**69.4**	**23.6**
Impact of exchange differences		76.1	35.5
thereof changes in unrealised gains and losses		76.1	35.9
thereof realised gains (–) and losses (+)		0.0	–0.3
Gains / losses on hedge reserves	[41]	–6.3	–12.2
thereof changes in unrealised gains and losses		–15.1	–16.0
thereof realised gains (–) and losses (+)		7.2	–1.3
thereof tax effect		1.5	5.1
Changes in unrealised gains / losses from equity-accounted investments		–0.3	0.3
Other comprehensive loss (income)		**–48.4**	**16.8**
Total comprehensive income		**396.4**	**418.4**
Attributable to shareholders of KION GROUP AG		405.9	416.9
Attributable to non-controlling interests		–9.4	1.5

Consolidated statement of financial position

Consolidated statement of financial position – Assets

TABLE 039

in € million	Note	31/12/2019	31/12/2018
Goodwill	[16]	3,475.8	3,424.8
Other intangible assets	[16]	2,256.6	2,296.8
Leased assets	[17]	1,361.2	1,261.8
Rental assets	[18]	632.9	670.5
Other property, plant and equipment	[19]	1,236.3	1,077.8
Equity-accounted investments	[20]	84.5	82.3
Lease receivables	[21]	1,080.9	826.2
Other financial assets	[22]	44.6	29.8
Other assets	[23]	73.8	58.9
Deferred taxes	[14]	449.7	421.7
Non-current assets		**10,696.4**	**10,150.6**
Inventories	[24]	1,085.3	994.8
Lease receivables	[21]	340.1	271.2
Contract assets	[33]	150.2	119.3
Trade receivables	[25]	1,074.2	1,036.4
Income tax receivables	[14]	24.9	31.5
Other financial assets	[22]	74.1	83.4
Other assets	[23]	108.8	106.2
Cash and cash equivalents	[26]	211.2	175.3
Current assets		**3,068.8**	**2,818.2**
Total assets		**13,765.2**	**12,968.8**

Consolidated statement of financial position – Equity and liabilities

TABLE 040

in € million	Note	31/12/2019	31/12/2018
Subscribed capital		118.0	117.9
Capital reserve		3,034.7	3,033.1
Retained earnings		975.2	662.1
Accumulated other comprehensive loss		–560.3	–511.4
Non-controlling interests		–9.2	3.3
Equity	[27]	**3,558.4**	**3,305.1**
Retirement benefit obligation	[28]	1,263.4	1,043.0
Non-current financial liabilities	[29]	1,716.8	1,818.7
Liabilities from financial services	[30]	1,566.9	924.4
Lease liabilities	[31]	243.8	489.3
Other non-current provisions	[32]	113.8	98.9
Other financial liabilities	[35]	500.9	524.6
Other liabilities	[36]	301.2	473.5
Deferred taxes	[14]	570.9	626.7
Non-current liabilities		**6,277.8**	**5,999.1**
Current financial liabilities	[29]	103.7	226.5
Liabilities from financial services	[30]	933.2	548.0
Lease liabilities	[31]	188.3	251.3
Contract liabilities	[33]	504.9	570.1
Trade payables	[34]	975.9	904.2
Income tax liabilities	[14]	88.7	74.4
Other current provisions	[32]	140.6	127.2
Other financial liabilities	[35]	284.0	288.6
Other liabilities	[36]	709.6	674.2
Current liabilities		**3,929.0**	**3,664.6**
Total equity and liabilities		**13,765.2**	**12,968.8**

Consolidated statement of cash flows

Consolidated statement of cash flows

TABLE 041

in € million	Note	2019	2018
Earnings before interest and tax		**716.6**	**642.8**
Amortisation, depreciation and impairment charges of non-current assets	[8]	898.0	897.9
Non-cash reversals of deferred revenue from leases		–212.5	–238.7
Other non-cash income (–)/expenses (+)		27.0	29.2
Gains (–)/losses (+) on disposal of non-current assets	[9], [10]	–3.6	–1.2
Change in leased assets (excluding depreciation) and receivables/liabilities from lease business	[17], [21], [31]	–122.1	–137.5
Change in rental assets (excluding depreciation) and liabilities from rental business	[18], [35]	–146.6	–188.5
Change in net working capital*	[24], [25], [33], [34]	–146.8	–54.3
Cash payments for defined benefit obligations	[28]	–22.0	–37.3
Change in other provisions	[32]	22.5	–19.0
Change in other operating assets/liabilities		27.3	65.4
Taxes paid		–191.6	–193.2
Cash flow from operating activities	[38]	**846.3**	**765.5**
Cash payments for purchase of non-current assets	[38]	–287.4	–258.5
Cash receipts from disposal of non-current assets		3.6	5.1
Dividends received		12.2	14.2
Acquisition of subsidiaries/other businesses (net of cash acquired)		–10.0	–1.6
Cash receipts/payments for sundry assets		3.8	–4.7
Cash flow from investing activities	[38]	**–277.9**	**–245.6**

Consolidated statement of cash flows (continued)

TABLE 041

in € million	Note	2019	2018
Capital increase from issuing of employee shares	[27]	3.7	1.7
Acquisition of treasury shares	[38]	–2.9	–3.6
Dividend of KION GROUP AG	[27]	–141.5	–116.8
Dividends paid to non-controlling interests		–3.1	–2.8
Cash receipts/payments for changes in ownership interests in subsidiaries without change of control		0.0	0.6
Financing costs paid		–3.8	–5.0
Proceeds from borrowings	[38]	2,940.1	1,811.7
Repayment of borrowings	[38]	–3,166.2	–2,042.6
Interest received		3.1	2.5
Interest paid	[38]	–36.7	–42.9
Interest and principal portion from procurement leases	[38]	–126.5	–114.0
Cash receipts/payments from other financing activities		–1.1	–3.4
Cash flow from financing activities	[38]	**–534.9**	**–514.5**
Effect of exchange rate changes on cash and cash equivalents		2.4	–3.2
Change in cash and cash equivalents		**35.9**	**2.2**
Cash and cash equivalents at the beginning of the year	[38]	175.3	173.2
Cash and cash equivalents at the end of the year	[38]	211.2	175.3

* Net Working Capital comprises inventories, contract assets, trade receivables less contract liabilities and trade payables

Consolidated statement of changes in equity

Consolidated statement of changes in equity

in € million	Note	Subscribed capital	Capital reserves	Retained earnings
Balance as at 01/01/2018		**117.9**	**3,034.0**	**379.0**
Net income for the year				399.9
Other comprehensive income (loss)	[27]			
Comprehensive income (loss)		**0.0**	**0.0**	**399.9**
Dividend of KION GROUP AG	[27]			–116.8
Dividends paid to non-controlling interests	[27]			
Acquisition of treasury shares	[27]	–0.1	–3.5	
Changes from employee share option programme	[27]	0.1	2.6	
Effects from the acquisition/disposal of non-controlling interests	[27]			
Balance as at 31/12/2018		**117.9**	**3,033.1**	**662.1**
Balance as at 01/01/2019		**117.9**	**3,033.1**	**662.1**
Net income for the year				454.8
Other comprehensive income (loss)	[27]			
Comprehensive income (loss)		**0.0**	**0.0**	**454.8**
Dividend of KION GROUP AG	[27]			–141.5
Dividends paid to non-controlling interests				
Acquisition of treasury shares	[27]	–0.1	–2.9	
Changes from employee share option programme	[27]	0.1	4.5	
Other changes				–0.2
Balance as at 31/12/2019		**118.0**	**3,034.7**	**975.2**

TABLE 042

	Accumulated other comprehensive income (loss)							
	Cumulative translation adjustment	Gains/losses on defined benefit obligation	Gains/losses on hedge reserves	Gains/losses on financial investments	Gains/losses from equity-accounted investments	Equity attributable to shareholders of KION GROUP AG	Non-controlling interests	Total
	–254.7	**–283.3**	**1.8**	**8.4**	**–0.6**	**3,002.5**	**4.4**	**3,006.9**
						399.9	1.8	401.6
	35.8	–0.2	–12.2	–6.4	0.2	17.0	–0.3	16.8
	35.8	**–0.2**	**–12.2**	**–6.4**	**0.2**	**416.9**	**1.5**	**418.4**
						–116.8	0.0	–116.8
						0.0	–2.8	–2.8
						–3.6	0.0	–3.6
						2.7	0.0	2.7
						0.0	0.2	0.2
	–218.9	**–283.5**	**–10.4**	**1.9**	**–0.4**	**3,301.7**	**3.3**	**3,305.1**
	–218.9	**–283.5**	**–10.4**	**1.9**	**–0.4**	**3,301.7**	**3.3**	**3,305.1**
						454.8	–10.0	444.8
	75.5	–115.8	–6.3	–1.9	–0.3	–48.9	0.6	–48.4
	75.5	**–115.8**	**–6.3**	**–1.9**	**–0.3**	**405.9**	**–9.4**	**396.4**
						–141.5	0.0	–141.5
						0.0	–3.1	–3.1
						–2.9	0.0	–2.9
						4.6	0.0	4.6
						–0.2	0.0	–0.2
	–143.5	**–399.3**	**–16.8**	**0.0**	**–0.8**	**3,567.5**	**–9.2**	**3,558.4**

Notes to the consolidated financial statements

Basis of presentation

[1] GENERAL INFORMATION ON THE COMPANY

KION GROUP AG, whose registered office is at Thea-Rasche-Strasse 8, 60549 Frankfurt am Main, is entered in the commercial register at the Frankfurt am Main local court under reference HRB 112163.

Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China, is the company that prepares the global consolidated financial statements for the largest number of affiliated companies. These consolidated financial statements are not publicly available.

Weichai Power Co., Ltd., Weifang, People's Republic of China, is the company that prepares the global consolidated financial statements for the smallest number of affiliated companies. These are available in English on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the company (www.weichaipower.com).

The KION Group is a global leader in industrial trucks, related services and supply chain solutions. In 2019, the Group and its highly skilled employees generated revenue of €8,806.5 million (2018: €7,995.7 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 21 February 2020.

[2] BASIS OF PREPARATION

The consolidated financial statements of the KION Group for the financial year ended 31 December 2019 have been prepared in accordance with section 315e of the German Commercial Code (HGB) in conjunction with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) applicable as at the reporting date as well as the associated interpretations (IFRICs) of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council concerning the application of international accounting standards. All of the IFRSs and IFRICs that had been enacted by the reporting date and that were required to be applied in the 2019 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 presentation currency. All amounts are disclosed in millions of euros (€ million) unless stated otherwise. Due to rounding effects, addition of the individual amounts shown may result in minor rounding differences to the totals. The percentages shown are calculated on the basis of the respective amounts, rounded to the nearest thousand euros. All of the separate financial statements of the subsidiaries included in the consolidation were prepared as at the same reporting date as the annual financial statements of KION GROUP AG. The comparative figures for the prior year were determined on the same basis.

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 2019:

- Amendments to IFRS 9 ‘Financial Instruments’: amendments relating to the classification of particular prepayable financial assets
- Amendments to IAS 19 ‘Employee Benefits’: amendments in connection with the remeasurement of net defined benefit liabilities resulting from plan amendments, curtailments or settlements
- Amendments to IAS 28 ‘Investments in Associates and Joint Ventures’: clarification relating to the accounting treatment of long-term interests that form part of the net investment in an entity accounted for under the equity method
- IFRIC 23 ‘Uncertainty over Income Tax Treatments’
- Annual Improvements to IFRSs (2015–2017).

The initial application of these standards and interpretations has had no significant effect on the presentation of the financial position and financial performance of the KION Group.

Financial reporting standards released but not yet adopted

The standards and interpretations that had been issued by the IASB as at 31 December 2019 but were not yet required to be adopted in 2019 will probably be applied by the subsidiaries in the basis of consolidation, and by KION GROUP AG, only from the time when they are required to be applied. The initial application of these financial reporting standards and interpretations is expected to have no significant effect on the presentation of the financial position and financial performance of the KION Group.

[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 negative goodwill is recognised in profit or loss. KION GROUP AG recognises non-controlling interests at the proportionate value of the net assets attributable to them excluding goodwill.

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

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

Contingent consideration elements are included at fair value at the date of acquisition when determining the purchase consideration. Contingent consideration elements may consist of equity instruments or financial liabilities, depending on the structure.

On first-time consolidation of an acquisition, all identifiable assets and liabilities are recognised at their fair value at the acquisition date. The fair values of identifiable assets are determined using appropriate valuation techniques. These measurements are based, for example, on estimates of future cash flows, expected growth rates, exchange rates, discount rates and useful lives. In the event of material changes to assumptions or circumstances, estimates must be reassessed and this can lead to the recognition of an impairment loss for the asset concerned.

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

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

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

[4] BASIS OF CONSOLIDATION

KION GROUP AG's equity investments consist of 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.

Associates are equity investments whose financial and operating policies may be significantly influenced, either directly or indirectly, by companies in the KION Group. Significant influence is assumed when companies in the KION Group hold between 20 per cent and 50 per cent of the voting rights.

Joint ventures are equity investments that are jointly managed by companies in the KION Group together with one or more partners, and these parties have rights to the net assets of the joint venture.

Equity investments over which KION Group companies are unable to exercise control or a significant influence, or that are not jointly controlled by them, are classified as financial investments.

The number of equity investments broken down by category is shown in > TABLE 043.

Shareholdings by categories TABLE 043

	01/01/2019	Additions	Disposals	31/12/2019
Consolidated subsidiaries	**134**	**4**	**5**	**133**
Domestic	26	1	1	26
Foreign	108	3	4	107
Equity-accounted associates and joint ventures	**9**	**–**	**–**	**9**
Domestic	5	–	–	5
Foreign	4	–	–	4
Non-consolidated subsidiaries and other investments	**58**	**3**	**8**	**53**
Domestic	15	–	1	14
Foreign	43	3	7	39

A total of 26 (2018: 26) German and 107 (2018: 108) foreign subsidiaries were fully consolidated in addition to KION GROUP AG as at 31 December 2019.

In addition, seven associates and two joint ventures were consolidated and accounted for using the equity method as at 31 December 2019, which was the same number as at 31 December 2018. In each case, the last available annual financial statements were used as the basis for measurement.

In 2019, 53 (2018: 58) companies of minor importance were recognised at amortised cost or at fair value through other comprehensive income. The non-consolidated subsidiaries and other equity investments (joint ventures and associates that are not accounted for using the equity method, plus financial investments) are of minor importance to the presentation of the financial position and financial performance of the KION Group, both individually and as a whole.

Where other requirements are met, the fully consolidated companies listed in > TABLE 044 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 of the German Commercial Code (HGB) on account of their inclusion in the consolidated financial statements. In the case of STILL Financial Services GmbH, it has been decided solely not to disclose the annual financial statements.

For 2019, the UK subsidiaries listed in > TABLE 045 exercised the exemption in section 479A of the UK Companies Act 2006, which releases them from the obligation to have their separate financial statements audited. These subsidiaries are all held indirectly by KION GROUP AG.

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

German subsidiaries exempt from disclosure requirements TABLE 044

Subsidiary	Head office
BlackForxx GmbH	Stuhr
Eisengießerei Dinklage GmbH	Dinklage
Eisenwerk Weilbach GmbH	Frankfurt am Main
Fahrzeugbau GmbH Geisa	Geisa
KION Financial Services GmbH	Frankfurt am Main
KION Information Management Services GmbH	Frankfurt am Main
KION Warehouse Systems GmbH	Reutlingen
Klaus Pahlke GmbH & Co. Fördertechnik KG	Haan
Linde Material Handling GmbH	Aschaffenburg
Linde Material Handling Rental Services GmbH	Aschaffenburg
LMH Immobilien GmbH & Co. KG	Aschaffenburg
LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg
LR Intralogistik GmbH	Wörth an der Isar
Schrader Industriefahrzeuge GmbH & Co. KG	Essen
STILL Financial Services GmbH	Hamburg
STILL Gesellschaft mit beschränkter Haftung	Hamburg
Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim

UK subsidiaries exempt from local audit TABLE 045

Subsidiary	Head office
Linde Holdings Ltd.	Basingstoke
Linde Material Handling East Ltd.	Basingstoke
Linde Material Handling Scotland Ltd.	Basingstoke
Linde Material Handling South East Ltd.	Basingstoke
Linde Severnside Ltd.	Basingstoke
STILL Materials Handling Ltd.	Exeter
Superlift UK Ltd.	Basingstoke

[5] CURRENCY TRANSLATION

Financial statements in foreign currencies are translated in accordance with the functional currency concept. The functional currency is the currency of the primary economic environment in which a KION Group 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, equity is recognised at historical rates. The resulting translation differences are not taken to income and are recognised in accumulated other comprehensive income 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 financial income/expenses.

The translation rates used for currencies that are material to the financial statements are listed in > TABLE 046.

Major foreign currency rates in € TABLE 046

	Average rate		Closing rate	
	2019	2018	2019	2018
Australia (AUD)	1.6103	1.5801	1.5971	1.6268
Brazil (BRL)	4.4154	4.3073	4.5124	4.4465
China (CNY)	7.7338	7.8066	7.8149	7.8669
United Kingdom (GBP)	0.8772	0.8848	0.8459	0.8990
USA (USD)	1.1194	1.1809	1.1213	1.1467

Source: Bloomberg

[6] ACCOUNTING POLICIES

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 consolidated statement of financial position and consolidated income statement. The actual amounts realised may differ from estimates. Assumptions and estimates are applied in particular:

- in assessing the need for and the amount of impairment losses on intangible assets, property, plant and equipment, and inventories
- in determining the useful life of non-current assets
- in classifying and measuring leases and in determining the lease terms
- in recognising and measuring defined benefit pension obligations and other provisions
- in recognising and measuring current and deferred taxes
- in recognising and measuring assets acquired and liabilities assumed in connection with business combinations, and
- in evaluating the stage of completion of contracts where the revenue is recognised over a period of time.

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

Revenue recognition

Revenue is the fair value of the consideration received for the sale of goods and services and rental and lease income (excluding VAT) after deduction of trade discounts and rebates. In addition to the contractually agreed consideration, the transaction price may also include variable elements such as rebates, volume discounts, trade discounts, bonuses and penalties. Revenue is recognised when control over the goods or services passes to the customer. The point in time when the risks and rewards incidental to ownership of the goods sold are substantially transferred to the customer is determined by the underlying contract and the delivery terms specified therein or by international trade rules. Payment terms vary in accordance with the customary conditions in the respective countries. Other criteria may arise, depending on each individual transaction, as described below:

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the KION Group delivers goods to a customer, the risks and rewards incidental to the ownership of the goods sold are substantially transferred to the customer and the flow of benefits to the Group is considered to be sufficiently probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Shipping services are not usually treated as separate performance obligations. In addition to the contractually agreed consideration, the transaction price for key-account customers may also include variable elements such as rebates, volume discounts, trade discounts, bonuses and penalties. The revenue from these sales is recognised in the amount of the price specified in the contract less the estimated price reductions.

Rendering of services

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

Leases / short-term rentals

Revenue from direct lease business is recognised in the amount of the sale value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. If industrial trucks are first sold to and then immediately leased back from a financing partner in order to finance leases, no selling margin in connection with the financing is recognised as the financing partner usually does not obtain control over the industrial truck.

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

Project business contracts

Revenue from the project business is recognised over time 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) and reflects the continual transfer of control over the project to the customer. 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 plus the profit and loss recognised exceed the progress billings, the excess is recognised as a contract asset. If the progress billings exceed the capitalised costs plus the recognised profit and loss, the excess is recognised as a liability under contract liabilities.

If the outcome of a project business contract cannot be reliably estimated, the likely achievable revenue is recognised only 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 factored into the project costing if they are likely to result in revenue and the amount of revenue can be reliably estimated. If the calculated percentage of completion as at the reporting date changes as a result, the difference between the revenue already recognised up to that point and the revenue calculated on the basis of the new estimate of the percentage of completion is recognised in profit or loss.

Project business contracts are accounted for using the percentage-of-completion method based on management estimates of the contract costs incurred. If estimates change, or if there are differences between planned and actual costs, this is directly reflected in the profit or loss from project business contracts. The Operating Units continually review the cost estimates and adjust them as appropriate.

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. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Financial income and expenses

Financial income and expenses mainly consist of interest expense on financial liabilities, interest income from financial receivables, interest income and interest expense from leases, interest income and interest expense from financial services, interest expense from procurement leases, foreign currency exchange rate gains and losses on financing 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.

Goodwill

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

Goodwill is tested for impairment annually at the level of the cash-generating units (CGUs) to which goodwill is allocated.

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

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows forecast for the next five years are included in the calculation for the impairment test. The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. Cash flows beyond the five-year planning horizon were extrapolated for the LMH EMEA, STILL EMEA, KION APAC and KION Americas CGUs using a growth rate of 1.0 per cent (2018: 0.8 per cent). The growth rate used for Dematic was 1.3 per cent (2018: 1.3 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.

> TABLE 047 shows the significant parameters for impairment testing broken down by Operating Unit. Any material changes to these and other factors might result in the recognition of impairment losses. Further information on goodwill can be found in note [16].

The impairment test carried out in the fourth quarter of 2019 did not reveal any need to recognise impairment losses for the goodwill allocated to the LMH EMEA, STILL EMEA, KION APAC, KION Americas and Dematic CGUs. Using sensitivity analysis, it was determined that no impairment losses need to be recognised for goodwill, even if key assumptions vary within realistic limits, in particular variations in WACC of plus or minus 100 basis points.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at historical cost less all accumulated amortisation and 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. If the reasons for recognising impairment losses in prior periods 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.

Development costs are capitalised if the capitalisation criteria in IAS 38 are met. Capitalised development costs include all costs and overheads directly attributable to the development process. Once they have been initially capitalised, these costs and other internally generated intangible assets – particularly internally generated software – are carried at cost less accumulated amortisation and accumulated impairment losses. All non-qualifying development costs are expensed as incurred and reported in the consolidated income statement under research and development costs together with research costs.

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

Significant parameters for impairment testing TABLE 047

	Long-term growth rate		WACC after tax	
in %	2019	2018	2019	2018
Industrial Trucks & Services				
LMH EMEA	1.0%	0.8%	7.5%	7.3%
STILL EMEA	1.0%	0.8%	7.6%	7.4%
KION Americas	1.0%	0.8%	8.3%	8.2%
KION APAC	1.0%	0.8%	7.9%	7.7%
Supply Chain Solutions				
Dematic	1.3%	1.3%	8.3%	8.6%

The useful lives shown in > TABLE 048 are applied in determining the carrying amounts of other intangible assets.

Other intangible assets with an indefinite useful life are carried at cost and currently comprise only 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, and more frequently if there are indications that the asset might be impaired.

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

Leases / short-term rentals

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

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

If an entity in the Industrial Trucks & Services segment enters into a finance lease as the lessor, the future lease payments to be made by the customer are recognised as lease receivables at an amount equal to the net investment in the lease. These are measured using the simplified impairment approach in accordance with IFRS 9. Interest income is spread over the term of the lease in order to ensure a constant return on the outstanding net investment in the lease.

The classification of leases requires estimates to be made regarding the transferred and retained risks and rewards in connection with ownership of the industrial truck. When defining the lease term, management also takes into consideration all facts and circumstances that offer an economic incentive to exercise extension options or to not exercise cancellation options. Further information on leases can be found in notes [17] Leased assets, [18] Rental assets and [19] Other property, plant and equipment.

Leases

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

Useful life of other intangible assets TABLE 048

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

the residual value is reached. To finance leases, industrial trucks are generally sold to leasing companies (financing partners) and immediately leased back (head lease) before being sub-leased to external end customers (described below as 'sale and leaseback sub-leases').

The following applies to leases entered into from 1 January 2018 onwards: The financing partner usually does not obtain control over the industrial truck and it is recognised as a leased asset in the statement of financial position or, if the risks and rewards have been transferred to the end customer, as a lease receivable. The industrial truck recognised as a leased asset is carried at cost, while the lease receivable is recognised at an amount equal to the net investment in the lease. In both cases, the liabilities for financing are recognised under liabilities from financial services.

In accordance with the transitional provisions of IFRS 16, the sale and leaseback sub-lease portfolio in existence as at 31 December 2017 was not reassessed with regard to the transfer of control to the financing partner in the head lease. In sale and leaseback sub-leases, risks and rewards incidental to the head lease are, in general, substantially borne by entities in the KION Group. The corresponding assets are therefore reported as leased assets within non-current assets and measured at amortised cost. However, if risks and rewards incidental to the head lease are substantially transferred to the end customer in the sub-lease, a corresponding lease receivable is recognised. In both cases, the funding items for these long-term customer leases, which are funded for terms that match those of the leases, are recognised as lease liabilities.

In the indirect lease business, industrial trucks are sold to leasing companies that enter into long-term leases with end customers (vendor partners). As the vendor partner usually does not obtain control over the industrial truck, it is recognised as a leased asset in the statement of financial position of the KION Group entities and carried at cost. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under liabilities from financial services.

Short-term rentals

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

The following applies to short-term rental agreements entered into from 1 January 2018 onwards: The financing partner usually does not obtain control over the industrial truck and it is recognised as a rental asset in the statement of financial position. It is carried at cost and usually depreciated on a straight-line basis over the normal useful life of between five and eight years, depending on the product group. The liabilities for financing this part of the short-term rental fleet are reported under liabilities from financial services.

In accordance with the transitional provisions of IFRS 16, the sale and leaseback sub-lease portfolio in existence as at 31 December 2017 was not reassessed with regard to the transfer of control to the financing partner in the head lease. In the case of sale and leaseback sub-lease transactions, risks and rewards incidental to the head lease are usually substantially borne by entities in the KION Group, so the industrial trucks are reported as rental assets and measured at amortised cost. The liabilities for financing this part of the short-term rental fleet are reported under other financial liabilities.

Other property, plant and equipment

Property, plant and equipment is carried at cost less depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overheads.

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

The ranges of useful life below are applied in determining the carrying amounts of items of property, plant and equipment. > TABLE 049

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

The right-of-use assets are depreciated over the shorter of their useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the right-of-use asset is depreciated over the useful life of the leased asset.

When liabilities from procurement leases are initially measured, the lease payments not yet made are discounted at an interest rate implicit in the lease. If this cannot be readily defined, a term-specific and currency-specific incremental borrowing rate of interest is essentially determined and used for the calculation.

Lease instalments for procurement leases with a term of no more than twelve months and for procurement leases relating to low-value assets are immediately recognised as an expense under functional costs.

At the end of the lease term, the leased assets are returned or purchased, or the contract is extended; the latter is accounted for as a modification or remeasurement.

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. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for an asset. The impairment losses on property, plant and equipment are reported under other expenses.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer applies, the relevant pro-rata impairment losses are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its amortised cost. This does not apply to goodwill.

Useful life of other property, plant and equipment TABLE 049

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

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 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 equity 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.

Financial instruments

Recognition of financial instruments at fair value

In accordance with IFRS 9, certain financial instruments are recognised at fair value. Fair value is determined regularly using suitable valuation methods, where possible on the basis of observable inputs. If no observable inputs are available, unobservable inputs are used.

Financial assets

In accordance with IFRS 9, the KION Group categorises financial assets as debt instruments measured at amortised cost (AC category), debt instruments recognised at fair value through profit or loss (FVPL category) or equity instruments recognised at fair value through other comprehensive income (FVOCI category). Debt instruments are measured at amortised cost if they are held as part of a business model whose objective is to collect the contractual cash flows, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents, financial receivables, sundry financial assets and the majority of trade receivables are assigned to the AC category. Derivative financial instruments with a positive fair value that are not part of a formally documented hedge, certain trade receivables and other financial investments are assigned to the FVPL category. Financial investments are assigned to the FVOCI category.

Upon initial recognition, financial assets in the AC category are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

In line with the impairment approach for debt instruments in the AC category, both upon initial recognition and subsequently the KION Group recognises expected credit losses in profit or loss by recognising valuation allowances. These valuation allowances amount to the twelve-month expected losses, provided no significant increase in credit risk (for example as a result of material changes to external or internal credit ratings) is observable at the reporting date. Otherwise, lifetime expected losses are recognised. The expected losses are calculated using the probability of default, the exposure at default and, taking into account any collateral, the estimated loss given default. The calculation draws on observable historical loss data, information on current conditions and the economic outlook. A default is defined as the occurrence of a loss event, such as a borrower being in considerable financial difficulties or a contract being breached. Financial assets are impaired if there are no reasonable prospects of recovering the underlying cash flows in full or partly. The recoverability is assessed on the basis of different indicators (for example, the opening of insolvency proceedings over the borrower's assets) that take the relevant country-specific factors into account. The reversal of an impairment loss must not result in a carrying amount greater than the amortised cost that would have arisen if the impairment loss had not been recognised.

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

Financial assets assigned to the FVPL category are initially recognised at fair value; directly attributable transaction costs have to be taken directly to profit or loss. In subsequent periods, financial assets in the FVPL category are recognised at fair value through profit or loss.

Equity instruments in the FVOCI category are recognised at fair value through other comprehensive income. Upon initial recognition at fair value, directly attributable transaction costs are included. Accumulated gains and losses in other comprehensive income are not reclassified to profit or loss upon derecognition of these financial assets but instead remain in equity.

Financial liabilities

In accordance with IFRS 9, the KION Group differentiates between financial liabilities that are not held for trading and are thus recognised at amortised cost using the effective interest method (AC category) and financial liabilities that are held for trading and recognised at fair value through profit or loss (FVPL category).

Financial liabilities, liabilities from financial services, trade payables and other financial liabilities (except derivative financial instruments with a negative fair value that are not part of a formally documented hedge) are assigned to the AC category. Derivative financial instruments with a negative fair value that are not part of a formally documented hedge are assigned to the FVPL category.

Upon initial recognition, financial liabilities in the AC category are carried at fair value, including (where applicable) directly attributable transaction costs. Low-interest or non-interest-bearing liabilities due in more than one year are carried at their present value. Subsequently, financial liabilities are recognised at amortised cost using the effective interest method.

Financial liabilities assigned to the FVPL category are initially recognised at fair value; directly attributable transaction costs have to be taken directly to profit or loss. In subsequent periods, financial liabilities in the FVPL category are recognised at fair value through profit or loss.

Hedge accounting

Derivative financial instruments that are part of a formally documented hedge with a hedged item are not assigned to any of the IFRS 9 measurement categories and are therefore recognised in accordance with the hedge accounting rules described below.

In the case of cash flow hedges for hedging currency risk and interest-rate risk, derivatives are used to hedge future cash flow risks from existing hedged items, planned transactions and firm obligations not reported in the statement of financial position. The effective portion of changes in the fair value of derivatives is initially recognised in equity in the hedge reserve (other comprehensive income). The amounts previously recognised in the hedge reserve are subsequently reclassified to the income statement when the gain or loss on the corresponding hedged item is recognised. The ineffective portion of the changes in fair value is recognised immediately in the income statement.

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

The critical-terms-match method is used to measure the prospective effectiveness of the hedges. Ineffective portions can arise if the critical terms of the hedged item and hedge no longer match; this is determined using the dollar-offset method.

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 if they relate to transactions also recognised in other comprehensive income.

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. 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.

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 to the estimates made when the corresponding deferred tax assets were recognised.

Inventories

Inventories are carried at the lower of cost and net realisable value. The acquisition costs of raw materials and merchandise are calculated on the basis of an average. The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overheads and production-related depreciation directly attributable to the production process. Administrative costs and social insurance/employee benefits are included to the extent that they are attributable to the production process. The amount recognised is an average value or a value determined in accordance with the FIFO method (FIFO = first in first out).

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated distribution costs necessary to make the sale.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability or other reasons. If the reasons for the recognition of the write-downs no longer apply, they are reversed, but subject to a limit such that the carrying amount of the asset is no higher than its cost.

Contract balances

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

A contract liability is a company's obligation to transfer goods or services to a customer for which the company has received (or will receive) consideration. Project business contracts with a net debit balance due to customers are reported under contract liabilities, as are advances received from customers. Further information on contract balances can be found in note [33].

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method, taking account of future increases in remuneration and pensions. Pension provisions are reduced by the fair value of the plan assets used to cover the Group's benefit obligations.

Remeasurements, including deferred taxes, are recognised in other comprehensive income. The service cost and the net interest cost of defined benefit plans are recognised in profit or loss.

Defined benefit pension entitlements are calculated on the basis of actuarial parameters, although the fair value for certain plan assets is derived from inputs that are not observable in the market. As differences due to remeasurements are taken to other comprehensive income, any change in these assumptions would not affect the net profit for the current period. Further information on sensitivity analysis in relation to the impact of the discount rate and details of measurement can be found in the information on the retirement benefit obligation in note [28].

Liabilities from financial services

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

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, the provision is recognised in the amount of the mean of the individual points. Measurement is at full cost. Provisions for identifiable risks and uncertain 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 interest 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 onerous contracts and other business obligations are measured on the basis of the contractual obligations that are currently still to be fulfilled.

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.

The recognition and measurement of other provisions are 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 to the amount recognised in other provisions. Further details can be found in note [32].

Share-based payments

IFRS 2 distinguishes between equity-settled and cash-settled share-based payment transactions.

Equity-settled share-based payment transactions are recognised at their fair value at the date of grant. The fair value of the obligation is recognised as an expense under functional costs over the vesting period and offset against capital reserves.

The portion of the fair value of cash-settled share-based payments that is attributable to service provided up to the valuation date is recognised as an expense under functional costs and is also reported as a liability. The fair value is recalculated on each reporting date until the end of the performance period. Any change in the fair value of the obligation must be recognised (pro rata) under expenses.

Notes to the consolidated income statement

[7] REVENUE

> TABLE 050 contains the product categories identified as material to the KION Group's financial performance and the timing of revenue recognition for each of these categories.

Timing of revenue recognition with third parties TABLE 050

Product category	Business model	Timing of revenue recognition
Industrial Trucks & Services		
New business	Sale of industrial trucks	At a point in time
	Direct and indirect lease business (in both cases where classified as finance lease)	At a point in time
Aftersales	Supply of spare parts	At a point in time
	Individual orders for repairs and maintenance work	At a point in time
	(Full) service contracts	Over a period of time
Rental business	Direct long-term rental business and indirect lease business (in both cases where classified as operating lease)	Over a period of time
	Short-term rental business	Over a period of time
	Fleet management	Over a period of time
Used trucks	Sale of used industrial trucks	At a point in time
Other	Various business models, currently categorised as not material to the financial performance of the KION Group in the IT&S segment	Mainly at a point in time
Supply Chain Solutions		
Business solutions	Project business	Over a period of time
Service business	Modernisations and upgrades	Over a period of time
	Supply of spare parts	At a point in time
	Various business models, currently categorised as not material to the financial performance of the KION Group in the SCS segment	Mainly over a period of time
Corporate Services		
	Services	Mainly at a point in time

> TABLES 051 – 052 show revenue from contracts with customers, broken down by sales region, product category, timing of revenue recognition and segment.

Disaggregation of revenue with third parties

TABLE 051

	2019			
in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Total
Western Europe	4,652.9	559.4	22.0	5,234.3
Eastern Europe	641.2	32.7	4.6	678.6
Middle East and Africa	76.5	17.2	0.1	93.8
North America	157.2	1,523.3	–	1,680.5
Central and South America	203.5	9.0	–	212.5
Asia-Pacific	672.4	234.4	0.0	906.9
Total revenue	**6,403.7**	**2,376.1**	**26.7**	**8,806.5**
New business	3,345.6			3,345.6
Service business	3,058.2			3,058.2
– Aftersales	1,600.9			1,600.9
– Rental business	926.2			926.2
– Used trucks	361.1			361.1
– Other	169.9			169.9
Business solutions		1,780.2		1,780.2
Service business		595.9		595.9
Corporate Services			26.7	26.7
Total revenue	**6,403.7**	**2,376.1**	**26.7**	**8,806.5**
Timing of revenue recognition				
Products and services transferred at a point in time	4,951.6	262.2	20.8	5,234.6
Products and services transferred over a period of time	1,452.1	2,113.9	5.9	3,571.9

Disaggregation of revenue with third parties TABLE 052

in € million	Industrial Trucks & Services (2018)	Supply Chain Solutions (2018)	Corporate Services (2018)	Total (2018)
Western Europe	4,287.5	459.2	23.2	4,769.9
Eastern Europe	561.9	27.1	3.4	592.3
Middle East and Africa	80.0	14.4	0.1	94.5
North America	138.6	1,347.7	–	1,486.3
Central and South America	164.8	8.7	–	173.5
Asia-Pacific	683.6	195.1	0.6	879.3
Total revenue	**5,916.3**	**2,052.1**	**27.3**	**7,995.7**
New business	3,009.1			3,009.1
Service business	2,907.2			2,907.2
– Aftersales	1,513.9			1,513.9
– Rental business	900.1			900.1
– Used trucks	327.8			327.8
– Other	165.4			165.4
Business solutions		1,514.0		1,514.0
Service business		538.1		538.1
Corporate Services			27.3	27.3
Total revenue	**5,916.3**	**2,052.1**	**27.3**	**7,995.7**
Timing of revenue recognition				
Products and services transferred at a point in time	4,524.8	237.3	20.9	4,783.0
Products and services transferred over a period of time	1,391.5	1,814.8	6.4	3,212.7

> TABLE 053 shows the revenue that is expected as a result of performance obligations in existence at the reporting date. This consists only of revenue from contracts with customers as defined by IFRS 15. In the Supply Chain Solutions segment, this revenue is generated by the project and service business. In the Industrial Trucks & Services segment, it is generated through aftersales (full-)service contracts with an expected original term of more than one year.

[8] COST OF SALES AND OTHER FUNCTIONAL COSTS

The cost of sales amounted to €6,474.6 million in the reporting year (2018: €5,898.1 million). The main components of the cost of sales are the cost of inventories recognised in profit or loss (cost of materials), production-related personnel expenses, depreciation expenses on property, plant and equipment, amortisation expenses on intangible assets in connection with purchase price allocations, and amortisation expenses on capitalised development costs.

The total cost of materials recognised in the consolidated income statement went up by €360.2 million to €4,051.6 million in 2019 (2018: €3,691.4 million).

The total personnel expenses recognised increased by €192.6 million to €2,292.8 million (2018: €2,100.2 million). These personnel expenses included wages and salaries of €1,820.6 million (2018: €1,653.4 million), social security contributions of €398.7 million (2018: €364.2 million) and expenses for pensions of €73.5 million (2018: €82.6 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 €41.5 million vested in 2019 (2018: €41.4 million) and unrecognised past service income of €1.3 million (2018: cost of €1.4 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 came to a total of €898.0 million in the reporting year (2018: €897.9 million).

Research and development costs totalling €155.3 million (2018: €137.7 million) were expensed.

Expected future revenue from existing performance obligations TABLE 053

in € million	2019	2018
Total of expected future revenue from existing performance obligations	**3,238.1**	**2,728.9**
due within one year	2,003.4	1,837.9
due in one to two years	631.8	506.8
due in two to three years	235.1	179.6
due in more than three years	367.7	204.6

[9] OTHER INCOME

The breakdown of other income is as follows: > TABLE 054

In 2019, other income fell by €17.0 million year on year.

The decrease was predominantly attributable to the reduction in foreign currency exchange rate gains. These gains are attributable to exchange rate gains arising in the course of the Group companies' operating activities and to gains on hedges that were entered into in order to hedge currency risk arising from the operating business and are not part of a formally documented hedge (details of the countervailing losses can be found in note [10]).

Sundry income included, among other items, income from non-consolidated subsidiaries and other equity investments amounting to €2.0 million (2018: €2.3 million).

[10] OTHER EXPENSES

The breakdown of other expenses is as follows: > TABLE 055

In 2019, other expenses fell by €8.8 million year on year.

The decrease was predominantly attributable to the reduction in foreign currency exchange rate losses. These losses are attributable to exchange rate losses arising in the course of the Group companies' operating activities and to losses on hedges that were entered into in order to hedge currency risk arising from the operating business and are not part of a formally documented hedge (details of the countervailing gains can be found in note [9]).

Other income TABLE 054

in € million	2019	2018
Foreign currency exchange rate gains	32.1	44.2
Income from reversal of provisions	1.9	2.4
Gains on disposal of non-current assets	6.0	2.3
Rental income	0.8	1.2
Sundry income	28.6	36.4
Total other income	**69.5**	**86.5**

Other expenses TABLE 055

in € million	2019	2018
Foreign currency exchange rate losses	37.9	50.0
Losses on disposal of non-current assets	2.4	1.1
Impairment of non-current assets	6.9	6.4
Sundry expenses	7.4	5.7
Total other expenses	**54.5**	**63.3**

[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 €12.1 million (2018: €12.2 million). Further details on equity-accounted investments can be found in note [20].

[12] FINANCIAL INCOME

Financial income breaks down as shown in > TABLE 056.

Financial income TABLE 056

in € million	2019	2018
Interest income from leases	51.9	43.8
Foreign currency exchange rate gains (financing)	47.9	48.9
Other interest and similar income	5.7	7.1
Total financial income	**105.5**	**99.9**

In 2019, financial income rose by €5.6 million year on year.

The increase mainly resulted from higher interest income from leases (details of the countervailing interest expenses can be found in note [13]). The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group entities operate as lessors (in the case of leases classified as finance leases).

Foreign currency exchange rate gains predominantly arise in connection with foreign currency positions in internal financing and the related hedging transactions that are not part of a formally documented hedge.

[13] FINANCIAL EXPENSES

Financial expenses break down as follows: > TABLE 057

In 2019, financial expenses rose by €3.3 million year on year.

Interest expense from loans decreased due to the corporate actions carried out in 2019 and 2018, whereas the interest expense from promissory notes increased.

Interest expense from leases, which totalled €57.4 million (2018: €51.3 million), was attributable both to liabilities from financing the direct and indirect lease business and to liabilities from financing the short-term rental fleet. Leases entered into with customers in connection with these financing transactions that constitute operating leases resulted in interest expense of €23.3 million (2018: €18.9 million). The income from corresponding customer leases is a component of the rental and lease payments received and is therefore reported within revenue rather than as interest income.

Foreign currency exchange rate expenses predominantly arise in connection with foreign currency positions in internal financing and the related hedging transactions that are not part of a formally documented hedge.

[14] INCOME TAXES

The income tax expense of €176.8 million (2018: €143.7 million) consisted of €212.8 million in current tax expense (2018: €166.5 million) and €36.0 million in deferred tax income (2018: €22.9 million).

The current corporate income tax rate in Germany is 15.0 per cent plus a solidarity surcharge (5.5 per cent of corporate income tax). Taking into account the average trade tax rate of 14.9 per cent (2018: 14.9 per cent), the combined nominal tax rate for entities in Germany was 30.7 per cent (2018: 30.8 per cent). The income tax rates for foreign companies used in the calculation of deferred taxes were between 9.0 per cent and 34.0 per cent, as had also been the case in 2018.

No deferred taxes have been recognised on temporary differences of €195.1 million (2018: €235.5 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 equity investments in the foreseeable future.

Deferred tax assets are allocated to the following items in the statement of financial position: > TABLE 058

Financial expenses

TABLE 057

in € million	2019	2018
Interest expense from loans	15.4	22.9
Interest expense from promissory notes	17.6	16.3
Interest expense from leases	57.4	51.3
Interest expense from procurement leases	15.3	16.9
Net interest expense from defined benefit plans	19.9	19.4
Amortisation of finance costs	3.6	4.5
Foreign currency exchange rate losses (financing)	56.1	55.2
Other interest expenses and similar charges	15.4	10.7
Total financial expenses	**200.6**	**197.3**

Deferred tax assets

TABLE 058

in € million	2019	2018
Intangible assets and property, plant and equipment	200.6	137.7
Other assets	179.3	141.8
Provisions	309.4	238.7
Liabilities	653.0	609.6
Deferred income	138.1	186.9
Tax loss carry forwards, interest carry forwards and tax credits	10.9	21.4
Offsetting	–1,041.7	–914.4
Total deferred tax assets	**449.7**	**421.7**

Deferred tax liabilities are allocated to the following items in the statement of financial position: > TABLE 059

The deferred tax liabilities essentially related to purchase price allocations in the acquisition of the KION Group and Dematic, particularly for intangible assets and property, plant and equipment.

The change in deferred taxes included currency effects of €6.1 million that were recognised in other comprehensive income (loss) under cumulative translation adjustment, resulting in a decrease in equity (2018: €7.0 million).

In 2019, the parent company and the consolidated subsidiaries that reported losses for 2019 or 2018 recognised net deferred tax assets on temporary differences and on loss carryforwards totalling €12.8 million (2018: €21.1 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 €714.9 million (2018: €580.7 million) – of which €128.9 million (2018: €103.1 million) can only be carried forward on a restricted basis – or on interest carryforwards of €283.9 million (2018: €283.9 million). Furthermore, no deferred tax assets have been recognised on other temporary differences of €0.2 million (2018: €7.8 million). Deferred taxes are recognised on tax loss carryforwards and interest carryforwards 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 €173.0 million (2018: €137.4 million), of which €140.9 million (2018: €111.2 million) concerns tax losses that can be carried forward indefinitely.

The KION Group's corporation-tax loss carryforwards in Germany as at 31 December 2019 amounted to €137.4 million (2018: €115.2 million), while trade-tax loss carryforwards stood at €117.1 million (2018: €95.9 million). There were also foreign tax loss carryforwards totalling €498.6 million (2018: €454.4 million).

The interest that can be carried forward indefinitely in Germany as at 31 December 2019 amounted to €283.9 million (2018: €283.9 million).

The table below shows the reconciliation of expected income tax expenses to effective income tax expenses. 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. > TABLE 060

Deferred tax liabilities TABLE 059

in € million	2019	2018
Intangible assets and property, plant and equipment	1,027.8	1,071.0
Other assets	368.8	326.1
Provisions	13.8	19.4
Liabilities	186.5	110.7
Deferred income	15.7	13.9
Offsetting	–1,041.7	–914.4
Total deferred tax liabilities	**570.9**	**626.7**

Income taxes TABLE 060

in € million	2019	2018
Earnings before tax	**621.6**	**545.3**
Anticipated income taxes	–191.0	–167.8
Deviations due to the trade tax base	–2.7	–2.4
Deviations from the anticipated tax rate	7.0	6.5
Losses for which deferred taxes have not been recognised	–13.7	–14.8
Change in tax rates and tax legislation	–0.3	1.9
Non-deductible expenses	–7.6	–6.6
Non-taxable income / tax-exempt income	18.2	11.0
Taxes relating to other periods	10.3	32.1
Deferred taxes relating to prior periods	5.7	–0.8
Non-creditable withholding tax on dividends	–2.2	–2.3
Other	–0.6	–0.5
Effective income taxes (current and deferred taxes)	**–176.8**	**–143.7**

[15] EARNINGS PER SHARE

Basic earnings per share (€3.86; 2018: €3.39) is calculated by dividing the net income accruing to the KION GROUP AG shareholders by the weighted average number of shares outstanding during the reporting period (2019: 117.9 million no-par-value shares; 2018: 117.9 million no-par-value shares). The net income accruing to the shareholders of KION GROUP AG was €454.8 million (2018: €399.9 million). > TABLE 037

Diluted earnings per share (€3.86; 2018: €3.39) 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 117.9 million no-par-value shares issued (2018: 117.9 million no-par-value shares).

Notes to the consolidated statement of financial position

[16] GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is broken down by Operating Unit as follows: > TABLE 061

Goodwill broken down by Operating Unit TABLE 061

in € million	2019	2018
Industrial Trucks & Services	**1,502.9**	**1,500.7**
LMH EMEA	818.5	817.2
STILL EMEA	549.0	549.2
KION Americas	21.8	21.3
KION APAC	113.6	112.9
Supply Chain Solutions	**1,972.9**	**1,924.2**
Dematic	1,972.9	1,924.2
Total goodwill	**3,475.8**	**3,424.8**

The change in goodwill in 2019 resulted from currency effects.

The KION Group intends to retain and further strengthen its most important brand names on a long-term basis. Brand names worth €466.3 million are assigned to the LMH EMEA CGU (2018: €466.2 million) and brand names worth €110.4 million to the STILL EMEA CGU (2018: €114.6 million). As at 31 December 2019, the brand names allocated to the KION APAC CGU had a carrying amount of €7.8 million (2018: €7.8 million). These assets are not amortised as they have an indefinite useful life. The brand names allocated to the Supply Chain Solutions segment were worth €350.2 million as at the reporting date (2018: €350.6 million) and essentially had an indefinite useful life. > TABLE 062

Intangible assets TABLE 062

in € million	Goodwill	Brand names	Technology and development	Sundry intangible assets	Total
Balance as at 01/01/2018	**3,382.5**	**944.6**	**670.3**	**719.0**	**5,716.5**
Group changes	0.2	–	–	0.1	0.3
Currency translation adjustments	42.1	−0.2	16.1	21.0	78.9
Additions	–	–	84.0	26.7	110.7
Disposals	–	–	−0.2	−0.0	−0.2
Amortisation	–	−0.1	−76.6	−106.1	−182.8
Impairment	–	–	–	−1.7	−1.7
Reclassification	–	–	−4.0	4.0	–
Balance as at 31/12/2018	**3,424.8**	**944.3**	**689.7**	**662.9**	**5,721.6**
Gross carrying amount as at 31/12/2018	3,424.8	954.9	992.4	1,000.1	6,372.2
Accumulated amortisation	–	−10.6	−302.7	−337.3	−650.6
Balance as at 01/01/2019	**3,424.8**	**944.3**	**689.7**	**662.9**	**5,721.6**
Group changes	–	–	–	0.0	0.0
Currency translation adjustments	51.0	−0.0	9.9	14.5	75.4
Additions	–	–	81.9	26.7	108.6
Disposals	–	–	−0.0	−9.6	−9.6
Amortisation	–	−0.2	−82.1	−75.5	−157.9
Impairment	–	−4.2	−1.5	–	−5.7
Balance as at 31/12/2019	**3,475.8**	**939.8**	**697.9**	**619.0**	**5,732.5**
Gross carrying amount as at 31/12/2019	3,475.8	946.4	1,042.6	999.9	6,464.8
Accumulated amortisation	–	−6.6	−344.7	−381.0	−732.3

The total carrying amount for technology and development assets as at 31 December 2019 was €697.9 million (2018: €689.7 million). Development costs of €81.9 million were capitalised in the reporting year (2018: €84.0 million).

Sundry intangible assets relate in particular to customer relationships amounting to €541.3 million (2018: €575.7 million).

[17] LEASED ASSETS

The changes in leased assets in 2019 and 2018 were as follows:
> TABLE 063

Leased assets TABLE 063

in € million	2019	2018
Balance as at 01/01/	**1,261.8**	**1,246.3**
Group changes	7.3	–
Currency translation adjustments	12.8	–9.7
Additions	587.1	514.9
Disposals	–184.4	–189.4
Depreciation	–323.3	–306.3
Impairment	–	–0.4
Reclassification	–	6.4
Balance as at 31/12/	**1,361.2**	**1,261.8**
Gross carrying amount as at 31/12/	2,040.7	1,978.2
Accumulated depreciation	–679.5	–716.4

Leased assets are attributable exclusively to the Industrial Trucks & Services segment and relate to industrial trucks in the amount of €1,361.2 million (2018: €1,261.8 million) that are provided for use to external customers under operating leases in the direct lease business or as part of the indirect lease business.

Leased assets include assets provided to customers with a carrying amount of €413.7 million (2018: €405.4 million) that are financed by means of sale and leaseback sub-lease transactions with leasing companies. They also include assets provided to customers with a carrying amount of €387.4 million (2018: €151.7 million) that are financed by means of lease facilities and the issuance of notes (securitisation). Furthermore, leased assets include assets in connection with the indirect lease business worth €553.1 million (2018: €639.5 million).

Leased assets resulted in future lease payments expected to be paid by customers under operating leases amounting to €810.1 million (2018: €599.3 million).

The maturity structure of these expected future payments in the lease business is shown in > TABLE 064.

Expected future payments from lease business TABLE 064

in € million	2019	2018
Payments from lease business	**810.1**	**599.3**
due within one year	260.2	200.5
due in one to two years	214.9	153.5
due in two to three years	163.1	115.6
due in three to four years	108.6	76.8
due in four to five years	51.8	42.6
due in more than five years	11.5	10.3

[18] RENTAL ASSETS

The changes in rental assets in 2019 and 2018 were as follows:
> TABLE 065

Rental assets TABLE 065

in € million	2019	2018
Balance as at 01/01/	**670.5**	**608.4**
Group changes	3.8	–
Currency translation adjustments	5.5	–8.6
Additions	381.1	572.8
Disposals	–222.5	–296.7
Depreciation	–205.4	–196.0
Impairment	–	–2.9
Reclassification	–	–6.5
Balance as at 31/12/	**632.9**	**670.5**
Gross carrying amount as at 31/12/	1,104.7	1,081.6
Accumulated depreciation	–471.8	–411.1

Rental assets, which amounted to €632.9 million (2018: €670.5 million), are allocated solely to the Industrial Trucks & Services segment and comprise assets in the short-term rental fleet.

Rental assets include assets with a carrying amount of €554.5 million (2018: €590.7 million) that are financed by means of sale and leaseback sub-lease transactions with leasing companies.

[19] OTHER PROPERTY, PLANT AND EQUIPMENT

The changes in the carrying amounts of other property, plant and equipment are shown in > TABLE 066.

Other property, plant and equipment TABLE 066

in € million	Land and buildings	Plant & machinery and office furniture & equipment	Advances paid and assets under construction	Total
Balance as at 01/01/2018	**601.7**	**346.5**	**46.7**	**994.9**
Group changes	–	0.0	–	0.0
Currency translation adjustments	–3.8	–0.5	0.1	–4.2
Additions	96.0	149.1	54.2	299.3
Disposals	–1.3	–2.6	–0.7	–4.6
Depreciation	–80.4	–125.9	–	–206.4
Impairment	–0.7	–0.6	–	–1.3
Reclassification	14.1	16.0	–30.0	0.0
Balance as at 31/12/2018	**625.5**	**382.0**	**70.3**	**1,077.8**
Gross carrying amount as at 31/12/2018	1,224.2	1,225.2	70.3	2,519.7
Accumulated depreciation	–598.7	–843.2	–	–1,441.9
Balance as at 01/01/2019	**625.5**	**382.0**	**70.3**	**1,077.8**
Group changes	4.8	1.0	–	5.8
Currency translation adjustments	6.4	2.6	0.2	9.2
Additions	135.2	157.3	76.6	369.0
Disposals	–12.3	–7.5	–0.1	–19.9
Depreciation	–73.6	–130.9	–	–204.5
Impairment	–0.1	–1.1	–	–1.2
Reclassification	15.6	37.9	–53.6	–
Balance as at 31/12/2019	**701.6**	**441.3**	**93.5**	**1,236.3**
Gross carrying amount as at 31/12/2019	1,354.3	1,329.8	93.5	2,777.6
Accumulated depreciation	–652.7	–888.5	–	–1,541.3

Land and buildings in the amount of €18.3 million (2018: €18.3 million) were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

Other property, plant and equipment included a figure of €452.7 million for right-of-use assets related to procurement leases (2018: €390.7 million). Of this figure, €325.9 million was attributable to land and buildings (2018: €276.4 million) and €126.8 million to plant & machinery and office furniture & equipment (2018: €114.3 million). The increase in right-of-use assets attributable to land and buildings was primarily due to the start of two property leases. > TABLE 067

The expense recognised in 2019 for procurement leases with a term of up to twelve months came to €20.4 million (2018: €13.0 million); the expense for procurement leases that relate to low-value assets was €10.0 million (2018: €5.1 million).

There were also obligations arising from short-term procurement leases that already existed as at 31 December 2019 but will be recognised as expenses in 2020 in an amount of €1.9 million (2018: €3.2 million) and nominal obligations of €44.4 million resulting from procurement leases that already exist but have not yet started.

Other property, plant and equipment: thereof right-of-use assets TABLE 067

in € million	Land and buildings	Plant & machinery and office furniture & equipment	Total
Balance as at 01/01/2018	**247.6**	**99.8**	**347.4**
Currency translation adjustments	–0.6	–0.8	–1.4
Additions	81.5	69.6	151.1
Disposals	–0.4	–0.3	–0.7
Depreciation	–51.0	–53.8	–104.9
Other	–0.7	–0.2	–0.9
Balance as at 31/12/2018	**276.4**	**114.3**	**390.7**
Gross carrying amount as at 31/12/2018	483.6	214.6	698.2
Accumulated depreciation	–207.2	–100.2	–307.5
Balance as at 01/01/2019	**276.4**	**114.3**	**390.7**
Currency translation adjustments	3.5	0.8	4.3
Additions	107.2	73.6	180.8
Disposals	–11.8	–3.8	–15.5
Depreciation	–53.9	–58.4	–112.3
Other	4.5	0.2	4.8
Balance as at 31/12/2019	**325.9**	**126.8**	**452.7**
Gross carrying amount as at 31/12/2019	568.0	243.3	811.4
Accumulated depreciation	–242.2	–116.5	–358.7

[20] EQUITY-ACCOUNTED INVESTMENTS

The KION Group reported equity-accounted investments with a total carrying amount of €84.5 million as at 31 December 2019 (2018: €82.3 million).

The carrying amount of the equity-accounted investments mainly resulted from the shares (10.0 per cent) in Linde Hydraulics GmbH & Co. KG, Aschaffenburg, the shares (45.0 per cent) in Linde Leasing GmbH, Wiesbaden, the shares (45.0 per cent) in Linde High Lift Chile S.A., Santiago de Chile, Chile, and the shares (50.0 per cent) in JULI Motorenwerk s.r.o, Moravany, Czech Republic. The associates and joint ventures can be seen in the list of shareholdings (see note [48]). Their financial information is summarised below. > TABLES 068–069

The amounts in the tables are based on the share held by the KION Group in the relevant associate or joint venture.

Summarised financial information associates TABLE 068

in € million	2019	2018
Total carrying amount	49.6	46.6
Profit (+)/loss (–) from continuing operations	6.8	6.6
Other comprehensive income	0.2	1.0
Total comprehensive income	**7.0**	**7.6**

Summarised financial information joint ventures TABLE 069

in € million	2019	2018
Total carrying amount	34.9	35.7
Profit (+)/loss (–) from continuing operations	5.4	5.6
Other comprehensive income	–0.1	0.1
Total comprehensive income	**5.2**	**5.7**

[21] LEASE RECEIVABLES

The lease receivables of €1,421.0 million (2018: €1,097.3 million) are based on the data shown in > TABLE 070.

Lease receivables are financed by means of sale and lease-back sub-lease transactions with leasing companies in an amount of €705.1 million (2018: €764.5 million) and by means of lease facilities and the issuance of notes (securitisation) in an amount of €628.3 million (2018: €246.0 million).

Maturity analysis of lease receivables TABLE 070

in € million	2019	2018
Nominal value of outstanding lease payments	**1,380.9**	**1,069.5**
due within one year	375.3	311.5
due in one to two years	328.3	256.9
due in two to three years	270.8	208.2
due in three to four years	207.7	152.2
due in four to five years	128.5	89.5
due in more than five years	70.2	51.2
Plus unguaranteed residual values	**176.9**	**135.7**
due within one year	17.6	13.0
due in one to two years	19.4	16.1
due in two to three years	24.9	20.9
due in three to four years	35.0	26.8
due in four to five years	38.0	31.7
due in more than five years	42.0	27.2
Less unearned financial income	**136.9**	**107.8**
Present value of outstanding lease payments	**1,421.0**	**1,097.3**

[22] OTHER FINANCIAL ASSETS

The breakdown of other financial assets is shown in > TABLE 071.

Other financial assets TABLE 071

in € million	2019	2018
Financial investments	14.4	5.2
Financial receivables	0.9	1.1
Other financial investments	24.2	21.0
Derivative financial instruments	2.6	1.0
Sundry financial assets	2.6	1.4
Other non-current financial assets	**44.6**	**29.8**
Derivative financial instruments	9.4	8.9
Financial receivables	23.1	34.7
Sundry financial assets	41.6	39.8
Other current financial assets	**74.1**	**83.4**
Total other financial assets	**118.7**	**113.2**

Financial investments essentially comprise the equity investment, acquired in 2019, in Zhejiang EP Equipment Co., Ltd. and the equity investment in Balyo SA. These equity investments, which have been assigned to the FVOCI category under IFRS 9 owing to the strategic partnerships with the companies, are recognised at fair value through other comprehensive income without recycling to profit or loss upon disposal.

Financial receivables largely relate to loans to non-consolidated subsidiaries.

Other financial investments comprise long-term investments that are held in order to cover the defined benefit obligation and do not qualify as plan assets.

Derivative financial instruments comprise currency forwards and interest-rate swaps with a positive fair value that are used to reduce currency risk and interest-rate risk. Some of these derivative financial instruments are part of a formally documented hedge with a hedged item and are recognised in accordance with the hedge accounting rules (see note [41]).

[23] OTHER ASSETS

The breakdown of other assets is as follows: > TABLE 072

Pension assets relate to asset surpluses from two defined benefit plans (2018: two) in the United Kingdom, in which plan assets exceed the present value of the defined benefit obligation (see note [28]).

[24] INVENTORIES

The reported inventories break down as follows: > TABLE 073

The year-on-year rise in inventories was largely attributable to the volume-related increase in finished goods and in work in progress. There was a small countervailing decrease in materials and supplies.

Other assets

TABLE 072

in € million	2019	2018
Investments in non-consolidated subsidiaries and other investments	22.2	25.6
Pension assets	51.7	33.3
Other non-current assets	**73.8**	**58.9**
Deferred charges and prepaid expenses	55.0	49.0
Sundry tax receivables	53.8	57.2
Other current assets	**108.8**	**106.2**
Total other assets	**182.7**	**165.1**

Inventories

TABLE 073

in € million	2019	2018
Materials and supplies	276.6	284.2
Work in progress	143.3	132.3
Finished goods and merchandise	638.5	550.6
Advances paid	26.9	27.8
Total inventories	**1,085.3**	**994.8**

In 2019, write-downs of €26.6 million were recognised on inventories (2018: €25.3 million). Reversals of write-downs were recognised in an amount of €8.8 million (2018: €6.5 million) because the reasons for the write-downs no longer existed.

[25] TRADE RECEIVABLES

The trade receivables break down as follows: > TABLE 074

Trade receivables TABLE 074

in € million	2019	2018
Receivables from third parties	1,070.8	1,005.5
thereof receivables not due and overdue ≤ 90 days	980.3	917.6
thereof receivables overdue > 90 days ≤ 180 days	26.5	28.6
thereof receivables overdue > 180 days	22.8	23.4
thereof receivables adjusted for individual valuation allowances	41.1	35.9
Receivables from third parties measured at fair value through profit or loss (FVPL)	4.8	15.6
Trade receivables from non-consolidated subsidiaries, equity-accounted investments and other investments	40.8	53.2
Valuation allowances for trade receivables	–42.2	–37.8
thereof valuation allowances for receivables not due and overdue ≤ 90 days	–1.6	–1.5
thereof valuation allowances for receivables overdue > 90 days ≤ 180 days	–1.3	–1.9
thereof valuation allowances for receivables overdue > 180 days	–2.4	–3.2
thereof individual valuation allowances	–36.9	–31.1
Total trade receivables	**1,074.2**	**1,036.4**

The change in valuation allowances for trade receivables is presented in > TABLE 075. The average loss rates used for the recognition of valuation allowances for expected losses vary depending on the Operating Unit and the period by which the receivable is past due. They currently range from 0.0 per cent to 3.6 per cent (2018: 0.0 per cent to 4.0 per cent).

Change in valuation allowances for trade receivables TABLE 075

in € million	2019	2018
Valuation allowances as at 01/01/	**37.8**	**36.3**
Additions	11.6	10.4
Reversals	–2.0	–3.3
Utilisations	–5.1	–5.1
Currency translation adjustments	–0.0	–0.5
Valuation allowances as at 31/12/	**42.2**	**37.8**

[26] CASH AND CASH EQUIVALENTS

The change in cash and cash equivalents is shown in the consolidated statement of cash flows. Further information can be found in note [38]. > TABLE 076

Cash and cash equivalents TABLE 076

in € million	2019	2018
Balances with banks, cash and cheques	207.4	171.6
Pledged cash	3.8	3.7
Total cash and cash equivalents	**211.2**	**175.3**

[27] EQUITY

Subscribed capital and capital reserves

As at 31 December 2019, the Company's share capital amounted to €118.1 million, which was unchanged on 31 December 2018 and was fully paid up. It was divided into 118.1 million no-par-value shares.

The Annual General Meeting on 11 May 2017 voted to create new authorised capital that will enable the KION Group to continue to meet its funding needs quickly and flexibly. Subject to the consent of the Supervisory Board, the Executive Board is authorised until 10 May 2022 to increase the Company's share capital by up to €10.879 million by way of an issue of up to 10,879,000 new no-par-value bearer shares (2017 Authorised Capital).

With the consent of the Supervisory Board, the Executive Board of KION GROUP AG decided on 22 May 2017 to utilise some of the authorised capital created by the 2017 Annual General Meeting. The share capital was increased against cash contributions by issuing 9.3 million new no-par-value bearer shares. The gross proceeds from the capital increase came to €602.9 million. An amount of €593.6 million was paid into the capital reserves.

The total number of shares outstanding as at 31 December 2019 was 117,959,356 no-par-value shares (2018: 117,924,442 no-par-value shares). Between 9 September 2019 and 20 September 2019, a further 60,000 treasury shares (KEEP 2018: 66,000 treasury shares) were repurchased via the stock exchange at an average price of €48.80 (2018: €54.17) in order to provide the shares for employees' own investments and the free shares under the KEEP 2019 employee share option programme. The total cost was €2.9 million (2018: €3.6 million). In February 2019, a further 13,674 no-par-value shares were issued for employees' own investments under KEEP 2018. Due to the issue of 14,136 bonus shares under KEEP 2016 (KEEP 2015: 22,580 bonus shares) and 67,104 no-par-value shares (2018: 38,691 no-par-value shares) under KEEP 2019, KION GROUP AG held 130,644 treasury shares at the reporting date (2018: 165,558). 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 [45]. In February 2020, a further 7,338 no-par-value shares were issued for participants' own investments under KEEP 2019.

Retained earnings

The changes in retained earnings are shown in the consolidated statement of changes in equity in > TABLE 042. 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 €1.20 per share (2018: €0.99 per share) to the shareholders of KION GROUP AG resulted in an outflow of funds of €141.5 million in May 2019 (2018: €116.8 million).

Appropriation of profit

KION GROUP AG's net profit for 2019 was €156.9 million, of which €3.5 million will be transferred to other revenue reserves. The Executive Board and the Supervisory Board will propose to the Annual General Meeting to be held on 12 May 2020 that an amount of €153.4 million be appropriated from the distributable profit of €153.5 million for the payment of a dividend of €1.30 per dividend-bearing share. It is also proposed that the remaining sum of €0.2 million be carried forward to the next accounting period. This equates to a dividend payout rate of 33.7 per cent of net income.

Accumulated other comprehensive income (loss) and non-controlling interests

The overall composition of, and changes in, equity are shown in the consolidated statement of changes in equity in > TABLE 042.

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 [28]).

The gains/losses on hedge reserves are the effective portion of the changes in the fair value of hedging instruments in formally documented hedges. The gains/losses on financial investments relate to the remeasurement of the equity investments in Zhejiang EP Equipment Co., Ltd. and Balyo SA at fair value (FVOCI category under IFRS 9).

The gains/losses from equity-accounted investments contain the share of other comprehensive income (loss) from associates and joint ventures accounted for under the equity method.

[28] RETIREMENT BENEFIT OBLIGATION

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 total expense arising from defined contribution plans amounted to €134.5 million in 2019 (2018: €93.3 million). Of this total, contributions paid by employers into government-run schemes came to €105.9 million (2018: €76.7 million).

Defined benefit plans

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 2019, the KION Group had set up defined benefit plans in 15 countries (2018: 13). 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 – together accounting for 92.9 per cent of the global defined benefit obligation (2018: 92.7 per cent) – are in Germany, the United Kingdom and the US.

Germany

In Germany, the pension benefits granted comprise Company-funded pension entitlements and employees' payment of part of their salary into the pension scheme. The contributions to the new pension plans are invested in investment funds under contractual trust arrangements (CTAs); resulting returns on plan assets are passed on to the pension beneficiaries when an insured event occurs. Members of the Executive Board (see also note [46]) and other executives are predominantly covered by individual pension plans. The amount of the benefits paid to executives depends on the type of entitlement. A very small proportion of pension benefits are granted in the form of final-salary-linked benefit obligations. The overwhelming majority of the existing pension entitlements are a combination of a defined benefit obligation and a defined contribution component.

Beside the securities-linked pension entitlements, some of the KION Group's pension obligations in Germany under closed plans are financed by way of CTAs. The assets transferred to the trustee qualify as plan assets within the meaning of IAS 19. The trustees are required to follow a defined investment strategy and investment 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 are closed to new employees. 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 periodic valuation of the pension plans for the employees of the KION Group's UK companies, the companies and the respective trustees of the pension funds agreed on a valuation in March 2019 that will ensure payments are made to the beneficiaries of the plans in accordance with the relevant requirements. On the basis of this current valuation, the KION Group will not have to make any top-up payments to the plan assets. In addition, KION GROUP AG has given default guarantees to the trustees of four pension plans, under which, if any of the companies concerned default, KION GROUP AG will assume all obligations of these companies up to a maximum guaranteed amount. As at 31 December 2019, the guaranteed amount totalled €107.5 million (2018: €79.1 million).

United States

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.

Unionised 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 each specify a certain coverage ratio and provide for annual payments to maintain the required ratio. In 2019, a one-off sum of €0.9 million was paid (2018: €17.8 million).

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

The defined benefit obligation is calculated on the basis of the 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.

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 2018, the Heubeck 'Richttafeln 2018 G' mortality tables have been used as the biometric basis in Germany. The S2PA tables (standard mortality tables for self-administered pension schemes (SAPS) based on normal health) 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.

Assumptions underlying provisions for pensions and other post-employment benefits

TABLE 077

	Germany		UK		USA		Other	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate	1.15%	1.90%	1.85%	2.65%	3.30%	4.25%	0.73%	1.43%
Salary increase rate	2.75%	2.75%	4.12%	4.12%	–	–	1.75%	1.74%
Pension increase rate	1.75%	1.75%	3.20%	3.37%	–	–	0.25%	0.26%

The actuarial assumptions not listed in > TABLE 077, such as employee turnover and invalidity, 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).

Assumptions underlying pensions expenses

TABLE 078

	Germany		UK		USA		Other	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate	1.90%	1.95%	2.65%	2.35%	4.25%	3.60%	1.43%	1.41%
Salary increase rate	2.75%	2.75%	4.12%	4.12%	–	–	1.74%	1.49%
Pension increase rate	1.75%	1.75%	3.37%	3.37%	–	–	0.26%	0.27%

Statement of financial position

The change in the present value of the defined benefit obligation (DBO) is shown in > TABLE 079.

Changes in defined benefit obligation TABLE 079

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Present value of defined benefit obligation as at 01/01/	**1,061.2**	**1,001.4**	**389.1**	**428.9**	**202.7**	**210.0**	**130.2**	**124.2**	**1,783.3**	**1,764.4**
Group changes	–	–	–	–	–	–	–	–	–	–
Exchange differences	–	–	24.9	–4.6	4.6	9.3	2.2	2.0	31.7	6.7
Current service cost	37.1	36.7	0.9	0.9	–0.7	0.2	4.2	3.6	41.5	41.4
Past service cost (+) and income (–)	–	–	–	1.4	–	–	–1.3	–	–1.3	1.4
Interest expense	20.3	18.8	10.3	9.9	8.8	7.6	1.8	1.7	41.2	38.0
Employee contributions	3.8	3.7	–	–	–	–	1.1	1.0	4.9	4.7
Pension benefits directly paid by company	–16.4	–15.9	–	–	–	–	–1.4	–1.5	–17.8	–17.5
Pension benefits paid by funds	–2.0	–1.6	–17.9	–19.9	–8.7	–7.6	–6.0	–2.7	–34.6	–31.9
Liability transfer out to third parties	–0.8	–0.2	–	–	–	–	4.9	1.9	4.1	1.7
Actuarial gains (–) and losses (+) arising from										
changes in demographic assumptions	0.0	0.5	–	–10.6	–0.3	–0.6	–1.5	0.0	–1.8	–10.7
changes in financial assumptions	193.2	15.1	36.2	–18.7	26.4	–17.2	13.7	–0.7	269.4	–21.4
experience adjustments	–6.3	2.9	–16.2	1.9	1.4	1.0	1.6	0.7	–19.4	6.6
Present value of defined benefit obligation as at 31/12/	**1,290.1**	**1,061.2**	**427.4**	**389.1**	**234.1**	**202.7**	**149.6**	**130.2**	**2,101.2**	**1,783.3**
thereof unfunded	559.0	459.5	0.0	0.0	6.9	7.2	41.9	39.0	607.8	505.7
thereof funded	731.1	601.7	427.4	389.1	227.2	195.5	107.7	91.3	1,493.4	1,277.6

The DBO in the other countries was predominantly attributable to subsidiaries in Switzerland (€65.6 million; 31 December 2018: €54.7 million) and the Netherlands (€41.4 million; 31 December 2018: €35.9 million).

The change in the fair value of plan assets is shown in > TABLE 080.

Employees in Germany paid a total of €3.8 million from their salaries (2018: €3.7 million) into the KION pension plan in 2019.

The payments expected for 2020 amount to €26.9 million (in 2018: €22.2 million for 2019), which includes direct payments of pension benefits amounting to €21.1 million (in 2018: €19.8 million for 2019) that are not covered by corresponding reimbursements from plan assets.

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.

Changes in plan assets

TABLE 080

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Fair value of plan assets as at 01/01/	**100.7**	**93.8**	**419.1**	**448.7**	**171.7**	**165.0**	**82.0**	**78.4**	**773.5**	**785.9**
Group changes	–	–	–	–	–	–	–	–	–	–
Exchange differences	–	–	27.4	–5.0	3.9	7.7	1.9	1.7	33.1	4.4
Interest income on plan assets	2.0	1.8	11.1	10.4	8.0	6.1	1.1	0.9	22.2	19.2
Employee contributions	3.8	3.7	–	–	–	–	1.1	1.0	4.9	4.7
Employer contributions	0.7	0.8	0.9	0.3	0.7	17.6	1.4	1.1	3.6	19.7
Pension benefits paid by funds	–2.0	–1.6	–17.9	–19.9	–8.7	–7.6	–6.0	–2.7	–34.6	–31.9
Liability transfer out to third parties	–0.1	–0.0	–	–	–	–	4.8	1.8	4.7	1.8
Remeasurements	11.8	2.3	35.1	–15.2	25.6	–17.0	9.6	–0.4	82.1	–30.4
Fair value of plan assets as at 31/12/	**116.9**	**100.7**	**475.7**	**419.1**	**201.3**	**171.7**	**95.7**	**82.0**	**889.5**	**773.5**

Funded status and net defined benefit obligation TABLE 081

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Present value of the funded defined benefit obligation	−731.1	−601.7	−427.4	−389.1	−227.2	−195.5	−107.7	−91.3	−1,493.4	−1,277.6
Fair value of plan assets	116.9	100.7	475.7	419.1	201.3	171.7	95.7	82.0	889.5	773.5
Surplus (+)/deficit (–)	**−614.3**	**−501.1**	**48.3**	**30.0**	**−25.9**	**−23.7**	**−12.1**	**−9.3**	**−603.9**	**−504.1**
Present value of the unfunded defined benefit obligation	−559.0	−459.5	−0.0	−0.0	−6.9	−7.2	−41.9	−39.0	−607.8	−505.7
Net liability (–)/net asset (+) as at 31/12/	**−1,173.2**	**−960.5**	**48.3**	**30.0**	**−32.9**	**−30.9**	**−54.0**	**−48.2**	**−1,211.7**	**−1,009.7**
Reported as 'retirement benefit obligation'	−1,173.2	−960.5	−3.3	−3.3	−32.9	−30.9	−54.0	−48.2	−1,263.4	−1,043.0
Reported as 'Other non-current assets'	–	−0.0	51.7	33.3	–	–	–	–	51.7	33.3

Overall, the funding ratio (ratio of plan assets to the present value of the defined benefit obligation) in the KION Group was 42.3 per cent (2018: 43.4 per cent).

The changes in the retirement benefit obligations reported in the statement of financial position are shown in > TABLE 082.

Statement of cash flows

For the main pension entitlements in the KION Group, a sum of €17.8 million (2018: €17.5 million) was paid directly by the Company and a sum of €34.6 million (2018: €31.9 million) was paid from plan assets in the reporting year. Cash contributions to plan assets in 2019 amounted to €3.6 million (2018: €19.7 million).

Income statement

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the income statement for 2019 is shown in > TABLE 083.

The KION Group's net financial expenses include a net interest cost of €19.0 million (2018: €18.8 million). All other components of pension expenses are recognised under functional costs.

The actual total comprehensive income on plan assets (including remeasurement) in 2019 was €104.3 million (2018: minus €11.2 million).

Changes in retirement benefit obligation TABLE 082

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Balance as at 01/01/	**960.5**	**907.5**	**3.3**	**4.4**	**30.9**	**45.0**	**48.2**	**45.8**	**1,043.0**	**1,002.7**
Group changes	–	–	–	–	–	–	–	–	–	–
Exchange differences	–	–	0.2	–0.0	0.7	1.6	0.4	0.3	1.3	1.9
Total service cost	37.1	36.7	0.0	0.1	–0.7	0.2	3.0	3.6	39.4	40.6
Net interest expense	18.3	17.0	0.1	0.1	0.8	1.5	0.8	0.7	19.9	19.3
Pension benefits directly paid by company	–16.4	–15.9	–	–	–	–	–1.4	–1.5	–17.8	–17.5
Employer contributions to plan assets	–0.7	–0.8	–0.7	–0.3	–0.7	–17.6	–1.4	–1.1	–3.4	–19.8
Liability transfer out to third parties	–0.7	–0.2	–	–	–	–	0.2	0.1	–0.6	–0.2
Remeasurements	175.1	16.2	0.4	–1.0	1.9	0.2	4.2	0.5	181.6	15.9
Balance as at 31/12/	**1,173.2**	**960.5**	**3.3**	**3.3**	**32.9**	**30.9**	**54.0**	**48.2**	**1,263.4**	**1,043.0**

Cost of defined benefit obligation TABLE 083

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Current service cost	37.1	36.7	0.9	0.9	–0.7	0.2	4.2	3.6	41.5	41.4
Past service cost (+) and income (–)	–	–	–	1.4	–	–	–1.3	–	–1.3	1.4
Total service cost	**37.1**	**36.7**	**0.9**	**2.3**	**–0.7**	**0.2**	**3.0**	**3.6**	**40.3**	**42.8**
Interest expense	20.3	18.8	10.3	9.9	8.8	7.6	1.8	1.7	41.2	38.0
Interest income on plan assets	–2.0	–1.8	–11.1	–10.4	–8.0	–6.1	–1.1	–0.9	–22.2	–19.2
Net interest expense (+)/income (–)	**18.3**	**17.0**	**–0.8**	**–0.5**	**0.8**	**1.5**	**0.8**	**0.7**	**19.0**	**18.8**
Total cost of defined benefit obligation	**55.4**	**53.7**	**0.1**	**1.8**	**0.0**	**1.7**	**3.8**	**4.4**	**59.3**	**61.5**

Other comprehensive income (loss)

The breakdown of the remeasurement of the defined benefit obligation recognised in the consolidated statement of comprehensive income in 2019 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 €115.9 million decrease in equity as at 31 December 2019 after deduction of deferred taxes (2018: €0.2 million).

Accumulated other comprehensive income (loss) TABLE 084

	Germany		UK		USA		Other		Total	
in € million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Accumulated other comprehensive income/loss as at 01/01/	**–350.2**	**–334.0**	**–32.6**	**–45.1**	**8.1**	**7.9**	**–24.8**	**–24.0**	**–399.4**	**–395.1**
Exchange differences	–	–	–1.5	0.4	0.2	0.4	–0.4	–0.3	–1.7	0.4
Gains (+) and losses (–) arising from remeasurements of defined benefit obligation	–186.9	–18.5	–20.0	27.4	–27.5	16.8	–13.8	–0.1	–248.1	25.6
Gains (+) and losses (–) arising from remeasurements of plan assets	11.8	2.3	35.1	–15.2	25.6	–17.0	9.6	–0.4	82.1	–30.4
Accumulated other comprehensive income/loss as at 31/12/	**–525.3**	**–350.2**	**–19.0**	**–32.6**	**6.4**	**8.1**	**–29.3**	**–24.8**	**–567.2**	**–399.4**

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	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Shares	41.5	27.0	47.8	34.8	89.8	76.9	12.2	10.3	191.3	149.0
Fixed-income securities	19.9	27.9	401.0	332.0	94.9	80.8	14.0	12.6	529.8	453.3
Real estate	6.0	7.2	–	–	–	–	8.9	7.8	14.9	15.0
Insurance policies	–	–	–	–	–	–	41.6	35.9	41.6	35.9
Other	49.5	38.6	26.9	52.3	16.5	14.1	19.0	15.4	111.8	120.4
Total plan assets	**116.9**	**100.7**	**475.7**	**419.1**	**201.3**	**171.7**	**95.7**	**82.0**	**889.5**	**773.5**
thereof total assets that do not have a quoted price in active markets	**19.2**	**14.3**	**12.7**	**15.8**	**–**	**–**	**56.9**	**48.0**	**88.7**	**78.0**
Insurance policies	–	–	–	–	–	–	41.6	35.9	41.6	35.9
Other	19.2	14.3	12.7	15.8	–	–	15.3	12.1	47.2	42.1

Sensitivity analysis

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 defined benefit obligation TABLE 086

in € million		2019	2018
Discount rate	Increase by 1.0 percentage point	–356.9	–280.2
	Reduction by 1.0 percentage point	486.8	377.0
Salary increase rate	Increase by 0.5 percentage point	21.9	17.7
	Reduction by 0.5 percentage point	–21.8	–17.9
Pension increase rate	Increase by 0.25 percentage point	49.4	39.5
	Reduction by 0.25 percentage point	–44.6	–37.9
Life expectancy	Increase by 1 year	88.6	63.7

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 2019. The expected pension benefits break down into future benefits to be paid directly by the employer (for 2020: €21.1 million) and future benefits to be paid from existing plan assets (for 2020: €33.1 million).

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 23.3 years in Germany (2018: 21.5 years), 15.2 years in the United Kingdom (2018: 14.3 years), 13.9 years in the US (2018: 12.9 years) and 16.2 years in the other countries (2018: 15.7 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 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 in 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 minimum rate of return that has been guaranteed to participating employees, the KION Group's personnel expenses rise.

Expected payments for pension benefits TABLE 087

in € million	Germany	UK	USA	Other	Total
2020	26.5	17.2	5.8	4.8	54.2
2021	23.3	17.2	10.7	4.4	55.5
2022	25.8	17.6	11.0	4.1	58.6
2023	29.2	18.1	11.4	5.1	63.7
2024	29.7	18.1	11.5	5.0	64.4
2025 to 2029	173.4	90.9	61.1	30.0	355.4

[29] FINANCIAL LIABILITIES

As at 31 December 2019, financial liabilities essentially comprised promissory notes and interest-bearing liabilities to banks. The changes in financial liabilities as at 31 December 2019 are shown in > TABLE 088.

Promissory notes

In April 2019, KION GROUP AG issued a further promissory note in a nominal amount of €120.5 million. In return, €20.5 million of the fixed-rate tranche of the promissory note from 2018 was repaid ahead of schedule. As at 31 December 2019, the total nominal amount of the issued promissory notes was €1,310.0 million (2018: €1,210.0 million). The promissory notes maturing in 2022, 2024, 2025 and 2027 have fixed and variable interest rates

Maturity structure of financial liabilities TABLE 088

in € million	2019	2018
Promissory notes	**1,317.3**	**1,214.3**
due within one year	–	–
due in one to five years	981.0	744.5
due in more than five years	336.3	469.8
Liabilities to banks	**498.3**	**826.4**
due within one year	98.8	221.9
due in one to five years	399.5	604.5
due in more than five years	–	–
Other financial liabilities	**4.9**	**4.6**
due within one year	4.9	4.6
due in one to five years	–	–
due in more than five years	–	–
Total current financial liabilities	**103.7**	**226.5**
Total non-current financial liabilities	**1,716.8**	**1,818.7**

(EURIBOR + margin), while the promissory note maturing in 2026 has a variable interest rate (EURIBOR + margin). An overview of the nominal amounts of the promissory notes issued by KION GROUP AG can be found in > TABLE 089.

KION GROUP AG has entered into interest-rate derivatives in order to hedge the interest-rate risk resulting from the variable-rate and fixed-rate tranches (see note [41]).

The promissory notes are not collateralised. KION GROUP AG is the borrower in respect of all the payment obligations resulting from the promissory notes.

Liabilities to banks

Liabilities to banks decreased by €328.0 million year on year, mainly due to €400.0 million of the outstanding liability under the acquisition facilities agreement (AFA) being repaid. There was a countervailing increase as a result of a fixed-rate loan of €200.0 million being taken out that will mature in 2021.

KION GROUP AG has a revolving credit facility of €1,150.0 million. It has a variable interest rate (EURIBOR + margin) and can be drawn down until February 2023. The drawdowns under the revolving credit facility are generally classified as short term. As at 31 December 2019, there were no drawdowns from the revolving credit facility (2018: €101.8 million).

The liabilities to banks are not collateralised. KION GROUP AG has issued guarantees to the banks for all of the payment obligations.

Other financial liabilities

In November 2019, KION GROUP AG launched a commercial paper programme with a maximum programme volume of €500.0 million. No commercial paper had been issued as at 31 December 2019, and hence the other financial liabilities related to immaterial items.

Covenants

Among other stipulations, the contractual terms of the liabilities to banks and promissory notes set out certain covenants. In addition, there is a financial covenant that involves ongoing monitoring of adherence to a defined maximum level of leverage. Non-compliance with the covenants or with the defined maximum level of leverage as at a particular reporting date may give lenders a right of termination or lead to an increase in interest payments. All covenants were complied with in the past financial year, as was also the case in 2018.

Promissory note TABLE 089

in € million	Maturity date	2019	2018
Promissory note (10-year term)	April 2027	27.5	27.5
Promissory note (7-year term)	April 2026	120.5	–
Promissory note (7-year term)	June 2025	179.5	200.0
Promissory note (7-year term)	April 2024	236.5	236.5
Promissory note (5-year term)	May 2022	746.0	746.0

[30] LIABILITIES FROM FINANCIAL SERVICES

The liabilities from financial services relate to the financing of the long-term lease business and residual value obligations arising from the indirect lease business in an amount of €2,062.9 million (2018: €1,165.3 million) and to the financing of industrial trucks for the short-term rental fleet in an amount of €437.2 million (2018: €307.1 million). > TABLE 090

Liabilities from financial services arising from the lease business encompass liabilities from financing by means of sale and lease-back sub-lease transactions entered into with leasing companies since 1 January 2018 in an amount of €729.6 million (2018: €440.2 million). They also include residual value obligations of €297.2 million (2018: €319.5 million) resulting from the indirect lease business.

Furthermore, liabilities from financial services include liabilities from lease facilities in an amount of €392.9 million (2018: €307.3 million), liabilities from the issuance of notes (securitisation) in an amount of €530.2 million (2018: €98.3 million) – of which €285.9 million was issued through K-Lift S.A., Luxembourg (2018: €98.3 million) – and other liabilities from financial services in an amount of €113.0 million (2018: €0.0 million).

The maturities of the liabilities from financial services are shown in > TABLE 091.

Liabilities from financial services TABLE 090

in € million	2019	2018
Non-current liabilities from financial services	**1,566.9**	**924.4**
thereof from lease business	806.4	601.9
thereof from short-term rental fleet financing	339.8	244.6
thereof from lease facilities	4.3	–
thereof from asset-backed securities	416.4	77.9
Current liabilities from financial services	**933.2**	**548.0**
thereof from lease business	220.4	157.7
thereof from short-term rental fleet financing	97.4	62.5
thereof from lease facilities	388.6	307.3
thereof from asset-backed securities	113.8	20.4
thereof other	113.0	–

Maturity analysis of liabilities from financial services TABLE 091

in € million	2019	2018
Total future payments from financial services (gross)	**2,572.8**	**1,539.9**
due within one year	966.2	589.7
due in one to two years	449.1	244.8
due in two to three years	418.8	240.9
due in three to four years	369.7	209.2
due in four to five years	251.8	172.7
due in more than five years	117.2	82.5

[31] LEASE LIABILITIES

Lease liabilities amounting to €432.1 million (2018: €740.6 million) related solely to finance lease obligations arising from sale and leaseback sub-lease transactions entered into up to 31 December 2017 for the financing of long-term leases with end customers. On the opposite side of the statement of financial position, there were lease receivables worth €316.0 million (2018: €514.3 million) and leased assets under sale and leaseback sub-lease transactions of €166.1 million (2018: €268.6 million).

The amounts recognised as lease liabilities are based on the maturities of future lease payments (gross) shown in > TABLE 092.

[32] OTHER PROVISIONS

Other provisions relate to the following items: > TABLE 093

Maturity analysis of lease liabilities TABLE 092

in € million	2019	2018
Total future lease payments (gross)	**455.5**	**801.6**
due within one year	200.5	291.5
due in one to two years	143.0	217.5
due in two to three years	82.0	158.9
due in three to four years	22.9	94.4
due in four to five years	5.7	30.0
due in more than five years	1.4	9.4

Other provisions

TABLE 093

in € million	Provisions for product warranties	Provisions for personnel	Other obligations	Total other provisions
Balance as at 01/01/2019	**81.0**	**80.0**	**65.2**	**226.2**
thereof non-current	23.5	52.5	22.9	98.9
thereof current	57.5	27.5	42.2	127.2
Group changes	0.3	–	0.0	0.3
Additions	45.7	57.6	25.4	128.8
Utilisations	–31.7	–28.6	–21.1	–81.4
Reversals	–16.7	–1.8	–9.8	–28.3
Additions to accrued interest	0.0	2.0	0.1	2.1
Currency translation adjustments	0.9	0.5	0.7	2.0
Other adjustments	2.3	4.3	–1.8	4.8
Balance as at 31/12/2019	**81.8**	**114.0**	**58.6**	**254.4**
thereof non-current	18.9	73.8	21.1	113.8
thereof current	62.9	40.2	37.5	140.6

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 cash payments will be incurred within the next two years after the reporting date.

The provisions for personnel comprise provisions for long-service awards, partial retirement obligations, share-based remuneration obligations, severance pay, and obligations under social plans. The provisions for partial retirement obligations are recognised on the basis of individual contractual arrangements and agreements under collective bargaining law. In 2019, the KION Group recognised provisions for restructuring of €11.6 million, predominantly in connection with the plans to consolidate finance functions at one location from 2020 onwards.

Other obligations include provisions for onerous contracts and litigation.

[33] CONTRACT BALANCES

Contract assets stood at €150.2 million (2018: €119.3 million); most of this amount, €143.6 million (2018: €114.7 million), was attributable to project business contracts. Of the contract assets recognised as at 1 January 2019, €91.5 million was billed in 2019 (2018: €88.1 million). By contrast, contract assets rose by €178.7 million year on year (2018: €213.8 million) as a result of goods and services already provided that will be billed only once the contractually agreed project milestones have been reached.

Of the contract liabilities, €416.8 million was attributable to project business contracts with a net debit balance due to customers (2018: €498.7 million) and €88.1 million to prepayments received from customers (2018: €71.4 million). They relate to services that are still to be provided but for which prepayments from customers have been received. Contract liabilities are recognised as revenue as soon as the contractual goods and services have been provided. The revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period amounted to €468.7 million (2018: €292.6 million). Prepayments received from customers came to €549.6 million (2018: €558.3 million).

[34] TRADE PAYABLES

As at 31 December 2019, trade payables of €975.9 million (2018: €904.2 million) included liabilities to non-consolidated subsidiaries, equity-accounted investments and other equity investments of €33.5 million (2018: €23.7 million).

[35] OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following items: > TABLE 094

Liabilities from short-term rental fleet financing relate to the financing of the short-term rental fleet by means of sale-and-leaseback sub-lease transactions entered into up to 31 December 2017 in the amount of €178.6 million (2018: €289.9 million). The amounts recognised as liabilities from short-term rental fleet financing and from procurement leases are based on the maturities shown in > TABLE 095. The increase in liabilities from procurement leases was primarily due to the start of two property leases.

Derivative financial instruments comprise currency forwards and interest-rate swaps with a negative fair value that are used to reduce currency risk and interest-rate risk. Some of these derivative financial instruments are part of a formally documented hedge with a hedged item and are recognised in accordance with the hedge accounting rules (see note [41]).

Other financial liabilities TABLE 094

in € million	2019	2018
Liabilities from short-term rental fleet financing	101.7	185.0
Liabilities from procurement leases	380.6	327.1
Derivative financial instruments	11.4	7.9
Sundry financial liabilities	7.1	4.7
Other non-current financial liabilities	**500.9**	**524.6**
Liabilities from short-term rental fleet financing	76.9	104.9
Liabilities from procurement leases	105.5	94.2
Derivative financial instruments	12.8	6.4
Liabilities from accrued interest	4.4	15.2
Sundry financial liabilities	84.4	67.9
Other current financial liabilities	**284.0**	**288.6**
Total other financial liabilities	**784.9**	**813.2**

Maturity analysis of procurement leases and short-term rental fleet TABLE 095

	Procurement leases		Financing short-term rental fleet	
in € million	2019	2018	2019	2018
Total future payments (gross)	**551.5**	**464.1**	**185.7**	**315.0**
due within one year	117.6	105.8	80.9	122.8
due in one to two years	92.9	79.7	53.0	86.6
due in two to three years	75.3	57.5	35.9	53.8
due in three to four years	54.8	45.7	12.1	34.4
due in four to five years	39.8	34.0	2.9	12.2
due in more than five years	171.1	141.3	0.8	5.2

[36] OTHER LIABILITIES

Other liabilities comprise the following items: > TABLE 096

Other liabilities TABLE 096

in € million	2019	2018
Deferred income	301.2	473.5
Other non-current liabilities	**301.2**	**473.5**
Deferred income	252.7	250.0
Personnel liabilities	296.0	266.8
Social security liabilities	53.7	51.6
Tax liabilities	107.2	105.8
Other current liabilities	**709.6**	**674.2**
Total other liabilities	**1,010.9**	**1,147.6**

Deferred income included deferred gains on disposals of €448.8 million (2018: €627.4 million) resulting from indirect and direct sales lease business.

Personnel liabilities primarily consist of liabilities for one-year variable remuneration, outstanding annual leave, flexitime and overtime credit, and wages and salaries not yet paid.

[37] CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities

The contingent liabilities include guarantees and indemnities to external parties. In addition, guarantees and indemnities of €2.3 million related to contingent liabilities assumed jointly with another shareholder of a joint venture (2018: €2.3 million). > TABLE 097

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 097

in € million	2019	2018
Guarantees and indemnities	114.9	89.5

Other financial commitments

Sundry other financial commitments included future payment obligations to an associate amounting to €1.3 million (2018: €1.3 million). > TABLE 098

Other financial commitments TABLE 098

in € million	2019	2018
Commitments under long-term licence and support agreements	121.1	99.7
Capital expenditure commitments in fixed assets	66.8	59.0
Sundry other financial commitments	1.5	1.3
Total other financial commitments	**189.4**	**160.0**

Other disclosures

[38] 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.

Net cash provided by operating activities totalled €846.3 million, which was much higher than the prior-year figure of €765.5 million. This year-on-year improvement in cash flow from operating activities was due to the higher level of earnings and a reduction in spending on the ongoing renewal and expansion of the short-term rental fleet. Conversely, the growth of net working capital lowered cash flow from operating activities by €146.8 million (2018: by €54.3 million), primarily because of a decline in advance payments from customers in the project business.

Net cash used for investing activities amounted to €277.9 million, which was a higher amount than in the previous year (2018: €245.6 million). Within this figure, cash payments for capital expenditure on production facilities, product development and purchased property, plant and equipment rose to €287.4 million (2018: €258.5 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – increased to €568.4 million (2018: €519.9 million).

Net cash used for financing activities came to €534.9 million (2018: €514.5 million), partly due to net repayments of financial debt amounting to €226.0 million. One new promissory note was issued, whereas a further amount was repaid towards the remaining long-term tranches under the AFA. Overall, financial debt taken on during the reporting period reached €2,940.1 million (2018: €1,811.7 million); repayments amounted to €3,166.2 million (2018: €2,042.6 million). Payments made for interest portions and principal portions under procurement leases totalled €126.5 million (2018: €114.0 million). Current interest payments decreased from €42.9 million in 2018 to €36.7 million in 2019 due to a year-on-year fall in average net debt. The payment of a dividend to the shareholders of KION GROUP AG in May 2019 resulted in an outflow of funds of €141.5 million (2018: €116.8 million). The acquisition of employee shares caused a cash outflow of €2.9 million (2018: €3.6 million).

Additional information for 2019 on the changes to liabilities arising from financing activities can be found in > TABLES 099–100.

Reconciliation of liabilities arising from financing activities 2019 TABLE 099

in € million	01/01/2019	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Other changes	31/12/2019
Non-current financial liabilities	1,818.7	–100.0	0.0	–1.9	1,716.8
Current financial liabilities	226.5	–126.0	–4.5	7.7	103.7
Liabilities from accrued interest	15.2	–34.2	–0.0	23.3	4.4
Derivative financial instruments for hedging purposes	7.3	–2.5	–	4.9	9.7
Liabilities from procurement leases	421.2	–126.5	4.7	186.7	486.1
Total liabilities from financing activities	**2,489.0**	**–389.2**	**0.2**	**220.7**	**2,320.7**

Reconciliation of liabilities arising from financing activities 2018 TABLE 100

in € million	01/01/2018	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Other changes	31/12/2018
Non-current financial liabilities	2,024.8	–200.0	8.0	–14.1	1,818.7
Current financial liabilities	243.9	–30.9	–7.9	21.5	226.5
Liabilities from accrued interest	14.5	–39.4	–0.0	40.2	15.2
Derivative financial instruments for hedging purposes	1.9	–3.5	–	8.9	7.3
Liabilities from procurement leases	369.1	–114.0	–1.6	167.7	421.2
Total liabilities from financing activities	**2,654.2**	**–387.8**	**–1.5**	**224.1**	**2,489.0**

Positive currency effects increased cash and cash equivalents by €2.4 million (2018: decrease of €3.2 million due to negative effects). Overall, cash and cash equivalents went up from €175.3 million as at 31 December 2018 to €211.2 million as at 31 December 2019.

[39] INFORMATION ON FINANCIAL INSTRUMENTS

The measurement categories used in accordance with IFRS 9 are presented below in > TABLES 101–102. In line with IFRS 7, the tables show the carrying amounts and fair values of the financial assets and liabilities. Derivative financial instruments that are part of a formally documented hedge are not assigned to any of the IFRS 9 measurement categories. The lease receivables, lease liabilities, liabilities from procurement leases and liabilities from short-term rental fleet financing fall within the scope of IFRS 16 and are therefore also not assigned to any of the IFRS 9 measurement categories.

Carrying amounts and fair values broken down by class 2019 TABLE 101

Classes	Carrying amount	Categories FVPL	AC	FVOCI	Fair value
in € million					
Financial assets					
Lease receivables*	1,421.0				1,427.4
Trade receivables	1,074.2	4.8	1,069.4		1,074.2
Other financial assets	118.7				118.7
thereof financial investments	14.4			14.4	14.4
thereof financial receivables	23.9		23.9		23.9
thereof other financial investments	24.2	24.2			24.2
thereof sundry financial assets	44.3		44.3		44.3
thereof derivative financial instruments	12.0	7.2			12.0
Cash and cash equivalents	211.2		211.2		211.2
Financial liabilities					
Financial liabilities	1,820.5				1,827.7
thereof promissory notes	1,317.3		1,317.3		1,323.9
thereof liabilities to banks	498.3		498.3		498.9
thereof other financial liabilities	4.9		4.9		4.9
Liabilities from financial services	2,500.2		2,500.2		2,515.4
Lease liabilities*	432.1				435.3
Trade payables	975.9		975.9		975.9
Other financial liabilities	784.9				794.7
thereof liabilities from procurement leases*	486.1				494.6
thereof liabilities from short-term rental fleet financing*	178.6				179.9
thereof sundry financial liabilities and liabilities from accrued interest	96.0		96.0		96.0
thereof derivative financial instruments	24,3	5,3			24,3

* as defined by IFRS 16

Carrying amounts and fair values broken down by class 2018 TABLE 102

Classes	Carrying amount	Categories			Fair value
		FVPL	AC	FVOCI	
in € million					
Financial assets					
Lease receivables*	1,097.3				1,102.0
Trade receivables	1,036.4	15.6	1,020.9		1,036.4
Other financial assets	113.2				113.2
thereof financial investments	5.2			5.2	5.2
thereof financial receivables	35.9		35.9		35.9
thereof other financial investments	21.0	21.0			21.0
thereof sundry financial assets	41.2		41.2		41.2
thereof derivative financial instruments	9.9	6.5			9.9
Cash and cash equivalents	175.3		175.3		175.3
Financial liabilities					
Financial liabilities	2,045.2				2,055.6
thereof promissory notes	1,214.3		1,214.3		1,222.0
thereof liabilities to banks	826.4		826.4		829.1
thereof other financial liabilities	4.6		4.6		4.6
Liabilities from financial services	1,472.4		1,472.4		1,477.0
Lease liabilities*	740.6				743.0
Trade payables	904.2		904.2		904.2
Other financial liabilities	813.2				822.1
thereof liabilities from procurement leases*	421.2				429.2
thereof liabilities from short-term rental fleet financing*	289.9				290.8
thereof sundry financial liabilities and liabilities from accrued interest	87.8		87.8		87.8
thereof derivative financial instruments	14.3	2.5			14.3

* as defined by IFRS 16

The net gains and losses on financial instruments in 2019 are broken down by IFRS 9 category as shown in > TABLE 103. Net gains and losses on financial instruments do not include gains/losses arising on hedging transactions that are part of a formally documented hedge (see note [41]).

The net gains and losses include interest income of €4.2 million (2018: €6.2 million) and interest expenses of €70.5 million (2018: €57.7 million) that result from financial instruments measured at amortised cost (AC category) and are recognised within financial income/expenses. In 2019, the measurement at fair value of equity instruments (FVOCI category) led to a loss of €1.9 million that was recognised in other comprehensive income (2018: €6.4 million). Currency translation gains and losses, dividends, valuation allowances for expected and incurred losses, the marking-to-market of derivatives that are not part of a formally documented hedge and other measurement effects are also included in the net gains and losses.

Fair value measurement

The majority of the cash and cash equivalents, financial receivables, trade receivables and trade payables recognised at amortised cost, sundry financial assets and liabilities, and liabilities from accrued interest have short remaining terms to maturity. The carrying amounts of these financial instruments are roughly equal to their fair values.

The fair value of promissory notes, liabilities to banks and liabilities from financial services corresponds to the present value of the outstanding payments, taking account of the current yield 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 lease receivables, lease liabilities, liabilities from short-term rental fleet financing and liabilities from procurement leases corresponds to the present value of the net lease payments, taking account of the current market interest rate for similar leases.

Net gains and losses on financial instruments broken down by category TABLE 103

in € million	2019	2018
Financial assets measured at amortised cost (AC)	–7.7	–1.9
Equity instruments measured at fair value through other comprehensive income (FVOCI)	–1.9	–6.4
Financial instruments measured at fair value through profit or loss (FVPL)	–15.7	–16.9
Financial liabilities measured at amortised cost (AC)	–69.6	–58.1

The following tables show the assignment of fair values to the individual levels as defined by IFRS 13 for financial instruments measured at fair value. > TABLES 104–105

Financial instruments measured at fair value 2019 TABLE 104

	Fair Value Hierarchy			
in € million	Level 1	Level 2	Level 3	2019
Financial assets				**55.3**
thereof financial investments	3.2		11.2	14.4
thereof other financial investments		24.2		24.2
thereof trade receivables		4.8		4.8
thereof derivative financial instruments		12.0		12.0
Financial liabilities				**24.3**
thereof derivative financial instruments		24.3		24.3

Financial instruments measured at fair value 2018 TABLE 105

	Fair Value Hierarchy			
in € million	Level 1	Level 2	Level 3	2018
Financial assets				**51.7**
thereof financial investments	5.2			5.2
thereof other financial investments		21.0		21.0
thereof trade receivables		15.6		15.6
thereof derivative financial instruments		9.9		9.9
Financial liabilities				**14.3**
thereof derivative financial instruments		14.3		14.3

Level 1 comprises the financial investment in Balyo SA, for which the fair value is calculated using prices quoted in an active market.

The fair value of other financial investments is determined using prices quoted in an active market and other observable inputs. They are assigned to Level 2.

Trade receivables that are recognised at fair value through profit or loss are assigned to Level 2. Their fair value is calculated using the transaction price achievable in an active market. The biggest influence on the transaction price is the default risk of the counterparty.

Interest-rate swaps and currency forwards are also classified as Level 2. The fair value of derivative financial instruments is determined using appropriate valuation methods on the basis of the observable market information at the reporting date. The default risk for the Group and for the counterparty is taken into account on the basis of gross figures. The fair value of interest-rate swaps is calculated as the present value of the future cash flows. Both contractually agreed payments and forward interest rates are used to calculate the cash flows, which are then discounted on the basis of a yield curve that is observable in the market. The fair value of the currency forwards is calculated by the system using the discounting method based on forward rates on the reporting date. In order to eliminate default risk to the greatest possible extent, the KION Group only enters into derivatives with investment-grade counterparties.

Level 3 essentially comprises the financial investment in Zhejiang EP Equipment Co., Ltd. The fair value is determined using appropriate valuation methods that draw on observable inputs to the greatest possible extent. If no observable inputs are available, unobservable inputs are used.

[40] 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 Corporate Treasury 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 a key performance measure used in liquidity planning at Group level and amounted to €1,609.3 million as at 31 December 2019 (2018: €1,869.9 million).

Default risk

In certain operating and finance 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 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. Default 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. The potential default risk attaching to financial assets is also mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees, and potential netting agreements.

Counterparty risks involving our customers are managed by the individual Group companies. To reflect the default risk, valuation allowances are recognised for defaults that have occurred and for expected defaults (see note [25]). Valuation allowances are based on the credit risk associated with the receivables, the level of expected loss in the event of a default and, taking account of any collateral, the estimated loss given default. This risk is assessed mainly using factors such as customer credit rating and failure to adhere to payment terms.

Financial transactions are only entered into with selected business partners that have an investment-grade credit rating. The KION Group's default risk remains insignificant.

Liquidity risk

Based on the definition in 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 a revolving credit facility and cash in order to ensure financial flexibility and solvency. Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group as at the reporting date amounted to €1,357.4 million (2018: €1,219.8 million). The age structure of financial liabilities is reviewed and optimised continually.

KION GROUP AG has an investment-grade credit rating, helping it to secure more advantageous funding conditions in the capital markets. In January 2017, Fitch Ratings gave KION GROUP AG an investment-grade long-term issuer rating of BBB– with a stable outlook. This rating was reaffirmed in October 2019. The rating awarded by the rating agency Standard & Poor's for KION GROUP AG has been BB+ with a stable outlook since December 2019.

In 2019, the KION Group sold financial assets with a total value of €116.5 million (2018: €152.3 million) in factoring transactions. In some cases, the KION Group retains insignificant rights and obligations 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 €0.7 million as at 31 December 2019 (2018: €3.1 million). The short remaining term of these financial assets means their carrying amount was almost the same as their fair value. The maximum downside risk arising on the transferred financial assets that are to be fully derecognised amounted to €4.7 million as at 31 December 2019 (2018: €19.9 million).

The following tables show all of the contractually agreed undiscounted payments under recognised financial liabilities as at 31 December 2019 and 2018, including derivative financial instruments with negative fair values. > TABLES 106–107

Risks arising from financial services

The lease 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-rented. 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 provisions 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. In many cases, 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 2019. 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 arranged on a fixed-interest basis. If they are financed using variable-rate instruments, interest-rate derivatives are entered into in order to hedge the interest-rate risk. Hedging is carried out at regular intervals and is based either on the carrying amount of the assets or the outstanding cash flows from the underlying end customer contracts.

Liquidity analysis of financial liabilities and derivatives 2019 TABLE 106

in € million	Carrying amount 2019	Cash flow 2020	Cash flow 2021 – 2024	Cash flow from 2025
Primary financial liabilities				
Promissory notes	1,317.3	–15.4	–1,021.1	–341.3
Liabilities to banks	498.3	–103.0	–401.9	–
Other financial liabilities	4.9	–4.9	–	–
Liabilities from financial services	2,500.2	–966.2	–1,489.4	–117.2
Lease liabilities	432.1	–200.5	–253.6	–1.4
Trade payables	975.9	–975.9	–	–
Other financial liabilities (excluding derivatives)	760.7	–282.8	–373.9	–171.9
Derivative financial liabilities				
Derivatives with negative fair value	24.3			
+ Cash in		409.5	89.2	–
– Cash out		–426.8	–97.7	–

Liquidity analysis of financial liabilities and derivatives 2018 TABLE 107

in € million	Carrying amount 2018	Cash flow 2019	Cash flow 2020 – 2023	Cash flow from 2024
Primary financial liabilities				
Promissory notes	1,214.3	–14.5	–798.8	–476.4
Liabilities to banks	826.4	–233.3	–646.0	–
Other financial liabilities	4.6	–4.6	–	–
Liabilities from financial services	1,472.4	–589.7	–867.7	–82.5
Lease liabilities	740.6	–291.5	–500.7	–9.4
Trade payables	904.2	–904.2	–	–
Other financial liabilities (excluding derivatives)	798.9	–316.4	–403.9	–146.6
Derivative financial liabilities				
Derivatives with negative fair value	14.3			
+ Cash in		310.2	13.4	0.2
– Cash out		–324.5	–21.7	–

The lease 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 finances its lease business in the local currency used in each market.

The counterparty risk inherent in the lease business continues to be insignificant. The Group also mitigates any losses from defaults by its receipt of the proceeds from the sale of repossessed trucks. Furthermore, receivables management and credit risk management are refined on an ongoing basis. This involves not only the design of the business processes, but also the risk management and control processes.

Currency risk

In accordance with the Corporate Treasury guideline, the KION Group hedges currency risk 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.

In the Industrial Trucks & Services segment, hedges are entered into at individual company level 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 project business contracts in the Supply Chain Solutions segment is hedged on a project-specific basis at individual company level. Some of these hedges are classified as cash flow hedges for accounting purposes in accordance with IFRS 9 (see note [41]).

In addition, foreign-currency forwards are employed to hedge the currency risks arising in the course of internal financing. > TABLE 108 shows an overview of the foreign-currency forwards entered into by the KION Group.

Foreign-currency forwards TABLE 108

		Fair value		Notional amount	
in € million		2019	2018	2019	2018
Foreign-currency forwards (assets)	Cash flow hedge	2.5	2.4	116.0	180.4
	Held for trading	6.7	6.5	509.1	332.1
Foreign-currency forwards (liabilities)	Cash flow hedge	9.5	4.6	250.4	211.8
	Held for trading	3.4	1.9	144.9	112.8

Significant currency risk arising from financial instruments is measured using a currency sensitivity method. 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 presentation currency, i.e. currency translation risks, are not included.

Currency risk relevant to currency sensitivity 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 the relevant currencies (after tax) is shown in > TABLE 109.

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.

The Group's financing takes the form of variable-rate and fixed-rate financial liabilities. It has entered into interest-rate swaps in order to hedge interest-rate risk arising on the variable-rate financial liabilities. These hedges are often accounted for as cash flow hedges in accordance with IFRS 9. An interest-rate swap has also been entered into to hedge the risk of a change in the fair value of a fixed-rate financial liability. This is accounted for as a fair value hedge (see note [41]). > TABLE 110 provides an overview of the interest-rate derivatives used by the KION Group.

Foreign-currency sensitivity TABLE 109

	Impact on net income		Impact on other comprehensive income (loss)	
	Increase in the value of the euro of +10.0%	Fall in the value of the euro of −10.0%	Increase in the value of the euro of +10.0%	Fall in the value of the euro of −10.0%
in € million **2019**				
GBP	0.1	−0.1	9.8	−12.0
USD	1.1	−1.3	4.6	−5.6
in € million **2018**				
GBP	0.2	−0.3	7.6	−11.9
USD	20.5	−9.4	6.3	−2.9

Interest-rate swaps TABLE 110

		Fair value		Notional amount	
in € million		2019	2018	2019	2018
Interest-rate swaps (assets)	Fair value hedge	2.4	1.0	79.5	100.0
	Held for trading	0.5	–	557.9	–
Interest-rate swaps (liabilities)	Cash flow hedge	9.7	7.3	760.0	760.0
	Held for trading	1.9	0.6	229.7	90.0

The shift in the relevant yield curves was simulated to assess interest-rate risk. The cumulative effect after tax resulted from variable-rate exposures and is shown in > TABLE 111.

[41] HEDGE ACCOUNTING

Hedging currency risk

In accordance with the Corporate Treasury guideline, 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 critical terms of the hedging instruments and the hedged items are therefore matched. The hedge ratio for these hedges is 1:1. Because the hedges are highly effective, the change in the fair value of the cash flows from the hedged items corresponds to the change in the fair value of the hedging instruments.

The main currency hedges relate to pound sterling and the US dollar. The currency forwards in existence as at 31 December 2019 were entered into at average hedging rates of £0.8950 to €1 (2018: £0.8984 to €1) and US$ 1.1445 to €1 (2018: US$ 1.2077 to €1).

On account of the short-term nature of the Group's payment terms, reclassifications to the income statement of fair value changes previously recognised in equity in the hedge reserve 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 currency forwards used as hedges will mature in 2021 at the latest. In total, foreign-currency cash flows of €366.4 million (2018: €392.1 million) were hedged and designated as hedged items, of which €343.2 million is expected by 31 December 2020 (2018: €372.4 million expected by 31 December 2019). The remaining cash flows designated as hedged items, which amount to €23.1 million (2018: €19.7 million), fall due in the period up to 31 December 2021 (2018: 31 December 2020).

Interest-rate sensitivity TABLE 111

in € million	+50 bps 2019	−50 bps 2019	+50 bps 2018	−50 bps 2018
Net income	4.0	−4.3	−0.6	−0.4
Other comprehensive loss (income)	4.4	−0.5	7.3	−2.5

Hedging of interest-rate risk

The KION Group has issued variable-rate and fixed-rate promissory notes as part of its financing (see note [29]). The KION Group uses cash flow hedge accounting in connection with the hedging of interest-rate risk. It also uses a fair value hedge to hedge the risk of a change in the fair value of fixed-rate promissory notes. The hedge ratio used in both cases is 1:1. The critical terms of the hedging instruments and the hedged items are matched. The interest-rate swaps used as hedges reflect the maturity profile of the hedged items and will mature in 2025. Because the hedges are highly effective, the change in the fair value of the cash flows from the hedged items (cash flow hedge) and the change in the fair value of the hedged items (fair value hedge), corresponds to the change in the fair value of the hedging instruments.

Interest-rate risks arising on the variable-rate tranches of the promissory note are hedged by entering into a number of interest-rate swaps, thereby transforming the variable interest-rate exposure into fixed-rate obligations. In 2019, the weighted, hedged risk-free fixed interest rate remained unchanged year on year at 0.5 per cent. In total, variable cash flows of €0.1 million (2018: €4.1 million) were hedged and designated as hedged items, all of which are cash flows expected in 2021 to 2024.

Moreover, the risk of a change in the fair value of a fixed-rate tranche of the promissory note that was issued in 2018 and will mature in 2025 is hedged using an interest-rate swap, thereby creating a EURIBOR-based variable-rate obligation. The carrying amount of the hedged promissory note tranche (€79.5 million), which is recognised under financial liabilities, included an adjustment of €9.3 million as at 31 December 2019 (2018: €6.8 million) that was attributable to the change in fair value resulting from the hedged risk.

Change in the hedge reserve

The change in the hedge reserves within accumulated other comprehensive income (loss) is presented in > TABLE 112.

Reconciliation of hedge reserves resulting from hedges of currency and interest-rate risks TABLE 112

in € million	Currency risk	Interest-rate risk	Total
Balance as at 01/01/2018	**2.4**	**–0.6**	**1.8**
Changes in unrealised gains and losses	–4.9	–11.1	–16.0
Changes in gains (–) and losses (+) to revenue	–0.2	–	–0.2
Changes in gains (–) and losses (+) to cost of sales	–1.1	–	–1.1
Tax effect of changes in reserves	1.7	3.4	5.1
Balance as at 31/12/2018	**–2.2**	**–8.3**	**–10.4**

in € million	Currency risk	Interest-rate risk	Total
Balance as at 01/01/2019	**–2.2**	**–8.3**	**–10.4**
Changes in unrealised gains and losses	–11.9	–3.2	–15.1
Changes in gains (–) and losses (+) to revenue	3.4	–	3.4
Changes in gains (–) and losses (+) to cost of sales	3.8	–	3.8
Tax effect of changes in reserves	0.6	1.0	1.5
Balance as at 31/12/2019	**–6.3**	**–10.5**	**–16.8**

[42] SEGMENT REPORT

The Executive Board, as the chief operating decision-maker (CODM), manages the KION Group on the basis of the following segments: Industrial Trucks & Services, Supply Chain Solutions and Corporate Services. The segments have been defined in accordance with the KION Group's organisational and strategic focus.

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 service, 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 two local brands Fenwick and OM 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. This segment is primarily involved in customer-specific, longer-term project business operated under the leadership of the Dematic brand. With global resources, eleven 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 holding companies and service companies that provide services such as IT and logistics across all segments. The bulk of the total revenue in this segment is generated by internal IT and logistics services.

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 [6].

> TABLES 113–114 show information on the KION Group's operating segments for 2019 and 2018.

Segment report 2019 TABLE 113

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation/ Reconciliation	Total
Revenue from external customers	6,403.7	2,376.1	26.7	–	8,806.5
Intersegment revenue	6.5	2.7	307.3	–316.5	–
Total revenue	6,410.2	2,378.8	334.1	–316.5	8,806.5
Earnings before tax	**605.0**	**112.9**	**291.5**	**–387.8**	**621.6**
Net financial expenses/income	–56.6	–16.7	–21.7	–	–95.1
EBIT	**661.7**	**129.6**	**313.2**	**–387.8**	**716.6**
+ Non-recurring items	28.4	12.6	1.9	–	42.9
+ PPA items	5.1	86.0	–	–	91.0
= Adjusted EBIT	**695.1**	**228.1**	**315.1**	**–387.8**	**850.5**
Segment assets	10,564.2	5,201.1	2,048.8	–4,048.9	13,765.2
Segment liabilities	7,718.8	2,237.6	4,300.6	–4,050.3	10,206.8
Capital expenditure [1]	220.1	50.2	17.1	–	287.4
Amortisation and depreciation [2]	104.7	37.4	17.0	–	159.1
Order intake	6,330.5	2,771.0	334.1	–323.8	9,111.7
Number of employees [3]	26,131	7,361	1,112	–	34,604

1 Capital expenditure including capitalised development costs, excluding right-of-use assets
2 On intangible assets and property, plant and equipment (excluding right-of-use assets and PPA items)
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

Segment report 2018 TABLE 114

in € million	Industrial Trucks & Services	Supply Chain Solutions	Corporate Services	Consolidation / Reconciliation	Total
Revenue from external customers	5,916.3	2,052.1	27.3	–	7,995.7
Intersegment revenue	5.7	3.1	271.9	–280.7	–
Total revenue	5,922.0	2,055.2	299.2	–280.7	7,995.7
Earnings before tax	**569.6**	**47.5**	**343.6**	**–415.3**	**545.3**
Net financial expenses / income	–55.6	–16.9	–24.9	–	–97.4
EBIT	**625.2**	**64.4**	**368.5**	**–415.3**	**642.8**
+ Non-recurring items	12.6	7.2	1.1	–	21.0
+ PPA items	17.6	108.6	–	–	126.2
= Adjusted EBIT	**655.4**	**180.2**	**369.6**	**–415.3**	**789.9**
Segment assets	9,645.6	4,909.6	1,784.8	–3,371.2	12,968.8
Segment liabilities	6,881.0	2,084.2	4,080.3	–3,381.8	9,663.7
Capital expenditure[1]	195.4	47.8	15.4	–	258.5
Amortisation and depreciation[2]	113.2	29.2	15.7	–	158.1
Order intake	6,210.6	2,425.2	299.2	–278.3	8,656.7
Number of employees[3]	25,533	6,799	796	–	33,128

1 Capital expenditure including capitalised development costs, excluding right-of-use assets
2 On intangible assets and property, plant and equipment (excluding right-of-use assets and PPA items)
3 Number of employees (full-time equivalents) as at balance sheet date 31/12/; allocation according to the contractual relationship

External revenue by region is presented in > TABLES 051 – 052.

In 2019, revenue came to €1,700.5 million in Germany (2018: €1,533.2 million), €1,604.6 million in the US (2018: €1,422.5 million) and €1,056.6 million in France (2018: €951.7 million).

Net financial income and expenses, including all interest income and expenses, are described in notes [12] and [13].

The non-recurring items mainly comprised restructuring and reorganisation-related measures initiated in the fourth quarter of 2019 and came to a total of €42.9 million (2018: €21.0 million).

The effects from purchase price allocations comprised 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 (excluding right-of-use assets related to procurement leases) and is shown in > TABLE 115. Leased assets and rental assets are described in note [17] and [18]. Capital expenditure in Germany came to €156.6 million in 2019 (2018: €156.3 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 instruments, deferred tax assets and post-employment benefits is shown in > TABLE 116.

Capital expenditure broken down by company location* TABLE 115

in € million	2019	2018
Western Europe	189.6	190.2
Eastern Europe	24.1	14.6
Middle East and Africa	0.0	0.1
North America	37.3	34.6
Central and South America	1.3	1.6
Asia-Pacific	35.2	17.3
Total capital expenditure	**287.4**	**258.5**

* Capital expenditure including capitalised development costs, excluding right-of-use assets

Non-current assets broken down by company location TABLE 116

in € million	2019	2018
Western Europe	5,374.9	5,295.7
Eastern Europe	438.7	344.1
Middle East and Africa	2.4	5.0
North America	2,441.8	2,422.4
Central and South America	103.5	98.7
Asia-Pacific	601.6	565.8
Total non-current assets (IFRS 8)	**8,962.8**	**8,731.8**

As at 31 December 2019, non-current assets attributable to Germany amounted to €3,387.9 million (2018: €3,395.7 million) and to the US €2,356.8 million (2018: €2,341.1 million).

[43] EMPLOYEES

The KION Group employed an average of 34,002 full-time equivalents (including trainees and apprentices) in the reporting year (2018: 32,524). The number of employees (with part-time staff included on a pro rata basis) is shown by region in > TABLE 117.

The KION Group employed an average of 606 trainees and apprentices in 2019 (2018: 547).

[44] 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, associates, joint ventures and other related parties in the course of its ordinary business activities.

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 2019 (see note [48]).

Another related party is Weichai Power Co., Ltd., Weifang, People's Republic of China, which indirectly held a 45.0 per cent stake in KION GROUP AG via Weichai Power (Luxembourg) Holding S.à r.l., Luxembourg ('Weichai Power') as at 31 December 2019 (2018: 45.0 per cent). The distribution of a dividend of €1.20 per share (2018: €0.99 per share) to Weichai Power resulted in an outflow of funds from KION GROUP AG of €63.8 million (2018: €50.6 million).

The revenue that the KION Group generated in 2019 and 2018 from selling goods and services to related parties, and vice versa, is shown in > TABLES 118–119 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. This involved a maximum commitment of €9.3 million (2018: €9.3 million), from which the KION Group had a loan receivable of €8.0 million as at 31 December 2019 (2018: €8.0 million) with a variable interest rate.

Employees (average) TABLE 117

	2019	2018
Western Europe	21,051	20,116
Eastern Europe	3,058	2,658
Middle East and Africa	144	239
North America	3,116	3,029
Central and South America	1,261	1,246
Asia-Pacific	5,372	5,236
Total employees	**34,002**	**32,524**

Related party disclosures 2019 TABLE 118

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	18.8	15.6	28.9	43.1
Associates (equity-accounted)	21.7	11.9	181.8	142.3
Joint ventures (equity-accounted)	2.0	99.9	57.0	81.9
Other related parties*	25.0	9.1	39.2	45.3
Total	**67.5**	**136.5**	**306.9**	**312.6**

* 'Other related parties' include, among others, transactions with Weichai Power and its affiliated companies

Related party disclosures 2018 TABLE 119

in € million	Receivables	Liabilities	Sales of goods and services	Purchases of goods and services
Non-consolidated subsidiaries	29.3	12.9	30.9	22.1
Associates (equity-accounted)	36.0	10.8	179.6	133.1
Joint ventures (equity-accounted)	3.0	92.8	63.1	78.6
Other related parties*	15.3	5.0	38.8	11.5
Total	**83.6**	**121.5**	**312.3**	**245.3**

* '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 [46].

In its consolidated financial statements, which are published on the website of the Hong Kong Stock Exchange, Weichai Power Co., Ltd. states that its highest-level parent company is Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China, which itself is owned by the State-owned Assets Supervision and Administration Commission of Shandong People's Government of the People's Republic of China, Jinan, People's Republic of China. This Commission acts on behalf of the People's Republic of China. The exemption for government-related entities was applied. There were no transactions that were significant, either individually or taken together, between the KION Group and companies with which the KION Group is closely associated solely because of its relationship with Shandong Heavy Industry Group Co., Ltd.

[45] VARIABLE REMUNERATION

KEEP employee equity programme

On 20 September 2019, the Executive Board of KION GROUP AG decided to launch a further share option programme for employees (KEEP 2019) in the countries that had been included in the previous year. To be eligible to participate in KEEP 2019, 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 19 German (2018: 19) and 60 foreign (2018: 62) subsidiaries are eligible to take part in KEEP. Each year, the Executive Board of KION GROUP AG decides whether there will be an offer made under the employee share option programme that year and which companies will participate.

KEEP is a share matching plan. Participating employees acquire KION shares for their own investment purposes. Each set of three KION shares represents a share package. Once the three-year holding period has expired, employees are entitled to another free matching share (bonus share) for each share package. 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 packages. Under KEEP 2019, the KION Group will bear the cost of one KION share (free share) in each of the first seven share packages 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 granted is shown in > TABLE 120.

In 2019, 3,785 free shares were issued to employees as part of their starter packages (2018: 4,225 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 121.

As at 31 December 2019, the fair value of a bonus share for KEEP 2019 was €55.16 (KEEP 2018: €42.03; KEEP 2017: €62.02).

Development of the granted bonus shares TABLE 120

in units	2019	2018
Balance as at 01/01/	**43,655**	**50,166**
Granted bonus shares	24,794	17,455
Exercised bonus shares	–14,136	–22,580
Forfeited bonus shares	–537	–1,386
Balance as at 31/12/	**53,776**	**43,655**

Significant measurement parameters for the KION GROUP AG Share Matching Programme TABLE 121

Measurement parameters	KEEP 2019	KEEP 2018	KEEP 2017
Expected dividend	€1.30	€0.99	€0.88
Price of the KION share as at grant date	€58.82	€44.59	€64.62

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. The holding period for KEEP 2016 ended on 5 October 2019 and the bonus shares were issued to the eligible employees at no cost.

In 2019, an expense totalling €0.9 million was recognised under the relevant functional costs for free shares and bonus shares in connection with the employee share option programme (2018: €1.0 million). Of this amount, €0.3 million related to KEEP 2019, €0.2 million to KEEP 2018 (2018: €0.3 million), €0.2 million to KEEP 2017 (2018: €0.2 million) and €0.2 million to KEEP 2016 (2018: €0.2 million). In 2018, there had also been an amount of €0.2 million relating to KEEP 2015.

KION performance share plan (PSP) for managers

The 2019 tranche of the long-term, variable remuneration component for the managers in the KION Group (LTI 2019) was granted with effect from 1 January 2019 and has a term of three years. 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 performance of the MDAX 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 2019 tranche ends on 31 December 2021 (2018 tranche: 31 December 2020). The 2017 tranche expired on 31 December 2019 and will be paid out in the first quarter of 2020.

At the beginning of the performance period on 1 January 2019 (2018 tranche: 1 January 2018; 2017 tranche: 1 January 2017), the managers were allocated a total of 274,460 phantom shares for this tranche (2018 tranche: 188,531 phantom shares; 2017 tranche: 171,573 phantom 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 phantom shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of phantom 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 200.0 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 phantom shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 122 were used to value the phantom shares on the reporting date.

Significant measurement parameters of the KION Performance Share Plans TABLE 122

	Valuation date 31/12/2019	
Measurement parameters	**Tranche 2019**	**Tranche 2018**
Expected volatility of the KION share	35.0%	35.0%
Expected volatility of the MDAX Index	15.0%	15.0%
Risk-free interest rate	–0.65%	–0.71%
Expected dividend	€1.30	€1.30
Price of the KION share at valuation date	€61.74	€61.74
Price of the MDAX Index at valuation date	€28,440.98	€28,440.98
Initial value of the KION share (60-days average)	€48.68	€69.85
Initial value of the MDAX Index (60-days average)	€23,511.95	€26,396.86

Taking account of the remaining term of two years (2019 tranche) and one year (2018 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2019, the fair value of one phantom share was €40.99 for the 2018 tranche (2018: €24.25) and €50.27 for the 2019 tranche. On that date, the total fair value was €6.6 million for the 2018 tranche based on 161,350 phantom shares (2018: €4.3 million) and €13.1 million for the 2019 tranche based on 261,476 phantom shares. The amount of €3.7 million that is expected to be paid out for the 2017 tranche (2018: €3.8 million for the 2016 tranche) is calculated on the basis of a preliminary total target achievement rate. In March 2019, a payment from the 2016 tranche was made on the basis of the achievement of the long-term targets that were defined in 2016 at the start of the performance period.

The total carrying amount for liabilities in connection with share-based remuneration was €12.5 million as at 31 December 2019 (2018: €7.7 million). Of this amount, €3.7 million related to the 2017 tranche (2018: €2.4 million), €4.4 million to the 2018 tranche (2018: €1.4 million) and €4.4 million to the 2019 tranche. In 2018, there had also been an amount of €3.8 million relating to the 2016 tranche. In 2019, a pro-rata expense for twelve months of €1.3 million for the 2017 tranche (2018: income of €1.4 million), a pro-rata expense for twelve months of €3.0 million for the 2018 tranche (2018: €1.4 million) and a pro-rata expense for twelve months of €4.4 million for the 2019 tranche were recognised under the relevant functional costs. Furthermore, income of €4.0 million for the 2016 tranche had been recognised under the relevant functional costs in 2018.

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 performance of the MDAX 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 2019 tranche ends on 31 December 2021 (2018 tranche: 31 December 2020). The 2017 tranche expired on 31 December 2019 and will be paid out in the first quarter of 2020. At the beginning of the performance period on 1 January 2019 (2018 tranche: 1 January 2018; 2017 tranche: 1 January 2017), the Executive Board members were allocated a total of 111,544 phantom shares for this tranche (2018 tranche: 72,170 phantom shares; 2017 tranche: 63,695 phantom shares) on the basis of the starting price of KION shares (60-day average). 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 phantom shares is amended depending on the degree to which the relevant targets are achieved. The resulting final number of phantom 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 +/−30.0 per cent. The maximum amount payable is limited to 200.0 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 phantom shares on each valuation date is carried out using Monte Carlo simulation. The measurement parameters shown in > TABLE 122 were used to value the phantom shares on the reporting date.

Taking account of the remaining term of two years (2019 tranche) and one year (2018 tranche), the historic volatility of KION shares was used to determine the volatility on which the valuation is based. As at 31 December 2019, the fair value of one phantom share was €40.99 for the 2018 tranche (2018: €24.25) and €50.27 for the 2019 tranche. On that date, the total fair value was €3.0 million for the 2018 tranche based on 72,170 phantom shares (2018: €1.8 million) and €5.6 million for the 2019 tranche based on 111,544 phantom shares. The amount of €1.8 million that is expected to be paid out for the 2017 tranche (2018: €2.1 million for the 2016 tranche) is calculated on the basis of a preliminary total target achievement rate. In March 2019, a payment from the 2016 tranche was made on the basis of the achievement of the long-term targets that were defined in 2016 at the start of the performance period.

The total carrying amount for liabilities in connection with share-based remuneration was €5.8 million as at 31 December 2019 (2018: €3.8 million). Of this amount, €1.8 million related to the 2017 tranche (2018: €1.1 million), €2.0 million to the 2018 tranche (2018: €0.5 million) and €2.0 million to the 2019 tranche. In 2018, there had also been an amount of €2.1 million relating to the 2016 tranche. In 2019, a pro-rata expense for twelve months of €0.7 million for the 2017 tranche (2018: income of €0.4 million), a pro-rata expense for twelve months of €1.4 million for the 2018 tranche (2018: €0.5 million) and a pro-rata expense for twelve months of €2.0 million for the 2019 tranche were recognised under the relevant functional costs. Furthermore, income of €1.9 million for the 2016 tranche had been recognised under the relevant functional costs in 2018.

The total carrying amount for liabilities in connection with share-based remuneration was €18.3 million as at 31 December 2019 (2018: €11.4 million). In 2019, a total expense of €13.7 million for twelve months was recognised for share-based remuneration (2018: total income of €4.8 million).

[46] REMUNERATION OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Responsibilities

The responsibilities of the members of the Executive Board are disclosed in the corporate governance report (see pages 35 bis 36).

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 (see also note [45]). The pension entitlements consist of retirement, invalidity and surviving dependants' benefits.

The total remuneration of the members of the Executive Board pursuant to IFRS is shown in > TABLE 123.

Remuneration of the Executive Board (IFRS) TABLE 123

in € million	2019	2018
Non-performance-related components	4.5	4.5
Performance-related components	3.6	2.1
Termination benefits	4.8	–
Total short-term remuneration	**12.9**	**6.5**
Share-based payments	4.1	–1.8
Post-employment benefits	1.3	1.0
Total long-term remuneration	**5.4**	**–0.8**
Total remuneration (IFRS)	**18.3**	**5.7**

Under section 314 of the German Commercial Code (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 €5.7 million (2018: €5.5 million). Furthermore, disclosure of the current service cost (€1.3 million; 2018: €1.0 million) is not required, nor is disclosure of the termination benefits (€4.8 million). On this basis, the total remuneration of the members of the Executive Board pursuant to section 314 HGB came to €13.8 million (2018: €12.0 million).

As in the previous year, no loans or advances were made to members of the Executive Board in 2019. The present value of the defined benefit obligation in respect of Executive Board members as at 31 December 2019 was €10.9 million (2018: €8.3 million).

The total remuneration paid to former members of the Executive Board in 2019 amounted to €0.3 million (2018: €0.3 million). Pension entitlements of former members of the Executive Board or their surviving dependants amounting to €11.7 million (2018: €10.5 million) were recognised in accordance with IFRS.

Further details of Executive Board remuneration, including the individual amounts for each member, can be found in the remuneration report within the combined management report (see pages 111 to 130).

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 2019 amounted to €1.5 million (2018: €1.5 million). There were no loans or advances to members of the Supervisory Board in 2019. Members of the Supervisory Board also received short-term employee benefits of €0.8 million for employee services (2018: €0.7 million).

Further details of Supervisory Board remuneration, including the individual amounts for each member, can be found in the remuneration report within the combined management report (see pages 130 to 131).

The total remuneration of the members of the Executive Board and Supervisory Board came to €19.8 million (2018: €7.2 million).

[47] MEMBERS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Gordon Riske
Chief Executive Officer (CEO) (since 14 March 2008)

Chairman of the Board of Directors of Linde (China) Forklift Truck Co., Ltd., Xiamen, People's Republic of China
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

Anke Groth
Member of the Executive Board / CFO (since 1 June 2018)

Dr Eike Böhm
Member of the Executive Board / CTO (since 1 August 2015)

Member of the Advisory Board of JULI Motorenwerk s.r.o., Moravany, Czech Republic (until 12 September 2019)
Member of the Board of Directors of Linde (China) Forklift Truck Co., Ltd., Xiamen, People's Republic of China
Member of the Supervisory Board of e.GO Mobile AG, Aachen

Ching Pong Quek
Member of the Executive Board / Chief Asia Pacific Officer (since 11 January 2013)

Chairman of the Board of Directors of KION South Asia Pte Ltd., Singapore, Singapore
Chairman of the Board of Directors of KION Asia Ltd., Hong Kong, People's Republic of China
Chairman of the Board of Directors of KION Baoli Forklift Co., Ltd., Jiangsu, People's Republic of China
Chairman of the Board of Directors of KION India Pvte. Ltd., Pune, India
Chairman 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
Chairman of the Board of Directors of Linde Material Handling (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia
Chairman of the Board of Directors of Linde Material Handling (Thailand) Co., Ltd., Pathum Thani, Thailand
Member of the Board of Directors of Linde Material Handling Pty. Ltd., Huntingwood, Australia
Member of the Board of Directors of Lansing Bagnall (Aust.) Pty. Ltd., Huntingwood, Australia
Member of the Advisory Board of Fujian JULI Motor Co., Ltd., Putian, People's Republic of China
Chairman of the APAC Advisory Board of Euro Asia Consulting Co., Ltd., Shanghai, People's Republic of China
Member of the Board of Directors of Zhejiang EP Equipment Co., Ltd., Hangzhou, People's Republic of China (since 11 July 2019)

Susanna Schneeberger
Member of the Executive Board / CDO (from 1 October 2018 to 12 January 2020)

Member of the Supervisory Board of Concentric AB, Linköping, Sweden
Member of the Supervisory Board of Hempel A/S, Kongens, Lyngby, Denmark

Supervisory Board

Dr Michael Macht (since 9 October 2018)
Chairman of the Supervisory Board (since 9 May 2019)

Shareholder and member of the Supervisory Board of Endurance Capital Aktiengesellschaft, Munich
Member of the Supervisory Board of Ferretti S.p.A., Cattolica, Italy (until 1 August 2019)
Member of the Supervisory Board of Linde & Wiemann SE & Co. KG, Dillenburg
Chairman of the Advisory Board of Schweizer Group GmbH & Co. KG, Hattenhofen (until 1 February 2019)
Non-Executive Director of Weichai Power Co., Ltd., Weifang, People's Republic of China

Dr John Feldmann (from 28 September 2011 to 9 May 2019)
Chairman of the Supervisory Board

Former member of the Board of Executive Directors of BASF SE, Ludwigshafen am Rhein
Member of the Supervisory Board of HORNBACH Baumarkt AG, Bornheim
Chairman 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] (since 12 June 2013)
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 (since 1 January 2015)
Member of the Supervisory Board and Management Consultant
Vice President of Joint Ventures, Alliances and Commercial Affairs at Ford of Europe GmbH, Cologne
Corporate Officer of the Ford Motor Company, Dearborn (Michigan), USA (until 31 March 2019)
Member of the Executive Board of Ford of Europe GmbH, Cologne (until 31 March 2019)
Member of the Supervisory Board of Ford Werke GmbH, Cologne
Member of the Supervisory Board of Ford Deutschland Holding GmbH, Cologne
Member of the Board of Directors of Ford Sollers Holding LLC, Chelny, Russia (until 31 March 2019)
Member of the Audit Committee of Ford Sollers Holding LLC, Chelny, Russia (until 31 March 2019)
Member of the Board of Directors of Ford Otosan (Ford Otomotiv Sanayi A.S.), Istanbul, Turkey (until 31 May 2019)
Member of the Advisory Board of Getrag Ford Transmission GmbH, Cologne (until 31 March 2019)

Stefan Casper[1] (since 11 May 2017)
Chairman of the Works Council of KION Warehouse Systems GmbH, Reutlingen

Dr Alexander Dibelius (since 12 March 2007)
Managing Partner at CVC Capital Partners (Deutschland) GmbH, Frankfurt am Main
Deputy Chairman of the Board of Directors of Breitling S.A., Grenchen, Switzerland
Member of the Board of Directors of CVC Capital Partners (Luxembourg) 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 DKV MOBILITY SERVICES HOLDING GmbH & Co. KG, Ratingen (since July 2019)

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 ironSource Mobile Ltd., Tel Aviv, Israel (since 1 November 2019)
Member of the Supervisory Board of Kirk Beauty Investments SA, Luxembourg
Member of the Advisory Board of Messer Industries Europe GmbH, Bad Soden
Member of the Advisory Board of Messer Industries US Inc., Bridgewater (New Jersey), USA
Member of the Shareholders' Committee of Tipico Group Ltd., Malta

Martin Fahrendorf [1] (since 10 May 2018)
Chairman of the Works Council of Dematic GmbH and Dematic Services GmbH, Heusenstamm

Jiang Kui (since 27 December 2012)
President of Shandong Heavy Industry Group Co., Ltd., Jinan, People's Republic of China
Chairman of the Board of Directors of Dezhou Degong Machinery Co., Ltd., Dezhou, People's Republic of China (since 30 November 2019)
Chairman of the Board of Directors of Shandong Degong Machinery Co., Ltd., Dezhou, 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., Cattolica, 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 PSI, Delaware, USA
Member of the Board of Directors of Shantui Construction Machinery Co., Ltd. Jining, People's Republic of China
Member of the Board of Directors of Sinotruk (BVI) Limited, British Virgin Islands
Member of the Board of Directors of Sinotruk (Hong Kong) Limited, Hong Kong, People's Republic of China
Member of the Board of Directors of Sinotruk Jinan Power Co., Ltd, Jinan, People's Republic of China
Member of the Board of Directors of Ballard Power Systems Inc., Burnaby, Canada
Chairman of the Board of Directors of Weichai Ballard Hy-Energy Technologies Co., Ltd., Weifang, People's Republic of China
Non-Executive Director of Weichai Power Co., Ltd., Weifang, People's Republic of China

Olaf Kunz [1] (since 1 September 2014)
Head of Collective Bargaining at IG Metall District Office for the Coast, Hamburg
Member of the Supervisory Board of STILL GmbH, Hamburg

Jörg Milla [1] (since 16 November 2015)
Chairman of the Works Council of STILL GmbH, Hamburg
Deputy Chairman of the Supervisory Board of STILL GmbH, Hamburg

Dr Christina Reuter (since 12 May 2016)
Head of Central Manufacturing Engineering & Operational Excellence for Space Equipment Operations at Airbus Defence and Space GmbH, Taufkirchen

Hans Peter Ring (since 9 June 2013)
Management Consultant, Munich
Member of the Supervisory Board of Airbus Defence and Space GmbH, Taufkirchen
Member of the Supervisory Board of Fokker Technologies Holding B.V., Papendrecht, Netherlands

Alexandra Schädler [1] (since 2 October 2013)
Trade Union Secretary on the National Executive of IG Metall, Frankfurt am Main
Member of the Supervisory Board of Linde Material Handling GmbH, Aschaffenburg
Member of the Supervisory Board of Opel Automobile GmbH, Rüsselsheim

Dr Frank Schepp[2] (since 11 May 2017)
Vice President of Quality at KION GROUP AG,
Frankfurt am Main (based in Aschaffenburg)

Tan Xuguang (since 9 May 2019)
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 China National Heavy Duty Truck 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., Cattolica, 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)
Full-time works council member, HQ and plant 2 at Linde Material Handling GmbH, Aschaffenburg

Xu Ping (since 1 January 2015)
Partner and Member of the Management Committee at King & Wood Mallesons, Beijing, People's Republic of China
Member of the Board of Directors of Ferretti International Holding S.p.A., Milan, Italy

1 Employee representatives
2 Executive representatives

[48] LIST OF THE SHAREHOLDINGS OF KION GROUP AG, FRANKFURT AM MAIN

The shareholdings of the KION Group as at 31 December 2019 are listed below. > TABLE 124

List of shareholdings as at 31 December 2019 TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
1	KION GROUP AG	Frankfurt am Main	Germany				
Consolidated subsidiaries							
Domestic							
2	BlackForxx GmbH	Stuhr	Germany	23	100.00%	100.00%	
3	Dematic GmbH	Heusenstamm	Germany	53	100.00%	100.00%	
4	Dematic Holdings GmbH	Frankfurt am Main	Germany	1	100.00%	100.00%	
5	Dematic Logistics GmbH	Bielefeld	Germany	53	100.00%	100.00%	
6	Dematic Services GmbH	Heusenstamm	Germany	3	100.00%	100.00%	
7	Eisengießerei Dinklage GmbH	Dinklage	Germany	23	100.00%	100.00%	
8	Eisenwerk Weilbach GmbH	Frankfurt am Main	Germany	14	100.00%	100.00%	
9	Fahrzeugbau GmbH Geisa	Geisa	Germany	23	100.00%	100.00%	
10	KION Financial Services GmbH	Frankfurt am Main	Germany	14	100.00%	100.00%	
11	KION Information Management Services GmbH	Frankfurt am Main	Germany	1	100.00%	100.00%	
12	KION Warehouse Systems GmbH	Reutlingen	Germany	23	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	1	100.00%	100.00%	
15	Linde Material Handling Rental Services GmbH	Aschaffenburg	Germany	14	100.00%	100.00%	
16	LMH Immobilien GmbH & Co. KG	Aschaffenburg	Germany	14 & 17	99.64%	99.64%	
17	LMH Immobilien Holding GmbH & Co. KG	Aschaffenburg	Germany	14	94.00%	94.00%	
18	LMH Immobilien Holding Verwaltungs-GmbH	Aschaffenburg	Germany	14	100.00%	100.00%	
19	LMH Immobilien Verwaltungs-GmbH	Aschaffenburg	Germany	14	100.00%	100.00%	
20	LR Intralogistik GmbH	Wörth a. d. Isar	Germany	23	100.00%	100.00%	
21	Schrader Industriefahrzeuge GmbH & Co. KG	Essen	Germany	14	100.00%	100.00%	
22	STILL Financial Services GmbH	Hamburg	Germany	10	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued) TABLE 124

No.	Name	Registered office	Country	Parent company	Shareholding 2019	Shareholding 2018	Note
23	STILL Gesellschaft mit beschränkter Haftung	Hamburg	Germany	14	100.00%	100.00%	
24	Urban-Transporte Gesellschaft mit beschränkter Haftung	Unterschleißheim	Germany	14	100.00%	100.00%	
25	Willenbrock Fördertechnik GmbH & Co. KG	Bremen	Germany	27	74.00%	74.00%	
26	Willenbrock Fördertechnik GmbH & Co. KG	Hannover	Germany	27	74.00%	74.00%	
27	Willenbrock Fördertechnik Holding GmbH	Bremen	Germany	14	74.00%	74.00%	
Foreign							
28	Dematic Holdings Pty. Ltd.	Belrose	Australia	53	100.00%	100.00%	
29	Dematic Pty. Ltd.	Belrose	Australia	28	100.00%	100.00%	
30	Linde Material Handling Pty. Ltd.	Huntingwood	Australia	14	100.00%	100.00%	
31	Dematic NV	Zwijndrecht	Belgium	53 & 3	100.00%	100.00%	
32	STILL NV	Wijnegem	Belgium	23 & 84	100.00%	100.00%	
33	Dematic Sistemas e Equipamentos de Movimentação de Materiais Ltda.	Indaiatuba / São Paulo	Brazil	78 & 3	100.00%	100.00%	
34	KION South America Fabricação de Equipamentos para Armazenagem Ltda.	Indaiatuba / São Paulo	Brazil	23	100.00%	100.00%	
35	STILL DANMARK A/S	Kolding	Denmark	23	100.00%	100.00%	
36	BARTHELEMY MANUTENTION SAS	Vitrolles	France	42	80.00%	80.00%	
37	Bastide Manutention SAS	Bruguières	France	42	100.00%	100.00%	
38	Bretagne Manutention SAS	Pacé	France	42	100.00%	100.00%	
39	Dematic SAS	Bussy-Saint-Georges	France	53	100.00%	100.00%	
40	FENWICK FINANCIAL SERVICES SAS	Elancourt	France	43	100.00%	100.00%	
41	FENWICK-LINDE OPERATIONS SAS	Cenon-sur-Vienne	France	42	100.00%	100.00%	
42	FENWICK-LINDE SAS	Elancourt	France	43	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	71.18%	71.18%	
45	Manuchar SAS	Gond-Pontouvre	France	42	100.00%	100.00%	
46	Société Angoumoisine de Manutention (SAMA) SAS	Champniers	France	49	100.00%	100.00%	
47	SM Rental SAS	Roissy-Charles-de-Gaulle	France	42	100.00%	100.00%	
48	STILL Location Services SAS	Marne-la-Vallée	France	43	100.00%	100.00%	
49	STILL SAS	Marne-la-Vallée	France	43	100.00%	100.00%	
50	URBAN LOGISTIQUE SAS	Elancourt	France	24	100.00%	100.00%	
51	Dematic Ltd.	Banbury	UK	53	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued)

TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
52	Dematic Group Ltd.	Banbury	UK	78	100.00%	100.00%	
53	Dematic Holdings UK Ltd.	Banbury	UK	78	100.00%	100.00%	
54	KION FINANCIAL SERVICES Ltd.	Basingstoke	UK	67	100.00%	100.00%	
55	Linde Creighton Ltd.	Basingstoke	UK	58	100.00%	100.00%	
56	Linde Holdings Ltd.	Basingstoke	UK	67	100.00%	100.00%	
57	Linde Jewsbury's Ltd.	Basingstoke	UK	58	100.00%	100.00%	
58	Linde Material Handling (UK) Ltd.	Basingstoke	UK	56	100.00%	100.00%	
59	Linde Material Handling East Ltd.	Basingstoke	UK	58	100.00%	100.00%	
60	Linde Material Handling Scotland Ltd.	Basingstoke	UK	58	100.00%	100.00%	
61	Linde Material Handling South East Ltd.	Basingstoke	UK	58	100.00%	100.00%	
62	Linde MH UK Ltd. (formerly: Linde Castle Ltd.)	Basingstoke	UK	58	100.00%	100.00%	
63	Linde Severnside Ltd.	Basingstoke	UK	58	100.00%	100.00%	
64	Linde Sterling Ltd.	Basingstoke	UK	58	100.00%	100.00%	
65	Mirror Bidco Ltd.	Banbury	UK	4	100.00%	100.00%	
66	STILL Materials Handling Ltd.	Exeter	UK	67	100.00%	100.00%	
67	Superlift UK Ltd.	Basingstoke	UK	14	100.00%	100.00%	
68	KION India Pvt. Ltd.	Pune	India	105	100.00%	100.00%	
69	Linde Material Handling (Ireland) Ltd.	Ballymount (Dublin)	Ireland	56	100.00%	100.00%	
70	Baoli EMEA S.p.A.	Lainate	Italy	23	100.00%	100.00%	
71	Dematic S.r.l.	Cernusco sul Naviglio	Italy	53	100.00%	100.00%	
72	Emhilia Material Handling S.p.A.	Modena	Italy	74	100.00%	100.00%	
73	KION Rental Services S.p.A.	Milan	Italy	70 & 74 & 75	100.00%	100.00%	
74	Linde Material Handling Italia S.p.A.	Buguggiate	Italy	14	100.00%	100.00%	
75	STILL S.p.A.	Lainate	Italy	14 & 70	100.00%	100.00%	
76	Dematic Ltd.	Mississauga	Canada	53	100.00%	100.00%	
77	K-LIFT S.A.	Luxembourg	Luxembourg	–	–	–	[1]
78	Dematic Group S.à r.l.	Senningerberg	Luxembourg	4	100.00%	100.00%	
79	Dematic (Malaysia) Sdn. Bhd.	Petaling Jaya	Malaysia	103	100.00%	100.00%	
80	Dematic Logistics de Mexico S. de R.L. de C.V.	Monterrey	Mexico	51 & 109	100.00%	100.00%	
81	DMTC Technology Services, S. de. R.L. de C.V.	Monterrey	Mexico	51 & 109	100.00%	100.00%	
82	Dematic Trading de Mexico S. de. R.L. de C.V.	Monterrey	Mexico	51 & 109	100.00%	100.00%	
83	Dematic B.V.	s'Hertogenbosch	Netherlands	6	100.00%	100.00%	
84	STILL Intern Transport B.V.	Hendrik-Ido-Ambacht	Netherlands	23	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued)

TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
85	STILL Norge AS	Heimdal	Norway	23	100.00%	100.00%	
86	AUSTRO OM PIMESPO Fördertechnik GmbH	Linz	Austria	75	100.00%	100.00%	
87	Linde Material Handling Austria GmbH	Linz	Austria	14 & 86	100.00%	100.00%	
88	STILL Gesellschaft m.b.H.	Wiener Neudorf	Austria	23	100.00%	100.00%	
89	Dematic Poland Sp. z o.o.	Poznań	Poland	3	100.00%	100.00%	
90	KION Polska Sp. z o.o.	Szczecin	Poland	14	100.00%	–	[2]
91	Linde Material Handling Polska Sp. z o.o.	Warsaw	Poland	14	100.00%	100.00%	
92	STILL POLSKA Sp. z o.o.	Gadki	Poland	23	100.00%	100.00%	
93	STILL MATERIAL HANDLING ROMANIA SRL	Giurgiu	Romania	14 & 23	100.00%	100.00%	
94	OOO “Linde Material Handling Rus”	Moscow	Russia	14 & 8	100.00%	100.00%	
95	OOO “STILL Forklifttrucks”	Moscow	Russia	14 & 23	100.00%	100.00%	
96	Linde Material Handling AB	Örebro	Sweden	14	100.00%	100.00%	
97	Linde Material Handling Financial Services AB	Örebro	Sweden	96	100.00%	100.00%	
98	Nordtruck AB	Örnsköldsvik	Sweden	96	100.00%	100.00%	
99	STILL Sverige AB	Malmö	Sweden	23	100.00%	100.00%	
100	Dematic Suisse Sagl	Lugano	Switzerland	53	100.00%	100.00%	
101	Linde Material Handling Schweiz AG	Dietlikon	Switzerland	14	100.00%	100.00%	
102	STILL AG	Otelfingen	Switzerland	23	100.00%	100.00%	
103	Dematic S.E.A. Pte. Ltd.	Singapore	Singapore	53	100.00%	100.00%	
104	KION South Asia Pte. Ltd.	Singapore	Singapore	14	100.00%	100.00%	
105	Linde Material Handling Asia Pacific Pte. Ltd.	Singapore	Singapore	14	100.00%	100.00%	
106	Linde Material Handling Slovenská republika s.r.o.	Trenčin	Slovakia	14 & 117	100.00%	100.00%	
107	STILL SR, spol. s.r.o.	Nitra	Slovakia	23 & 120	100.00%	100.00%	
108	Linde Viličar d.o.o.	Celje	Slovenia	14	100.00%	100.00%	
109	Dematic Logistic Systems S.A.U.	Coslada	Spain	53	100.00%	100.00%	
110	Islavista Spain S.A.U.	L’Hospitalet de Llobregat	Spain	14	100.00%	100.00%	
111	KION Rental Services S.A.U.	Barcelona	Spain	110	100.00%	100.00%	
112	Linde Material Handling Ibérica, S.A.U.	Pallejá	Spain	110	100.00%	100.00%	
113	STILL, S.A.U.	L’Hospitalet de Llobregat	Spain	110	100.00%	100.00%	
114	Linde Material Handling (Pty) Ltd.	Linbro Park	South Africa	14	100.00%	100.00%	
115	Linde Material Handling (Thailand) Co., Ltd.	Pathum Thani	Thailand	105	100.00%	100.00%	
116	KION Supply Chain Solutions Czech, s.r.o.	Český Krumlov	Czech Republic	52	100.00%	100.00%	
117	Linde Material Handling Česká republika s.r.o.	Prague	Czech Republic	14 & 23	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued)

TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
118	Linde Material Handling Parts Distribution CZ s.r.o.	Český Krumlov	Czech Republic	14	100.00%	100.00%	
119	Linde Pohony s.r.o.	Český Krumlov	Czech Republic	14	100.00%	100.00%	
120	STILL ČR spol. s.r.o.	Prague	Czech Republic	14 & 23	100.00%	100.00%	
121	STILL Regional Service Center, s.r.o.	Prague	Czech Republic	23	100.00%	100.00%	
122	Urban Transporte spol. s.r.o.	Moravany	Czech Republic	24	100.00%	100.00%	
123	STILL ARSER Iş Makineleri Servis ve Ticaret A.Ş.	Izmir	Turkey	23	51.00%	51.00%	
124	Linde Magyarország Anyagmozgatási Kft.	Dunaharaszti	Hungary	14	100.00%	100.00%	
125	STILL Kft.	Környe	Hungary	23	100.00%	100.00%	
126	Dematic Corp.	Grand Rapids	United States	65	100.00%	100.00%	
127	KION North America Corp.	Summerville	United States	14	100.00%	100.00%	
128	Dematic International Trading Ltd.	Shanghai	People's Republic of China	78	100.00%	100.00%	
129	Dematic Logistics Systems Ltd.	Suzhou	People's Republic of China	78	100.00%	100.00%	
130	Egemin Asia Pacific Automation Ltd.	Causeway Bay – Hong Kong	People's Republic of China	31	100.00%	100.00%	
131	KION ASIA (HONG KONG) Ltd.	Kwai Chung – Hong Kong	People's Republic of China	14	100.00%	100.00%	
132	KION Baoli (Jiangsu) Forklift Co., Ltd.	Jiangjiang	People's Republic of China	131	100.00%	100.00%	
133	Linde Material Handling Hong Kong Ltd.	Kwai Chung – Hong Kong	People's Republic of China	14	100.00%	100.00%	
134	Linde (China) Forklift Truck Corporation Ltd.	Xiamen	People's Republic of China	14	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued) TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
Non-consolidated subsidiaries							
Domestic							
135	Comnovo GmbH	Dortmund	Germany	14	100.00%	100.00%	
136	KION IoT Systems GmbH	Frankfurt am Main	Germany	1	100.00%	100.00%	
137	Klaus Pahlke Betriebsführungs-GmbH	Haan	Germany	14	100.00%	100.00%	
138	OM Deutschland GmbH	Neuhausen a. d. Fildern	Germany	75	100.00%	100.00%	[R]
139	proplan Transport- und Lagersysteme GmbH	Aschaffenburg	Germany	1	100.00%	100.00%	
140	Schrader Industriefahrzeuge Verwaltung GmbH	Essen	Germany	14	100.00%	100.00%	
141	Trainingscenter für Sicherheit und Transport GmbH	Bremen	Germany	27	74.00%	74.00%	
142	Willenbrock Fördertechnik Beteiligungs-GmbH	Bremen	Germany	27	74.00%	74.00%	
143	Willenbrock Fördertechnik Beteiligungs-GmbH	Hannover	Germany	27	74.00%	74.00%	
Foreign							
144	Lansing Bagnall (Aust.) Pty. Ltd.	Huntingwood	Australia	58 & 14	100.00%	100.00%	[R]
145	NDC Automation Pty. Ltd.	Belrose	Australia	29	100.00%	100.00%	[R]
146	NDC Manage Pty. Ltd.	Belrose	Australia	29	100.00%	100.00%	[R]
147	SCI Champ Lagarde	Elancourt	France	42	100.00%	100.00%	
148	Castle Lift Trucks Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
149	Creighton Materials Handling Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
150	D.B.S. Brand Factors Ltd.	Basingstoke	UK	64	100.00%	100.00%	[R]
151	Fork Truck Rentals Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
152	Fork Truck Training Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
153	Lancashire (Fork Truck) Services Ltd.	Basingstoke	UK	64	100.00%	100.00%	[R]
154	Lansing Linde Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
155	Lansing Linde Trifik Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
156	Linde Castle Ltd. (formerly: Trifik Services Ltd.)	Basingstoke	UK	58	100.00%	100.00%	[R]
157	Linde Heavy Truck Division Ltd.	Basingstoke	UK	58	100.00%	100.00%	
158	McLEMAN FORK LIFT SERVICES LTD.	Basingstoke	UK	55	100.00%	100.00%	
159	Regentruck Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
160	Stephensons Enterprise Fork Trucks Ltd.	Basingstoke	UK	64	100.00%	100.00%	[R]
161	Sterling Mechanical Handling Ltd.	Basingstoke	UK	58	100.00%	100.00%	[R]
162	Urban Logistics (UK) Ltd.	Basingstoke	UK	24	100.00%	100.00%	

List of shareholdings as at 31 December 2019 (continued) — TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
163	Handling & Storage Equipment (Ireland) Ltd.	Ballymount (Dublin)	Ireland	69	100.00%	100.00%	[R]
164	QUALIFT S.p.A.	Verona	Italy	74	100.00%	100.00%	
165	URBAN LOGISTICA S.R.L.	Lainate	Italy	24	100.00%	100.00%	
166	WHO Real Estate UAB	Vilnius	Lithuania	27	74.00%	74.00%	
167	Linde Material Handling (Malaysia) Sdn. Bhd.	Petaling Jaya	Malaysia	105	100.00%	100.00%	
168	Linde Viljuškari d.o.o.	Vrčin	Serbia	87	100.00%	100.00%	
169	IBER-MICAR S.L.U.	Gavà	Spain	14	100.00%	100.00%	
170	Dematic Thailand Co. Ltd.	Bangkok	Thailand	103 & 191	73.89%	73.89%	
171	Baoli Material Handling Europe s.r.o.	Prague	Czech Republic	132	100.00%	100.00%	
172	Použitý Vozík CZ, s.r.o.	Prague	Czech Republic	117	100.00%	100.00%	
173	TOV “Linde Material Handling Ukraine”	Kiev	Ukraine	14 & 8	100.00%	100.00%	
	Associates (equity-accounted investments)						
	Domestic						
174	Carl Beutlhauser Kommunal- und Fördertechnik GmbH & Co. KG	Hagelstadt	Germany	14	25.00%	25.00%	
175	Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Hamburg	Germany	14	21.00%	21.00%	
176	Linde Hydraulics GmbH & Co. KG	Aschaffenburg	Germany	14	10.00%	10.00%	
177	Pelzer Fördertechnik GmbH	Kerpen	Germany	14	24.96%	24.96%	
	Foreign						
178	Linde High Lift Chile S.A.	Santiago de Chile	Chile	14	45.00%	45.00%	
179	Labrosse Equipement SAS	Saint-Péray	France	42	34.00%	34.00%	
180	Normandie Manutention SAS	Saint-Etienne-du-Rouvray	France	42	34.00%	34.00%	

List of shareholdings as at 31 December 2019 (continued) TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
Joint Ventures (equity-accounted investments)							
Domestic							
181	Linde Leasing GmbH	Wiesbaden	Germany	14	45.00%	45.00%	
Foreign							
182	JULI Motorenwerk s.r.o.	Moravany	Czech Republic	14 & 23	50.00%	50.00%	
Associates (at cost)							
Domestic							
183	JETSCHKE GmbH	Hamburg	Germany	14	21.00%	21.00%	
184	Linde Hydraulics Verwaltungs GmbH	Aschaffenburg	Germany	14	10.00%	10.00%	
185	MV Fördertechnik GmbH	Blankenhain	Germany	14	25.00%	25.00%	
186	Supralift Beteiligungs- und Kommunikationsgesellschaft mbH	Frankfurt am Main	Germany	14	50.00%	50.00%	
187	Supralift GmbH & Co. KG	Hofheim am Taunus	Germany	14	50.00%	50.00%	
Foreign							
188	Chadwick Materials Handling Ltd.	Corsham	UK	58	48.00%	48.00%	
189	Bari Servizi Industriali S.c.a.r.l.	Modugno	Italy	75	25.00%	25.00%	
190	Carretillas Elevadoras Sudeste S.A.	Murcia	Spain	112	38.54%	38.54%	
191	Dematic Holding (Thailand) Co., Ltd.	Bangkok	Thailand	103	48.90%	48.90%	
192	Motorové závody JULI CZ s.r.o.	Moravany	Czech Republic	14	50.00%	50.00%	
193	DEMATIC ELECTROMECHANICAL SYSTEMS MIDDLE EAST L.L.C.	Dubai	United Arab Emirates	3	49.00%	49.00%	

List of shareholdings as at 31 December 2019 (continued) TABLE 124

No.	Name	Registered office	Country	Parent company	Share-holding 2019	Share-holding 2018	Note
Financial investments							
Foreign							
194	Balyo SA	Ivry-sur-Seine	France	14	6.35%	6.48%	[3]
195	TPZ Linde Viličari Hrvatska d.o.o.	Zagreb	Croatia	14	20.00%	20.00%	[3]
196	Zhejiang EP Equipment Co., Ltd.	Hangzhou	People's Republic of China	134	4.99%	–	[2], [3]

[1] Consolidated in accordance with IFRS 10 as structured entity
[2] Addition during 2019
[3] No material influence
[R] Dormant company

[49] AUDITORS' FEES

The fees recognised as an expense and paid to the auditors of the consolidated financial statements (Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, Frankfurt am Main branch office) in 2019 amounted to €2.2 million (2018: €2.3 million) for the audit of the financial statements, €0.1 million (2018: €0.1 million) for other attestation services, €0.0 million (2018: €0.0 million) for tax consultancy services and €0.0 million (2018: €0.0 million) for other services.

[50] EVENTS AFTER THE REPORTING DATE

On 3 January 2020, the KION Group signed an agreement with Weichai Power Co., Ltd., Weifang, People's Republic of China, to jointly establish a factory for the production of Linde counterbalance trucks in China. The name of the company is KION (Jinan) Forklift Co., Ltd., Jinan, People's Republic of China. The capital expenditure at the new site is likely to amount to around €100.0 million up to 2022.

Since the start of the year, KION GROUP AG and BMZ Holding GmbH have been operating the joint venture KION Battery Systems GmbH, Karlstein am Main, with the aim of developing and manufacturing lithium-ion batteries for industrial trucks.

In January 2020, KION GROUP AG repaid all of the remaining liability of €200.0 million under the acquisition facilities agreement (AFA) earlier than planned.

[51] INFORMATION ON PREPARATION AND APPROVAL

The Executive Board of KION GROUP AG prepared the consolidated financial statements on 21 February 2020 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.

Frankfurt am Main, 21 February 2020

The Executive Board

Gordon Riske

Anke Groth

Dr Eike Böhm

Ching Pong Quek

Independent auditors' report

To KION GROUP AG, Frankfurt am Main / Germany

Report on the audit of the consolidated financial statements and the combined management report

Audit opinions

We have audited the consolidated financial statements of KION GROUP AG, Frankfurt am Main/Germany, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of KION GROUP AG, Frankfurt am Main/Germany, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement pursuant to Sections 289f, 315d German Commercial Code (HGB) included in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the statement on corporate governance pursuant to Sections 289f and 315d German Commercial Code (HGB) included in the combined management report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:

1. Recoverability of the goodwill and brand names with indefinite useful life as recognised in the consolidated statement of financial position
2. Recognition of leases as regards sales
3. Realisation of revenue regarding the project business in the Supply Chain Solutions segment

Our presentation of these key audit matters has been structured as follows:

a) description (including reference to corresponding information in the consolidated financial statements)
b) auditor's response

1. Recoverability of the goodwill and brand names with indefinite useful life as recognised in the consolidated statement of financial position

a. As at 31 December 2019, the carrying amount of the goodwill and brand names with indefinite useful life in the consolidated financial statements is mEUR 3,475.8 (25.3% of the Group's total assets) and mEUR 939.3 (6.8% of the Group's total assets), respectively. The goodwill and brand names with indefinite useful life are tested by the executive directors for impairment each year. This impairment test is conducted regardless of whether there are external or internal indicators for an impairment. The impairment test is conducted at the level of the operating entities, which represent the cash-generating units, by determining the corresponding realisable amount and comparing that realisable amount with the corresponding carrying value. The realisable amount is determined using the discounted cash flow method on the basis of KION GROUP AG's budget consisting of the operative three-years plan (2020 budget and 2021 to 2022 medium-term budget) as well as of a projection concerning two further years, which is adjusted using assumptions about long-term growth rates. The result of this measurement highly depends on the executive directors' estimation of the anticipated cash flows of the corresponding operating entity as well as the discount rate used (weighted average cost of capital – WACC) and, therefore, is subject to great uncertainty. Therefore and due to the underlying complexity of the valuation models applied, this matter was of particular significance in the scope of our audit.

   For information provided by the Parent on the goodwill and brand names with indefinite useful life, please refer to notes [6] and [16] to the consolidated financial statements.

b. During our audit, we, among other things, obtained an understanding of the method applied in the impairment test, the budget process of KION as well as the definition of the cash-generating units and assessed the determination of the WACC. In this context, we considered the Group's adherence to the budget process over the past years.

   Regarding the impairment test, we examined the appropriateness of the expected future cash flows mainly by comparing the information with the operative budget (2020) approved by the supervisory board and with the medium-term budget (2021 to 2022) approved by the executive directors and by examining the key measurement assumptions and parameters for plausibility based on expectations about macroeconomic and industry-specific trends. As a significant portion of the value in use has been determined based on projected cash flows for the period following the five-year budget (period of perpetuity), we also examined in particular the sustained growth rate applied for the period of perpetuity based on industry-specific market expectations. With respect to the evaluation of the discount rate, we consulted internal valuation specialists, who convinced themselves of the appropriateness of the discount rate used based on market comparisons. Due to the great significance of the goodwill and the brand names with indefinite useful life in the consolidated financial statements, we finally conducted sensitivity analyses with regard to both the growth expectations of the future cash flows from the operating entities and the applied discount rate.

2. Recognition of leases as regards sales

a. To a great extent, KION uses leases as a sales instrument in the segment Industrial Trucks & Services. The corresponding agreements comprise contracts, under which the KION entities qualify as contract parties, and those, under which the lease object was sold to external finance partners. The following three contract types are primarily used:

- Single step lease: The lease object is directly leased to the consumer;
- Sale and leaseback sublease: The lease object is sold to a financial partner and subsequently leased back. At the same time, the lease object is also rented out under a sublease contract to the consumer.
- Indirect consumer financing: The (lease) object is sold to a finance partner, who rents it out to a consumer.

As at 31 December 2019, the carrying value of the receivables and assets under the lease agreements is mEUR 1,421.0 (10.3 per cent of total assets) and mEUR 1,994.1 (14.5 per cent of total assets), respectively.

Single-step leases are classified as finance leases or operating leases within the meaning of IFRS 16. For sale and lease back sublease contracts concluded until and including 31 December 2017, an asset and a lease liability is accounted for taking advantage of the right of continuance specified in IFRS 16. For sale and lease back sublease contracts concluded after 31 December 2017, the transaction is classified as a finance lease. Accordingly, a liability related to financial services is recognised in addition to an asset. In compliance with IFRS 15, the types of indirect consumer financing agreements have now been uniformly classified as leases within the meaning of IFRS 16.

Group-wide, consistent lease application shall ensure that the recognition, categorisation and classification of the various contract types according to the IFRS are complete and correct. The determination of the criteria and parameters in the application is subject to the executive directors' judgement. The classification and entry routines of the lease application are updated, programmed and managed centrally in Germany while the contract input is performed locally in the operating or the Group's own financial services entities.

Due to the high transaction volume in connection with the various contract types, any errors in this area may considerably affect the consolidated financial statements. For this reason, the assessment of the accounting for leases was of particular significance in the scope of our audit.

For information provided by the Parent on the accounting for leases, please refer to the notes [6], [17], [18], [21], [30], [31] and [35] to the consolidated financial statements.

b. As part of our audit, we first updated our understanding of the process including our understanding of the existing contract types as well as the company's internal controls regarding leases.

In the light of our understanding of the organisational composition and the overall process, the audit on the one hand focused on the lease applications used and on the other hand on the completeness and accuracy of the data input in the individual component areas.

With respect to the lease applications used, we examined the appropriateness, implementation and, where required, effectiveness of certain IT controls in line with our audit strategy. As part of this examination, we consulted internal IT specialists.

In a next step, we obtained an understanding of whether the automated entry and classification routines used in the lease application comply with the relevant IFRS. To this end, we first examined the KION IFRS Accounting Manual, which represents the basis for routine programming, for conformity with the IFRS. In addition, we assessed whether the entry and classification routines have been appropriate. Therefore, we examined the agreements on the basis of judgemental selections or by applying sampling methods. However, we made sure that all contract types were subject to our examination. Based on the data inputs, we assessed for each selected contract whether the results of the lease application comply with the relevant IFRS.

We examined the data inputs made in the financial year in the individual component areas for accuracy directly in the operating entities on a sample basis in the form of mathematical and statistical methods and extrapolated any identified deviations to the corresponding basic population. In this context, apart from the accuracy, we audited the appropriate cut-off and completeness of the data inputs on the basis of the original contracts. Where required, we received confirmations of third parties to assess the completeness of the entered contracts.

3. Realisation of revenue regarding the project business in the Supply Chain Solutions segment

a. The revenue in the Supply Chain Solutions segment amounts to mEUR 2,376.1 in the financial year 2019 (prior year: mEUR 2,052.1). This accounts for 27.0 per cent (prior year: 25.7 per cent) of the Group's total revenue.

   A significant portion of the revenue generated in the Supply Chain Solutions segment (mEUR 1,780.2; prior year: mEUR 1,514.0) relates to the project business (74.9 per cent of the segment's total revenue). Revenue for the project business-related customer contracts is recognised in line with the corresponding period unless there is an alternative possibility of use and right to the services already rendered. The revenue to be realised is determined based on the percentage of completion method. The percentage of completion is determined based on the proportion of the contract costs that have already been incurred to the total contract costs estimated as at the reporting date.

   The revenue highly depends on estimations subject to the legal representatives' judgement, in particular with regard to the total contract costs and the resulting percentage of completion. Also taking into account the high amount of revenue related to the project business in the consolidated financial statements, we considered this matter to be of particular significance in the scope of our audit.

   For information on revenue realisation related to the project business in the Supply Chain Solutions segment, please refer to the notes [6] and [7] to the consolidated financial statements.

b. In the scope of our audit, we deepened our knowledge of the processes concerning the project business including our understanding of the corresponding internal controls of the Group. We examined the appropriateness of the internal controls' design and implementation regarding the estimation of the percentage of completion and continued review of contract costs.

Considering this, we selected projects based on risk considerations. First, we assessed – based on the individual basis of the contracts – whether the projects meet the requirements for revenue recognition according to the percentage of completion method. Subsequently, we assessed the estimation made for the individual contracts. To this end, we examined the current cost reports and project calculations taking into account the customer contracts with respect to the percentage of completion of the selected projects. To this end, we additionally consulted the employees responsible for the relevant projects on matters such as the current project phase, any risks including fines and changes to original assumptions and requested explanations for unexpected project developments, which were compared with supplementary evidence. In addition, we have convinced ourselves, where required, of the project progress on site and have taken into account the adherence to the budget planning based on retrospective analyses of selected projects.

Other information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises the following documents obtained up to the date of this auditor's report:

- the corporate governance statement included in the combined management report
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, respectively
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

In addition, the other information comprises the separate non-financial group report, which is expected to be published subsequently on KION GROUP AG's website by 30 April 2020.

The executive directors and supervisory board are responsible for the declaration related to the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act (AktG), which is part of the corporate governance statement included in the combined management report. The supervisory board is responsible for the report of the supervisory board included in the annual report. In addition, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the supervisory board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in

the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Other information pursuant to Article 10 EU Audit Regulation

We were elected as group auditor by the general meeting on 9 May 2019. We were engaged by the supervisory board on 14 May 2019 and 27 June/23 July 2019. We have been the group auditor of KION GROUP AG, Frankfurt am Main/Germany, which was named KION Holding 1 GmbH until 12 June 2013, without interruption since the financial year 2007. Since the financial year 2013, the Company has been a public interest entity within the meaning of Section 319a (1) Sentence 1 HGB.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Kirsten Gräbner-Vogel.

Frankfurt am Main / Germany, 21 February 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:	Signed:
Kirsten Gräbner-Vogel	Stefan Dorissen
Wirtschaftsprüferin	Wirtschaftsprüfer
[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 group management report, which is combined with the Company's management report, 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.

Frankfurt am Main, 21 February 2020

The Executive Board

Gordon Riske

Anke Groth

Dr Eike Böhm

Ching Pong Quek

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ADDITIONAL INFORMATION

Quarterly information

Quarterly information TABLE 125

in € million	Q4 2019	Q4 2018	Q3 2019	Q3 2018	Q2 2019	Q2 2018	Q1 2019	Q1 2018
Order intake	**2,577.3**	**2,287.4**	**2,337.6**	**2,060.3**	**2,078.6**	**2,424.0**	**2,118.3**	**1,885.0**
thereof Industrial Trucks & Services	1,753.0	1,724.2	1,493.8	1,454.8	1,573.2	1,546.5	1,510.5	1,485.2
thereof Supply Chain Solutions	823.4	556.3	838.6	598.5	506.0	874.2	602.9	396.3
Total revenue	**2,282.3**	**2,225.5**	**2,160.0**	**1,895.9**	**2,280.7**	**2,031.1**	**2,083.4**	**1,843.3**
thereof Industrial Trucks & Services	1,710.6	1,685.8	1,552.8	1,417.9	1,638.2	1,449.6	1,508.6	1,368.8
thereof Supply Chain Solutions	567.3	533.0	600.6	472.7	642.0	578.8	568.8	470.7
Adjusted EBITDA	**433.4**	**457.2**	**420.1**	**380.1**	**425.0**	**377.0**	**378.9**	**340.9**
thereof Industrial Trucks & Services	382.0	395.2	348.2	326.0	355.3	318.0	324.0	301.0
thereof Supply Chain Solutions	68.2	65.4	80.5	56.1	78.2	64.0	62.1	46.1
Adjusted EBITDA margin	**19.0%**	**20.5%**	**19.4%**	**20.0%**	**18.6%**	**18.6%**	**18.2%**	**18.5%**
thereof Industrial Trucks & Services	22.3%	23.4%	22.4%	23.0%	21.7%	21.9%	21.5%	22.0%
thereof Supply Chain Solutions	12.0%	12.3%	13.4%	11.9%	12.2%	11.1%	10.9%	9.8%
EBIT	**162.5**	**206.2**	**194.9**	**168.6**	**200.6**	**142.1**	**158.7**	**125.8**
thereof Industrial Trucks & Services	166.0	195.7	169.4	156.2	177.8	136.1	148.5	137.1
thereof Supply Chain Solutions	23.0	22.2	42.7	20.9	39.0	19.4	24.8	1.9
Adjusted EBIT	**225.8**	**252.3**	**217.1**	**192.7**	**225.2**	**187.0**	**182.4**	**157.9**
thereof Industrial Trucks & Services	198.8	213.8	169.8	157.4	177.7	148.2	148.8	135.9
thereof Supply Chain Solutions	52.0	49.9	64.4	43.8	63.6	51.5	48.2	35.0
Adjusted EBIT margin	**9.9%**	**11.3%**	**10.1%**	**10.2%**	**9.9%**	**9.2%**	**8.8%**	**8.6%**
thereof Industrial Trucks & Services	11.6%	12.7%	10.9%	11.1%	10.8%	10.2%	9.9%	9.9%
thereof Supply Chain Solutions	9.2%	9.4%	10.7%	9.3%	9.9%	8.9%	8.5%	7.4%

Multi-year overview

KION Group multi-year overview

TABLE 126

in € million	2019	2018	2017*	2016	2015
Order intake	9,111.7	8,656.7	7,979.1	5,833.1	5,215.6
Revenue	8,806.5	7,995.7	7,598.1	5,587.2	5,097.9
Order book [1]	3,631.7	3,300.8	2,614.6	2,396.6	864.0
Financial performance					
EBITDA	1,614.6	1,540.6	1,457.6	889.5	824.2
Adjusted EBITDA [2]	1,657.5	1,555.1	1,495.8	931.6	850.0
Adjusted EBITDA margin [2]	18.8%	19.4%	19.7%	16.7%	16.7%
EBIT	716.6	642.8	561.0	434.8	422.8
Adjusted EBIT [2]	850.5	789.9	777.3	537.3	482.9
Adjusted EBIT margin [2]	9.7%	9.9%	10.2%	9.6%	9.5%
Net income	444.8	401.6	422.5	246.1	221.1
Financial position [1]					
Total assets	13,765.2	12,968.8	12,337.7	11,297.0	6,440.2
Equity	3,558.4	3,305.1	2,992.3	2,495.7	1,848.7
Net financial debt	1,609.3	1,869.9	2,095.5	2,903.4	573.5
ROCE [3]	9.7%	9.3%	9.3%	6.9%	11.9%
Cash flow					
Free cash flow [4]	568.4	519.9	474.3	–1,850.0	332.7
Capital expenditure [5]	287.4	258.5	218.3	166.7	142.6
Employees [6]	**34,604**	**33,128**	**31,608**	**30,544**	**23,506**

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 adjusted EBIT to capital employed
4 Free cash flow is defined as cash flow from operating activities plus cash flow from investing activities
5 Capital expenditure including capitalised development costs, excluding right-of-use assets
6 Number of employees (full-time equivalents) as at balance sheet date 31/12/
* Key figures for 2017 were restated due to the initial application of IFRS 15 and IFRS 16

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 to 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 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 2019 group management report, which has been combined with the Company's management report. However, other factors could also have an adverse effect on our business performance and results. 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. 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

3 March 2020
Publication of 2019 annual report, financial statements press conference and conference call for analysts

5 March 2020
Capital Markets Day

28 April 2020
Quarterly statement for the period ended 31 March 2020 (Q1 2020), conference call for analysts

12 May 2020
Annual General Meeting

30 July 2020
Interim report for the period ended 30 June 2020 (Q2 2020), conference call for analysts

29 October 2020
Quarterly statement for the period ended 30 September 2020 (Q3 2020), conference call for analysts

Subject to change without notice

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This annual report is available in German and English at kiongroup.com under Investor Relations / Financial Reports. The content of the German version is authoritative.

kiongroup.com/ir

We keep the world moving.

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