

# Interim group management report

## FUNDAMENTALS OF THE KION GROUP

The accounting policies used in this interim report are essentially the same as those used for the year ended 31 December 2018. The reporting currency is the euro.

### Management and control

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 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.

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.

### Strategy of the KION Group

During the reporting period, further progress was made in the implementation of the KION 2027 strategy, which was set out in detail in the 2018 annual report. The aim is for the KION Group, as a provider of solutions, to grow at a faster rate than the global material handling market and to be the most profitable provider in its sector, with an EBIT margin that is permanently in double digits. Profitability is to be ensured throughout the various market cycles by a robust business model. A further target is the optimisation of efficient capital use as measured by return on capital employed (ROCE).

Under the **energy** field of action, the brand companies of the KION Group further expanded their portfolio of energy-efficient products by adding new truck concepts. These include the new generation of the Linde N20 C low-lift order picker, which makes order picking at the lower end of the load capacity range more cost effective, and STILL's new electric pallet trucks. Energy-efficient lithium-ion technology can be used with all models.

The **digital** field of action focused on the digitalisation of customer solutions in intralogistics. For example, Dematic launched iQ Virtual onto the market, an emulation and simulation platform that enables automated intralogistics systems to be visualised and validated. Linde, meanwhile, presented a new service manager app that allows service jobs to be created using a smartphone.

In the field of **automation**, the KION Group covers the complete spectrum of customer solutions right up to fully automated large-scale warehouses. A major step forward in the first half of 2019 was the piloting of Dematic PackMyRide, the world's first fully automated parcel-loading solution that integrates intralogistics and automated guided vehicle systems and thus uses the full breadth of the KION Group's technology. In addition, STILL launched the LTX 50 automated electric tractor in conjunction with the LiftRunner frames for automatic loading and unloading. The system is the first to fully automate both the transport and handling of loads. Efficient returns management in retail and e-commerce and the optimisation of the automated pouch sorting system were other innovations.

The efficiency drive continued at the European production sites in the Industrial Trucks & Services segment with the aim of continuously improving **performance**. In the growth market of India, the KION Group began work on converting and modernising a newly acquired plant for industrial trucks at its production site in Pune. The new plant will incorporate a training centre and a research and development centre. The Supply Chain Solutions segment is also set to expand its presence in India from the Pune site. At the beginning of the second quarter, KION North America launched a complete line of equipment for the North American warehouse market, including very narrow aisle trucks, integrated fleet management software, and other warehouse equipment.

## REPORT ON THE ECONOMIC POSITION

### Macroeconomic and sector-specific conditions

#### MACROECONOMIC CONDITIONS

There was a further slowdown in global economic growth in the first half of the year. Heightened political uncertainty, a slackening of global trade and a deceleration in capital investment around the world all had a significant negative impact. The economic situation deteriorated, particularly in the eurozone, as a result of the weakness in exports and in capital expenditure. In the US, increased government spending and tax incentives led to further solid growth. However, the effects of these supportive measures are increasingly waning. The growth situation in China progressively stabilised after a weak start to the year, thanks to support from Beijing in the form of monetary and fiscal policy and despite a reduction in trade activity because of the trade dispute with the US. For 2019 as a whole, economic experts now expect global economic growth to be down both on 2018 and on the original forecasts. The biggest risks are a further escalation of trade disputes, the growing debt levels of emerging and developing economies and the fallout from a possible no-deal Brexit.

#### SECTORAL CONDITIONS

##### Sales markets

In the first half of 2019, the global market for industrial trucks was unable to replicate the growth seen in previous years. The number of new trucks ordered fell by 5.2 per cent to 759.5 thousand compared with the first half of 2018. In the EMEA region (western Europe, eastern Europe, Middle East and Africa), new orders were down by 7.0 per cent. The Americas region (North, Central and South America) saw a significant year-on-year decline of 14.2 per cent. Order intake in the APAC region (Asia-Pacific) grew slightly by 0.8 per cent.

Global new orders for IC trucks shrank by 9.0 per cent. There were also declines in order intake for electric forklift trucks (down by 4.5 per cent) and warehouse trucks (down by 2.2 per cent). **> TABLE 02**

According to the KION Group's estimates, the trend towards warehouse automation and towards sorting solutions and automated goods transport is continuing and it generated strong demand in the market for supply chain solutions. This trend was further bolstered by capital investment in connection with multichannel and e-commerce strategies. A growing number of businesses invested in the expansion and optimisation of their warehouse and logistics capacities and in automated warehouse systems that include not

Global industrial truck market (order intake)

TABLE 02

in thousand units	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Western Europe	102.8	114.8	–10.4%	211.7	228.7	–7.4%
Eastern Europe	21.9	23.5	–6.7%	43.9	46.4	–5.4%
Middle East and Africa	8.4	10.2	–17.9%	18.1	19.1	–5.2%
North America	66.4	72.6	–8.5%	125.6	147.9	–15.0%
Central and South America	8.9	10.1	–12.4%	18.4	19.9	–7.8%
Asia-Pacific	168.8	177.2	–4.7%	341.8	339.1	0.8%
<b>World</b>	<b>377.3</b>	<b>408.5</b>	<b>–7.6%</b>	<b>759.5</b>	<b>801.1</b>	<b>–5.2%</b>

Source: WITS/FEM

only solutions for individual processes, such as picking and packing, but also fully integrated end-to-end solutions. Against this backdrop, the Supply Chain Solutions segment achieved a solid level of order intake in the second quarter, but was unable to match the record volume of orders received in the equivalent quarter of 2018.

### Procurement markets and conditions in the financial markets

On the whole, prices for the commodities used by the KION Group fell slightly during the first half of 2019. The steel price held steady after having risen in 2018. The average copper price in the first half of 2019 was slightly down on the prior-year period. Crude oil (Brent) fluctuated around an average price of US\$66.1 per barrel over the course of the reporting period. It had stood at US\$71.03 at the midway point of 2018. The price of rubber recovered the losses that it had recorded in 2018 and surged further ahead.

Currency effects had only a negligible impact on the KION Group's business situation in the first half of 2019. Despite a rally in the second quarter, the euro recorded modest falls against the US dollar and the Chinese renminbi compared with the prior-year period.

### Business performance in the Group

The KION Group successfully consolidated its position in the first half of 2019 despite a general slowdown in the global economy. Work began in March 2019 on converting and modernising a newly acquired plant for industrial trucks at the Indian production site in Pune and is progressing according to plan. The plant is scheduled to go into operation before the year is out. 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 designed to drive forward Dematic's future growth in India. This expansion of capacity is further strengthening the KION Group's leading position in the fast-growing Indian market.

In April 2019, KION GROUP AG issued a new floating-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. Also in the first half of 2019, a partial early repayment was made under the acquisition facilities agreement (AFA). This reduced it by a total of €200.0 million to €400.0 million, with a sum of €100.0 million being repaid in both the first quarter and the second quarter.

### Financial performance and financial position

#### OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

In the first half of 2019, despite a modest downturn in the market for industrial trucks, the KION Group recorded a substantial revenue increase of 12.6 per cent and a significant improvement in its adjusted EBIT margin, which rose by 0.4 percentage points to 9.3 per cent. Order intake was 2.6 per cent down on the very strong prior-year result, which had been bolstered by particularly high order levels in the Supply Chain Solutions segment.

Both operating segments contributed to a generally encouraging set of results. The Industrial Trucks & Services segment maintained its order intake and revenue in a generally declining market. It was helped by a favourable product mix that contained a high proportion of electric-powered forklift trucks and warehouse trucks. The Supply Chain Solutions segment saw a significant increase in revenue on the back of the strong order book built up in the prior year and registered growth in key customer segments.

Adjusted EBIT increased by 18.2 per cent or €62.7 million to €407.6 million and thus grew at a much faster rate than revenue. This means that the KION Group remains on track to meet the earnings targets that it set itself for 2019 as a whole. Importantly, the operational challenges related to the bottlenecks at suppliers that arose in the Industrial Trucks & Services segment over the course of 2018 were largely resolved. Slightly positive currency effects and only a modest rise in the price of materials also contributed to the improvement in earnings. A temporary year-on-year increase in net working capital in the first half of 2019 resulted in an overall negative free cash flow of €31.6 million (up by €9.0 million).

Net income for the period improved to €218.3 million, which was significantly higher than the figure for the prior-year period (€147.7 million). Basic earnings per share rose to €1.87 (H1 2018: €1.26). EBIT, bolstered by a budgeted reduction in the impact of purchase price allocations, contributed to this increase, as did a continued improvement in net interest expense. Net financial debt equated to 1.3 times adjusted EBITDA on an annualised basis.

## BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE KION GROUP

### Level of orders

The KION Group's order intake amounted to €4,196.8 million, which was 2.6 per cent lower than the figure for the prior-year period (€4,309.0 million). Order intake in the Industrial Trucks & Services segment grew by a solid 1.7 per cent to €3,083.7 million despite the subdued market environment (H1 2018: €3,031.6 million). At €1,108.9 million, the value of order intake in the Supply Chain Solutions segment was 12.7 per cent lower than the strong level achieved in the prior-year period (H1 2018: €1,270.4 million), which had been bolstered by major orders placed in the second quarter of 2018. Currency effects had a small positive impact on the value of the KION Group's overall order intake, raising it by €35.0 million. These effects were predominantly attributable to the stronger US dollar.

The Group's order book contracted by 5.2 per cent, from €3,300.8 million at the end of 2018 to €3,130.7 million.

### Revenue

Consolidated revenue went up by a substantial 12.6 per cent to €4,364.1 million (H1 2018: €3,874.4 million). In the Industrial Trucks & Services segment, revenue generated from external customers rose by 11.7 per cent to €3,143.6 million (H1 2018: €2,814.9 million), mainly because of strong sales of new trucks. Thanks to the high level of orders on hand from 2018, revenue generated from external customers in the Supply Chain Solutions segment increased by a significant 15.5 per cent to €1,209.6 million (H1 2018: €1,047.6 million). Growth was also very encouraging in the segment's service business, which advanced by 15.7 per cent to €282.5 million. Overall, the strong increase in new business during the reporting period meant that the share of consolidated revenue attributable to the service business stood at 40.8 per cent (H1 2018: 42.7 per cent). Currency effects had a small positive impact on consolidated revenue, increasing it by a total of €44.9 million. > **TABLE 03**

Revenue with third parties by product category

TABLE 03

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
<b>Industrial Trucks &amp; Services</b>	<b>1,635.8</b>	<b>1,447.2</b>	<b>13.0%</b>	<b>3,143.6</b>	<b>2,814.9</b>	<b>11.7%</b>
New business	881.8	729.1	20.9%	1,647.6	1,404.2	17.3%
Service business	754.0	718.0	5.0%	1,496.0	1,410.7	6.0%
– Aftersales	392.3	378.6	3.6%	785.2	741.2	5.9%
– Rental business	231.2	221.6	4.3%	458.4	434.1	5.6%
– Used trucks	95.3	80.7	18.1%	176.5	159.4	10.7%
– Other	35.2	37.1	–5.2%	75.9	75.9	0.0%
<b>Supply Chain Solutions</b>	<b>641.2</b>	<b>577.8</b>	<b>11.0%</b>	<b>1,209.6</b>	<b>1,047.6</b>	<b>15.5%</b>
Business solutions	495.4	450.1	10.1%	927.1	803.5	15.4%
Service business	145.7	127.7	14.1%	282.5	244.1	15.7%
<b>Corporate Services</b>	<b>3.8</b>	<b>6.2</b>	<b>–38.4%</b>	<b>11.0</b>	<b>12.0</b>	<b>–8.4%</b>
<b>Total revenue</b>	<b>2,280.7</b>	<b>2,031.1</b>	<b>12.3%</b>	<b>4,364.1</b>	<b>3,874.4</b>	<b>12.6%</b>

### Revenue by sales region

A large part of the rise in revenue in the Industrial Trucks & Services segment was attributable to western and eastern Europe. Encouragingly, significant growth was also recorded in the Americas region (North, Central and South America) despite the downward trend in the market there. Revenue went up in all major sales regions in the Supply Chain Solutions segment, with Europe recording the biggest percentage rise. Fast-growing markets accounted for 19.4 per cent of the KION Group's revenue in the reporting period (H1 2018: 19.7 per cent). A total of 80.6 per cent of revenue (H1 2018: 81.2 per cent) was generated outside Germany. > **TABLE 04**

### Earnings

#### EBIT and EBITDA

Earnings before interest and tax (EBIT) improved by a very healthy 34.1 per cent to €359.3 million (H1 2018: €268.0 million). The total figure for EBIT included the budgeted negative purchase price allocation effects of €43.8 million, which were down by €30.1 million on the prior-year period (H1 2018: €73.9 million). EBIT adjusted for non-recurring items and purchase price allocation effects (adjusted EBIT) improved by 18.2 per cent to €407.6 million (H1 2018: €344.9 million). The KION Group's adjusted EBIT margin increased by 0.4 percentage points to 9.3 per cent and so was higher than in the first half of 2018 (H1 2018: 8.9 per cent). The EBIT margin thus also improved on the first quarter of 2019 (Q1 2019: 8.8 per cent).

> **TABLE 05**

Revenue with third parties by customer location

TABLE 04

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Western Europe	1,349.0	1,160.3	16.3%	2,580.3	2,267.0	13.8%
Eastern Europe	176.0	135.3	30.1%	335.6	260.1	29.0%
Middle East and Africa	24.4	28.9	–15.7%	46.8	57.4	–18.4%
North America	448.9	443.1	1.3%	861.5	797.2	8.1%
Central and South America	56.2	43.3	29.8%	103.6	77.8	33.2%
Asia-Pacific	226.2	220.2	2.7%	436.4	414.8	5.2%
<b>Total revenue</b>	<b>2,280.7</b>	<b>2,031.1</b>	<b>12.3%</b>	<b>4,364.1</b>	<b>3,874.4</b>	<b>12.6%</b>

EBIT

TABLE 05

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
<b>EBIT</b>	<b>200.6</b>	<b>142.1</b>	<b>41.1%</b>	<b>359.3</b>	<b>268.0</b>	<b>34.1%</b>
+ Non-recurring items	3.4	4.0	–15.1%	4.6	3.0	51.2%
+ PPA items	21.3	40.9	–47.9%	43.8	73.9	–40.7%
<b>Adjusted EBIT</b>	<b>225.2</b>	<b>187.0</b>	<b>20.5%</b>	<b>407.6</b>	<b>344.9</b>	<b>18.2%</b>

EBITDA advanced to €799.4 million (H1 2018: €716.3 million). Adjusted EBITDA rose to €804.0 million (H1 2018: €717.8 million), giving an adjusted EBITDA margin of 18.4 per cent (H1 2018: 18.5 per cent). > **TABLE 06**

EBITDA for the long-term leasing business, which is derived from internal reporting and assumes a minimum rate of return on the capital employed, amounted to €164.6 million in the reporting period (H1 2018: €155.9 million).

#### Key influencing factors for earnings

The cost of sales rose by 12.1 per cent to €3,217.9 million (H1 2018: €2,870.5 million). This was lower than the increase in revenue, partly because material prices rose only modestly and partly because the fallout from the production inefficiencies arising from bottlenecks at suppliers in the Industrial Trucks & Services segment was largely resolved in the second quarter. As a result, the gross margin improved to 26.3 per cent (H1 2018: 25.9 per cent). Selling expenses and general administrative expenses as well as research and development costs were up by 7.5 per cent overall, a disproportionally low increase that also contributed to the improvement in the EBIT margin. Moreover, the reduced purchase price allocation effects had a positive impact on both the cost of sales and other functional costs.

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

#### Net financial expenses

The net financial expenses, representing the balance of financial income and financial expenses, improved slightly to €50.5 million in the first half of 2019 (H1 2018: net financial expenses of €53.9 million). This is partly a reflection of the lower average net financial debt in comparison with the prior-year period.

#### Income taxes

Income tax expenses rose to €90.5 million (H1 2018: €66.4 million) because of the increase in earnings before tax. The tax rate was 29.3 per cent (H1 2018: 31.0 per cent). This decrease in the effective tax rate resulted from factors such as local tax rate reductions and the adjustment of tax provisions for prior years.

#### Net income for the period

At €218.3 million, net income for the period was up by €70.5 million year on year (H1 2018: €147.7 million). Basic earnings per share attributable to the shareholders of KION GROUP AG came to €1.87 (H1 2018: €1.26) based on 117.9 million (H1 2018: 117.9 million) no-par-value shares.

### BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE SEGMENTS

#### Industrial Trucks & Services segment

##### Business performance and order intake

The Industrial Trucks & Services segment outperformed the global market trend in almost all sales regions, with the exception of China, in regards to order volume in its new truck business. Whereas the

#### EBITDA

TABLE 06

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
<b>EBITDA</b>	<b>421.7</b>	<b>374.6</b>	<b>12.6%</b>	<b>799.4</b>	<b>716.3</b>	<b>11.6%</b>
+ Non-recurring items	3.4	2.4	38.3%	4.6	1.5	> 100%
+ PPA items	0.0	-0.1	100.0%	0.0	0.0	–
<b>Adjusted EBITDA</b>	<b>425.0</b>	<b>377.0</b>	<b>12.7%</b>	<b>804.0</b>	<b>717.8</b>	<b>12.0%</b>

global market declined by 5.2 per cent, unit sales in the segment, at 109.2 thousand, were nearly on a par with the strong figure for the first half of 2018 (down by 1.2 per cent). Of the total number of orders, 62.1 per cent were accounted for by the Linde brand

including Ferwick, 30.9 per cent by the STILL brand and the remaining 7.0 per cent by the Baoli and OM Voltas brands. The value of order intake rose by 1.7 per cent to €3,083.7 million (H1 2018: €3,031.6 million). > **TABLE 08**

**(Condensed) income statement****TABLE 07**

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Revenue	2,280.7	2,031.1	12.3%	4,364.1	3,874.4	12.6%
Cost of sales	–1,686.2	–1,518.4	–11.0%	–3,217.9	–2,870.5	–12.1%
<b>Gross profit</b>	<b>594.6</b>	<b>512.7</b>	<b>16.0%</b>	<b>1,146.2</b>	<b>1,003.9</b>	<b>14.2%</b>
Selling expenses and administrative expenses	–375.0	–346.0	–8.4%	–734.5	–683.4	–7.5%
Research and development costs	–38.0	–34.4	–10.6%	–74.5	–69.3	–7.5%
Other	19.0	9.8	94.3%	22.0	16.7	31.6%
<b>Earnings before interest and taxes (EBIT)</b>	<b>200.6</b>	<b>142.1</b>	<b>41.1%</b>	<b>359.3</b>	<b>268.0</b>	<b>34.1%</b>
Net financial expenses	–25.7	–25.1	–2.5%	–50.5	–53.9	6.3%
<b>Earnings before taxes</b>	<b>174.8</b>	<b>117.0</b>	<b>49.4%</b>	<b>308.8</b>	<b>214.1</b>	<b>44.2%</b>
Income taxes	–49.7	–37.7	–31.7%	–90.5	–66.4	–36.4%
<b>Net income</b>	<b>125.2</b>	<b>79.3</b>	<b>57.8%</b>	<b>218.3</b>	<b>147.7</b>	<b>47.7%</b>

**Key figures – Industrial Trucks & Services****TABLE 08**

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Order intake	1,573.2	1,546.5	1.7%	3,083.7	3,031.6	1.7%
Total revenue	1,638.2	1,449.6	13.0%	3,146.8	2,818.3	11.7%
EBITDA	355.5	317.0	12.2%	679.4	619.3	9.7%
Adjusted EBITDA	355.3	318.0	11.7%	679.3	619.0	9.7%
EBIT	177.8	136.1	30.6%	326.3	273.2	19.4%
Adjusted EBIT	177.7	148.2	19.9%	326.5	284.2	14.9%
Adjusted EBITDA margin	21.7%	21.9%	–	21.6%	22.0%	–
Adjusted EBIT margin	10.8%	10.2%	–	10.4%	10.1%	–



### Revenue

Segment revenue went up by 11.7 per cent to €3,146.8 million (H1 2018: €2,818.3 million), primarily because of the strong growth in new business (up by 17.3 per cent). All product categories saw increases. Revenue from the service business advanced by 6.0 per cent year on year, with all parts of the service business contributing to the growth. As a result of the disproportionately strong growth of new business, the share of external segment revenue accounted for by the service business fell to 47.6 per cent (H1 2018: 50.1 per cent).

### Earnings

Adjusted EBIT improved by a significant 14.9 per cent year on year to reach €326.5 million (H1 2018: €284.2 million). At 10.4 per cent, the segment's adjusted EBIT margin was in double digits again and was higher than the figure for the prior-year period (H1 2018: 10.1 per cent). In the second quarter, the fallout from the bottlenecks at suppliers no longer had any significant impact on segment earnings. After taking into account non-recurring items and purchase price allocation effects, EBIT amounted to €326.3 million (H1 2018: €273.2 million). Adjusted EBITDA rose to €679.3 million (H1 2018: €619.0 million). This equated to an adjusted EBITDA margin of 21.6 per cent (H1 2018: 22.0 per cent).

### Supply Chain Solutions segment

#### Business performance and order intake

At €1,108.9 million, the value of order intake in the Supply Chain Solutions segment fell short of the strong level achieved in the prior-year period (H1 2018: €1,270.4 million), which had been bolstered by major orders placed in the second quarter of 2018. A substantial increase in orders in Europe made a positive contribution to the overall result. There was also a small positive impact from the stronger US dollar, which pushed up order intake by €39.6 million in the reporting period. > TABLE 09

#### Revenue

Segment revenue went up by 15.4 per cent to €1,210.9 million (H1 2018: €1,049.5 million), primarily because of the progressive fulfilment of the high level of orders on hand from the end of 2018. All sales regions contributed to this revenue increase. Strong growth in Europe was a factor in the rise in revenue generated from long-term projects (business solutions). The service business (customer services) grew by an encouraging 15.7 per cent and overall accounted for 23.4 per cent of the segment's external revenue (H1 2018: 23.3 per cent). The proportion of revenue generated in North America stood at 65.9 per cent, which was down from 69.7 per cent in the first half of 2018 due to an increase in revenue in Europe.

### Key figures – Supply Chain Solutions

TABLE 09

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Order intake	506.0	874.2	–42.1%	1,108.9	1,270.4	–12.7%
Total revenue	642.0	578.8	10.9%	1,210.9	1,049.5	15.4%
EBITDA	74.7	63.3	18.1%	135.7	109.0	24.5%
Adjusted EBITDA	78.2	64.0	22.3%	140.3	110.1	27.4%
EBIT	39.0	19.4	>100%	63.9	21.3	>100%
Adjusted EBIT	63.6	51.5	23.5%	111.8	86.5	29.3%
Adjusted EBITDA margin	12.2%	11.1%	–	11.6%	10.5%	–
Adjusted EBIT margin	9.9%	8.9%	–	9.2%	8.2%	–

### Earnings

The segment's adjusted EBIT rose by a significant 29.3 per cent to €111.8 million (H1 2018: €86.5 million) on the back of higher revenue and a disproportionately low increase in selling expenses and administrative expenses. Moreover, project-related personnel capacity had been underutilised in the prior-year period. As a result, the adjusted EBIT margin for the period improved to 9.2 per cent (H1 2018: 8.2 per cent). After taking into account non-recurring items and purchase price allocation effects, EBIT came to €63.9 million (H1 2018: €21.3 million).

Adjusted EBITDA amounted to €140.3 million (H1 2018: €110.1 million); the adjusted EBITDA margin was 11.6 per cent (H1 2018: 10.5 per cent).

### Corporate Services segment

#### Business performance

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

#### Revenue and earnings

The segment's total revenue, which mainly resulted from internal IT and logistics services, increased to €156.9 million (H1 2018: €151.0 million).

Adjusted EBIT for the segment came to €92.8 million (H1 2018: €72.9 million) and included intra-group dividend income of €123.6 million (H1 2018: €98.6 million). Adjusted EBIT excluding

intra-group dividend income amounted to minus €30.8 million (H1 2018: minus €25.7 million). Adjusted EBITDA stood at €107.9 million, or minus €15.7 million excluding intra-group dividend income (H1 2018: €87.4 million, or minus €11.2 million). > **TABLE 10**

### NET ASSETS

Non-current assets rose moderately to €10,354.5 million as at 30 June 2019 (31 December 2018: €10,150.6 million). The total carrying amount of intangible assets was virtually unchanged at €5,721.4 million (31 December 2018: €5,721.6 million). The goodwill included in this figure rose to €3,442.2 million due to currency effects (31 December 2018: €3,424.8 million). Other property, plant and equipment stood at €1,090.1 million (31 December 2018: €1,077.8 million) and included a figure of €391.2 million for right-of-use assets related to procurement leases (31 December 2018: €390.7 million). Right-of-use assets amounted to €271.9 million for land and buildings (31 December 2018: €276.4 million) and €119.2 million for plant & machinery and office furniture & equipment (31 December 2018: €114.3 million).

The short-term rental fleet was stable in the first half of 2019, with rental assets of €653.5 million as at 30 June 2019 (31 December 2018: €670.5 million). Leased assets for direct and indirect leases with end customers that are classified as operating leases increased to €1,298.6 million (31 December 2018: €1,261.8 million). Long-term lease receivables arising from leases with end customers that are classified as finance leases rose to €946.4 million (31 December 2018: €826.2 million).

### Key figures – Corporate Services

TABLE 10

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Order intake	76.9	74.9	2.6%	156.9	151.0	3.9%
Total revenue	76.9	74.9	2.6%	156.9	151.0	3.9%
EBITDA	115.0	93.1	23.6%	107.8	86.7	24.4%
Adjusted EBITDA	115.1	93.6	22.9%	107.9	87.4	23.5%
EBIT	107.4	85.3	25.8%	92.7	72.2	28.4%
Adjusted EBIT	107.5	85.9	25.1%	92.8	72.9	27.3%

Overall, current assets advanced to €3,189.5 million (31 December 2018: €2,818.2 million), primarily because of the rise in inventories in the Industrial Trucks & Services segment. Trade receivables increased to €1,100.9 million (31 December 2018: €1,036.4 million). Contract assets mainly related to Dematic's project business and, at €154.4 million, were also higher than at the end of last year (31 December 2018: €119.3 million).

The rise in the KION Group's net working capital to €1,058.5 million as at 30 June 2019 (31 December 2018: €676.1 million) was due to the temporary increase in inventories and to customer orders being fulfilled in the project business as scheduled. Cash and cash equivalents advanced from €175.3 million as at 31 December 2018 to €180.2 million as at 30 June 2019. > **TABLE 11**

## FINANCIAL POSITION

The principles and objectives applicable to financial management as at 30 June 2019 were the same as those described in the 2018 combined management report. As part of its financial management activities, the KION Group is continually optimising its financial liabilities and, to an increasing extent, the financing of the long-term leasing business.

In April 2019, KION GROUP AG issued a new floating-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 in connection with the acquisition facilities agreement (AFA) were reduced by a total of €200.0 million in the first half of 2019 as a result of an early repayment of €100.0 million in both the first quarter and second quarter. The outstanding balance of the AFA, which has a floating interest rate and matures in October 2021, thus came to €400.0 million as at 30 June 2019.

The KION Group has issued guarantees to the banks for all of the payment obligations under the senior facilities agreement (SFA) and the AFA and it is the borrower in respect of all the payment obligations resulting from promissory notes. All covenants were complied with as at the end of the first half of 2019.

## Analysis of capital structure

At €10,243.5 million, current and non-current liabilities had risen by €579.8 million as at the reporting date (31 December 2018: €9,663.7 million). The increased volume of business led to a rise not only in liabilities attributable to financing of the long-term leasing business but also in trade payables.

Financial liabilities totalled €2,309.0 million (31 December 2018: €2,045.2 million). Within this amount, non-current financial liabilities declined to €1,724.3 million due to partial repayment of the borrowing under the AFA (31 December 2018: €1,818.7 million). The increase of €358.1 million in current financial liabilities to €584.6 million (31 December 2018: €226.5 million) was in part attributable to the financing of the temporary rise in net working capital. As at 30 June 2019, the unused revolving credit facility under the SFA stood at €919.9 million (31 December 2018: €1,048.2 million). Net financial debt (non-current and current financial liabilities less cash and cash equivalents) thus amounted to €2,128.7 million (31 December 2018: €1,869.9 million). This equated to 1.3 times the annualised adjusted EBITDA. > **TABLE 12**

At €1,214.3 million, the retirement benefit obligation was significantly higher than at the end of last year (31 December 2018: €1,043.0 million), largely owing to lower discount rates.

The continuing expansion of the long-term leasing business led to an increase in the funding volume during the period under review. This volume totalled €2,164.0 million as at 30 June 2019 (31 December 2018: €1,906.0 million). Of this total, €1,602.6 million (31 December 2018: €1,165.3 million) related to the financing of the long-term direct and indirect leasing business in the form of liabilities from financial services, which also include the residual value obligations arising from the indirect leasing business in an amount of €309.6 million (31 December 2018: €319.5 million). The remaining amount of €561.4 million was attributable to lease liabilities (31 December 2018: €740.6 million).

A sum of €371.2 million (31 December 2018: €307.1 million), representing a portion of the financing of the short-term rental fleet, was recognised under liabilities from financial services. Overall, liabilities from financial services rose by €501.4 million to €1,973.8 million (31 December 2018: €1,472.4 million).

(Condensed) statement of financial position

TABLE 11

in € million	30/06/2019	in %	31/12/2018	in %	Change
Non-current assets	10,354.5	76.5%	10,150.6	78.3%	2.0%
Current assets	3,189.5	23.5%	2,818.2	21.7%	13.2%
<b>Total assets</b>	<b>13,544.0</b>	<b>–</b>	<b>12,968.8</b>	<b>–</b>	<b>4.4%</b>
Equity	3,300.5	24.4%	3,305.1	25.5%	–0.1%
Non-current liabilities	6,115.1	45.1%	5,999.1	46.3%	1.9%
Current liabilities	4,128.5	30.5%	3,664.6	28.3%	12.7%
<b>Total equity and liabilities</b>	<b>13,544.0</b>	<b>–</b>	<b>12,968.8</b>	<b>–</b>	<b>4.4%</b>

Industrial net operating debt

TABLE 12

in € million	30/06/2019	31/12/2018	Change
Liabilities to banks	983.6	826.4	19.0%
Promissory notes	1,320.8	1,214.3	8.8%
Other financial liabilities to non-banks	4.6	4.6	1.2%
<b>Financial liabilities</b>	<b>2,309.0</b>	<b>2,045.2</b>	<b>12.9%</b>
Less cash and cash equivalents	–180.2	–175.3	–2.8%
<b>Net financial debt</b>	<b>2,128.7</b>	<b>1,869.9</b>	<b>13.8%</b>
Liabilities from financial services (short-term rental fleet)	371.2	307.1	20.9%
Other financial liabilities (short-term rental fleet)	230.4	289.9	–20.5%
<b>Liabilities from short-term rental fleet financing</b>	<b>601.6</b>	<b>597.0</b>	<b>0.8%</b>
<b>Liabilities from procurement leases</b>	<b>423.1</b>	<b>421.2</b>	<b>0.4%</b>
<b>Industrial net operating debt</b>	<b>3,153.4</b>	<b>2,888.1</b>	<b>9.2%</b>

Current and non-current other financial liabilities totalled €778.7 million (31 December 2018: €813.2 million). In addition to the remaining €230.4 million (31 December 2018: €289.9 million) for the financing of the short-term rental fleet by means of sale and leaseback sub-lease transactions, they include liabilities from procurement leases amounting to €423.1 million (31 December 2018: €421.2 million).

The decline in contract liabilities, from €570.1 million as at 31 December 2018 to €394.0 million, mainly related to the progressive fulfilment of customer orders in the long-term project business.

Consolidated equity fell only slightly overall to €3,300.5 million as at 30 June 2019 (31 December 2018: €3,305.1 million). Net income for the period increased equity by €218.3 million. Conversely, equity was reduced by KION GROUP AG's dividend payout of €141.5 million and actuarial losses of €104.4 million (after deferred taxes)

arising from the measurement of defined benefit obligations due to the lower level of interest rates. The equity ratio was 24.4 per cent, which was 1.1 percentage points below the level as at 31 December 2018 (25.5 per cent) because of the increase in the volume of business and the associated increase in total assets. > **TABLE 11**

### Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (excluding right-of-use assets from procurement leases) came to €113.0 million in the first half of 2019, compared with €103.9 million in the first six months of 2018. Spending in the Industrial Trucks & Services segment continued to be focused on capital expenditure on product development and on the expansion and modernisation of production and technology facilities. For example, a new plant in Pune, India, was acquired that will increase capacity. Capital expenditure in the Supply Chain Solutions segment mainly related to development costs.

### Analysis of liquidity

Cash and cash equivalents increased slightly to €180.2 million as at 30 June 2019 (31 December 2018: €175.3 million). Taking into account the revolving credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group as at 30 June 2019 amounted to €1,097.4 million (31 December 2018: €1,219.8 million).

Net cash provided by operating activities amounted to €70.1 million (H1 2018: €104.6 million). While the improvement in EBIT made a positive contribution, there was a negative impact from the significant increase in net working capital. In addition, the expansion of the leasing business gave rise to cash payments of €63.6 million (H1 2018: €46.9 million).

The €101.7 million in net cash used for investing activities was almost at the same level as in the first half of last year (H1 2018: €95.5 million). Within this figure, cash payments for capital expenditure on product development and on property, plant and equipment (excluding right-of-use assets related to procurement leasing) rose to €113.0 million (H1 2018: €103.9 million).

Free cash flow – the sum of cash flow from operating activities and investing activities – came to minus €31.6 million (H1 2018: plus €9.0 million).

The net cash provided by financing activities of €34.5 million (H1 2018: net cash used for financing activities of €0.4 million) was partly attributable to the issuing of a new promissory note and to drawdowns from the revolving credit facility that were partly offset by a further partial repayment of a long-term tranche under the AFA. In addition, 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 (H1 2018: net cash outflow of €116.8 million). Overall, financial debt taken on during the reporting period stood at €1,687.3 million (H1 2018: €1,215.8 million); repayments amounted to €1,431.4 million (H1 2018: €1,022.4 million). Payments made for interest portions and principal portions under procurement leases amounted to €60.1 million in the first half of 2019 (H1 2018: €55.6 million). The net cash used for current interest payments decreased from €25.7 million in the first half of 2018 to €19.9 million in the reporting period due to a year-on-year fall in average financial debt. > **TABLE 13**

## Non-financial information

### EMPLOYEES

As at 30 June 2019, the KION Group employed 33,740 full-time equivalents (31 December 2018: 33,128). This increase in the first half of the year was attributable to both operating segments. By taking on more staff, the KION Group is strengthening its project business and accelerating the ongoing expansion of its service and sales activities in both segments. In terms of regions, most of the new jobs were added in EMEA and the Americas.

Personnel expenses in the first half of the year rose by 9.3 per cent to €1,155.3 million (H1 2018: €1,056.6 million), mainly as a result of the increase in the number of employees and changes to collective bargaining agreements. > **TABLE 14**

(Condensed) statement of cash flows

TABLE 13

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
EBIT	200.6	142.1	41.1%	359.3	268.0	34.1%
Cash flow from operating activities	–61.9	41.6	< –100%	70.1	104.6	–33.0%
Cash flow from investing activities	–51.7	–45.3	–14.1%	–101.7	–95.5	–6.4%
<b>Free cash flow</b>	<b>–113.6</b>	<b>–3.7</b>	<b>&lt; –100%</b>	<b>–31.6</b>	<b>9.0</b>	<b>&lt; –100%</b>
Cash flow from financing activities	131.5	–35.9	> 100%	34.5	–0.4	> 100%
Effect of exchange rate changes on cash	–1.7	–0.2	< –100%	2.0	–1.4	> 100%
<b>Change in cash and cash equivalents</b>	<b>16.2</b>	<b>–39.8</b>	<b>&gt; 100%</b>	<b>4.9</b>	<b>7.2</b>	<b>–31.9%</b>

Employees (full-time equivalents)

TABLE 14

	30/06/2019	31/12/2018	Change
Western Europe	20,963	20,647	1.5%
Eastern Europe	2,931	2,773	5.7%
Middle East and Africa	113	210	–46.2%
North America	3,103	2,977	4.2%
Central and South America	1,310	1,225	6.9%
Asia-Pacific	5,320	5,296	0.5%
<b>Total</b>	<b>33,740</b>	<b>33,128</b>	<b>1.8%</b>

## RESEARCH AND DEVELOPMENT

Total spending on research and development went up by 4.4 per cent year on year to reach €112.6 million (H1 2018: €107.8 million), which equates to 2.6 per cent of revenue (H1 2018: 2.8 per cent). Within this total, research and development costs of €74.5 million (H1 2018: €69.3 million) were expensed, including a sum of €40.2 million for amortisation of capitalised development costs (H1 2018: €37.4 million). Additional development costs of €38.1 million (H1 2018: €38.6 million) were capitalised during the reporting period. > TABLE 15

Research and development (R&amp;D)

TABLE 15

in € million	Q2 2019	Q2 2018	Change	Q1 – Q2 2019	Q1 – Q2 2018	Change
Research and development costs (P&L)	38.0	34.4	10.6%	74.5	69.3	7.5%
Capitalised development costs	19.6	20.7	–5.1%	38.1	38.6	–1.1%
<b>Total R&amp;D spending</b>	<b>57.6</b>	<b>55.1</b>	<b>4.7%</b>	<b>112.6</b>	<b>107.8</b>	<b>4.4%</b>
R&D spending as percentage of revenue	2.5%	2.7%	–	2.6%	2.8%	–

### Focus of R&D in the first half of 2019

Under the KION 2027 strategy, research and development is still set up so as to provide the best possible support for the long-term success of the KION Group as the world's second-largest manufacturer of industrial trucks and the leading provider by revenue of automation technology. This was reflected in the areas of focus during the reporting period.

#### Energy

Energy-efficient drive concepts were one area of focus, as they were in 2018 as well. The availability of lithium-ion technology was improved again in the first six months of the year. Virtually all new products can, at the customer's request, be fitted with the new battery concept. 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 STILL's new electronic pallet trucks, which have extended the load capacity covered by the product range to up to 2.5 tonnes.

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 complete 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.

#### 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. Making greater use of artificial intelligence for products and software solutions is a further long-term focus in the field of digitalisation.

In addition, Linde presented a service manager app that allows service jobs to be created using a smartphone.

#### Automation

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 means huge time and cost savings for parcel delivery services and customers from other industries. A PackMyRide pilot subsystem is currently being tested in partnership with parcel delivery service DPD.



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 handle each day and thus raise customer satisfaction and productivity. Pouch sorters, originally a concept from the fashion industry, are increasingly being used in the distribution centres of online retailers. Dematic has developed a durable, cost-effective and fully automated mechanism for opening the bottom of the pouches that offers a unique selling proposition with substantial benefits for the customer.

The KION Group, through various committees and research projects, is also exploring future customer needs in connection with the new 5G communications standard. Going forward, this will allow the step towards fully automated Industry 4.0 systems, including robotics applications, to be taken without intermediate stages and with improved integration of data.

## CUSTOMERS

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

In the Industrial Trucks & Services segment, the Linde, STILL and Baoli brand companies presented their most important innovations in the fields of automation, energy and safety at the 2019 LogiMAT trade fair in Stuttgart. KION North America also exhibited at ProMAT in Chicago, where it was represented by the brand companies Linde and Baoli.

Dematic was also in attendance at both of these trade fairs to present on-demand solutions in the Supply Chain Solutions segment and host seminars on data management in intralogistics, automation solutions and hybrid driverless systems. The Dematic customer day was also launched as a new format targeted specifically at small and medium-sized enterprises and focusing mainly on compact and versatile automation solutions as well as aftersales services.

The level of appreciation from customers and the highly innovative nature of the KION products were again recognised by major awards during the reporting period. STILL won 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. Dematic was named World Trader of the Year by the West Michigan World Trade Association and received the 2019 German Brand Award in the year that it celebrates its 200th anniversary.

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## OUTLOOK, RISK REPORT AND OPPORTUNITY REPORT

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### Outlook

#### EXPECTED BUSINESS PERFORMANCE

Contrary to the forecasts made in the 2018 group management report, there was a modest deterioration in the economic climate. The indicators for industrial output and manufacturing are also on a downward trend in comparison to the turn of the year.

Sectoral conditions are mixed. The positive trend that was anticipated for warehouse systems is being sustained by further fast growth in the online retail market. Unit sales of industrial trucks were weak in the first six months of the year, so there are currently doubts as to whether it will still be possible to achieve a growth rate close to the long-term trend of around 4 per cent for the year as a whole, as originally expected. This will partly depend on what happens next in the trade talks, particularly those between the US and China. Nevertheless, the overall market for industrial trucks and warehouse systems is likely to expand again in 2019, as originally forecasted.

Despite the temporary dip in economic data, the KION Group is adhering to the forecast for the year as a whole that was published in the 2018 combined management report and believes it will continue along its path of profitable growth while further improving its market position. Following rises in the first half of 2019, both revenue and adjusted EBIT are expected to increase over the year as a whole.

The order intake of the KION Group is still expected to be between €8,250 million and €8,950 million. The target figure for consolidated revenue remains in the range of €8,150 million to €8,650 million. The target range for adjusted EBIT is unchanged at €805 million to €875 million. Free cash flow is expected to be in a range between €380 million and €480 million. The target figure for ROCE is in the range of 9.0 per cent to 10.0 per cent.

Order intake in the Industrial Trucks & Services segment is expected to be between €6,250 million and €6,450 million. The target figure for revenue is in the range of €6,050 million to €6,250 million. The target range for adjusted EBIT is €685 million to €720 million.

Order intake in the Supply Chain Solutions segment is expected to be between €2,000 million and €2,500 million. The target figure for revenue is in the range of €2,100 million to €2,400 million. The target range for adjusted EBIT is €190 million to €225 million.

### Opportunity and risk report

The KION Group's overall risk and opportunity situation has not changed significantly compared with the description in the 2018 combined management report. As things stand at present, there are no indications of any risks that could jeopardise the Company's continuation as a going concern.