Interim group management report

MAJOR DEVELOPMENTS

Key events

Since its initial public offering (IPO), the KION Group has improved its funding structure and is now on an even stronger footing for implementing its growth strategy. On 2 July 2013, the outstanding proceeds were received from the IPO and the capital increase from Weichai Power. They totalled €701.6 million after deduction of banking fees. As part of the IPO, the KION Group had also agreed a new revolving credit facility with a group of banks for €995.0 million with a term to maturity of five years after the IPO. Combined with the lower interest margins, this credit facility offers more favourable credit terms in line with those typically available to comparable listed companies.

As soon as all the proceeds from the IPO had been received, the KION Group used this cash, along with part of the new credit facility and existing cash reserves, to repay in full the long-term bank loans under the acquisition finance arrangements (Senior Facilities Agreement or SFA). In addition, the floating rate note, which was due to mature in 2018 and amounted to €175.0 million, was also repaid in full in July 2013. Following completion of the main funding activities in the first nine months of 2013, the KION Group can report a healthy equity ratio of 26.4 per cent. As at the reporting date, net debt was roughly 1.5 times adjusted EBITDA for the past twelve months (excluding the hydraulics business). Long-term borrowing now comprises the new revolving credit facility plus secured floating-rate and fixed-interest corporate bonds with a total value of €975.0 million, which are due to mature in 2018 and 2020 respectively.

Key strategic initiatives

Further progress was made with reorganising the container handler and heavy truck businesses in the third quarter. Following the successful sale of the container handler business to Konecranes, a large part of Linde Material Handling's production of heavy trucks has now been transferred to a contract production facility in the Czech Republic.

In August, the KION Group passed a significant milestone in expanding its sales activities in the fast-growing market of south-east Europe. STILL's acquisition of 51.0 per cent of the Turkish company Arser İş Makineleri Servis ve Ticaret A.Ş., which had been agreed in May 2013, was completed on 14 August 2013. This will enable the KION Group to step up its business in the Turkish market, a major hub for European trade with the Middle East.

The KION Group has also strengthened its presence in the French market by purchasing the remaining shares in two dealers: the outstanding 45.7 per cent stake in Bretagne Manutention S.A. was acquired on 23 July 2013, followed by the outstanding stake of 49.9 per cent in Manusom SAS on 11 September 2013.

Group structure, organisation, management

Ms Alexandra Schädler has been an employee representative on the Supervisory Board of KION GROUP AG since 2 October 2013. Dr Roland Köstler stepped down from the Supervisory Board on 1 October 2013.

ECONOMIC ENVIRONMENT AND BUSINESS PERFORMANCE

Macroeconomic conditions

According to data from the Organisation for Economic Co-operation and Development (OECD), the global economy only managed muted growth over the reporting period. Adjusted for inflation, the OECD countries' gross domestic product (GDP) rose by 0.6 per cent in the first quarter and by 1.0 per cent in the second quarter. This slight uptrend continued through the summer. Economic conditions improved somewhat in the European Union. The economy contracted by 0.8 per cent in the first three months, followed by close to zero growth (contraction of 0.2 per cent) in the second quarter. This trend was driven primarily by Germany, France and the United Kingdom. However, the negative growth rates in Italy and Spain, two major European economies, show that the eurozone has not yet overcome the crisis. This is also hampering growth in other European countries, including Russia.

Among the emerging markets, China's growth rates were almost as high as in the previous year, whereas other Asian markets experienced a decline. Brazil's upward trend continued, although the pace of

economic growth tailed off and there were considerable exchange-rate fluctuations. Although growth rates have slowed down in many emerging markets, they will continue to be significant in driving global economic expansion in the medium term.

Besides GDP growth, global demand for machinery and equipment is largely driven by investment confidence and world trade volumes. Over the course of the year, however, worldwide spending on capital equipment has increased only cautiously as ongoing uncertainty about growth prospects has continued to dampen companies' willingness to invest, particularly in the eurozone. Economic research institutes estimate that global trade in 2013 as a whole will once again be well behind the medium-term trend.

Sectoral conditions

Sales markets

The global market for industrial trucks maintained its uptrend in the third quarter. In the first nine months, the number of new trucks ordered was up by 5.0 per cent year on year, while the increase in the period July to September was even higher at 7.5 per cent. More than half of the rise in the nine-month period was attributable to the Chinese market, which continued to rally in the third quarter and achieved double-digit growth rates in the period under review.

Western Europe's slight downward trend continued in the third quarter. Falling sales in the United Kingdom, Italy and Germany all contributed to this, although France and Spain generated year-on-year growth. Reticence to invest continued to stand in the way of companies' renewal of their ageing truck fleets. By contrast, eastern Europe followed a subdued second quarter with healthy growth in the third quarter, above all thanks to growth in Poland and the Czech Republic. However, Russia's sales figures were only slightly higher than in the corresponding period of last year owing to the weakness of the third quarter. >> TABLE 02

Global industrial truck market (order intake) >> TABLE 02

in thousand units	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Western Europe	57.9	59.1	–2.0 %	190.4	196.0	–2.8 %
Eastern Europe	14.8	13.8	7.4 %	43.4	41.0	5.9 %
North America	49.1	43.2	13.5 %	147.0	132.2	11.2 %
Central & South America	12.1	13.2	–8.8 %	39.3	35.6	10.2 %
Asia (excl. Japan)	83.4	69.8	19.6 %	248.9	227.9	9.2 %
Rest of world	27.6	28.6	–3.5 %	84.9	85.5	–0.6 %
World	**244.8**	**227.7**	**7.5 %**	**753.9**	**718.1**	**5.0 %**

Source: WITS/FEM

Procurement markets and conditions in the financial markets

Commodity prices have a direct impact on around 25.0 per cent of the cost of the materials needed to manufacture an industrial truck in the KION Group.

In the first nine months of 2013, purchase prices for steel and energy were generally down on the same period of 2012. However, the price of Brent crude oil, which is quoted in US dollars and affects the price of other fuels, went up again considerably in the third quarter owing to the crisis in Syria and the average price over the nine-month period was just 3.3 per cent below the price for the comparable period of last year.

The pound sterling depreciated against the euro. The value of the Brazilian real fell further in the third quarter, and Brazil's central bank intensified its intervention programme considerably in order to curb the decline. China's renminbi has proved comparatively stable over the year so far.

Level of orders

The KION Group's brand companies received orders for a total of 105.9 thousand new industrial trucks in the first nine months of 2013. This year-on-year decrease of 1.1 per cent was predominantly attributable to the weakness of the western European market, which remains the KION Group's largest market. The number of trucks ordered in the third quarter in Germany and the rest of western Europe was slightly below the comparable period of 2012, whereas new truck sales in the emerging markets – especially in eastern Europe, China and Brazil – remained at a highly positive level. In terms of units they accounted for 35.0 per cent of the trucks ordered in the reporting period.

Order intake totalled €3,296.6 million, just 2.6 per cent short of its value in the corresponding period of the previous year (excluding hydraulics activities). The order book remained at a healthy level and was worth €693.9 million at the end of the third quarter.

FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Financial performance

Overall assessment of the economic situation

As the European market leader, the KION Group felt the impact of poor economic conditions in the established western European markets and customers' reluctance to invest. The revenue growth that it has been aiming for has therefore been subdued so far this year. However, a decline in new truck business in Germany and the rest of western Europe contrasted with some positive trends: strong growth in China, Brazil and eastern European markets as well as a stable performance by the service business. The stable level of revenue achieved despite the challenging conditions shows that we have based our growth strategy on the right foundations. Moreover, we are constantly investing in the quality and innovativeness of our premium products. Because they deliver numerous benefits to our customers throughout their lifecycle, we have been able to largely offset the subdued level of unit sales through our prices.

The financial flexibility we need to continue pushing ahead with our international growth strategy has increased significantly as a result of the IPO and subsequent repayment of financial liabilities; the equity ratio has climbed to a healthy level. This is enabling us to gradually expand our service business, boost international sales and step up global marketing activities. The strategy also has a beneficial effect on costs, for example because of increased procurement in emerging markets.

The efficiency of the KION production sites has been further improved by restructuring the heavy truck business and their cost discipline was a significant factor in the moderate increase in adjusted EBIT (excluding the hydraulics business). Given the competitive situation, the adjusted EBIT margin of 9.1 per cent for the first nine months and 9.3 per cent for the third quarter was very satisfactory. Net income and thereby earnings per share were also helped by a reduction in debt, better funding conditions and non-recurring tax items.

Business situation and financial performance of the KION Group

Key influencing factors

To improve comparability between the results for the first nine months of 2013 and 2012, revenue and order intake are additionally stated – at the level of the Group and the Linde Material Handling segment – excluding the contributions made by the hydraulics business, which was sold in December 2012. Consequently, EBIT and EBITDA have been adjusted to take account of the contributions made by the hydraulics business on the basis of the financial results relating to the hydraulics business reported in the Linde Material Handling segment in 2012.

Please also note that the segment structure of the KION Group changed at the end of the 2012 financial year. Financial services activities were aggregated in the Financial Services segment to enable them to be managed separately.

The first-time adoption of new financial reporting standards (see Notes to the consolidated interim financial statements) did not have a major impact on the financial performance or financial position of the KION Group. Because the rules governing transition to the new IAS 19R "Employee Benefits" require it to be adopted retrospectively, the first three quarters of 2012 have been restated.

Revenue

The revenue generated in the first nine months of €3,316.7 million was down by 3.5 per cent on the figure reported for the same period of 2012, although this had still included the hydraulics business. However, eliminating the hydraulics revenue from the prior-year figure (€3,307.8 million) results in a slight year-on-year increase. In addition, currency effects, such as the devaluation of the Brazilian real and pound sterling, pushed down revenue by €48.5 million.

The revenue accounted for by the truck business of €1,864.3 million was slightly below the high level achieved in the previous year (Q1—Q3 2012: €1,897.5 million). Growing unit sales of warehouse trucks compensated almost entirely for the fall in counterbalance trucks. Revenue generated by the service business rose by 3.0 per cent to €1,452.4 million (Q1—Q3 2012: €1,409.6 million) on the back of a strong second and third quarter and was largely driven by rental and used truck business as well as resurgent demand for services.
>> TABLE 03

Revenue by product category *>> TABLE 03*

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
New business	587.9	620.3	–5.2 %	1,864.3	1,897.5	–1.7 %
Hydraulics	–	39.0	–100.0 %	–	131.7	–100.0 %
Service offering	494.4	468.9	5.4 %	1,452.4	1,409.6	3.0 %
After sales	295.9	284.9	3.8 %	866.5	852.8	1.6 %
Rental business	111.4	110.4	0.9 %	329.1	316.8	3.9 %
Used trucks	54.0	46.5	16.1 %	162.7	156.6	3.9 %
Other	33.1	27.1	22.4 %	94.2	83.3	13.0 %
Total	**1,082.3**	**1,128.3**	**–4.1 %**	**3,316.7**	**3,438.8**	**–3.5 %**
Revenue—excluding Hydraulics Business	**1,082.3**	**1,089.5**	**–0.7 %**	**3,316.7**	**3,307.8**	**0.3 %**

Revenue by customer location >> TABLE 04

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Western Europe	773.2	794.0	–2.6 %	2,385.4	2,459.2	–3.0 %
Eastern Europe	85.4	87.8	–2.7 %	261.6	255.4	2.4 %
Americas	68.6	79.3	–13.5 %	209.2	230.4	–9.2 %
Asia	116.4	119.8	–2.8 %	335.9	359.3	–6.5 %
Rest of world	38.7	47.4	–18.3 %	124.7	134.6	–7.3 %
Total revenue	**1,082.3**	**1,128.3**	**–4.1 %**	**3,316.7**	**3,438.8**	**–3.5 %**
Revenue—excluding Hydraulics Business	**1,082.3**	**1,089.5**	**–0.7 %**	**3,316.7**	**3,307.8**	**0.3 %**

Revenue broken down by customer location reflects the variation in economic conditions across the regions. The decline in the volume of business in western Europe was primarily attributable to the German market. In other western European countries, the KION Group raised revenue slightly and the overall decline slowed down in the third quarter.

In eastern Europe, the KION Group brand companies again achieved overall year-on-year revenue growth despite the very high level generated in 2012, although it was down slightly in the third quarter. While revenue in Asia fell overall, the decline slowed down in the third quarter. Bucking the negative regional trend, KION's revenue increased in Brazil, its largest market in the Americas.

The proportion of the Group's revenue generated outside Germany went up slightly, from 74.1 per cent to 75.0 per cent. The emerging markets accounted for 25.1 per cent of consolidated revenue, compared with 24.3 per cent in the first nine months of 2012. >> TABLE 04

Earnings

EBIT AND EBITDA

Total earnings before interest and tax (EBIT) amounted to €266.7 million, which was 3.0 per cent below the same period of the previous year (Q1—Q3 2012: €275.0 million). Excluding the hydraulics business (resulting in EBIT of €248.8 million for the first nine months of 2012), EBIT improved by 7.2 per cent thanks to the improved cost structure and price effects. One of the factors that depressed earnings was the cost of the IPO and the accompanying capital increases. Of the total costs of €29.9 million before tax, €8.6 million was recognised in expenses while the remaining transaction costs after tax were recognised as other comprehensive income (loss). Including the costs of the IPO and the capital increases, non-recurring items included in EBIT came to a loss of € 11.9 million (Q1—Q3 2012: income of € 10.4 million, adjusted for the hydraulics business).

The KION acquisition items relate to the acquisition of the KION Group, which was formed at the end of 2006 when it was spun off from Linde AG, Munich. The associated effects of the purchase price allocation equated to an expense of €22.3 million in the reporting period, compared with an expense of €27.4 million in the first nine months of 2012, and largely comprised depreciation, amortisation and impairment.

Adjusted EBIT, which excludes non-recurring items and KION acquisition items, amounted to €300.9 million, thereby exceeding the prior-year figure (Q1—Q3 2012: €291.9 million) by 3.1 per cent. The adjusted EBIT margin was 9.1 per cent, compared with 8.8 per cent in the first nine months of 2012. >> TABLE 05

EBIT*

>> TABLE 05

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Net income (+)/loss (–) for the period	11.0	8.7	26.3 %	81.3	34.6	>100.0 %
Income taxes	–7.4	–14.9	50.0 %	–3.1	–59.1	94.8 %
Financial result	–70.3	–56.0	–25.6 %	–182.4	–181.3	–0.6 %
EBIT	**88.8**	**79.6**	**11.5 %**	**266.7**	**275.0**	**–3.0 %**
+ Non-recurring items	4.7	10.9	–56.7 %	11.9	–10.4	>100.0 %
+ KION acquisition items	7.0	9.1	–23.3 %	22.3	27.4	–18.6 %
= Adjusted EBIT	**100.5**	**99.7**	**0.8 %**	**300.9**	**291.9**	**3.1 %**

* Key figures for 2012 were adjusted due to the retrospective application of IAS 19R (2011)

EBITDA was down by 2.9 per cent on the first nine months of 2013 at €516.0 million (Q1—Q3 2012: €531.3 million). Adjusted EBITDA amounted to €527.4 million, which was above the comparable figure of €508.8 million for the first three quarters of 2012 (excluding the hydraulics business). The adjusted EBITDA margin was 15.9 per cent, compared with 15.4 per cent in the prior-year period. >> TABLE 06

EBITDA*

>> TABLE 06

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
EBIT	88.8	79.6	11.5 %	266.7	275.0	–3.0 %
Amortisation and depreciation	82.6	87.9	–6.0 %	249.3	256.3	–2.7 %
EBITDA	**171.4**	**167.6**	**2.3 %**	**516.0**	**531.3**	**–2.9 %**
+ Non-recurring items	4.7	6.5	–26.8 %	11.0	–23.3	>100.0 %
+ KION acquisition items	–0.2	0.1	<–100.0 %	0.4	0.9	–53.9 %
= Adjusted EBITDA	**175.9**	**174.2**	**1.0 %**	**527.4**	**508.8**	**3.6 %**

* Key figures for 2012 were adjusted due to the retrospective application of IAS 19R (2011)

Condensed income statement of the KION Group*

>> TABLE 07

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Revenue	1,082.3	1,128.3	–4.1 %	3,316.7	3,438.8	–3.5 %
Cost of sales	–769.8	–818.6	6.0 %	–2,388.0	–2,482.0	3.8 %
Gross profit	**312.5**	**309.6**	**0.9 %**	**928.8**	**956.8**	**–2.9 %**
Selling expenses	–130.4	–134.8	3.3 %	–403.7	–409.4	1.4 %
Research and development costs	–30.0	–29.3	–2.2 %	–88.7	–91.4	2.9 %
Administrative expenses	–67.0	–79.8	16.0 %	–219.3	–226.3	3.1 %
Other	3.6	13.8	–74.0 %	49.7	45.3	9.8 %
Earnings before interest and taxes (EBIT)	**88.8**	**79.6**	**11.5 %**	**266.7**	**275.0**	**–3.0 %**
Net interest income/expenses	–70.3	–56.0	–25.6 %	–182.4	–181.3	–0.6 %
Earnings before taxes	**18.5**	**23.6**	**–21.9 %**	**84.4**	**93.7**	**–10.0 %**
Income taxes	–7.4	–14.9	50.0 %	–3.1	–59.1	94.8 %
Net income	**11.0**	**8.7**	**26.3 %**	**81.3**	**34.6**	**>100.0 %**

* Income statement for 2012 was adjusted due to the retrospective application of IAS 19R (2011)

KEY INFLUENCING FACTORS FOR EARNINGS

The cost of sales fell to €2,388.0 million (Q1—Q3 2012: €2,482.0 million). The favourable movement in commodity prices, the cost benefits derived from the successful restructuring of the production sites and the resulting increase in capacity utilisation failed to compensate in full for the effect on gross profit of the sale of the high-margin hydraulics business.

Administrative expenses decreased to €219.3 million in the period under review (Q1—Q3 2012: €226.3 million). The cost-cutting measures put in place began to take effect, particularly in the third quarter, and offset the costs of the IPO, which were recognised under administrative expenses.

The key influencing factors included under "Other" were as follows. Other income rose to €82.0 million (Q1—Q3 2012: €57.8 million). In addition to higher commission income compared with the first nine months of 2012, this item also included additional income of €8.1 million resulting from the sale of our controlling interest (70.0 per cent) in Linde Hydraulics GmbH & Co. KG.

Profit from equity-accounted investments fell from €15.5 million in the first nine months of 2012 to a loss of €0.3 million in the period ended 30 September 2013. In the course of the acquisition of the remaining 51.0 per cent of shares in Linde Creighton Ltd., Basingstoke (UK), income of €8.0 million was realised on the revaluation of the shares, which had been accounted for under the equity method in the first nine months of 2012. Conversely, a pro-rata loss of €9.2 million for the nine-month period, generated by Linde Hydraulics GmbH & Co. KG, was included in the overall loss from equity-accounted investments in 2013. This loss largely comprised the effects of the purchase price allocation. >> TABLE 07

NET FINANCIAL INCOME / EXPENSES

Net financial expenses increased slightly year on year, rising to €182.4 million (Q1—Q3 2012: €181.3 million). Third-quarter net financial expenses amounted to €70.3 million and were negatively affected by a number of non-recurring items. The long-term bank loans under the acquisition finance arrangements (Senior Facilities Agreement or SFA) were repaid in full from the proceeds of the IPO, part of the new credit facility and existing cash reserves. This, along with the early redemption of the 2011/2018 floating rate note, resulted in deferred borrowing costs of €19.1 million being recognised as an expense. In addition, interest-rate hedging instruments that had been used in the past for the acquisition finance arrangements, were ended, which led to an amount of €17.7 million being recognised under financial expenses in the third quarter of 2013. Adjusted for these non-recurring items, net financial expenses amounted to €33.5 million in the third quarter, compared with €56.0 million in the corresponding period of 2012. This sustained reduction in net financial expenses was due to conversion of the shareholder loan of €670.8 million provided by Superlift Holding S.à r.l. into equity at the end of 2012, full repayment of the acquisition financing and cheaper funding under the new credit facility.

INCOME TAXES

Income tax expenses of €59.1 million in the first three quarters of 2012 contrasted with expenses of €3.1 million in the reporting period. Current tax expenses fell to €41.3 million (Q1—Q3 2012: €50.1 million), largely owing to income tax refunds of €5.4 million from previous years. Whereas there had been deferred tax expenses of €9.0 million in the prior-year period, there was deferred tax income of €38.3 million in the first nine months of 2013. The main reason for this change was the profit-and-loss transfer agreement between KION Material Handling GmbH (formerly KION GROUP GmbH) and Linde Material Handling GmbH, which was signed in April 2013 and resulted in additional deferred tax assets of €47.9 million being recognised on tax loss carryforwards that it had not previously been possible to utilise. Of this amount, €20.0 million had been utilised by 30 September 2013.

NET INCOME

After taxes, net income amounted to €81.3 million, compared with €34.6 million in the first nine months of 2012. Pro-forma earnings per share for the period totalled €0.82, based on 98.9 million no-par-value shares (in accordance with IAS 33: €1.07).

Business situation and financial performance of the segments

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE LINDE MATERIAL HANDLING SEGMENT

Order intake in the Linde Material Handling segment came to €2,126.8 million in the first nine months of 2013, underpinning its leading position in Europe. However this was 5.3 per cent down on the figure achieved in the same period of last year of €2,245.0 million (excluding the hydraulics business) due to poorer economic conditions. The EVO models launched at the start of the year proved to be a positive factor and have been at the centre of sales activities since January 2013. A study has found that the EVO models are among the lowest-emission trucks. As a result, LMH not only fulfils the strict Level III B EU emissions standard in the load capacity range of 2.5—5.0 tonnes but also undercuts the defined threshold by some way.

Revenue in the Linde Material Handling segment stood at €2,131.5 million, decreasing by 1.9 per cent compared with the figure of €2,173.6 million (excluding the hydraulics business) for the corresponding period of 2012 largely owing to currency effects. However, it proved more stable than order intake. Adjusted EBIT totalled €231.1 million, which was significantly up on the adjusted prior-year result (Q1—Q3 2012: €221.8 million excluding the hydraulics business). The adjusted EBIT margin improved from 10.2 per cent to 10.8 per cent for the nine-month period ended 30 September 2013. *>> TABLE 08*

Quarterly information—LMH— *>> TABLE 08*

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Order intake[1]	773.1	772.3	0.1 %	2,126.8	2,245.0	–5.3 %
Revenue[1]	672.3	710.2	–5.3 %	2,131.5	2,173.6	–1.9 %
EBITDA	101.8	117.5	–13.4 %	328.4	369.1	–11.0 %
Adjusted EBITDA[1]	105.5	108.6	–2.8 %	332.7	320.1	4.0 %
EBIT	62.2	71.7	–13.2 %	208.2	236.9	–12.1 %
Adjusted EBIT[1]	71.7	74.1	–3.2 %	231.1	221.8	4.2 %
Adjusted EBITDA margin[1]	15.7 %	15.3 %	–	15.6 %	14.7 %	–
Adjusted EBIT margin[1]	10.7 %	10.4 %	–	10.8 %	10.2 %	–

1 Key figures for 2012 were in addition adjusted due to the Hydraulics Business

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE STILL SEGMENT

The STILL segment, which consists of the STILL and OM STILL brands, expanded its foothold in the Turkish market by acquiring 51.0 per cent in Arser, previously its exclusive dealer. The transaction was closed on 14 August 2013. The remaining 49.0 per cent of the shares are held by Turkey's Arkas Group.

Order intake continued to increase, rising by 2.3 per cent to €1,243.2 million (Q1—Q3 2012: €1,215.6 million). Revenue for the nine-month period advanced by 3.5 per cent year on year to €1,263.6 million. STILL registered encouraging gains in Brazil, although revenue was held back by negative currency effects. Bucking the general trend, STILL also generated growth in the German market.

Adjusted EBIT reached €82.0 million in the first nine months of 2013, which was slightly below the figure for the previous year (Q1—Q3 2012: €83.6 million). The EBIT margin stood at 6.5 per cent, a small decrease compared with the margin of 6.8 per cent in the first three quarters of 2012. >> TABLE 09

Quarterly information—STILL— >> TABLE 09

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Order intake	433.8	412.0	5.3 %	1,243.2	1,215.6	2.3 %
Revenue	421.1	402.8	4.5 %	1,263.6	1,221.0	3.5 %
EBITDA	53.1	47.2	12.5 %	149.2	143.0	4.4 %
Adjusted EBITDA	54.8	54.7	0.1 %	154.5	152.5	1.3 %
EBIT	28.0	21.7	29.2 %	72.5	68.6	5.7 %
Adjusted EBIT	31.2	31.3	–0.3 %	82.0	83.6	–1.9 %
Adjusted EBITDA margin	13.0 %	13.6 %	–	12.2 %	12.5 %	–
Adjusted EBIT margin	7.4 %	7.8 %	–	6.5 %	6.8 %	–

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE FINANCIAL SERVICES SEGMENT

As the central funding partner of the Linde Material Handling and STILL brand segments, the Financial Services segment benefited from increasing demand for lease finance, particularly in western Europe outside Germany. The revenue generated by external customers was up by 19.2 per cent on the first nine months of the previous year (€196.0 million) and stood at €233.5 million. There was also a small year-on-year rise in revenue of 1.1 per cent from the intra-group financing of the short-term rental fleets of the Linde Material Handling and STILL segments. Total revenue amounted to €384.8 million, significantly ahead of the same period in 2012 (Q1—Q3 2012: €345.6 million).

The segment's earnings before tax of €3.5 million equalled those in the first three quarters of 2012 (€3.5 million). Expressed as a proportion of equity as at 30 September, earnings before tax in the segment amounted to 9.0 per cent, which was unchanged on the previous year.

>> TABLE 10

Quarterly information—Financial Services— *>> TABLE 10*

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Order intake	129.8	124.4	4.4 %	384.8	345.6	11.3 %
Revenue	129.8	124.4	4.4 %	384.8	345.6	11.3 %
Adjusted EBITDA	17.3	15.8	9.9 %	48.5	44.3	9.4 %
Adjusted EBIT	0.0	0.4	–94.0 %	0.2	1.1	–82.3 %
EBT	1.1	1.3	–10.5 %	3.5	3.5	–2.3 %
Lease receivables[1]	812.5	720.5	12.8 %	812.5	720.5	12.8 %
Lease liabilities[2]	804.7	697.2	15.4 %	804.7	697.2	15.4 %
Net financial debt	184.0	158.0	16.4 %	184.0	158.0	16.4 %
Equity	38.6	39.2	–1.4 %	38.6	39.2	–1.4 %
Return on equity in %				9.0 %	9.0 %	–

1 Includes intra-group lease receivables
2 Includes liabilities from financing of the rental fleet reported as other financial liabilities

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE OTHER SEGMENT

Group head office functions that do not come under any other segment, plus the Voltas brand company, are reported in the Other segment. Consequently, earnings and revenue in the Other segment also include intra-group contributions from subsidiaries which are eliminated at Group level. In the first nine months of 2013, there was a slight year-on-year reduction in order intake and revenue, which fell by €3.8 million to €178.8 million. Adjusted EBIT for the nine months to 30 September 2013 came to €56.0 million, compared with €16.1 million a year earlier. This year-on-year increase was predominantly the result of far higher intra-group income from investments in the first three quarters of 2013. >> *TABLE 11*

Quarterly information—Other— >> *TABLE 11*

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Order intake	56.8	64.8	–12.4 %	178.8	182.6	–2.1 %
Revenue	56.8	64.8	–12.4 %	178.8	182.6	–2.1 %
EBITDA	71.7	3.1	>100.0 %	66.9	12.3	>100.0 %
Adjusted EBITDA	70.8	11.1	>100.0 %	68.6	29.4	>100.0 %
EBIT	67.9	–1.7	>100.0 %	54.3	–1.0	>100.0 %
Adjusted EBIT	66.9	6.4	>100.0 %	56.0	16.1	>100.0 %

Net assets

The KION Group's current assets again decreased considerably between 30 June and 30 September 2013. This was due to receipt of the entire share premium arising from the placement of the new shares, which was subsequently used to repay financial liabilities. At €1,707.9 million, current assets were also below the level as at 31 December 2012. Cash and cash equivalents are now at roughly the level required for operational activities, while the share premium arising from the placement of the new shares and the capital increase from Weichai (previously reported under Other current assets) was used in its entirety to repay the acquisition financing once the funds had been received on 2 July 2013.

There was very little change in non-current assets. The overall rise of 10.8 per cent in leased assets and in short-term and long-term lease receivables was attributable to the growth in business in the Financial Services segment. >> *TABLE 12*

Financial position

Main financing activities in the reporting period

Following completion of the main funding activities in the first nine months of 2013, the KION Group can report a healthy equity ratio of 26.4 per cent. As at the reporting date, net debt was roughly 1.5 times adjusted EBITDA for the past twelve months (excluding the hydraulics business) and was underpinned by a far lower level of long-term financial debt with a generous maturity profile and advantageous con-

Condensed balance sheet, assets* >> *TABLE 12*

in € million	30/09/2013	in %	31/12/2012	in %	Change
Non-current assets	**4,266.0**	**71.4 %**	**4,231.0**	**68.1 %**	**0.8 %**
thereof:					
Goodwill	1,474.9	24.7 %	1,473.2	23.7 %	0.1 %
Brand names	594.9	10.0 %	593.9	9.6 %	0.2 %
Deferred tax assets	272.4	4.6 %	264.9	4.3 %	2.8 %
Rental assets	402.4	6.7 %	395.1	6.4 %	1.9 %
Leased assets	211.5	3.5 %	191.3	3.1 %	10.5 %
Lease receivables	300.7	5.0 %	267.1	4.3 %	12.6 %
Current assets	**1,707.9**	**28.6 %**	**1,982.2**	**31.9 %**	**–13.8 %**
thereof:					
Inventories	586.5	9.8 %	549.9	8.9 %	6.7 %
Trade receivables	609.8	10.2 %	625.5	10.1 %	–2.5 %
Lease receivables	142.2	2.4 %	132.1	2.1 %	7.7 %
Other current assets	130.4	2.2 %	106.8	1.7 %	22.1 %
Cash	230.6	3.9 %	562.4	9.1 %	–59.0 %
Total assets	**5,973.9**		**6,213.2**		**–3.9 %**

* Balance sheet for 2012 was adjusted due to the retrospective application of IAS 19R (2011)

ditions. The funding arrangements therefore also contribute to the Company's stable basis for growth.

In connection with the IPO, the KION Group had agreed a new revolving credit facility with a group of banks for €995.0 million with a term to maturity of five years after the IPO. Combined with the lower margins, this credit facility offers more favourable credit terms in line with those typically available to comparable listed companies.

On 2 July 2013, the outstanding proceeds were received from the share premium arising from the placement of the new shares and the capital increase from Weichai Power. They totalled €710.9 million (after deduction of banking fees amounting to €701.6 million).

These proceeds, along with part of the new credit facility and existing cash reserves, was used to repay in full the long-term bank loans under the acquisition finance arrangements (Senior Facilities Agreement or SFA) of €1,078.1 million in July 2013. In addition, the floating rate note, which was due to mature in 2018 and amounted to €175.0 million, was repaid in full.

On 28 August 2013, KION GROUP AG began to buy treasury shares for an employee share programme. By 30 September 2013, it held 200,000 treasury shares, funded from a total of €5.6 million in cash and cash equivalents.

Analysis of capital structure

Equity

After capital increases in the first half of the year, the KION Group's equity changed only marginally in the third quarter. As at 30 September 2013, it amounted to €1,574.5 million, which was far higher than the figure of €660.7 million reported at the end of 2012. The reduction in debt in the third quarter caused the equity ratio to rise to 26.4 per cent as at 30 September 2013, compared with 10.6 per cent as at 31 December 2012 and 22.7 per cent as at 30 June 2013. >> TABLE 13

Condensed balance sheet, equity and liabilities* >> TABLE 13

in € million	30/09/2013	in %	31/12/2012	in %	Change
Equity	**1,574.5**	**26.4 %**	**660.7**	**10.6 %**	**>100.0 %**
Non-current liabilities	**2,562.9**	**42.9 %**	**3,929.0**	**63.2 %**	**–34.8 %**
thereof:					
Corporate bond	957.1	16.0 %	489.5	7.9 %	95.5 %
Financial liabilities	3.8	0.1 %	1,811.2	29.2 %	–99.8 %
Deferred tax liabilities	293.5	4.9 %	308.8	5.0 %	–5.0 %
Lease liabilities	367.6	6.2 %	329.2	5.3 %	11.7 %
Current liabilities	**1,836.4**	**30.7 %**	**1,623.5**	**26.1 %**	**13.1 %**
thereof:					
Financial liabilities	326.3	5.5 %	51.8	0.8 %	>100.0 %
Trade payables	556.5	9.3 %	646.0	10.4 %	–13.9 %
Lease liabilities	172.7	2.9 %	145.8	2.3 %	18.4 %
Total equity and liabilities	**5,973.9**		**6,213.2**		**–3.9 %**

* Balance sheet for 2012 was adjusted due to the retrospective application of IAS 19R (2011)

Financial debt

Since full repayment of the acquisition finance of €1,078.1 million and the floating rate note with a volume of €175.0 million, the KION Group's long-term borrowing has comprised two secured corporate bonds with a total volume of €975.0 million. A senior secured bond with a total volume of €650.0 million and a maturity date of 2020 was issued in February 2013. It consists of a fixed-rate tranche of €450.0 million and a floating-rate tranche of €200.0 million. The fixed-rate tranche of a bond issued in 2011, which has a volume of €325.0 million and a maturity date of 2018, remains unchanged.

Excluding guarantees and other loan obligations from foreign subsidiaries, €300.0 million was drawn down from the newly agreed revolving credit facility of €995.0 million in the third quarter. Of the amount drawn down, €30.0 million was paid back soon after, resulting in a current financial liability as at 30 September of €270.0 million. As at 30 September 2013, the KION Group had unused loan facilities worth €784.1 million that it could draw down at short notice.

After deduction of cash and cash equivalents, the remaining net financial debt came to €1,056.6 million as at 30 September 2013 (31 December 2012: €1,790.1 million). This included borrowing costs of €17.9 million (31 December 2012: €34.1 million). *>> TABLE 14*

Net financial debt *>> TABLE 14*

in € million	30/09/2013	31/12/2012	Change
Corporate bond—fixed rate (2011/2018)—gross	325.0	325.0	–
Corporate bond—floating rate (2011/2018)—gross	–	175.0	–100.0 %
Corporate bond—fixed rate (2013/2020)—gross	450.0	–	–
Corporate bond—floating rate (2013/2020)—gross	200.0	–	–
Liabilities to banks (gross)	325.1	1,882.1	–82.7 %
Liabilities to non-banks (gross)	5.0	4.5	11.9 %
./. Capitalised borrowing costs	–17.9	–34.1	47.5 %
Financial debt	**1,287.2**	**2,352.4**	**–45.3 %**
./. Cash and cash equivalents	–230.6	–562.4	59.0 %
Net financial debt	**1,056.6**	**1,790.1**	**–41.0 %**

Capital expenditure

Capital expenditure amounted to €79.2 million in the first nine months of the year, which was down by 18.1 per cent on the same period of 2012 (Q1—Q3 2012: €96.8 million). In both the Linde Material Handling and STILL segments, the volume was below that of the comparable prior-year period, which had still included the hydraulics business.

Analysis of liquidity

Net cash provided by the KION Group's operating activities totalled €136.4 million (Q1—Q3 2012: €135.1 million). The improvement in cash flow from operating activities was achieved despite the fact that the previous year's figure included the net cash provided by the hydraulics business and that EBITDA declined in the reporting period.

Net cash used for investing activities amounted to €68.7 million (Q1—Q3 2012: net cash used of €96.2 million). This was attributable to lower capital expenditure in the Linde Material Handling and STILL segments, although the hydraulics business had still been included in the figure for the first nine months of 2012. The net cash used for the acquisition of the Arser Group in Turkey amounted to €3.9 million (after deduction of the cash received). In the first nine months of 2012, €9.7 million of the outflow of funds was attributable to the acquisition of a majority stake in Linde Creighton. Free cash flow in the reporting period was €67.7 million, which was substantially higher than in the first nine months of 2012 (€38.9 million). The cash flow from financing activities amounted to minus €395.1 million. Financial debt increased by €649.0 million due to the issuance of the senior secured bond in February 2013. Excluding guarantees and other loan obligations from foreign subsidiaries, €270.0 million had also been drawn down from the new revolving credit facility as at 30 September 2013. As a result of the capital increases from Weichai and the IPO at the end of June 2013, the capital contributions made up to 30 September totalled €741.8 million. In total, these transactions plus funds drawn from existing cash enabled the repayment of financial liabilities of €1,732.3 million relating to the Senior Facilities Agreement (SFA) as well as the early redemption of the 2011/2018 floating rate note amounting to €175.0 million. In the third quarter, 200,000 treasury shares worth €5.6 million were purchased on the stock exchange for the new employee share programme. The cash payments of €27.3 million arising from other financing activities (Q1—Q3 2012: €7.0 million) included costs of €42.3 million (Q1—Q3 2012: €13.5 million) incurred in connection with the debt and equity transactions mentioned above. Regular interest payments were €9.8 million higher than in the first nine months of 2012 and amounted to €97.4 million in the reporting period. These interest payments included a non-recurring outflow of funds of €14.4 million resulting from the termination of interest-rate hedging instruments in connection with the previous acquisition finance arrangements. Cash flow from financing activities in the first three quarters of 2012 (minus €257.0 million) was also largely attributable to the repayment of loans. The positive free cash flow and the existing cash from 2012 were predominantly used for the repayments. Overall, this resulted in a sharp contraction in cash and cash equivalents, which fell from €562.4 million as at the end of 2012 to €230.6 million as at 30 September 2013. >> TABLE 15

Condensed cash flow statement >> TABLE 15

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
EBIT	88.8	79.6	11.5 %	266.7	275.0	–3.0 %
Cash flow from operating activities	80.5	66.4	21.2 %	136.4	135.1	1.0 %
Cash flow from investing activities	–28.3	–35.6	20.6 %	–68.7	–96.2	28.6 %
Free cash flow	**52.2**	**30.8**	**69.5 %**	**67.7**	**38.9**	**74.3 %**
Cash flow from financing activities	–336.5	–55.1	<–100.0 %	–395.1	–257.0	–53.7 %
Currency effects on cash	–2.8	1.2	<–100.0 %	–4.3	3.3	<–100.0 %
Change in cash and cash equivalents	**–287.1**	**–23.1**	**<–100.0 %**	**–331.7**	**–214.9**	**–54.4 %**

EMPLOYEES

At 21,819, the number of people employed by the KION Group was slightly higher than at the end of 2012 (21,215), by which date the employees in the hydraulics division were already no longer included. The number of service and sales jobs rose while the headcount in production fell slightly. A regional breakdown shows particularly strong growth in the number of employees in the emerging markets and as a result of the acquisition of Arser in Turkey (+122). *>> TABLE 16*

Employees (full-time equivalents) *>> TABLE 16*

	30/09/2013	31/12/2012	Change
Western Europe	15,490	15,078	2.7 %
Eastern Europe	1,669	1,632	2.3 %
Americas	632	580	9.0 %
Asia	3,460	3,376	2.5 %
Rest of world	568	549	3.5 %
Total	**21,819**	**21,215**	**2.8 %**

RESEARCH & DEVELOPMENT

The KION Group aims to increase customer benefits in all price segments by introducing innovative drive systems, advanced ergonomics, intelligent intralogistics solutions and other developments while underpinning its leading position in the premium segment. To achieve these aims, the KION Group spends a substantial portion of its revenue on research and development (R&D).

In the first nine months of 2013, this spending amounted to €85.5 million, which was almost as much as in the comparative period of the previous year (Q1—Q3 2012: €86.2 million). Total expenditure equated to 2.6 per cent of total revenue, representing a slight year-on-year increase.

In the first nine months, total expenditure included depreciation and amortisation in the amount of €34.1 million (Q1—Q3 2012: €40.5 million), while development costs of €30.9 million (Q1—Q3 2012: €35.3 million) were capitalised. The number of full-time jobs in R&D teams stood at 919 as at 30 September 2013 (31 December 2012: 847), of which 249 jobs were in China. >> TABLE 17

Total R&D spending >> TABLE 17

in € million	Q3 2013	Q3 2012	Change	Q1—Q3 2013	Q1—Q3 2012	Change
Research and development costs (P&L)	30.0	29.3	2.2 %	88.7	91.4	–2.9 %
Amortisation expense	–11.8	–13.6	13.4 %	–34.1	–40.5	15.7 %
Capitalised development costs	10.0	12.2	–18.1 %	30.9	35.3	–12.5 %
Total R&D spending	**28.2**	**28.0**	**0.9 %**	**85.5**	**86.2**	**–0.8 %**
R&D spending as percentage of revenue	2.6 %	2.5 %	–	2.6 %	2.5 %	–

EVENTS AFTER THE REPORTING DATE

Between the reporting date of these interim financial statements and 8 November 2013, there were no events or developments that would have led to a material change in the recognition or measurement of the individual assets and liabilities reported as at 30 September 2013 or that it would be necessary to disclose.

OPPORTUNITY AND RISK REPORT

The financial risks to which the KION Group is exposed, as presented in the 2012 group management report for the former KION Holding 1 GmbH, have diminished considerably because its equity has been boosted, financial liabilities have been repaid and its debt maturity profile has again been lengthened.

Otherwise, there were only marginal changes in the risks and opportunities relating to the KION Group compared with the 2012 group 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.

OUTLOOK

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. Any unexpected developments in the global economy would result in the KION Group'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.

Expected macroeconomic conditions

According to the IMF's World Economic Outlook in October 2013, global economic growth in 2013 will be slightly below the 2012 level. A growth rate of 2.9 per cent is now forecast for the year as a whole, despite the fact that growth of 3.5 per cent had been anticipated for 2013 at the end of 2012. Economic output in the eurozone is expected to show a fall of 0.4 percentage points. The 2013 growth forecasts for the BRIC countries were also lowered over the course of the year. Nevertheless, growth prospects remain good, especially in China.

The forecast for economic conditions is based on the assumption that monetary and fiscal policy will support the global economy. There are also considerable risks resulting, in particular, from the sovereign debt problems in the eurozone and United States, the tightening of public finances and the possibility of destabilisation in financial markets.

Expected sectoral conditions

The overall market for industrial trucks depends on the economic environment in the sales markets combined with specific regional factors, with the level of capital investment and growth in the volume of world trade being particularly crucial. Fuelled by strong demand in China and the United States, the global market for industrial trucks continued to pick up over the first nine months of 2013, growing by around 5.0 per cent. The KION Group therefore expects to see a slight recovery in demand for 2013 as a whole, compared with 2012.

China, the United States, eastern Europe and Brazil are the sales markets that are expected to drive growth, although China is likely to grow at a slightly slower rate than the medium-term historical trend. Based on developments over the first nine months, demand is predicted to be largely stable in western Europe, predominantly as a result of old trucks being replaced.

Expected business situation and financial performance

Nine months on, the KION Group essentially reaffirms the forecasts made in the group management report. Nevertheless, economic and sectoral conditions remain challenging. Despite negative currency effects and subdued demand in western Europe, the KION Group anticipates that revenue for 2013 as a whole will be at roughly the same level as in the previous year (excluding the hydraulics business). It had expected a moderate increase at the end of 2012. Given the cost-cutting measures implemented, this is not expected to have any significant impact on the financial performance or financial position of the KION Group. Provided there is no significant downturn in the macroeconomic environment in the fourth quarter, the KION Group stands by its forecast for the year, and its objectives of moderate rises in adjusted EBIT and the EBIT margin (both excluding the hydraulics business) remain unchanged.

For the year as a whole, the service business is expected to contribute over 40.0 per cent of revenue, which is slightly more than was forecast at the end of 2012.

The reduction in borrowings should also be reflected in a rise in net income. In departure from the forecast for a small net income at the end of 2012, the KION Group now expects net income to be much higher, partly due to non-recurring items arising from the capitalisation of deferred taxes.

Expected financial position

By using the issue proceeds (net of bank charges) and other cash and drawings under the new revolving credit facility to repay borrowings in July, the KION Group greatly improved its funding structure compared with the end of 2012.