Interim group management report

FUNDAMENTALS OF THE KION GROUP

Management and control

At the Annual General Meeting on 12 May 2015, Birgit Behrendt and Xu Ping were elected as new members of the Supervisory Board for the period up to the 2017 Annual General Meeting. They had both been temporarily appointed to the Supervisory Board with effect from 1 January 2015 following the departure of Silke Scheiber and Dr Martin Hintze from the Supervisory Board on 31 December 2014.

Dr Eike Böhm was appointed to the Executive Board in the new role of Chief Technology Officer (CTO) with effect from 1 August 2015. In this function, he holds groupwide responsibility for research and development (R&D), quality and procurement. By comprehensively restructuring R&D in this way, the KION Group aims to harness the full potential of cross-brand synergies in product development.

Wolfgang Faden was appointed as a new member of the Supervisory Board with effect from 1 August 2015. He succeeds Johannes Huth, a member of the Executive Committee of Kohlberg Kravis Roberts & Co. Partners LLP. Huth had stepped down from his post on 31 July 2015 after KION Group AG shares held in funds advised by KKR had been sold in full.

There were no other changes to the membership of the Executive Board and Supervisory Board in the third quarter.

Strategy of the KION Group

With its Strategy 2020, the KION Group wants to close the gap with its biggest competitor in terms of size and market penetration and, at the same time, to further strengthen its position as a supplier of material handling solutions. Furthermore, the KION Group aims to improve its EBIT margin so that it is permanently in the double digit range – a target that remains unchanged in communications since the IPO. In addition, yet more efficient use of capital should help the KION Group to remain highly profitable, even in the event of economic downturn. To this end, the KION Group is building on its successful multi-brand approach underpinned by a comprehensive module and platform strategy, strengthening its presence in the United States and in key growth markets, such as China, and expanding its already very strong service business.

The KION Group continued to forge ahead with this strategy in the third quarter. Following the successful completion of its acquisition of Egemin Automation, the KION Group can now offer automated end-to-end logistics solutions, which will become hugely important in the context of Industry 4.0. Collaboration between Egemin Automation and the other brands in the KION Group is also being stepped up in order to create a comprehensive portfolio of automated trucks in volume production along with standard automation concepts. Furthermore, the KION Group's investment in its core Linde and STILL plants in Aschaffenburg and Hamburg and the construction of a new factory in the Czech Republic are generating lasting increases in the Group's efficiency and competitiveness.

Further details on the Strategy 2020 can be found in the 2014 group management report. The company profile and description of the management system in that report also continue to apply without change.

The segments and their products and services

The subsidiary KION India (formerly Voltas Material Handling Pvt. Ltd.) was integrated into the LMH segment with effect from 1 January 2015. Previously the entity was in the Other segment. Egemin Automation has been included in the Other segment since completion of the acquisition on 7 August 2015.

REPORT ON THE ECONOMIC POSITION

Macroeconomic and sector-specific conditions

MACROECONOMIC CONDITIONS

The global economy continued to expand at only a moderate pace in the third quarter. This can mainly be attributed to weaker growth in emerging markets that, in recent years, have benefited from demand from China and the boom in commodities. Russia and Brazil are particularly affected by this trend.

The eurozone continued along its path of recovery, mainly thanks to Germany's positive economic performance. In the United States, the economy also saw moderate growth. Nonetheless, the US Federal Reserve decided against an interest rate hike in September in view of the uncertainty in international financial markets.

The situation deteriorated in emerging markets. Trade was held back by falling commodity prices and, in particular, faltering demand from China. Growth in other emerging markets of Asia also slowed significantly. Moreover, increasing fears about the Chinese economy and the country's high debt levels caused stock market prices to slump, in turn leading to government intervention.

SECTORAL CONDITIONS

Sales markets

The global market for industrial trucks contracted slightly in the third quarter. Compared with the first nine months of 2014, however, the number of trucks ordered rose by 1.6 per cent.

The number of trucks ordered in western Europe climbed by 10.7 per cent in the first nine months of 2015, although market growth slowed to 6.2 per cent in the third quarter. Italy and Spain continued to benefit from pent-up demand, registering above-average rises in truck sales. The United Kingdom and France also saw double-digit increases. Germany, however, which is the largest individual market, was below the average for western Europe as a whole.

Orders in eastern Europe (excluding Russia) went up by 5.5 per cent in the first nine months of the year. The Russian market continued on its steep downward trajectory, contracting by 42.2 per cent.

The North American market remained buoyant in the third quarter. It achieved growth of 10.8 per cent compared with the first nine months of the previous year. Central and South America continued to decline (down by 9.3 per cent), with Brazil – the largest individual market in the region – registering a decrease of 41.6 per cent.

Orders in China were down by 12.3 per cent compared with the first nine months of 2014, contributing to the reduction of 4.8 per cent in the Asian market as a whole.

The slowdown in growth in the overall market during the reporting period was attributable to diesel truck orders (down by 8.6 per cent), which were particularly affected by falling demand from China. By contrast, there was a substantial rise in orders for electric forklift trucks (up by 7.2 per cent) and warehouse trucks (up by 11.3 per cent) in the first three quarters of the year. > TABLE 02

Global industrial truck market (order intake) TABLE 02

in thousand units	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
Western Europe	69.9	65.8	6.2%	237.5	214.4	10.7%
Eastern Europe	14.2	15.6	–8.5%	39.1	44.5	–12.1%
North America	54.5	49.7	9.7%	172.1	155.3	10.8%
Central & South America	10.7	12.5	–14.1%	32.3	35.7	–9.3%
Asia (excl. Japan)	77.9	86.9	–10.4%	257.9	276.3	–6.7%
Rest of world	27.2	30.1	–9.5%	91.0	90.6	0.4%
World	**254.4**	**260.5**	**–2.3%**	**829.9**	**816.8**	**1.6%**

Source: WITS/FEM

Procurement markets and conditions in the financial markets

Commodity prices fell overall in the first nine months of 2015. The price of steel, the most important raw material, was at a low level as a result of the muted economic growth and the slowdown in China. Having rallied briefly in the middle of the year, copper prices dropped again to prior-year levels in the third quarter. The price of crude oil was also far lower than it had been a year earlier.

Currency markets have been very volatile over the year so far. Despite steadying in the third quarter, the euro depreciated over the nine-month period. This impacted positively on the KION Group's order intake and revenue but also pushed up costs. Against the Chinese renminbi, the euro was approximately 17 per cent lower on average than in the first nine months of 2014 although a countervailing trend emerged in August. The pound sterling appreciated by 10 per cent on average, whereas the Brazilian real depreciated by 14 per cent.

Business performance

The KION Group further strengthened its market position in the first nine months of 2015 by making strategic acquisitions.

With effect from 7 August 2015, the KION Group completed its acquisition of the logistics automation division of Belgian automation specialist Agidens International NV (formerly the Egemin Group). Egemin Automation has become the seventh brand in the KION Group and is included in the Other segment. Fully consolidated from August 2015, Egemin Automation has not yet had a material effect on the segment's business situation or financial performance.

Back in February, Linde Material Handling (LMH) had acquired 10.0 per cent of the shares in robotics specialist Balyo and entered into a strategic partnership.

On 20 July 2015, the KION Group exercised the put option vis-à-vis Weichai Power that it holds via LMH on 20.0 per cent of the shares in Linde Hydraulics. The transaction, which will reduce LMH's stake in Linde Hydraulics to 10.0 per cent, had not been completed by the reporting date of 30 September 2015, which meant the shares continued to be recognised as assets held for sale.

Financial position and financial performance

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

The KION Group can look back on a strong performance in the first nine months of 2015. Supported by the implementation of the Strategy 2020 as planned and the positive situation in the core European markets, the Group generated higher growth in its new truck business than the overall global market and continued to expand its service business in all three quarters.

Each operating segment increased not only its order intake but also its revenue and, even adjusted for favourable currency effects, achieved year-on-year improvements.

Adjusted EBIT advanced by 7.2 per cent compared with the corresponding period of 2014, while revenue rose by 8.4 per cent. Earnings per share climbed to €1.44, up from €1.19 in the first three quarters of 2014. Nine months into the year, the KION Group is well on course to achieve the targets that it has set for its KPIs for 2015 as a whole.

Level of orders

In the third quarter, the KION Group's new truck business maintained the dynamism of the first six months of the year. Order intake rose by 9.5 per cent or €330.8 million to €3,818.5 million in the first three quarters of 2015. Both operating segments contributed to this rise, with LMH registering the stronger increase of the two. There were also positive currency effects of €99.0 million.

The number of trucks ordered increased to 122.4 thousand, which was 6.2 per cent higher than in the first nine months of 2014. The KION Group's growth thus significantly outstripped that of the global market as a whole. Overall, the KION Group slightly improved its market position in its home market of Europe. In China, too, demand was up for products from KION brand companies in the first nine months of the year, whereas the market as a whole continued to decline. This increase was due, above all, to successful sales of warehouse trucks. The order book amounted to €968.6 million, a rise of 26.8 per cent on the value at the end of last year (31 December 2014: €764.1 million).

Revenue

The 8.4 per cent increase in revenue to €3,657.2 million (Q1 – Q3 2014: €3,372.3 million) was attributable to both new truck business and service business. There were also positive currency effects of €91.5 million.

The revenue from new trucks was up by 9.9 per cent to €1,971.2 million (Q1 – Q3 2014: €1,793.8 million), with all product segments registering improvements. Revenue from the service business advanced by 6.8 per cent to reach €1,686.0 million (Q1 – Q3 2014: €1,578.5 million). This growth was attributable both to the rising volume of servicing and maintenance work under service agreements and to a higher number of ad-hoc orders. There was also a marked increase in short-term rental business compared with the first nine months of 2014. Overall, the service business generated 46.1 per cent of the KION Group's total revenue (Q1 – Q3 2014: 46.8 per cent). > TABLE 03

Broken down by region, the increase in revenue was mainly attributable to the western European sales markets. There were also rises in eastern Europe, China and the United States. Revenue in South America decreased owing to the weak market situation. The growth markets outside western Europe together accounted for 24.9 per cent of consolidated revenue (Q1 – Q3 2014: 24.4 per cent). The proportion generated outside Germany came to 74.7 per cent (Q1 – Q3 2014: 73.9 per cent). > TABLE 04

Revenue by product category

TABLE 03

in € million	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
New business	654.2	602.4	8.6%	1,971.2	1,793.8	9.9%
Service business	582.3	536.6	8.5%	1,686.0	1,578.5	6.8%
- Aftersales	334.3	315.3	6.0%	992.0	923.7	7.4%
- Rental business	132.7	123.2	7.7%	389.2	360.1	8.1%
- Used trucks	65.7	61.9	6.1%	193.7	194.5	–0.4%
- Other	49.5	36.2	36.9%	111.1	100.2	10.9%
Total revenue	**1,236.5**	**1,139.0**	**8.6%**	**3,657.2**	**3,372.3**	**8.4%**

Revenue by customer location

TABLE 04

in € million	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
Western Europe	913.6	819.6	11.5%	2,677.0	2,468.7	8.4%
Eastern Europe	101.6	97.1	4.5%	296.7	276.5	7.3%
Americas	58.3	62.0	–5.9%	188.8	178.8	5.5%
Asia	127.2	125.1	1.7%	385.3	337.9	14.0%
Rest of world	35.9	35.1	2.1%	109.4	110.4	–0.8%
Total revenue	**1,236.5**	**1,139.0**	**8.6%**	**3,657.2**	**3,372.3**	**8.4%**

Earnings

EBIT and EBITDA

Earnings before interest and tax (EBIT) increased by 22.1 per cent year on year to reach €290.2 million (Q1–Q3 2014: €237.7 million), although the prior-year figure had included a €32.0 million impairment charge on the stake held in Linde Hydraulics. Like-for-like adjusted EBIT excluding non-recurring items and KION acquisition items improved by 7.2 per cent to €331.0 million (Q1–Q3 2014: €308.7 million). Overall, the marked improvement in gross profit (up by 9.6 per cent) was partly cancelled out by increased selling expenses, administrative expenses and development costs. At 9.1 per cent, the adjusted EBIT margin remained at almost the same level as in the prior-year period (Q1–Q3 2014: 9.2 per cent). > TABLE 05

Earnings before interest, tax, depreciation and amortisation (EBITDA) reached €581.6 million, compared with €507.4 million in the prior-year period. Adjusted EBITDA rose to €599.9 million (Q1–Q3 2014: €560.8 million). This equates to an adjusted EBITDA margin of 16.4 per cent (Q1–Q3 2014: 16.6 per cent). > TABLE 06

EBIT TABLE 05

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
Net income for the period	49.5	58.0	–14.7%	143.8	118.6	21.2%
Income taxes	–34.3	–29.8	–15.2%	–78.2	–57.2	–36.8%
Net financial expenses	–24.9	18.7	<–100%	–68.2	–61.8	–10.3%
EBIT	**108.8**	**69.1**	**57.3%**	**290.2**	**237.7**	**22.1%**
+ Non-recurring items	5.9	37.5	–84.4%	20.5	47.0	–56.4%
+ KION acquisition items	6.6	5.2	26.8%	20.3	24.1	–15.8%
Adjusted EBIT	**121.2**	**111.8**	**8.4%**	**331.0**	**308.7**	**7.2%**
Adjusted EBIT margin	9.8%	9.8%	–	9.1%	9.2%	–

EBITDA TABLE 06

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
EBIT	108.8	69.1	57.3%	290.2	237.7	22.1%
Amortisation and depreciation	98.3	90.0	9.3%	291.3	269.7	8.0%
EBITDA	**207.1**	**159.1**	**30.2%**	**581.6**	**507.4**	**14.6%**
+ Non-recurring items	4.9	37.0	–86.6%	18.4	46.1	–60.1%
+ KION acquisition items	–0.0	0.0	<–100%	0.0	7.4	–99.6%
Adjusted EBITDA	**212.0**	**196.0**	**8.1%**	**599.9**	**560.8**	**7.0%**
Adjusted EBITDA margin	17.1%	17.2%	–	16.4%	16.6%	–

Key influencing factors for earnings

The cost of sales increased by 8.0 per cent to €2,580.2 million (Q1–Q3 2014: €2,390.0 million), slightly below the rate of growth in revenue. Gross profit totalled €1,077.1 million (Q1–Q3 2014: €982.3 million). Selling expenses grew by 5.3 per cent to €443.2 million (Q1–Q3 2014: €421.0 million) and thus rose to a lesser extent than revenue. The sharp increase in development costs to €106.1 million (Q1–Q3 2014: €87.8 million) was a clear indication of the higher expenses required to implement the Strategy 2020, particularly with regard to innovations in drive technology and the global platform strategies. Administrative expenses were also affected by the Strategy 2020, climbing by 10.3 per cent to €261.0 million (Q1–Q3 2014: €236.6 million). In addition, currency effects and changes to collective bargaining agreements contributed to a rise in the individual functional divisions. The 'Other' item was higher than in the first nine months of 2014 at a positive €23.4 million (Q1–Q3 2014: €0.8 million). This included the share of profit (loss) of equity-accounted investments, which amounted to a profit of €7.8 million (Q1–Q3 2014: loss of €31.5 million). The prior-year figure had contained an impairment charge of €32.0 million on the stake held in Linde Hydraulics. Furthermore, the negative contribution to earnings from Linde Hydraulics was lower than in the first nine months of the previous year. > TABLE 07

Net financial income/expenses

There was a significant improvement in the balance of financial income and financial expenses, leading to net financial expenses of €68.2 million compared with a prior-year figure (adjusted for non-recurring items) of €81.6 million. The main factor here was the optimisation of the funding structure in 2014. The net financial expenses of €61.8 million reported for the first nine months of last year had included financial income from the remeasurement of options in connection with Linde Hydraulics (€43.0 million) and financial expenses of €23.2 million incurred by the early repayment of two tranches of the corporate bonds.

Income taxes

Income tax expenses totalled €78.2 million (Q1–Q3 2014: €57.2 million). This increase was primarily due to the rise in earnings. The tax rate was 35.2 per cent (Q1–Q3 2014: 32.5 per cent).

(Condensed) income statement TABLE 07

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
Revenue	1,236.5	1,139.0	8.6%	3,657.2	3,372.3	8.4%
Cost of sales	–867.5	–800.4	–8.4%	–2,580.2	–2,390.0	–8.0%
Gross profit	**369.0**	**338.6**	**9.0%**	**1,077.1**	**982.3**	**9.6%**
Selling expenses	–148.5	–138.3	–7.3%	–443.2	–421.0	–5.3%
Research and development costs	–35.4	–29.7	–19.3%	–106.1	–87.8	–20.8%
Administrative expenses	–82.9	–80.8	–2.6%	–261.0	–236.6	–10.3%
Other	6.6	–20.6	>100%	23.4	0.8	>100%
Earnings before interest and taxes (EBIT)	**108.8**	**69.1**	**57.3%**	**290.2**	**237.7**	**22.1%**
Net financial expenses	–24.9	18.7	<–100%	–68.2	–61.8	–10.3%
Earnings before taxes	**83.8**	**87.8**	**–4.6%**	**222.0**	**175.8**	**26.3%**
Income taxes	–34.3	–29.8	–15.2%	–78.2	–57.2	–36.8%
Net income for the period	**49.5**	**58.0**	**–14.7%**	**143.8**	**118.6**	**21.2%**

Net income for the period

The KION Group's net income after taxes reached €143.8 million, a year-on-year increase of 21.2 per cent (Q1 – Q3 2014: €118.6 million). Diluted and basic earnings per share for the reporting period rose to €1.44 (Q1 – Q3 2014: €1.19).

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE SEGMENTS

Linde Material Handling segment

Order intake in the Linde Material Handling (LMH) segment amounted to €2,579.3 million in the first nine months of 2015, an increase of 13.5 per cent. Of this rise, €24.0 million was attributable to KION India, which has been part of the LMH segment since the start of the year. The growing number of orders in western Europe and China played a part, too. Positive currency effects also helped to boost the volume of orders.

Segment revenue, which also contained positive currency effects, advanced by 10.1 per cent compared with the first nine months of 2014, reaching €2,463.0 million (Q1 – Q3 2014: €2,237.5 million). The main influencing factor was the increase in new truck business, a trend that was primarily attributable to rising sales of warehouse trucks and electric forklift trucks in western Europe. There was also growth across all areas of the service business, with particularly sharp rises in after-sales and rental business. Adjusted EBIT amounted to €267.8 million, which was higher than the figure for the first nine months of last year (Q1 – Q3 2014: €241.1 million) owing to the increase in revenue. The adjusted EBIT margin was 10.9 per cent (Q1 – Q3 2014: 10.8 per cent). > TABLE 08

Key figures – LMH – TABLE 08

in € million	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
Order intake*	818.4	714.3	14.6%	2,579.3	2,271.5	13.5%
Revenue	812.8	760.8	6.8%	2,463.0	2,237.5	10.1%
EBITDA	133.0	81.3	63.5%	379.2	308.4	22.9%
Adjusted EBITDA	134.5	115.6	16.4%	383.4	353.0	8.6%
EBIT	88.5	43.4	>100%	246.2	180.1	36.8%
Adjusted EBIT	95.7	82.8	15.5%	267.8	241.1	11.0%
Adjusted EBITDA margin	16.6%	15.2%	–	15.6%	15.8%	–
Adjusted EBIT margin	11.8%	10.9%	–	10.9%	10.8%	–

* Prior-year figures restated to reflect the change in the order intake calculation introduced in 2015

STILL segment

Order intake in the STILL segment went up by 5.1 per cent to €1,478.3 million (Q1–Q3 2014: €1,405.9 million). Whereas some major western and eastern European markets generated significant growth in new truck business, orders fell in Brazil, France and Russia.

Segment revenue advanced by 7.4 per cent to €1,416.5 million (Q1–Q3 2014: €1,318.6 million), predominantly due to successful new truck business in Europe. There was also considerable growth in the service & rental truck business.

The segment's adjusted EBIT rose by 9.8 per cent compared with the first nine months of the previous year, reaching €92.1 million (Q1–Q3 2014: €83.9 million). At 6.5 per cent, the adjusted EBIT margin remained at almost the same level as in the prior-year period (Q1–Q3 2014: 6.4 per cent). > TABLE 09

Key figures – STILL – TABLE 09

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
Order intake	485.7	446.8	8.7%	1,478.3	1,405.9	5.1%
Revenue	470.9	440.7	6.8%	1,416.5	1,318.6	7.4%
EBITDA	63.0	60.3	4.4%	174.5	160.2	8.9%
Adjusted EBITDA	64.5	60.5	6.6%	176.7	162.2	8.9%
EBIT	33.1	32.8	1.1%	85.3	80.8	5.5%
Adjusted EBIT	36.3	33.6	7.9%	92.1	83.9	9.8%
Adjusted EBITDA margin	13.7%	13.7%	–	12.5%	12.3%	–
Adjusted EBIT margin	7.7%	7.6%	–	6.5%	6.4%	–

Financial Services segment

The Financial Services (FS) segment is the central financing partner for end-customer leasing and short-term rental fleet financing for the LMH and STILL brand segments. It registered growth in demand for financing solutions in the first three quarters of this year. Long-term leasing business with external end customers amounted to €292.8 million, compared with €237.1 million in the corresponding prior-year period. Financing for short-term rental business also achieved significant growth. The LMH and STILL brand segments manage this business, which is recognised as intra-group revenue. External leasing business with end customers continued to be concentrated in western Europe. At €1,510.4 million, the FS segment's assets were higher than at the end of last year (31 December 2014: €1,361.3 million) and up significantly year on year (30 September 2014: €1,325.8 million).

Net financial income in the form of net interest income is a key element of the segment's earnings and rose to €4.8 million (Q1–Q3 2014: €2.3 million). At €4.0 million, earnings before tax was on a par with the previous year (Q1–Q3 2014: €3.9 million). As at 30 September 2015, the FS segment had intra-group lease receivables of €520.4 million from the LMH and STILL brand segments relating to the intra-group financing of the short-term rental fleet (31 December 2014: €473.0 million: 30 September 2014: €474.4 million). The funding of intra-group long-term leases (finance leases) with LMH and STILL resulted in lease liabilities of €375.0 million (31 December 2014: €334.5 million: 30 September 2014: €338.7 million). Net financial debt totalled €167.1 million at the end of the reporting period (31 December 2014: €155.1 million; 30 September 2014: €160.9 million). The return on equity (ROE) of 13.2 per cent was slightly higher than at the end of last year (31 December 2014: 13.0 per cent). > TABLE 10

Key figures – Financial Services –

TABLE 10

in € million	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
Revenue	192.9	149.8	28.8%	522.3	427.1	22.3%
Adjusted EBITDA	22.4	24.0	–7.0%	66.2	62.5	5.8%
Adjusted EBIT	–0.6	0.8	<–100%	–0.8	1.6	<–100%
Earnings before taxes (EBT)	1.3	1.3	–0.1%	4.0	3.9	1.6%
Total segment assets	1,510.4	1,325.8	13.9%	1,510.4	1,325.8	13.9%
Leased assets	292.4	256.9	13.8%	292.4	256.9	13.8%
Lease receivables	1,101.7	960.3	14.7%	1,101.7	960.3	14.7%
thereof lease receivables from long-term leases to third parties	581.3	485.9	19.6%	581.3	485.9	19.6%
thereof lease receivables from LMH and STILL from funding of the short-term rental business	520.4	474.4	9.7%	520.4	474.4	9.7%
Lease liabilities[1]	1,173.1	1,004.0	16.9%	1,173.1	1,004.0	16.9%
thereof liabilities from funding of the long-term leases with third parties	798.2	665.3	20.0%	798.2	665.3	20.0%
thereof liabilities from funding of the short-term rental business of LMH and STILL	375.0	338.7	10.7%	375.0	338.7	10.7%
Net financial debt	167.1	160.9	3.8%	167.1	160.9	3.8%
Equity	44.0	42.8	2.8%	44.0	42.8	2.8%
Return on equity[2]				13.2%	13.0%	–

1 Includes liabilities from financing of the short-term rental fleet reported as other financial liabilities
2 Earnings before taxes divided by average equity employed excluding net income (loss) for the current period

Other segment

Group head office functions that do not come under any other segment, plus Egemin NV along with its eight subsidiaries and its Egemin Automation brand, are reported in the 'Other' segment. The revenue generated outside the KION Group declined to €25.8 million (Q1–Q3 2014: €31.3 million) owing to the transfer of KION India to the LMH segment. In the first nine months of last year, KION India had contributed revenue of €16.6 million. The Other segment reported adjusted EBIT of €34.9 million (Q1–Q3 2014: €35.3 million). > TABLE 11

Key figures – Other – TABLE 11

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
Order intake	65.1	61.9	5.3%	173.5	177.8	–2.4%
Revenue	67.7	62.0	9.2%	176.1	177.0	–0.5%
EBITDA	25.0	14.4	73.3%	26.7	41.1	–35.0%
Adjusted EBITDA	26.9	16.9	59.2%	47.7	48.1	–0.7%
EBIT	20.3	10.4	96.1%	13.5	28.4	–52.3%
Adjusted EBIT	22.5	12.8	76.2%	34.9	35.3	–1.1%

FINANCIAL POSITION

The principles and objectives applicable to financial management as at 30 September 2015 were the same as those described in the 2014 group management report. There were no significant financing activities in the first nine months of the year.

Analysis of capital structure

Long-term borrowing totalled €648.0 million as at 30 September 2015 and, as had been the case at the end of 2014, comprised a corporate bond due to mature in 2020 and the drawdowns under the revolving credit facility classified as long term.

The total financial debt recognised came to €970.3 million, which was higher than the figure at the end of 2014 of €909.6 million owing to drawdowns used to fund acquisitions. After deduction of cash and cash equivalents of €102.1 million, net financial debt amounted to €868.2 million, compared with €810.7 million at the end of last year. Net debt as at 30 September 2015 was 1.1 times adjusted EBITDA for the past twelve months. Overall, net debt was therefore unchanged relative to earnings as at the reporting date. > TABLE 12

At €783.3 million, pension provisions at the end of September were at the same level as at the end of last year (31 December 2014: €787.5 million). The lease liabilities resulting from sale and leaseback transactions used to fund long-term leases with end customers rose to €802.5 million (31 December 2014: €707.7 million) on the back of the expansion of financial services activities. Of this total, €586.1 million related to non-current lease liabilities and €216.3 million to current lease liabilities. Other financial liabilities also included liabilities of €377.7 million from sale and leaseback transactions used to finance the short-term rental fleet (31 December 2014: €339.1 million).

Net financial debt TABLE 12

in € million	30/09/2015	31/12/2014	Change
Corporate bond (2013/2020) – fixed rate (gross)	450.0	450.0	–
Liabilities to banks (gross)	521.9	459.9	13.5%
Liabilities to non-banks (gross)	4.3	6.6	–34.7%
./. Capitalised borrowing costs	–5.9	–6.9	14.6%
Financial debt	**970.3**	**909.6**	**6.7%**
./. Cash and cash equivalents	–102.1	–98.9	–3.2%
Net financial debt	**868.2**	**810.7**	**7.1%**

As a result of the net income for the reporting period, equity was appreciably higher than at the end of 2014, rising from €1,647.1 million to €1,766.2 million as at 30 September 2015. Positive currency effects on other comprehensive income played a part here, too. However, this increase was partly offset by the dividend distribution in the second quarter. The equity ratio was 27.0 per cent (31 December 2014: 26.9 per cent). > TABLE 13

Analysis of capital expenditure

Capital expenditure was up slightly year on year at €90.5 million (Q1–Q3 2014: €87.4 million). Whereas capitalised development costs in the LMH and STILL brand segments were a little lower, there was an increase in capital expenditure at the Group's production and technology sites, the bulk of which was attributable to the LMH

(Condensed) statement of financial position – equity and liabilities TABLE 13

in € million	30/09/2015	in %	31/12/2014	in %	Change
Equity	**1,766.2**	**27.0%**	**1,647.1**	**26.9%**	**7.2%**
Non-current liabilities	**2,906.3**	**44.4%**	**2,688.3**	**43.9%**	**8.1%**
thereof:					
Retirement benefit obligation	783.3	12.0%	787.5	12.8%	–0.5%
Financial liabilities	647.6	9.9%	646.8	10.6%	0.1%
Deferred tax liabilities	327.2	5.0%	320.9	5.2%	2.0%
Lease liabilities	586.1	9.0%	461.7	7.5%	27.0%
Current liabilities	**1,867.0**	**28.5%**	**1,793.0**	**29.3%**	**4.1%**
thereof:					
Financial liabilities	322.8	4.9%	262.9	4.3%	22.8%
Trade payables	569.4	8.7%	564.6	9.2%	0.9%
Lease liabilities	216.3	3.3%	246.0	4.0%	–12.1%
Total equity and liabilities	**6,539.4**		**6,128.5**		**6.7%**

segment. The main activities in this regard were the modernisation of production facilities in Germany and Asia, the construction of a new factory in the Czech Republic and the ongoing optimisation of the IT infrastructure.

Analysis of liquidity

The KION Group's net cash provided by operating activities totalled €341.9 million (Q1–Q3 2014: €293.7 million). The higher contribution to earnings and one-off incoming payments in the first quarter of 2015 that had not yet been added to the KION Group's cash on hand at the end of 2014 were partly offset by a stronger increase in working capital and in leased assets.

There was a substantial increase in net cash used for investing activities, which amounted to €302.6 million (Q1–Q3 2014: €196.2 million). The primary reason for this rise was the outflow of cash for the acquisition of Egemin Automation in the third quarter. Cash payments, particularly for capital expenditure on development (R&D) and property, plant and equipment, totalled €90.5 million in the first nine months of 2015 (Q1–Q3 2014: €87.4 million). Owing to the increase in demand for rental trucks, the KION Group also continued to expand its short-term rental fleet business (net) with a volume of spending of €145.9 million (Q1–Q3 2014: €122.9 million). Cash payments for other assets, which came to a total of €15.0 million (Q1–Q3 2014: €0.0 million), primarily related to the granting of a loan to Linde Hydraulics.

Free cash flow – the sum of cash flow from operating activities and investing activities – was down year on year at €39.4 million (Q1–Q3 2014: €97.5 million). Excluding acquisitions, there would have been a year-on-year increase in free cash flow.

Cash flow from financing activities amounted to minus €36.7 million in the reporting period (Q1–Q3 2014: minus €187.8 million). The distribution of a dividend of €0.55 per share resulted in an outflow of funds of €54.3 million (Q1–Q3 2014: €34.5 million). The acquisition of treasury shares caused a cash outflow of €1.0 million in the period under review (Q1–Q3 2014: €1.5 million). The financial debt taken up during the first nine months of this year, which came to €752.3 million and was mainly used for the funding of acquisitions and the ongoing funding of working capital, was partly offset by repayments totalling €686.8 million. Net cash of €48.1 million was used for regular interest payments (Q1–Q3 2014: €79.9 million). > TABLE 14

NET ASSETS

Non-current assets had increased to €4,706.4 million as at 30 September 2015 (31 December 2014: €4,524.8 million), primarily due to the expanding leasing business. Intangible assets accounted for €2,463.5 million (31 December 2014: €2,412.5 million). Within that amount, goodwill and the KION Group's brand names rose to €2,153.7 million owing to currency effects and, in particular, the first-time consolidation of Egemin Automation (31 December 2014: €2,092.4 million). Due to the overall growth in business, leased

(Condensed) statement of cash flows TABLE 14

in € million	Q3 2015	Q3 2014	Change	Q1–Q3 2015	Q1–Q3 2014	Change
EBIT	108.8	69.1	57.3%	290.2	237.7	22.1%
Cash flow from operating activities	170.7	142.4	19.9%	341.9	293.7	16.4%
Cash flow from investing activities	–140.6	–64.7	<–100%	–302.6	–196.2	–54.2%
Free cash flow	**30.1**	**77.7**	**–61.2%**	**39.4**	**97.5**	**–59.6%**
Cash flow from financing activities	12.9	–84.3	>100%	–36.7	–187.8	80.5%
Effect of foreign exchange rate changes on cash	–2.8	2.6	<–100%	0.5	1.8	–69.4%
Change in cash and cash equivalents	**40.2**	**–4.1**	**>100%**	**3.2**	**–88.5**	**>100%**

assets for leases with end customers that are classified as operating leases increased from €279.0 million at 31 December 2014 to €310.2 million at 30 September 2015. Long-term lease receivables arising from leases with end customers that are classified as finance leases were significantly higher at €436.5 million (31 December 2014: €345.3 million) owing to the increase in new business. The rental assets in the brand segments' short-term rental fleet advanced to €511.4 million (31 December 2014: €487.1 million).

Overall, current assets increased by €229.4 million to €1,833.0 million. This growth was predominantly driven by the sharp rise in trade receivables and inventories. By contrast, short-term lease receivables from end customers decreased to €175.5 million at the end of the reporting period (31 December 2014: €202.5 million).

The asset classified as held for sale of €41.0 million, which related to the exercise of the put option on 20.0 per cent of the shares in Linde Hydraulics, was offset by an equal decrease in equity-accounted investments within non-current assets. Two-thirds of the loan disbursed to Linde Hydraulics is likely to be transferred to Weichai Power in connection with exercising the put option. Consequently, this current asset was also reclassified as held for sale as at 30 September. In total €51.0 million has been classified as assets held for sale.

Cash and cash equivalents amounted to €102.1 million at the reporting date (31 December 2014: €98.9 million). Taking into account the credit facility that had not been used, the cash and cash equivalents available to the KION Group at 30 September 2015 amounted to €890.1 million. > TABLE 15

(Condensed) statement of financial position – assets TABLE 15

in € million	30/09/2015	in %	31/12/2014	in %	Change
Non-current assets	**4,706.4**	**72.0%**	**4,524.8**	**73.8%**	**4.0%**
thereof:					
Goodwill	1,549.6	23.7%	1,497.1	24.4%	3.5%
Brand names	604.1	9.2%	595.4	9.7%	1.5%
Deferred tax assets	375.9	5.7%	357.9	5.8%	5.0%
Rental assets	511.4	7.8%	487.1	7.9%	5.0%
Leased assets	310.2	4.7%	279.0	4.6%	11.2%
Lease receivables	436.5	6.7%	345.3	5.6%	26.4%
Current assets	**1,833.0**	**28.0%**	**1,603.7**	**26.2%**	**14.3%**
thereof:					
Inventories	642.6	9.8%	529.2	8.6%	21.4%
Trade receivables	675.2	10.3%	598.2	9.8%	12.9%
Lease receivables	175.5	2.7%	202.5	3.3%	–13.4%
Other current assets	174.6	2.7%	168.2	2.7%	3.8%
Cash and cash equivalents	102.1	1.6%	98.9	1.6%	3.2%
Total assets	**6,539.4**		**6,128.5**		**6.7%**

Employees (full-time equivalents) TABLE 16

	30/09/2015	31/12/2014	Change
Western Europe	16,638	15,985	4.1%
Eastern Europe	1,844	1,767	4.4%
Americas	686	651	5.4%
Asia	3,828	3,722	2.8%
Rest of world	564	544	3.7%
Total	**23,560**	**22,669**	**3.9%**

Non-financial key performance indicators

EMPLOYEES

The number of employees (full-time equivalents, FTEs) increased slightly to 23,560 as at 30 September 2015 (31 December 2014: 22,669). This rise predominantly related to a strengthening of the service function, expansion of production and the first-time consolidation of Egemin Automation. Most of the hiring took place in western Europe and Asia.

The increased headcount, changes to collective bargaining agreements and additions to pension provisions caused personnel expenses to go up by 10.1 per cent to €949.5 million (Q1 – Q3 2014: €862.7 million). Currency effects also pushed up personnel expenses.

> TABLE 16

RESEARCH AND DEVELOPMENT

In accordance with its Strategy 2020, the KION Group increased total spending on research and development (R&D) to €95.1 million in the first nine months of the year (Q1 – Q3 2014: €88.0 million). This means that 2.6 per cent of revenue was spent on R&D, which is considerably above the industry average. The number of full-time jobs in R&D stood at 1,044 as at 30 September 2015 (31 December 2014: 1,023).

The main R&D projects in 2014 continued during the reporting period. They are described in detail in the 2014 group management report. The areas in focus included reduction of emissions and fuel consumption, the modular and platform strategy, drive technology, automation and networking, and workplace safety and ergonomics.

In the third quarter, LMH introduced an optional elevating cabin for heavy trucks. The cabin ensures that the driver has an unobstructed view over the top of the load and is able to drive forwards in the usual manner. This innovative feature is especially beneficial when it comes to stacking, depositing and retrieving heavy goods, or when placing them in narrow spaces, such as aircraft loading hatches.

LMH's test engineers have also designed a 'hardware in the loop' (HIL) procedure with which they can examine complex electronic control units and systems using virtual truck models and then make improvements based on the findings. This enables innovations to be brought to production readiness much faster and more cost-efficiently. > TABLE 17

CUSTOMERS

The KION brand companies regularly exhibit at the leading trade fairs for their sector so that they can present their new products and strengthen their relationships with customers and partners. This year, the KION brands have exhibited at events such as LogiMAT, CeMAT South America and CeMAT Russia. STILL also showcased its new pallet stackers at a roadshow that visited eight towns and cities.

STILL plans to restructure its sales and service organisation. A standardised back-office concept, which will reduce the amount of administrative work done by the branches and outlets, and optimised management structures in Germany should, in the future, enable the available resources in sales and service to be focused even more heavily on customer care.

Research and development (R&D) TABLE 17

in € million	Q3 2015	Q3 2014	Change	Q1 – Q3 2015	Q1 – Q3 2014	Change
Research and development costs (P&L)	35.4	29.7	19.3%	106.1	87.8	20.8%
Amortisation expense (R&D)	–13.6	–10.8	–26.2%	–39.7	–31.3	–26.9%
Capitalised development costs	9.1	9.9	–7.3%	28.7	31.5	–9.0%
Total R&D spending	**31.0**	**28.8**	**7.7%**	**95.1**	**88.0**	**8.0%**
R&D spending as percentage of revenue	2.5%	2.5%	–	2.6%	2.6%	–

EVENTS AFTER THE REPORTING DATE

Between the reporting date of these interim financial statements and 3 November 2015, 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 2015 or that it would be necessary to disclose.

OUTLOOK, OPPORTUNITY AND RISK REPORT

Outlook

FORWARD-LOOKING STATEMENTS

The forward-looking statements and information given below are based on the Company's current expectations and assessments. Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of the KION Group, affect the Group's business activities and profitability. 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.

Actual business performance may deviate from the forecasts due, among other factors, to the opportunities and risks described in the 2014 group management report. Performance particularly depends on macroeconomic and industry-specific conditions and may be negatively affected by increasing uncertainty or a worsening of the economic and political situation.

EXPECTED BUSINESS PERFORMANCE

Given its positive performance in the first nine months of 2015, the KION Group is adhering to the forecast for 2015 as a whole that was published in the 2014 group management report. By continuing with the implementation of its Strategy 2020, the Group intends to achieve even better results than the record figures reported for 2014.

Based on the forecasts for market conditions, the KION Group expects both order intake and consolidated revenue to be slightly higher than in 2014. The growth in consolidated revenue will continue to be underpinned by a strong contribution from the service business in western Europe and the emerging markets in 2015.

The KION Group also expects a slight year-on-year rise in adjusted EBIT for the current year. Costs resulting from implementation of the Strategy 2020 will have to be factored in, which should lead to a sustained improvement in the EBIT margin in subsequent years. For this reason, the Group expects the adjusted EBIT margin for 2015 to remain at the record level reached in 2014. The forecast is based on the assumption that material prices will remain stable.

The KION Group expects free cash flow to be slightly below the very high level achieved in 2014. This is due to increased capital expenditure on the one hand and to higher anticipated tax payments on the other.

In the current year, the KION Group plans to use free cash flow to lower its net debt still further.

Opportunity and risk report

The KION Group's overall risk and opportunity situation has not changed significantly compared with the description in the 2014 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.