

Interim group management report

FUNDAMENTALS OF THE KION GROUP

Management and control

In July, the Supervisory Board of KION GROUP AG extended the appointment of Chief Executive Officer Gordon Riske by five years to 30 June 2022. His previous contract, which was last renewed in 2013, had been due to run until the end of June 2017.

Strategy of the KION Group

The KION Group Strategy 2020, described in the 2015 group management report, is aimed at leveraging cross-regional and cross-brand synergies even more effectively and closing the gap on the global market leader by 2020. To achieve this, the KION Group is relying on its successful multi-brand approach, underpinned by a comprehensive modular and platform strategy. It is strengthening its presence in key markets and resolutely stepping up its activities in the fields of automation and service. Furthermore, in order to entrench its position as the most profitable supplier in the market, 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. Further details on the Strategy 2020 can be found in the 2015 group management report.

A comprehensive portfolio of solutions for Intralogistics 4.0 is at the core of the Strategy 2020. The KION Group believes that connected machinery, products, processes and logistics are essential to intelligent supply chains and value chains.

The acquisition of Dematic, a leading specialist for automation and supply chain optimisation, is expected to be closed in the fourth quarter and will make the KION Group one of the world's top suppliers of solutions for Intralogistics 4.0. Leveraging its sales and service networks, technologies and resources, the enlarged company will be able to seamlessly offer the full material handling product and service offering to customers of all sizes in a broad range of industries across the world. The KION Group is thus strengthening its position as a one-stop supplier for intelligent supply chain and automation solutions and can benefit from megatrends, such as digitalisation and the growing e-commerce business. Both companies contribute

strong complementary market positions and geographical footprint. There will also be cost synergies and additional potential for revenues from services and systems upgrades.

The KION Group had already stated to build up a strong position as a provider of automated system solutions by acquiring Egemin Automation and Retrotech. After the transaction has been completed, Dematic will form a new KION Group operating unit that will also include Egemin and Retrotech.

REPORT ON THE ECONOMIC POSITION

Macroeconomic and sector-specific conditions

MACROECONOMIC CONDITIONS

According to the latest estimates, global economic growth is persisting at a similar level to 2015. The October World Economic Outlook of the International Monetary Fund (IMF) predicts global growth of 3.1 per cent for 2016 as a whole. The current outlook for most of the large markets has improved or held steady compared with the July forecast. The exception is the United States, whose predicted growth has been revised downwards.

Germany and the rest of the eurozone benefited from a healthy domestic economy in the first three quarters of the year; the IMF's outlook for this year has been raised slightly compared with the July forecast. The biggest risk at present is considered to be the consequences of the United Kingdom's exit from the EU, which remain unclear. According to early estimates, the increased uncertainty in the third quarter resulted in a decrease in the UK's own economic output.

Despite strong consumer spending, growth in the United States is likely to be lower in 2016 than originally assumed. The main reasons for this, according to the IMF, are the weak level of capital expenditure by companies in the energy sector and a noticeable scaling back of inventories.

Growth in China has stabilised recently thanks to the government's economic stimulus package. However, companies' high debt levels are a source of concern. The economies of Brazil and Russia have not contracted quite as much this year as had been anticipated.

SECTORAL CONDITIONS

Sales markets

After a somewhat muted performance in the first six months, the global market for industrial trucks grew strongly in the third quarter. The number of trucks sold globally rose by 13.2 per cent on the back of continued strong demand in Europe and sharp increases in both China and North America. The overall rate of growth in the first nine months of the year was 5.9 per cent.

In western Europe, order numbers were up by around 13 per cent in the first three quarters of 2016, with all of the major markets except the United Kingdom registering significant gains. The increase in the Italian market was particularly strong at over 30 per cent. Order num-

bers rose significantly, by approximately 19 per cent, in eastern Europe as well, with Russia's recovery also continuing.

Thanks to a strong increase in the third quarter, North America also reported gains. South America's downward trend continued, although it was less pronounced than in the previous quarters.

Demand in China saw a surprisingly sharp rise in the third quarter, mainly due to disproportionately strong growth in basic IC trucks. The tightening of emissions standards had already had a positive impact in the first months of the year.

Broken down by product segment, the bulk of the growth was generated by warehouse trucks, followed by electric forklift trucks. Demand for IC trucks picked up in the third quarter, primarily because of the development in China, but was still down slightly compared with the first nine months of 2015. > **TABLE 02**

Global industrial truck market (order intake)

TABLE 02

in thousand units	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Western Europe	79.7	69.9	14.0%	267.3	237.5	12.6%
Eastern Europe	17.2	14.2	20.9%	46.7	39.1	19.3%
North America	60.9	54.5	11.8%	177.4	172.1	3.1%
Central & South America	10.5	10.7	–1.8%	29.6	32.3	–8.6%
Asia (excl. Japan)	90.7	77.9	16.4%	270.9	257.9	5.0%
Rest of world	28.9	27.2	6.2%	87.1	91.0	–4.3%
World	287.9	254.4	13.2%	878.9	829.9	5.9%

Source: WITS/FEM

Procurement markets and conditions in the financial markets

Prices for steel, which is the most important raw material for the KION Group, and for copper remained at a low level in the first nine months and their average was lower than in the corresponding period of last year. The oil price continued to rise again in the third quarter, but the average for the year also remained well below the prior-year level.

Overall, currency effects had a negative impact on the KION Group's business situation in the first nine months of 2016. Following the announcement of the results of the UK referendum, the euro further appreciated against the pound sterling. The euro also made gains against the Brazilian real and Chinese renminbi in the period under review.

Business performance

On 18 July 2016, the KION Group successfully completed the capital increase resolved upon that same day. The existing authorised capital was used in full and the Company's share capital was increased by 10.0 per cent against cash contributions; shareholders' subscription rights were excluded. All of the 9,890,000 new shares were placed at a price of €46.44 each, which was set in an accelerated bookbuilding offering for institutional investors. The anchor shareholder Weichai Power acquired 5,934,000, or 60.0 per cent, of the new shares, increasing its stake in the Company to 40.2 per cent. The remaining shares were offered to institutional investors as part of the accelerated bookbuilding offering.

The gross issue proceeds of approximately €459.3 million are to be used to partly fund the acquisition of automation specialist Dematic. Completion of the acquisition is subject to the usual conditions and is likely to take place during the fourth quarter of 2016. The provisional purchase price for the shares is the equivalent of around €1.9 billion. In addition, debt instruments will be redeemed. The transaction will initially be funded by a bridge loan that has been firmly committed.

On 8 July 2016, Linde Material Handling opened a new distribution centre for spare parts in Brno, Czech Republic. Linde Material Handling is thereby also expanding its service presence in central and eastern European countries that are experiencing high growth.

STILL acquired its Norwegian dealer Roara AS on 1 September 2016, thereby strengthening its market position in Scandinavia. All of the company's activities here will operate under the name STILL Norge in future.

Financial position and financial performance

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

In the third quarter, the KION Group continued its successful development seen in the first six months of the year. It therefore has the foundations in place for another successful year.

The total value of order intake again increased year on year in the third quarter, with the KION Group benefiting from the continuing good demand in Europe. Worldwide, the number of units sold in the nine-month period increased at a slightly faster rate than for the market as a whole.

The main driver of the rise in consolidated revenue was the growth in both new truck business and the service business, which was again at a high level despite continuing negative currency effects in the third quarter. The contributions from Egemin Automation (including Retrotech) also played a part in the rise in revenue.

There was a year-on-year increase in adjusted EBIT and the EBIT margin. Net income went up significantly, partly owing to improved net financial expenses following the restructuring and optimisation of the Group's funding.

Level of orders

Order intake rose by 6.1 per cent, or €231.9 million, to €4,050.4 million in the first nine months of 2016. This was primarily due to strong demand in Europe. Egemin Automation – including Retrotech Inc., which was acquired in the first quarter of 2016 – contributed €117.1 million to the volume of orders. In the corresponding period of 2015, Egemin had only been included for two months, i.e. from August 2015. The increase in order intake was held back by negative currency effects, which reduced the amount by €82.9 million.

The number of trucks ordered advanced to approximately 129.9 thousand, which was 6.1 per cent higher than in the first nine months of 2015. The strongest growth was in electric forklift trucks, followed by warehouse trucks. Orders for IC trucks fell moderately year on year in line with the general market trend. However, the KION Group's orders for IC trucks in the third quarter were higher than in the same period of 2015.

The total value of the order book amounted to €1,040.7 million, a considerable increase of 20.4 per cent on the value at the end of last year (31 December 2015: €864.0 million).

Revenue

Revenue for the KION Group during the nine-month period amounted to €3,847.7 million, an increase of 5.2 per cent compared with the prior-year figure of €3,657.2 million. This included the revenue contributed by Egemin Automation (including Retrotech) of €74.2 million

(Q1–Q3 2015: €12.2 million for two months). Negative currency effects reduced revenue by €79.3 million.

Revenue from new truck business went up by 3.8 per cent to €2,046.6 million, compared with €1,971.2 million in the first nine months of 2015. Electric forklift trucks registered a sharp year-on-year increase. There was a slight rise in revenue from warehouse trucks, with substantially higher rates of increase in the third quarter than in the first six months of the year.

Revenue from the service business was up by 6.8 per cent to €1,801.0 million (Q1 – Q3 2015: €1,686.0 million), with all areas of service contributing to this increase. The biggest percentage gain was generated by the used truck business. Overall, the proportion of the KION Group's total revenue generated by the service business advanced from 46.1 per cent in the prior-year period to 46.8 per cent in the period under review. This was mainly due to the inclusion of Egemin Automation, which is shown in the 'other' product category in the service business. > **TABLE 03**

Revenue by product category

TABLE 03

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
New business	676.0	654.2	3.3%	2,046.6	1,971.2	3.8%
Service business	607.2	582.3	4.3%	1,801.0	1,686.0	6.8%
- Aftersales	333.3	334.3	-0.3%	1,001.0	992.0	0.9%
- Rental business	142.7	132.7	7.5%	410.9	389.2	5.6%
- Used trucks	67.4	65.7	2.5%	212.0	193.7	9.5%
- Other	63.8	49.5	28.9%	177.2	111.1	59.5%
Total revenue	1,283.2	1,236.5	3.8%	3,847.7	3,657.2	5.2%

The increase in revenue was predominantly attributable to western Europe, particularly France, Italy and Germany. The KION Group's revenue in eastern Europe also grew substantially. By contrast, revenue in Asia was down year on year. Overall, the growth markets

accounted for 23.7 per cent of consolidated revenue, compared with 24.9 per cent in the prior-year period. The KION Group generated 75.1 per cent of its revenue outside Germany (Q1–Q3 2015: 74.7 per cent). > **TABLE 04**

Revenue by customer location

TABLE 04

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Western Europe	942.2	913.6	3.1%	2,860.8	2,677.0	6.9%
Eastern Europe	113.3	101.6	11.6%	319.7	296.7	7.7%
Americas	69.3	58.3	18.8%	203.6	188.8	7.9%
Asia	126.5	127.2	–0.6%	360.6	385.3	–6.4%
Rest of world	31.9	35.9	–11.0%	103.0	109.4	–5.9%
Total revenue	1,283.2	1,236.5	3.8%	3,847.7	3,657.2	5.2%

Earnings

EBIT and EBITDA

Earnings before interest and tax (EBIT) went up by 9.6 per cent year on year to reach €318.2 million (Q1–Q3 2015: €290.2 million).

Although there was a growth-related rise in gross profit of 6.9 per cent, selling and administrative expenses also increased. Adjusted EBIT excluding non-recurring items and KION acquisition items amounted to €366.1 million (Q1–Q3 2015: €331.0 million). The

adjusted EBIT margin improved to 9.5 per cent (Q1–Q3 2015: 9.1 per cent). > **TABLE 05**

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to €630.6 million, compared with €581.6 million in the corresponding period of 2015. Adjusted EBITDA rose to €654.0 million (Q1–Q3 2015: €599.9 million). This equates to an adjusted EBITDA margin of 17.0 per cent (Q1–Q3 2015: 16.4 per cent). > **TABLE 06**

EBIT

TABLE 05

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Net income for the period	67.3	49.5	36.1%	164.4	143.8	14.3%
Income taxes	-28.7	-34.3	16.3%	-74.2	-78.2	5.1%
Net financial expenses	-16.4	-24.9	34.4%	-79.6	-68.2	-16.7%
EBIT	112.4	108.8	3.4%	318.2	290.2	9.6%
+ Non-recurring items	7.7	5.9	31.5%	27.7	20.5	35.1%
+ KION acquisition items	6.6	6.6	0.1%	20.2	20.3	-0.3%
Adjusted EBIT	126.8	121.2	4.6%	366.1	331.0	10.6%
Adjusted EBIT margin	9.9%	9.8%	–	9.5%	9.1%	–

EBITDA

TABLE 06

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
EBIT	112.4	108.8	3.4%	318.2	290.2	9.6%
Amortisation and depreciation	105.4	98.3	7.3%	312.4	291.3	7.2%
EBITDA	217.9	207.1	5.2%	630.6	581.6	8.4%
+ Non-recurring items	6.2	4.9	24.9%	23.4	18.4	27.4%
+ KION acquisition items	0.0	-0.0	100.0%	0.0	0.0	-100.0%
Adjusted EBITDA	224.1	212.0	5.7%	654.0	599.9	9.0%
Adjusted EBITDA margin	17.5%	17.1%	–	17.0%	16.4%	–

Key influencing factors for earnings

The cost of sales grew at a slower rate than revenue, rising by 4.5 per cent to €2,695.8 million (Q1–Q3 2015: €2,580.2 million). Gross profit improved to €1,151.9 million (Q1–Q3 2015: €1,077.1 million), while the KION Group's gross margin advanced to 29.9 per cent (Q1–Q3 2015: 29.4 per cent).

Selling expenses grew by 7.2 per cent to €475.1 million in the first nine months of this year (Q1–Q3 2015: €443.2 million) as a result of the increase in sales activities – partly in connection with the consoli-

dation of Egemin Automation. Development costs in the same period decreased slightly year on year to €105.0 million (Q1–Q3 2015: €106.1 million). At €290.7 million, administrative expenses were higher than in the corresponding prior-year period (Q1–Q3 2015: €261.0 million), partly because of consultancy expenses incurred in connection with the Dematic acquisition. The 'other' item came to €37.1 million (Q1–Q3 2015: €23.4 million). This included the share of profit (loss) of equity-accounted investments, which amounted to a profit of €9.9 million (Q1–Q3 2015: profit of €7.8 million). > **TABLE 07**

(Condensed) income statement**TABLE 07**

in € million	Q3 2016	Q3 2015	Change	Q1–Q3 2016	Q1–Q3 2015	Change
Revenue	1,283.2	1,236.5	3.8%	3,847.7	3,657.2	5.2%
Cost of sales	-891.7	-867.5	-2.8%	-2,695.8	-2,580.2	-4.5%
Gross profit	391.5	369.0	6.1%	1,151.9	1,077.1	6.9%
Selling expenses	-156.3	-148.5	-5.3%	-475.1	-443.2	-7.2%
Research and development costs	-33.0	-35.4	6.8%	-105.0	-106.1	1.1%
Administrative expenses	-98.5	-82.9	-18.8%	-290.7	-261.0	-11.4%
Other	8.7	6.6	32.5%	37.1	23.4	58.1%
Earnings before interest and taxes (EBIT)	112.4	108.8	3.4%	318.2	290.2	9.6%
Net financial expenses	-16.4	-24.9	34.4%	-79.6	-68.2	-16.7%
Earnings before taxes	96.1	83.8	14.6%	238.6	222.0	7.5%
Income taxes	-28.7	-34.3	16.3%	-74.2	-78.2	5.1%
Net income for the period	67.3	49.5	36.1%	164.4	143.8	14.3%

Net financial income/expenses

There was a decline in the balance of financial income and financial expenses, leading to net financial expenses of €79.6 million (Q1–Q3 2015: net financial expenses of €68.2 million). Non-recurring financial expenses of €25.7 million arose in February 2016 as a result of the new financing structure, but these have already been largely offset by the optimised financing.

Income taxes

Income tax expenses amounted to €74.2 million (Q1–Q3 2015: €78.2 million). Current income taxes came to €52.1 million (Q1–Q3 2015: €105.4 million). The tax rate was 31.1 per cent (Q1–Q3 2015: 35.2 per cent).

Net income for the period

The KION Group's net income after taxes was €164.4 million (Q1–Q3 2015: €143.8 million). Diluted and basic earnings per share for the reporting period came to €1.59 (Q1–Q3 2015: €1.44).

BUSINESS SITUATION AND FINANCIAL PERFORMANCE OF THE SEGMENTS

Linde Material Handling segment

Despite negative currency effects, order intake in the Linde Material Handling (LMH) segment amounted to €2,645.7 million in the nine-month period, which was above the high level reported a year earlier (Q1–Q3 2015: €2,579.3 million).

Segment revenue improved by 3.0 per cent to €2,537.7 million (Q1–Q3 2015: €2,463.0 million). The main factor in this increase was higher unit sales of new trucks in Germany, France and Italy, which easily offset the decreases in the United Kingdom, Asia and elsewhere. In the service business, there were significant gains in all categories.

The positive effect from revenue combined with the margin improvements in new truck business resulted in adjusted EBIT of €311.5 million, which was significantly higher than in the prior-year period (Q1–Q3 2015: €267.8 million). Consequently, the adjusted EBIT margin increased to 12.3 per cent (Q1–Q3 2015: 10.9 per cent).

> TABLE 08

Key figures – LMH –

TABLE 08

in € million	Q3 2016	Q3 2015	Change	Q1–Q3 2016	Q1–Q3 2015	Change
Order intake	863.6	818.4	5.5%	2,645.7	2,579.3	2.6%
Revenue	831.1	812.8	2.3%	2,537.7	2,463.0	3.0%
EBITDA	142.8	133.0	7.3%	433.2	379.2	14.3%
Adjusted EBITDA	143.3	134.5	6.5%	434.0	383.4	13.2%
EBIT	95.9	88.5	8.3%	293.7	246.2	19.3%
Adjusted EBIT	102.1	95.7	6.7%	311.5	267.8	16.3%
Adjusted EBITDA margin	17.2%	16.6%	–	17.1%	15.6%	–
Adjusted EBIT margin	12.3%	11.8%	–	12.3%	10.9%	–

STILL segment

At €1,550.2 million, order intake in the STILL segment was 4.9 per cent up on the prior-year period (Q1–Q3 2015: €1,478.3 million). This growth was primarily driven by the markets in Italy, Germany and France, as well as eastern Europe. Order numbers in Brazil were down on what had already been a weak prior-year period. Exchange-rate effects had a negative impact on order intake overall.

Revenue amounted to €1,497.6 million, exceeding the prior-year figure of €1,416.5 million by 5.7 per cent. The new truck business and all categories of the service business contributed to this increase, with the rental and used truck businesses generating particularly strong growth.

The segment's adjusted EBIT advanced to €106.5 million, which was significantly higher than it had been a year earlier (Q1–Q3 2015: €92.1 million). The adjusted EBIT margin rose to 7.1 per cent (Q1–Q3 2015: 6.5 per cent). > **TABLE 09**

Key figures – STILL –

TABLE 09

in € million	Q3 2016	Q3 2015	Change	Q1–Q3 2016	Q1–Q3 2015	Change
Order intake	512.2	485.7	5.4%	1,550.2	1,478.3	4.9%
Revenue	506.7	470.9	7.6%	1,497.6	1,416.5	5.7%
EBITDA	72.6	63.0	15.2%	192.7	174.5	10.5%
Adjusted EBITDA	71.8	64.5	11.4%	193.5	176.7	9.5%
EBIT	42.1	33.1	27.0%	101.0	85.3	18.5%
Adjusted EBIT	42.9	36.3	18.4%	106.5	92.1	15.6%
Adjusted EBITDA margin	14.2%	13.7%	–	12.9%	12.5%	–
Adjusted EBIT margin	8.5%	7.7%	–	7.1%	6.5%	–

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. In the year to date, it has benefited from steadily growing internal and external demand for financing solutions. Revenue in the long-term leasing business with external end customers advanced to €313.5 million (Q1–Q3 2015: €292.8 million). Total revenue including the short-term rental business, which is

managed by the LMH and STILL brand segments, amounted to €543.9 million (Q1–Q3 2015: €522.3 million). At €3.9 million, earnings before tax was at the level of the prior-year period (Q1–Q3 2015: €4.0 million). The return on equity (ROE) was 12.8 per cent (Q1–Q3 2015: 13.2 per cent).

There was further growth in the assets of the FS segment, which reached €1,725.4 million at the end of the third quarter (31 December 2015: €1,603.4 million). They were also significantly higher than they had been a year earlier (30 September 2015: €1,510.4 million).

As at 30 September 2016, the FS segment had intra-group lease receivables of €573.6 million from the LMH and STILL brand segments relating to the intra-group financing of the short-term rental fleet (31 December 2015: €549.2 million; 30 September 2015: €520.4 million). The funding of intra-group long-term leases (finance

leases) with LMH and STILL resulted in lease liabilities of €415.3 million (31 December 2015: €400.6 million; 30 September 2015: €375.0 million). Net financial debt amounted to €206.9 million at the end of September (31 December 2015: €185.6 million; 30 September 2015: €167.1 million). > **TABLE 10**

Key figures – Financial Services –

TABLE 10

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Revenue	175.4	192.9	–9.1%	543.9	522.3	4.1%
Adjusted EBITDA	25.2	22.4	12.8%	72.7	66.2	9.8%
Adjusted EBIT	–1.5	–0.6	<–100%	–3.5	–0.8	<–100%
Earnings before taxes (EBT)	1.3	1.3	–0.8%	3.9	4.0	–2.1%
Total segment assets	1,725.4	1,510.4	14.2%	1,725.4	1,510.4	14.2%
Leased assets	363.6	292.4	24.4%	363.6	292.4	24.4%
Lease receivables	1,250.8	1,101.7	13.5%	1,250.8	1,101.7	13.5%
thereof lease receivables from long-term leases to third parties	677.2	581.3	16.5%	677.2	581.3	16.5%
thereof lease receivables from LMH and STILL from funding of the short-term rental business	573.6	520.4	10.2%	573.6	520.4	10.2%
Lease liabilities ¹	1,350.8	1,173.1	15.1%	1,350.8	1,173.1	15.1%
thereof liabilities from funding of the long-term leases with third parties	935.4	798.2	17.2%	935.4	798.2	17.2%
thereof liabilities from funding of the short-term rental business of LMH and STILL	415.3	375.0	10.8%	415.3	375.0	10.8%
Net financial debt	206.9	167.1	23.8%	206.9	167.1	23.8%
Equity	44.6	44.0	1.4%	44.6	44.0	1.4%
Return on equity ²				12.8%	13.2%	–

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 are reported in the Other segment, as are the intralogistics activities of Egemin Automation. Retrotech Inc., which has been consolidated since 1 March 2016, is included under and reported

together with Egemin Automation. Revenue generated outside the KION Group totalled €88.1 million in the first nine months of the year (Q1 – Q3 2015: €25.8 million), of which €74.2 million was attributable to Egemin Automation (Q1 – Q3 2015: €12.2 million). The segment reported adjusted EBIT of €39.6 million (Q1 – Q3 2015: €34.9 million).

> TABLE 11

Key figures – Other –

TABLE 11

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Order intake	107.7	65.1	65.4%	296.8	173.5	71.0%
Revenue	96.8	67.7	43.0%	253.8	176.1	44.1%
EBITDA	31.8	25.0	27.0%	31.7	26.7	18.5%
Adjusted EBITDA	38.1	26.9	41.7%	53.6	47.7	12.3%
EBIT	26.0	20.3	28.0%	15.0	13.5	10.9%
Adjusted EBIT	33.3	22.5	47.7%	39.6	34.9	13.6%

FINANCIAL POSITION

The principles and objectives applicable to financial management as at 30 September 2016 were the same as those described in the 2015 group management report. The KION Group pursues a conservative financial policy of maintaining a strong cross-over credit profile with reliable access to debt capital markets.

To partly fund the acquisition of Dematic, the KION Group increased its share capital by 10.0 per cent against cash contributions. Including the share premium, the gross issue proceeds came to €459.3 million. The costs relating to the capital increase of €2.7 million were recognised in equity after subtraction of a tax benefit of €0.8 million. An agreement was reached for a firmly committed bridge loan of originally €3.0 billion as funding for the acquisition of Dematic. The agreed funding volume was reduced by the amount of the proceeds from the issue of shares and now stands at just over €2.5 billion.

In the first quarter of 2016, the KION Group had successfully ended the financing dating back to the time before the IPO and updated its financing structure with much better terms. The current senior facilities agreement comprises a revolving credit facility of

€1,150.0 million (maturing in February 2021) and a fixed-term tranche of €350.0 million (maturing in February 2019). KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the new senior facilities agreement and for compliance with the related covenants. All covenants were complied with as at 30 September 2016.

Analysis of capital structure

The total financial debt recognised came to €427.7 million as at 30 September 2016, which was considerably below the figure at the end of 2015 of €676.5 million. The proceeds from the capital increase have temporarily been used to repay current financial liabilities under the revolving credit facility until they can be put towards the funding of the Dematic acquisition in the fourth quarter. The bridge loan had still not been drawn down as at 30 September 2016.

After deduction of cash and cash equivalents of €230.2 million, net financial debt amounted to just €197.5 million, compared with €573.5 million at the end of last year. Net financial leverage as at 30 September 2016 had therefore fallen to 0.2 times adjusted EBITDA for the past twelve months. > TABLE 12

Net financial debt**TABLE 12**

in € million	30/09/2016	31/12/2015	Change
Corporate bond (2013/2020) – fixed rate (gross)	–	450.0	– 100.0%
Liabilities to banks (gross)	422.5	225.9	87.0%
Liabilities to non-banks (gross)	6.4	6.2	2.6%
./. Capitalised borrowing costs	– 1.1	– 5.5	79.4%
Financial debt	427.7	676.5	– 36.8%
./. Cash and cash equivalents	– 230.2	– 103.1	<– 100%
Net financial debt	197.5	573.5	– 65.6%

Pension provisions increased from €798.0 million as at 31 December 2015 to €1,053.2 million as at 30 September 2016 due to a lower level of interest rates. The lease liabilities resulting from sale and leaseback transactions used to fund long-term leases with end customers rose to €945.6 million (31 December 2015: €855.6 million) on the back of the expansion of financial services activities. Of this total, €680.6 million related to non-current lease liabilities and €265.0 million to current lease liabilities. Other financial liabilities also included liabilities of €419.8 million from sale and leaseback transactions used to finance the short-term rental fleet (31 December 2015: €403.2 million).

Equity was higher than at the end of 2015, advancing by €305.3 million to €2,154.0 million as at 30 September 2016 (31 December 2015: €1,848.7 million). This rise was predominantly attributable to the capital increase implemented in July 2016 (€457.4 million). However, the continuing low level of interest rates resulted in a €175.1 million reduction in equity in connection with pensions. Overall, items recognised directly in equity and the dividend payment decreased equity by a total of €316.6 million, which was partially offset by the good level of net income of €164.4 million. The equity ratio was 31.1 per cent (31 December 2015: 28.7 per cent).

> TABLE 13

Analysis of capital expenditure

The KION Group's total capital expenditure on property, plant and equipment and on intangible assets (excluding leased and rental assets) came to €100.9 million, compared with €90.5 million in the first three quarters of 2015. Once again, the main areas of spending were capitalised development costs in the LMH and STILL brand segments and the expansion and modernisation of production and technology sites.

Analysis of liquidity

The KION Group's net cash provided by operating activities totalled €332.5 million, which was below the comparable prior-year figure of €341.9 million. Despite the increased volume of business, working capital did not rise as much as it had in the prior-year period. The higher level of EBIT also had a positive impact in this regard. However, higher tax payments of €77.1 million (Q1–Q3 2015: €45.1 million) reduced the level of cash flow from operating activities.

(Condensed) statement of financial position – equity and liabilities

TABLE 13

in € million	30/09/2016	in %	31/12/2015	in %	Change
Equity	2,154.0	31.1%	1,848.7	28.7%	16.5%
Non-current liabilities	3,006.8	43.5%	2,860.0	44.4%	5.1%
thereof:					
Retirement benefit obligation	1,053.2	15.2%	798.0	12.4%	32.0%
Financial liabilities	379.3	5.5%	557.2	8.7%	–31.9%
Deferred tax liabilities	292.0	4.2%	302.7	4.7%	–3.5%
Lease liabilities	680.6	9.8%	617.7	9.6%	10.2%
Current liabilities	1,756.5	25.4%	1,731.5	26.9%	1.4%
thereof:					
Financial liabilities	48.4	0.7%	119.3	1.9%	–59.4%
Trade payables	615.4	8.9%	574.6	8.9%	7.1%
Lease liabilities	265.0	3.8%	237.9	3.7%	11.4%
Total equity and liabilities	6,917.2		6,440.2		7.4%

The net cash used for investing activities amounted to €267.3 million in the first nine months (Q1–Q3 2015: €302.6 million). In addition to the cash payments of €100.9 million for property, plant and equipment and for intangible assets, there were net cash payments of €148.3 million in relation to the expansion of the rental business (Q1–Q3 2015: €145.9 million). Total net cash of €27.4 million was used for acquisitions, of which €23.2 million related to the acquisition of Retrotech Inc. Cash payments for acquisitions in the prior-year period of €71.3 million had largely resulted from the acquisition of Egemin Automation.

Free cash flow – the sum of cash flow from operating activities and investing activities – was up year on year at €65.2 million (Q1–Q3 2015: €39.4 million).

Cash flow from financing activities was in positive territory at €63.9 million (Q1–Q3 2015: minus €36.7 million). As a result of the refinancing in February 2016, financial debt totalling €1,125.4 million

was taken up in the reporting period. This was more than offset by repayments of €1,398.5 million as financial liabilities were temporarily repaid at the time of the capital increase in July 2016. The distribution of a dividend of €0.77 per share resulted in an outflow of funds of €76.0 million (Q1–Q3 2015: €54.3 million). Net cash used for regular interest payments fell to €44.8 million in the reporting period (Q1–Q3 2015: €48.1 million). This amount included interest payments for the early repayment charge (€15.2 million) on the early repayment of the bond (€450.0 million, 6.75 per cent), which were made in connection with the reorganisation of the funding structure in February 2016. > TABLE 14

(Condensed) statement of cash flows

TABLE 14

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
EBIT	112.4	108.8	3.4%	318.2	290.2	9.6%
Cash flow from operating activities	141.0	170.7	– 17.4%	332.5	341.9	– 2.8%
Cash flow from investing activities	–65.3	– 140.6	53.6%	–267.3	–302.6	11.7%
Free cash flow	75.7	30.1	> 100%	65.2	39.4	65.7%
Cash flow from financing activities	71.0	12.9	> 100%	63.9	–36.7	> 100%
Effect of foreign exchange rate changes on cash	–0.8	–2.8	70.9%	–2.0	0.5	<– 100%
Change in cash and cash equivalents	145.9	40.2	> 100%	127.1	3.2	> 100%

NET ASSETS

Non-current assets had increased to €4,938.0 million as at 30 September 2016 (31 December 2015: €4,810.3 million). Intangible assets accounted for €2,480.1 million (31 December 2015: €2,452.5 million). Goodwill and the KION Group's brand names represented €2,183.0 million of that amount (31 December 2015: €2,152.2 million). This increase compared with 31 December 2015 was mainly attributable to the acquisition of Retrotech Inc.

Rental assets in the brand segments' short-term rental fleet rose to €561.7 million (31 December 2015: €544.0 million). Leased assets for leases with end customers that are classified as operating leases increased to €394.5 million (31 December 2015: €334.4 million). Long-term lease receivables arising from leases with end customers that are classified as finance leases advanced to €509.5 million (31 December 2015: €472.0 million).

Current assets rose to €1,979.2 million (31 December 2015: €1,629.9 million) owing to higher inventories and receivables. At €194.5 million, short-term lease receivables from end customers were also higher than at the end of last year (31 December 2015: €181.7 million).

The cash and cash equivalents available to the KION Group as at 30 September 2016 amounted to €230.2 million (31 December 2015: €103.1 million). The main influencing factor here was the inflow of cash from the capital increase. > **TABLE 15**

Non-financial performance indicators

EMPLOYEES

As at 30 September 2016, the KION Group employed 24,184 full-time equivalents (31 December 2015: 23,506). The increase in the number of employees is largely due to first-time consolidations and to growth in headcount in Europe. Personnel expenses rose by 6.8 per cent to €1,081.2 million in the first nine months of the year (Q1–Q3 2015: €1,012.5 million), mainly as a result of the rise in the number of employees (again partly due to consolidation effects) and changes to collective bargaining agreements. > **TABLE 16**

(Condensed) statement of financial position – assets

TABLE 15

in € million	30/09/2016	in %	31/12/2015	in %	Change
Non-current assets	4,938.0	71.4%	4,810.3	74.7%	2.7%
thereof:					
Goodwill	1,578.6	22.8%	1,548.1	24.0%	2.0%
Brand names	604.5	8.7%	604.1	9.4%	0.1%
Deferred tax assets	383.9	5.6%	349.0	5.4%	10.0%
Rental assets	561.7	8.1%	544.0	8.4%	3.3%
Leased assets	394.5	5.7%	334.4	5.2%	18.0%
Lease receivables	509.5	7.4%	472.0	7.3%	7.9%
Current assets	1,979.2	28.6%	1,629.9	25.3%	21.4%
thereof:					
Inventories	663.7	9.6%	553.5	8.6%	19.9%
Trade receivables	734.7	10.6%	670.5	10.4%	9.6%
Lease receivables	194.5	2.8%	181.7	2.8%	7.0%
Other current financial assets	70.6	1.0%	58.4	0.9%	20.7%
Cash and cash equivalents	230.2	3.3%	103.1	1.6%	> 100%
Total assets	6,917.2		6,440.2		7.4%

Employees (full-time equivalents)

TABLE 16

	30/09/2016	31/12/2015	Change
Western Europe	16,898	16,515	2.3%
Eastern Europe	2,092	1,921	8.9%
Americas	837	693	20.8%
Asia	3,770	3,812	-1.1%
Rest of world	587	565	3.9%
Total	24,184	23,506	2.9%

RESEARCH AND DEVELOPMENT

Total spending on research and development came to €100.9 million in the first nine months of 2016 (Q1–Q3 2015: €95.1 million), which remains unchanged at 2.6 per cent of revenue. The number of full-time jobs in R&D stood at 1,032 as at 30 September 2016 (31 December 2015: 1,056).

The key R&D projects relating to the reduction of emissions and fuel consumption, the modular and platform strategy, drive technology, automation and connectivity, and workplace safety and ergonomics continued.

An example in the area of safety is the Linde Safety Pilot assistance system, which Linde Material Handling has also been offering for IC truck models since July 2016. The system helps truck drivers to avoid operating and driving errors, thereby minimising the risk of accidents.

The new Linde E20R-E35R E truck optimised visibility and safety thanks to an innovative design that eliminates the A-pillar and an optional roof made from reinforced glass to protect the driver.

LMH has added a new function to the 'connect': fleet management system aimed at improving the efficiency of work processes. With the pre-op check app, a mobile device, such as a smartphone or tablet, can be used to carry out the check that is required by the rules of the DGUV (German Social Accident Insurance organisation) each time before a truck is used.

STILL has revised its RX 70 diesel/LPG forklift, introducing numerous improvements and reducing maintenance and operating costs. At the same time, the truck's performance has been increased, the ergonomics improved and the handling optimised.

Egemin has launched the E'tow® Easy Loop, a new standardised in-floor chain conveyor system that can be delivered and installed particularly quickly thanks to its predefined components. This virtually maintenance-free material handling solution is aimed primarily at logistics service providers. > **TABLE 17**

CUSTOMERS

The KION brand companies regularly exhibit at the industry's leading trade fairs and hold inhouse events for customers. This year, LMH, STILL and Egemin took part in the LogiMAT trade fair in Stuttgart, while STILL and Egemin were also represented at CeMAT in Hannover. Moreover, LMH held its World of Material Handling customer event and STILL hosted a customer day.

The KION brand companies regularly attract attention by winning awards. In July 2016, for example, STILL received the Red Dot Award: Product Design 2016 for the EXV-SF pallet stacker. The Red Dot Award: Product Design is a mark of quality awarded only to products whose design is considered outstanding.

Research and development (R&D)

TABLE 17

in € million	Q3 2016	Q3 2015	Change	Q1 – Q3 2016	Q1 – Q3 2015	Change
Research and development costs (P&L)	33.0	35.4	–6.8%	105.0	106.1	–1.1%
Amortisation expense (R&D)	–12.5	–13.6	7.7%	–37.1	–39.7	6.4%
Capitalised development costs	12.9	9.1	41.1%	33.1	28.7	15.5%
Total R&D spending	33.4	31.0	7.8%	100.9	95.1	6.1%
R&D spending as percentage of revenue	2.6%	2.5%	–	2.6%	2.6%	–

OUTLOOK, RISK REPORT AND OPPORTUNITY REPORT

Outlook

FORWARD-LOOKING STATEMENTS

The forward-looking statements and information given below are based on the Company's current expectations and assessments. Consequently, they involve a number of risks and uncertainties. Many factors, several of which are beyond the control of the KION Group, affect the Group's business activities and profitability. 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 2015 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 good business and earnings performance in the first nine months of 2016, the KION Group is confirming the outlook for 2016 as a whole that was published in the 2015 group management report. The effects of the planned acquisition of Dematic have not yet been taken into account because the transaction has not yet been closed.

In 2016, the Group aims to build on its successful performance in 2015 and, based on the forecasts for market growth, achieve further increases in order intake, revenue and adjusted EBIT. Order intake is expected to be between €5,350 million and €5,500 million. The target figure for consolidated revenue is in the range of €5,200 million to €5,350 million. The KION Group predicts higher volumes of revenue and orders, particularly in western Europe.

The targeted range for adjusted EBIT is €510 million to €535 million. The adjusted EBIT margin is predicted to increase above the margin of 9.5 per cent that was generated in 2015. This improvement will stem from significant positive effects, such as a further increase in the efficiency of the production network. Free cash flow is expected to be in a range between €280 million and €320 million after taking account of the acquisition of Retrotech Inc. ROCE is expected to go up slightly. The forecast is based on the assumption that material prices will hold steady and the current exchange rate environment will remain as it is.

Opportunity and risk report

The KION Group's overall risk and opportunity situation has not changed significantly compared with the description in the 2015 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.