Quarterly statement

HIGHLIGHTS OF Q3 2017

- The Industrial Trucks & Services segment continues to grow strongly in the third quarter
- The Supply Chain Solutions segment's adjusted EBIT margin improves to 11.4 per cent
- Total value of order intake grows to €1.847 billion between July and September
- Revenue rises to €1.847 billion
- KION Group's adjusted EBIT margin improves from 9.9 per cent to 10.5 per cent despite higher cost of materials
- Net income for the period rises to €80.2 million
- Free cash flow of €119.9 million in the first nine months
- Group outlook adjusted slightly after weaker growth in the Supply Chain Solutions segment

FUNDAMENTALS OF THE QUARTERLY STATEMENT

The accounting policies used in this quarterly statement for Q1 – Q3 2017 are fundamentally the same as those used for the year ended 31 December 2016. The reporting currency is the euro. The information on the segments (Industrial Trucks & Services, Supply Chain Solutions and Corporate Services) is presented in accordance with the organisational structure of the KION Group as detailed in the 2016 annual report. The figures reported for the prior-year period (Q1 – Q3 2016) relating to the Group and the Supply Chain Solutions segment exclude Dematic, which was acquired on 1 November 2016.

SUMMARY OF BUSINESS PERFORMANCE

Sales markets

The global market for industrial trucks continued to expand rapidly in the third quarter of 2017. Overall, the number of new trucks ordered in the first nine months of this year was up by 16.8 per cent compared with the prior-year period. The total number of trucks ordered across all regions and product types was 1,026.6 thousand (Q1 – Q3 2016: 878.9 thousand).

Global industrial truck market (order intake)* TABLE 01

in thousand units	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Western Europe	86.9	79.8	8.9%	291.9	267.8	9.0%
Eastern Europe	19.9	17.5	14.1%	57.8	47.2	22.4%
Middle East and Africa	9.2	8.3	11.8%	27.9	25.3	10.3%
North America	63.3	63.9	–0.9%	193.9	185.5	4.6%
Central and South America	10.0	7.5	32.4%	27.0	21.4	26.2%
Asia-Pacific	143.1	111.0	29.0%	428.0	331.8	29.0%
World	**332.5**	**287.9**	**15.5%**	**1,026.6**	**878.9**	**16.8%**

* Country allocation according to new regional governance
Source: WITS/FEM

The EMEA region (western Europe, eastern Europe, Middle East and Africa) generated growth of 11.0 per cent. In western Europe (growth of 9.0 per cent), growth in the volume of orders was particularly strong in France and Spain, whereas Germany and Italy saw more moderate rises and the UK market was stable. The increases in orders in the key markets in eastern Europe (growth of 22.4 per cent) were well into double digits. Orders in North America, Central America and South America (Americas region) were up by 6.8 per cent overall, with South America's growth mainly being driven by the upward trend in Brazil. The APAC region (Asia-Pacific) advanced by a total of 29.0 per cent in the first nine months of the year, primarily because of further dynamic growth in China.

In terms of volume increases, the biggest rise was attributable to IC trucks, which were up by 21.1 per cent in the first nine months of the year after benefiting from strong demand in China. Sales of electric forklift trucks were up by 13.5 per cent globally and were the fastest-growing product segment in Europe, while sales of warehouse trucks advanced by 14.5 per cent overall. > TABLE 01

The rapid expansion of e-commerce and the increasing use of Industry 4.0 technologies continue to shape the market for warehouse systems and automation solutions. Many businesses are currently investing in the expansion and optimisation of their warehouse capacities and in automated warehouse systems that include not only solutions for individual processes, such as picking and packing, but also fully integrated end-to-end solutions.

Business performance in the Group

The companies in the KION Group continued to expand their business activities in the third quarter. In the Industrial Trucks & Services segment, Linde Material Handling began selling electric forklift trucks with more powerful lithium-ion batteries in the fast-growing two to three tonne load capacity range. A new solution for palette handling and order picking in narrow aisles was also brought to the market. STILL expanded its product range with new ride-on pallet trucks and pallet stackers that will increase handling capacities.

In September, Dematic signed a global agreement with the Norwegian warehouse systems provider AutoStore®, thereby expanding its range of integrated omni-channel solutions with an ultracompact goods-to-person warehouse order picking system. Around the world, Dematic will be offering a system solution as well as extensive services. Further supply chain projects were realised within the KION group of companies. For example, STILL and Egemin worked with Audi to produce a design for a fully automated smart factory. The integration of Egemin and Retrotech into the Dematic Group proceeded according to plan in the third quarter and will be completed by the end of 2017. Now that it includes Dematic and Egemin, the KION Group is one of the world's largest suppliers of automated guided vehicles.

FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Business situation and financial performance of the KION Group

Level of orders

Order intake increased to €5,699.5 million, which was up by 40.7 per cent compared with the prior-year period due to organic growth and acquisitions (Q1–Q3 2016: €4,050.4 million excluding Dematic). The order intake of the Industrial Trucks & Services segment amounted to €4,279.9 million, a significant year-on-year rise of 9.2 per cent (Q1–Q3 2016: €3,919.4 million). The Supply Chain Solutions segment, which comprises Dematic (since November 2016) including Egemin Automation and Dematic Retrotech (since March 2016), recorded project orders totalling €1,406.3 million (Q1–Q3 2016: €117.9 million). At €2,186.4 million, the KION Group order book was slightly below the high level seen at the end of last year (31 December 2016: €2,244.7 million).

Revenue

Organic growth in the Industrial Trucks & Services segment and the inclusion of Dematic in the Supply Chain Solutions segment caused the KION Group's consolidated revenue to rise by 47.5 per cent to €5,675.2 million (Q1–Q3 2016: €3,847.7 million excluding Dematic). At 38.7 per cent, the share of consolidated revenue attributable to the service business was below the prior-year level because of the addition of project business (Q1–Q3 2016: share of 45.2 per cent excluding Dematic).

Revenue with third parties in the Industrial Trucks & Services segment was up by 8.2 per cent year on year to €4,067.5 million (Q1–Q3 2016: €3,759.6 million). The Supply Chain Solutions segment generated revenue of €1,590.2 million (Q1–Q3 2016: €74.2 million excluding Dematic), representing 28.0 per cent of consolidated revenue. > TABLE 02

Revenue with third parties by product category TABLE 02

in € million	Q3 2017	Q3 2016	Change	Q1–Q3 2017	Q1–Q3 2016	Change
Industrial Trucks & Services	**1,328.3**	**1,251.3**	**6.1%**	**4,067.5**	**3,759.6**	**8.2%**
New business	712.4	676.0	5.4%	2,238.6	2,046.6	9.4%
Service business	615.9	575.3	7.0%	1,828.9	1,712.9	6.8%
– Aftersales	350.2	333.3	5.1%	1,050.9	1,001.0	5.0%
– Rental business	155.3	142.7	8.8%	454.3	410.9	10.6%
– Used trucks	74.8	67.4	11.1%	221.0	212.0	4.3%
– Other	35.5	31.9	11.2%	102.7	89.1	15.3%
Supply Chain Solutions	**513.0**	**27.0**	**>100%**	**1,590.2**	**74.2**	**>100%**
Business Solutions	377.6	17.6	>100%	1,220.2	47.5	>100%
Service business	135.3	9.4	>100%	369.9	26.7	>100%
Corporate Services	**6.2**	**4.9**	**25.4%**	**17.5**	**13.9**	**26.2%**
Total revenue	**1,847.4**	**1,283.2**	**44.0%**	**5,675.2**	**3,847.7**	**47.5%**

Revenue with third parties by customer location TABLE 03

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Western Europe	1,075.7	942.2	14.2%	3,378.4	2,860.8	18.1%
Eastern Europe	132.4	113.3	16.8%	380.4	319.4	19.1%
Middle East and Africa	38.5	20.1	92.0%	119.6	63.0	89.8%
North America	340.7	29.8	>100%	991.3	95.0	>100%
Central and South America	41.7	39.5	5.6%	120.6	108.6	11.0%
Asia-Pacific	218.5	138.3	58.0%	684.9	400.9	70.8%
Total revenue	**1,847.4**	**1,283.2**	**44.0%**	**5,675.2**	**3,847.7**	**47.5%**

Revenue by customer location

The increase in revenue in EMEA, which remains the KION Group's biggest sales region, was primarily driven by the Industrial Trucks & Services segment after it achieved significant increases in revenue in countries including Germany, France, Italy and Spain. In addition, Dematic's contribution in the Supply Chain Solutions segment had an impact.

In APAC and the Americas, contributions from Dematic were the main reason for the growth in revenue, whereas the Industrial Trucks & Services segment in these regions benefited from strong market growth in China and also gained market share in North America.

For the KION Group as a whole, 20.4 per cent of revenue in the reporting period (Q1 – Q3 2016: 23.7 per cent) was accounted for by fast-growing markets. Overall, 81.9 per cent of revenue (Q1 – Q3 2016: 75.1 per cent) was generated outside Germany. > TABLE 03

Earnings

EBIT and EBITDA

Earnings before interest and tax (EBIT) reached €395.6 million, which was 24.3 per cent above the figure for the same period of the previous year (Q1 – Q3 2016: €318.2 million excluding Dematic). EBIT for the current year includes the negative purchase price allocation effects of €139.5 million (Q1 – Q3 2016: negative effects of €20.2 million), which were largely attributable to the acquisition of Dematic. Further non-recurring items (negative effects of €26.8 million) were incurred in connection with the integration of Dematic and with the start-up costs for the new factory in the Mexican city of Monterrey. Adjusted for these effects, EBIT stood at €561.8 million, up by 53.4 per cent on the prior-year figure (Q1 – Q3 2016: €366.1 million). The adjusted EBIT margin rose to 9.9 per cent in the period under review (Q1 – Q3 2016: 9.5 per cent). > TABLE 04

Earnings before interest, tax, depreciation and amortisation (EBITDA) improved to €869.9 million, compared with €630.6 million in the corresponding period of 2016. Adjusted EBITDA came to €898.5 million (Q1 – Q3 2016: €654.0 million). This equates to an adjusted EBITDA margin of 15.8 per cent (Q1 – Q3 2016: 17.0 per cent excluding Dematic). > TABLE 05

EBIT TABLE 04

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
EBIT	**135.3**	**112.4**	**20.4%**	**395.6**	**318.2**	**24.3%**
+ Non-recurring items	11.5	7.7	49.4%	26.8	27.7	–3.3%
+ PPA items	47.9	6.6	>100%	139.5	20.2	>100%
Adjusted EBIT	**194.7**	**126.8**	**53.6%**	**561.8**	**366.1**	**53.4%**

EBITDA TABLE 05

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
EBITDA	**296.2**	**217.9**	**35.9%**	**869.9**	**630.6**	**37.9%**
+ Non-recurring items	11.5	6.2	85.6%	26.7	23.4	14.3%
+ PPA items	1.9	0.0	–	1.9	0.0	–
Adjusted EBITDA	**309.5**	**224.1**	**38.1%**	**898.5**	**654.0**	**37.4%**

Key influencing factors for earnings

The higher volume of revenue was offset by a rise in the cost of sales, which went up by 54.4 per cent to €4,218.4 million (Q1 – Q3 2016: €2,732.9 million excluding Dematic). In addition to the first-time consolidation of Dematic, an increase in the price of materials had the biggest effect on the cost of sales. Currency effects related to pound sterling also had a negative impact, affecting overall earnings in the period under review. At 25.7 per cent, the gross margin was below the figure for the prior-year period (Q1 – Q3 2016: 29.0 per cent). This was compensated for by the disproportionately low increase in selling expenses and administrative expenses, whereas development costs were up by 52.6 per cent year on year (excluding Dematic). The 'Other' line item, amounting to €13.7 million (Q1 – Q3 2016: €37.1 million), included the share of profit (loss) of equity-accounted investments, which came to a profit of €12.6 million (Q1 – Q3 2016: €9.9 million).

The change in the cost of sales and in other functional costs is shown in > TABLE 06.

(Condensed) income statement TABLE 06

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Revenue	1,847.4	1,283.2	44.0%	5,675.2	3,847.7	47.5%
Cost of sales	–1,353.2	–904.2	–49.7%	–4,218.4	–2,732.9	–54.4%
Gross profit	**494.2**	**379.0**	**30.4%**	**1,456.8**	**1,114.8**	**30.7%**
Selling expenses and administrative expenses	–313.1	–254.8	–22.9%	–971.4	–765.8	–26.9%
Research and development costs	–37.7	–20.5	–84.0%	–103.5	–67.8	–52.6%
Other	–8.1	8.7	<–100%	13.7	37.1	–63.2%
Earnings before interest and taxes (EBIT)	**135.3**	**112.4**	**20.4%**	**395.6**	**318.2**	**24.3%**
Net financial expenses	–17.2	–16.4	–5.3%	–61.8	–79.6	22.3%
Earnings before taxes	**118.1**	**96.1**	**22.9%**	**333.7**	**238.6**	**39.9%**
Income taxes	–38.0	–28.7	–32.0%	–103.3	–74.2	–39.2%
Net income for the period	**80.2**	**67.3**	**19.0%**	**230.4**	**164.4**	**40.2%**

Net financial expenses

The net financial expenses, representing the balance of financial income and financial expenses, improved to €61.8 million thanks to the optimised financing structure (Q1 – Q3 2016: €79.6 million). These expenses include transaction costs of €2.7 million that were recognised in connection with the early repayment of financial liabilities. The prior-year figure included one-off financial expenses of €25.7 million, which were also incurred in connection with the optimisation of the financing structure.

Income taxes

Income tax expenses amounted to €103.3 million (Q1 – Q3 2016: €74.2 million). This resulted in a tax rate of 31.0 per cent (Q1 – Q3 2016: 31.1 per cent).

Net income for the period

The KION Group's net income after taxes for the first three quarters of 2017 was €230.4 million (Q1 – Q3 2016: €164.4 million). Earnings per share attributable to the shareholders of KION GROUP AG came to €2.03 (Q1 – Q3 2016: €1.59) based on an average 113.1 million (Q1 – Q3 2016: 101.5 million) no-par-value shares.

Business situation and financial performance of the segments

Industrial Trucks & Services segment

Business performance and order intake

The Operating Units in the Industrial Trucks & Services segment saw orders for new trucks go up by a total of 13.8 per cent to 147.7 thousand units in the first nine months of 2017. Growth rates were in the double digits across the regions and product categories. Measured by the number of units ordered, 62.0 per cent of the new business was accounted for by the Linde brand including Fenwick, 31.0 per cent by the STILL brand including OM STILL and the remaining 7.0 per cent by the brands Baoli and OM Voltas. The total value of order intake rose by 9.2 per cent to €4,279.9 million (Q1 – Q3 2016: €3,919.4 million). > TABLE 07

Key figures – Industrial Trucks & Services – TABLE 07

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Order intake	1,351.6	1,284.2	5.2%	4,279.9	3,919.4	9.2%
Total revenue	1,329.9	1,252.0	6.2%	4,070.1	3,760.7	8.2%
EBITDA	255.9	236.3	8.3%	751.5	684.0	9.9%
Adjusted EBITDA	256.6	236.2	8.6%	752.2	685.5	9.7%
EBIT	151.6	136.7	11.0%	447.0	388.3	15.1%
Adjusted EBIT	152.5	143.7	6.1%	448.3	411.5	8.9%
Adjusted EBITDA margin	19.3%	18.9%	–	18.5%	18.2%	–
Adjusted EBIT margin	11.5%	11.5%	–	11.0%	10.9%	–

Revenue

The total revenue of the Industrial Trucks & Services segment advanced to €4,070.1 million, an increase of 8.2 per cent compared with the first nine months of last year (Q1 – Q3 2016: €3,760.7 million). The main factor here was the strong growth in the new trucks business in western Europe, which was up by 9.4 per cent. By far the biggest share of this increase in revenue was attributable to electric forklift trucks and warehouse trucks. The aftersales business and rental business were the primary contributors to the 6.8 per cent revenue gain in the service business. At 45.0 per cent, the proportion of the segment's external revenue accounted for by the service business was on a par with the prior year (Q1 – Q3 2016: 45.6 per cent).

Earnings

The growth in revenue meant that adjusted EBIT, at €448.3 million, was 8.9 per cent higher than in the prior-year period despite negative currency effects related to pound sterling (Q1 – Q3 2016: €411.5 million). Despite the increase in the price of materials, the segment's adjusted EBIT margin rose by 0.1 per cent year on year to reach 11.0 per cent. EBIT, taking into account non-recurring items and purchase price allocation effects, stood at €447.0 million (Q1 – Q3 2016: €388.3 million).

Adjusted EBITDA stood at €752.2 million (Q1 – Q3 2016: €685.5 million). This equated to an adjusted EBITDA margin of 18.5 per cent (Q1 – Q3 2016: 18.2 per cent).

Key figures – Supply Chain Solutions – TABLE 08

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Order intake	492.7	38.1	>100%	1,406.3	117.9	>100%
Total revenue	514.2	27.2	>100%	1,593.2	74.8	>100%
EBITDA	55.5	–0.5	>100%	156.3	–3.0	>100%
Adjusted EBITDA	66.0	–0.5	>100%	175.3	–2.6	>100%
EBIT	2.4	–1.8	>100%	–1.8	–6.5	73.1%
Adjusted EBIT	58.7	–0.8	>100%	154.2	–3.3	>100%
Adjusted EBITDA margin	12.8%	–1.9%	–	11.0%	–3.4%	–
Adjusted EBIT margin	11.4%	–2.9%	–	9.7%	–4.4%	–

Supply Chain Solutions segment

Business performance and order intake

In the Supply Chain Solutions segment, the project and service business generated orders worth €1,406.3 million in the first three quarters of 2017 (Q1 – Q3 2016: €117.9 million excluding Dematic). > TABLE 08

Revenue

The segment reported total revenue of €1,593.2 million (Q1 – Q3 2016: €74.8 million excluding Dematic). 76.7 per cent of this was attributable to the long-term project business (Business Solutions). More than half the revenue was generated in North America.

Earnings

The adjusted EBIT of €154.2 million (Q1–Q3 2016: minus €3.3 million excluding Dematic) resulted in an adjusted EBIT margin of 9.7 per cent (Q1 – Q3 2016: minus 4.4 per cent). The negative effects of the purchase price allocation (PPA) amounted to €138.8 million. The non-recurring items incurred in connection with the integration of Dematic and the start-up costs for the factory in Monterrey, Mexico, came to €17.1 million. Without adjusting for these effects, EBIT stood at minus €1.8 million (Q1 – Q3 2016: minus €6.5 million).

Adjusted EBITDA amounted to €175.3; the adjusted EBITDA margin was 11.0 per cent.

Corporate Services segment

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

Revenue and earnings

The segment's total revenue, which was primarily generated by internal IT and logistics services, increased to €200.1 million (Q1 – Q3 2016: €178.8 million). The adjusted EBIT for the segment of €269.0 million (Q1 – Q3 2016: €41.5 million) includes intra-group dividend income of €309.6 million (Q1 – Q3 2016: €82.9 million). Adjusted EBITDA came to €280.7 million (Q1 – Q3 2016: €54.6 million). > TABLE 09

Net assets

As part of the finalisation of the purchase price allocation (PPA) of the acquisition of Dematic in the third quarter, the intangible assets were allocated to individual companies. This adjustment resulted in a reduction of deferred tax liabilities and a corresponding decline of €13.1 million in goodwill. As a result of the retrospective restatement of the purchase price allocation as at 1 November 2016, adjustments were also made to the carrying amounts as at 31 December 2016. Currency translation effects as at 31 December 2016 fell by a total of

Key figures – Corporate Services –

TABLE 09

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Order intake	70.2	69.6	0.9%	200.1	178.9	11.8%
Total revenue	70.2	69.5	0.9%	200.1	178.8	11.9%
EBITDA	9.4	31.4	–70.0%	271.8	33.2	>100%
Adjusted EBITDA	11.6	37.7	–69.1%	280.7	54.6	>100%
EBIT	6.0	26.9	–77.7%	260.1	20.0	>100%
Adjusted EBIT	8.2	33.2	–75.2%	269.0	41.5	>100%

(Condensed) statement of financial position

TABLE 10

in € million	30/09/2017	in %	31/12/2016	in %	Change
Non-current assets[1]	8,632.4	77.0%	8,942.4	79.2%	–3.5%
Current assets	2,575.1	23.0%	2,354.6	20.8%	9.4%
Total assets[1]	**11,207.5**	**–**	**11,297.0**	**–**	**–0.8%**
Equity[1]	3,019.4	26.9%	2,495.7	22.1%	21.0%
Non-current liabilities[1]	5,457.7	48.7%	6,128.9	54.3%	–11.0%
Current liabilities	2,730.4	24.4%	2,672.5	23.7%	2.2%
Total equity and liabilities[1]	**11,207.5**	**–**	**11,297.0**	**–**	**–0.8%**

1 Last year figures were adjusted due to retrospective changes of the purchase price allocation (PPA) for Dematic

€39.4 million because goodwill and other intangible assets had been allocated to individual companies for the purposes of foreign currency translation.

Overall, net assets changed only marginally in the third quarter. Over the nine-month period, non-current assets declined to €8,632.4 million (31 December 2016: €8,942.4 million). Intangible assets accounted for €5,769.0 million as at 30 September 2017 (31 December 2016: €6,175.6 million). Within that amount, goodwill and the KION Group's brand names fell to €4,346.4 million, largely due to exchange-rate effects (31 December 2016: €4,527.2 million).

Rental assets stood at €608.7 million as at 30 September 2017 (31 December 2016: €575.3 million). Leased assets for leases with end customers that are classified as operating leases rose to €483.4 million (31 December 2016: €429.7 million). Long-term lease receivables arising from leases with end customers that are classified as finance leases were also higher than at the end of last year at €570.0 million (31 December 2016: €531.3 million).

Current assets stood at €2,575.1 million, which was higher than at the end of 2016 (31 December 2016: €2,354.6 million). The increase in inventories in the Industrial Trucks & Services segment was one of the influencing factors here. As at 30 September 2017, the KION Group's net working capital of €745.5 million was significantly higher than at the end of last year (31 December 2016: €495.9 million). Cash and cash equivalents declined to €187.9 million (31 December 2016: €279.6 million). > TABLE 10

Financial position

The KION Group's financial position changed only marginally in comparison with the half-year report for 2017. The bridge loan taken out to fund the acquisition of Dematic (acquisition facilities agreement, AFA), which was greatly reduced in the first half of the year, still had a residual amount of €1,000.0 million (31 December 2016: €2,543.2 million). A further financing component is the promissory note issued in the first quarter of 2017 with a nominal value of €1,010.0 million. The fixed-term tranche drawn down under the senior facilities agreement (SFA), which was reduced by €80.0 million in the first half of the year, was unchanged at €270.0 million.

KION GROUP AG has issued guarantees to the banks for all of the payment obligations under the bridge loan and senior facilities agreement; it is the borrower in respect of all the payment obligations resulting from the promissory note. All covenants were again complied with as at 30 September 2017.

Analysis of capital structure

Current and non-current liabilities had fallen to €8,188.1 million as at 30 September 2017 (31 December 2016: €8,801.3 million).

The financial liabilities recognised under liabilities declined to €2,512.3 million as a result of the capital increase carried out in May 2017 (31 December 2016: €3,183.0 million). After deduction of cash and cash equivalents, net financial debt amounted to €2,324.4 million (31 December 2016: €2,903.4 million). This equated to 2.0 times the adjusted EBITDA on an annualised basis.

Non-current financial liabilities net of borrowing costs were virtually unchanged on the position as at 30 June 2017 at €2,271.1 million. The unused, unrestricted SFA loan facility stood at €965.0 million as at 30 September 2017. > TABLE 11

Net financial debt TABLE 11

in € million	30/09/2017	31/12/2016	Change
Liabilities to banks (gross)	1,505.1	3,188.6	–52.8%
Promissory note – gross	1,010.0	–	–
Other financial liabilities to non-banks	7.2	7.2	–0.9%
./. Capitalised borrowing costs	–9.9	–12.9	22.7%
Financial liabilities	**2,512.3**	**3,183.0**	**–21.1%**
./. Cash and cash equivalents	–187.9	–279.6	32.8%
Net financial debt	**2,324.4**	**2,903.4**	**–19.9%**

Due to the slightly higher discount rate, the retirement benefit obligation under defined benefit pension plans fell to €959.7 million (31 December 2016: €991.0 million).

Lease liabilities arising from sale and leaseback transactions to fund the long-term leasing business with end customers increased to €1,060.0 million (31 December 2016: €1,007.2 million). Of this amount, €742.9 million related to non-current and €317.2 million to current lease liabilities.

The liabilities from the short-term rental fleet and from procurement leases are reported under other financial liabilities. As at 30 September 2017, other financial liabilities included liabilities of €451.9 million (31 December 2016: €440.0 million) arising from sale-and-leaseback transactions used to finance the short-term rental fleet. The other financial liabilities also included liabilities from residual value guarantees amounting to €17.4 million (31 December 2016: €16.7 million).

Consolidated equity stood at €3,019.4 million as at 30 September 2017 (31 December 2016: €2,495.7 million). The capital increase in the second quarter resulted in a rise of €599.9 million, whereas currency translation effects (minus €271.9 million) had an adverse impact on equity during the period under review. The equity ratio increased from 22.1 per cent at the end of 2016 to 26.9 per cent as at 30 September 2017. > TABLE 10

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 €144.0 million in the first nine months of the year, compared with €100.9 million in the first nine months of 2016. Once again, the main areas of spending in the Industrial Trucks & Services segment were capitalised development costs in the LMH EMEA and STILL EMEA Operating Units and the expansion and modernisation of production and technology sites. Capital expenditure in the Supply Chain Solutions segment related to capitalised development costs and, above all, to software, licences and the new production facility in the Czech Republic.

Analysis of liquidity

Cash and cash equivalents decreased from €279.6 million as at 31 December 2016 to €187.9 million as at 30 September 2017. Taking into account the credit facility that was still freely available, the unrestricted cash and cash equivalents available to the KION Group at the end of the third quarter amounted to €1,150.4 million (31 December 2016: €1,200.8 million).

The KION Group's net cash provided by operating activities totalled €271.4 million, which exceeded the prior-year figure of €184.2 million due to a further rise in earnings and margins. While the growth in earnings made a positive contribution, there was a negative impact from the significant increase in net working capital.

The net cash used for investing activities amounted to €151.5 million in the first nine months of 2017 (Q1 – Q3 2016: €119.0 million). Cash payments for capital expenditure on development (R&D) and for property, plant and equipment amounted to €144.0 million (Q1 – Q3 2016: €100.9 million) and during the reporting period also included capital expenditure by Dematic. In the prior-year period, the €27.4 million in cash used for acquisitions was mainly attributable to Retrotech.

Free cash flow – the sum of cash flow from operating activities and investing activities – amounted to €119.9 million (Q1 – Q3 2016: €65.2 million).

The net cash used for financing activities amounted to €200.1 million (Q1 – Q3 2016: net cash provided by financing activities of €63.9 million). In addition to the dividend payment of €86.9 million, gross financial debt of €2,734.4 million was repaid. This gross repayment amount included the repayment of the bridge loan as well as the refinancing measures that were carried out. Of the gross additional financial debt of €2,058.2 million, €1,010.0 million was attributable to the issuance in the first quarter of 2017 of the promissory note. The capital increase in May generated a further net inflow of €598.6 million.

Thanks to the optimised financing structure and the aforementioned corporate actions, regular interest payments rose only moderately – despite the overall increase in net debt in comparison with 30 September 2016 – to €39.1 million (Q1 – Q3 2016: €29.6 million excluding the early redemption charge paid of €15.2 million). > TABLE 12

(Condensed) statement of cash flows TABLE 12

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
EBIT	135.3	112.4	20.4%	395.6	318.2	24.3%
Cash flow from operating activities	70.7	107.6	–34.3%	271.4	184.2	47.4%
Cash flow from investing activities	–51.4	–31.9	–60.9%	–151.5	–119.0	–27.4%
Free cash flow	**19.3**	**75.7**	**–74.5%**	**119.9**	**65.2**	**83.8%**
Cash flow from financing activities	15.8	71.0	–77.7%	–200.1	63.9	<–100%
Effect of foreign exchange rate changes on cash	–4.2	–0.8	<–100%	–11.5	–2.0	<–100%
Change in cash and cash equivalents	**30.9**	**145.9**	**–78.8%**	**–91.7**	**127.1**	**<–100%**

Long-term leasing business

The sales activities of the KION Group are supported by financial services in connection with direct long-term leasing business. In this business, trucks leased directly to the end customer are refinanced by the KION Group. The portfolio of the long-term leasing business, which supports the KION Group's sales activities, continued to be focused predominantly in western Europe as at 30 September 2017.

The long-term leasing business had a positive impact on the KION Group's financial performance (> TABLE 13) in the first nine months of 2017 and also influenced its financial position (> TABLE 14). This information is taken from the internal reporting system and is determined using the assumption of a minimum rate of return on the capital employed. Net financial debt relating to the long-term leasing business increased to €130.6 million (31 December 2016: €106.3 million). > TABLE 15

Profitability of long-term leasing business

TABLE 13

in € million	Q3 2017	Q3 2016	Change	Q1 – Q3 2017	Q1 – Q3 2016	Change
Revenue	145.2	124.7	16.5%	375.1	331.8	13.1%
Adjusted EBITDA	30.2	25.8	17.3%	88.3	73.2	20.7%
Adjusted EBIT	0.1	1.2	–89.9%	2.3	4.2	–44.3%
Earnings before taxes (EBT)	1.3	1.2	11.9%	3.7	3.2	15.4%

Financial position of long-term leasing business

TABLE 14

in € million	30/09/2017	31/12/2016	Change
Liabilities to banks	130.6	106.3	22.9%
Liabilities from financial services	33.7	8.3	>100%
Lease liabilities	1,060.0	1,007.2	5.2%
Calculatory equity	43.0	39.4	9.2%
Total	**1,267.3**	**1,161.2**	**9.1%**
Leased assets	483.4	429.7	12.5%
Lease receivables	783.9	731.5	7.2%
Total	**1,267.3**	**1,161.2**	**9.1%**

Refinancing of long-term leasing business TABLE 15

in € million	30/09/2017 KION Group	30/09/2017 thereof non-current leasing business	31/12/2016 KION Group	31/12/2016 thereof non-current leasing business
Liabilities to banks	1,505.1	130.6	3,188.6	106.3
Promissory note – gross	1,010.0	–	–	–
Other financial liabilities to non-banks	7.2	–	7.2	–
./. Capitalised borrowing costs	–9.9	–	–12.9	–
Financial liabilities	**2,512.3**	**130.6**	**3,183.0**	**106.3**
./. Cash and cash equivalents	–187.9	–	–279.6	–
Net financial liabilities	**2,324.4**	**130.6**	**2,903.4**	**106.3**
Lease liabilities	1,060.0	1,060.0	1,007.2	1,007.2
Liabilities from financial services	33.7	33.7	8.3	8.3
Interest-bearing net liabilities	**3,418.1**	**1,224.4**	**3,918.9**	**1,121.8**
Liabilities from short-term rental financing	469.3	–	456.7	–
Liabilities from procurement leases	27.0	–	21.0	–
Liabilities from finance leases	**496.3**	**–**	**477.7**	**–**
Net operating debt	**3,914.5**	**1,224.4**	**4,396.6**	**1,121.8**

OUTLOOK

Based on the results for Q1-Q3 2017 the KION Group has slightly adjusted its outlook for the current financial year.

The outlook has been adjusted because order intake and revenue in the Supply Chain Solutions segment fell short of expectations. Growth in the Industrial Trucks & Services segment was unable to compensate, even though it was stronger than anticipated. The weaker performance in the Supply Chain Solutions segment is mainly attributable to customers' hesitation to invest and delayed project decisions by customers.

Order intake for the Group is now expected to be between €7,550 and €7,900 million (previously €7,800 to €8,250 million). The target figure for consolidated revenue is in the range of €7,400 to €7,700 million (previously €7,500 to €7,950 million). The target range for adjusted EBIT is between €715 and €765 million (previously €740 to €800 million). Free cash flow is expected to be in a range between €320 and €380 million (previously €370 to €430 million). The target figure for ROCE is in the range of 9.0 to 10.0 per cent (previously 9.5 to 10.5 per cent).

Order intake of the Industrial Trucks & Services segment is expected to be between €5,650 and €5,800 million (previously €5,450 to €5,600 million). The target figure for revenue is in the range of €5,450 to €5,600 million (previously €5,300 to €5,450 million). The target range for adjusted EBIT remains unchanged at €605 to €630 million.

Order intake of the Supply Chain Solutions segment is expected to be between €1,900 and €2,100 million (previously €2,350 to €2,650 million). The target figure for revenue is in the range of €1,950 to €2,100 million (previously €2,200 to €2,500 million). The target range for adjusted EBIT is between €170 and €195 million (previously €195 to €230 million).

The outlook is based on the assumptions that material prices will not increase any further and that the exchange rate environment will remain stable.

Actual business performance may deviate from our forecasts due, among other factors, to the opportunities and risks described in the 2016 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.

Outlook TABLE 16

	KION Group		Industrial Trucks & Services		Supply Chain Solutions	
in € million	2017 Outlook adjusted	2017 Outlook	2017 Outlook adjusted	2017 Outlook	2017 Outlook adjusted	2017 Outlook
Order Intake*	7,550–7,900	7,800–8,250	5,650–5,800	5,450–5,600	1,900–2,100	2,350–2,650
Revenue*	7,400–7,700	7,500–7,950	5,450–5,600	5,300–5,450	1,950–2,100	2,200–2,500
Adjusted EBIT	715–765	740–800	605–630	605–630	170–195	195–230
Free cash flow	320–380	370–430	–	–	–	–
ROCE	9.0%–10.0%	9.5%–10.5%	–	–	–	–

* Disclosures for the segments Industrial Trucks & Services and Supply Chain Solutions include also intra-group cross-segment order intake and revenue (Total revenue)