

Interim report for the period ended 30 September 2016

## **KSB Group: Order intake and sales revenue impacted by exchange rates and weak project business**

The global economy has not regained momentum during the first nine months of this year. Consequently, there has been no upturn in the pumps and valves business. Companies in the oil and gas sector in particular, but also those operating in the energy industry, have still only had a handful of major contracts to place. Investment dynamics in industry remained muted, while mining companies took the opportunity, at a time of more stable commodity prices, to catch up with replacement investments that had previously been put on hold. The water and waste water sector recorded solid growth figures overall. As in the construction/building services sector, order levels for pumps and valves differed from one region to another.

### **Order intake and sales revenue**

At the end of September, the Group's incoming orders remained down on the previous year. This can be attributed to the energy sector postponing projects and to a lack of investment by oil and gas companies. In addition, negative currency effects had a significant impact on the consolidated business figures.

Against this background, the KSG Group's order intake fell by 5.7 % over the first three quarters of the year to €1,595.0 million. Generally, the Pumps and Valves segments experienced a negative trend, although orders for mining pumps and water engineering valves progressed well. New orders in the Service segment were up slightly.

The growth region was Asia; most market sectors there placed more orders than in the comparative prior-year period. In Europe, where currency relations play a minor role, the decline in order values was less marked than for the Group as a whole. KSB AG's volume of new orders dipped by 3.7 %.

<b>KSB Group</b>		01-09/2016	01-09/2015	Change
Order intake	€ million	1,595.0	1,692.2	- 5.7 %
Sales revenue	€ million	1,590.7	1,686.2	- 5.7 %
Employees (30 Sept.)		15,883	16,363	- 2.9 %

The Group's consolidated sales revenue fell by 5.7 % to €1,590.7 million over the period from January to September 2016. More than half of this dip can be attributed to currency exchange effects. At KSB AG, sales revenue was down by 2.3 %.

All three segments recorded lower sales revenue on a year-on-year basis. Valves were particularly affected as a result of the low level of marine valve orders.

### **Change in number of employees**

On 30 September 2016, 15,883 people were employed in the Group, 480 fewer than at the same time last year. This development is the result of measures introduced to bring cost structures into line with new market conditions. The European companies recorded the biggest fall with a reduction of 262 employees, 138 of whom at the Group's German sites. The number of employees was also considerably down in North America, with 104 fewer people working for KSB on the reporting date compared with the end of September 2015.

## **Results of operations and financial position**

Earnings before tax after nine months of the year were, as expected, significantly down on the previous year. One-off costs triggered by the first comprehensive measures to implement our Efficiency Improvement Programme, launched in early 2016, accounted for this decrease.

The KSB Group's net financial position as at 30 September 2016 increased considerably compared with the 2015 year-end figure (€211.3 million).

## **Outlook**

The shortfall in incoming orders compared with the previous year, substantially due to a lack of and delays in project orders, looks unlikely to be offset by the end of the year. From the current perspective, order intake will decrease by a low single-digit percentage figure compared with the previous year.

As reported earlier, sales revenue in 2016 will be lower than in 2015. The fall in sales revenue and the cost impact of the Efficiency Improvement Programme will push consolidated earnings before taxes well below the previous year's level.

Negative currency effects are having a significant impact on the Group's incoming orders, sales revenue and earnings.

The three-year programme to cut costs, which covers the period until 2018, aims to reduce material, staff and overhead costs by some €200 million per year. An improved cost basis will help to improve KSB's starting position in very price-sensitive markets, thereby bolstering current sales initiatives.