

Interim report for the period ended 30 September 2018

KSB Group: Increase in order intake despite offsetting currency translation effects

New trade barriers and political conflicts made the economic environment more challenging in the first nine months of the year and slowed the economic upturn somewhat. This was compounded by the high debt burden of several emerging and developing countries, which limits investment volume and puts pressure on their national currencies. This is also the case in countries in which KSB has a strong market position, such as India, Pakistan, Brazil and Argentina.

Demand in the industrial sector, the most important market for KSB products, remained high all the way through to September. Suppliers of industrial goods increasingly benefited from a recovery in the oil and gas market, as well as the processing sectors. The order situation in mining improved thanks to new projects, while the construction industry maintained its positive performance. Demand from the water and waste water industries was, however, down on the previous year, in particular because the expansion of the infrastructure in several emerging economies failed to maintain its previous pace. The situation in the energy industry remained challenging, which resulted in a reluctance to invest in the power plant sector.

KSB Group		01-09/2018	01-09/2017	Change
Order intake	€ m	1,775.1	1,717.0	+ 3.4 %
Sales revenue	€ m	1,634.5	1,624.3	+ 0.6 %
Employees (31 Sept.)		15,701	15,539	+ 1.0 %

Order intake and sales revenue

By September the Group's order intake had increased by EUR 58.1 million to EUR 1,775.1 million year on year. This 3.4 % growth was based on an increase in orders from the industrial, construction and mining sectors. Excluding currency translation effects (order values in national currencies), the increase would have been EUR 79.3 million higher, which would have corresponded to an overall growth in order intake of 8.0 %.

The rise in order intake was primarily driven by an increase in orders for pumps. These orders related both to standard products and engineered pump sets, which are generally employed in major customer projects. There was a simultaneous moderate increase in orders for valves. In nominal terms, these orders offset a slight decline in the Service segment attributable to the current challenging situation in the Middle East.

In contrast to the Region Middle East / Africa, the order situation of the companies in the Regions Asia / Pacific and Europe improved significantly overall. The companies in the Americas achieved a total order intake narrowly above the previous year's level. In this Region, the weakness of the Brazilian real and the Argentinian peso had a particularly negative impact on order values booked in euros.

Consolidated sales revenue was slightly up year on year (+ 0.6 %), increasing by EUR 10.2 million to EUR 1,634.5 million. Excluding currency translation effects (amounting to EUR 69.6 million), the growth would have amounted to 4.9 %. The companies in the Regions Asia / Pacific and Americas were able to expand their business significantly, even measured in euros. The US subsidiary GIW Industries Inc. and the companies in India and China achieved outstanding growth.



Despite currency translation effects, sales revenue for valves and support services grew slightly, whereas pump sales revenue was almost unchanged year on year.

Change in staff numbers

The number of KSB employees in the Group rose by 162 to 15,701 in the past twelve months (reporting date: 30 September 2018). This increase was mainly attributable to the strengthening of our teams in India and the USA. In addition to an increase in staff numbers at the rapidly growing slurry pump manufacturer GIW Industries Inc. in Georgia, the consolidation of a newly acquired US service company in Michigan, KSB Dubric, Inc., also played a role.

Results of operations and financial position

In the first three quarters of the year, consolidated earnings before interest and taxes (EBIT) were significantly lower compared with the same period of the previous year. This is in line with our full-year forecast as revised on 13 August 2018. Key factors were the more challenging global economic environment, negative currency translation effects and provisions to be made for a legacy project in the United Kingdom, which we provided information about on 2 May 2018.

On 30 September, the balance of interest-bearing financial assets and financial liabilities, the net financial position, was below the figure of slightly under EUR 288 million on 31 December 2017.

Outlook

We reaffirm our revised forecast for the current financial year, as outlined in the half-year financial report. Despite negative currency translation effects, we thus expect a tangible increase in order intake, largely driven by pump orders. The proportion of project orders with longer delivery times means that the growth in order intake will not be immediately reflected in sales revenue, which will rise only moderately year on year as a result of adverse currency translation effects. Consolidated earnings before interest and taxes (EBIT) are expected to be considerably lower than in the previous year due to these currency translation effects, the global economic risks and the aforementioned provisions for a project in the UK.

The political tensions, new trade barriers and more challenging business relationships in the Middle East give rise to a slight increase in risks for our business. This is countered by improved opportunities in the service business, which we intend to expand globally and which should grow rapidly from 2019 onwards.

As outlined in our half-year financial report, we expect our net financial position at the end of the year to be down on the previous year.