Interim report for the period ended 31 March 2016

KSB Group: Market weakness hampers pump and valve business

In the first quarter of 2016, the global economy, as expected, was adversely affected by the developments in the emerging countries. Brazil and Russia in particular, but also China, up until now the world's "growth engine", gave cause for concern. The demand for pumps and valves was correspondingly lower in those countries. Of the four BRIC countries, only India showed signs of an economic upturn. Some markets in Europe, too, showed signs of recovery, but overall investment activity remained weak.

KSB Group		01-03/2016	01-03/2015	Change
Order intake	€ million	**522.7**	554.2	- 5.7 %
Sales revenue	€ million	**506.4**	515.5	- 1.8 %
Employees (31 Mar)		**16,069**	16,236	- 1.0 %

Order intake and sales revenue

Group-wide order intake between January and March 2016 at € 522.7 million declined by € 31.5 million compared with the same period last year. Approximately two-thirds of this reduction of 5.7 percent is due to negative currency effects. Also partly responsible for the decline in orders was the weaker power plant business. In particular, China stopped numerous energy-related projects in the first quarter of the year, so that fewer orders were awarded.

While the Pumps and Valves segments saw declining order intake, Service saw the volume of incoming orders increase. This growth was the result of orders for services to be provided during the year in power plants and large industrial plants.

Consolidated sales revenue in the first three months decreased compared with the prior-year quarter by 1.8 percent to € 506.4 million. Pump sales revenue increased due to the invoicing of major orders from the energy sector, while valve sales revenue declined. In particular, the sales revenue volume of French subsidiary KSB S.A.S. remained below the prior-year level. Among other things, the company equips LNG tankers with special valves. The order situation for this business had already weakened in the previous year. Service sales revenues remained virtually unchanged in the first quarter. Sales revenue figures were also strongly influenced by currency effects. Without the changes in exchange rates, the Group would have recorded moderate growth in the first quarter.

Change in number of employees

The number of employees in the KSB Group has decreased again in the last twelve months. As at 31 March 2016, 16,069 people, and thus 167 fewer than at the same time in the previous year, were employed at KSB. Decreases in employee numbers were mainly recorded by the companies in Germany, which on the reporting date employed 152 fewer staff following restructuring measures. Several companies in the Americas and Asia, too, reduced the size of their workforces. As at the reporting date, these reductions were partly offset by the integration of the 122 employees of a French service unit who were not included in the prior-year figure.

Results of operations and financial position

In the first quarter, KSB significantly increased its consolidated earnings year on year, which is primarily attributable to cost-cutting measures already implemented in 2015. However, one-off restructuring-related costs have yet to be included, and these will adversely affect consolidated earnings for 2016. On 31 March, the net financial position was slightly higher than at the end of 2015.

Outlook

Despite the weak start in the first quarter, an increase in order intake is still expected for the full year, thanks to anticipated major orders. Sales revenue will, however, as previously announced, decline.

This year, KSB has begun to implement a Group-wide package of measures to increase efficiency which shall reduce material, personnel and overhead costs by € 200 million by 2018. The one-off costs associated with the measures will have a considerable impact on earnings. Through the savings, KSB aims to increase its global competitiveness in a changing market environment and create the conditions for improved margins. At the same time, sales initiatives in global and regional focus markets are to promote growth in sales revenue.