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Knürr GmbH, Arnstorf
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Annual financial statements for the business year from October 1, 2015 to September 30, 2016 Date: 10/25/2017 Language: German

Knürr GmbH

**Arnstorf**

Annual financial statements as of September 30, 2016

Annual financial statements as of September 30, 2016 and management report

Balance sheet as of September 30, 2016

**assets**

	9/30/2016		30.9.2015	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible Assets				
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values		178,654.78		251,371.40
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	13,952.14		20,496.15	
2. Other equipment, factory and office equipment	205,648.26		271,302.37	
3. Advance payments and assets under construction	20,700.00	240,300.40	7,452.55	299,251.07
III. Financial assets				
1. Shares in affiliated companies	34,830,802.89		34,830,802.89	
2. Holdings	800,000.00	35,630,802.89	800,000.00	35,630,802.89
		36,049,758.07		36,181,425.36
B. Current Assets				

	9/30/2016		30.9.2015	
	EUR	EUR	EUR	EUR
I. Inventories				
Were		52,693.91		52,693.91
II. Receivables and other assets				
1. Trade accounts receivable	2,554,459.46		3,091,989.05	
2. Receivables from affiliated companies	31,124,609.43		21,840,060.32	
3. Other assets	60,354.36	33,739,423.25	200,953.37	25,133,002.74
III. Cash and bank balances		3,898,674.42		31,971.53
		37,690,791.58		25,217,668.18
C. Prepaid expenses		33,499.34		22,767.31
		73,774,048.99		61,421,860.85

**liabilities**

	9/30/2016	9/30/2015
	EUR	EUR
A. Equity		
I. Drawn capital	12,108,800.00	12,108,800.00
II. Capital reserve	11,906,474.08	11,906,474.08
III. Retained earnings		
Other retained earnings	2,645,296.90	2,645,296.90
IV. Profit participation rights	10,000,000.00	10,000,000.00
V. Profit carried forward	13,554,221.17	13,554,221.17
	50,214,792.15	50,214,792.15
B. Provisions		
Other provisions	2,540,578.69	3,237,857.39
C. Liabilities		
1. Trade accounts payable	218,651.52	184,336.74
2. Liabilities to affiliated companies	20,350,707.86	7,629,879.99
3. Other Liabilities	449,318.77	154,994.58
	21,018,678.15	7,969,211.31
	73,774,048.99	61,421,860.85

**Income statement for the period from October 1, 2015 to September 30, 2016**

	2015/16		2014/15	
	EUR	EUR	EUR	EUR
1. Sales		21,203,513.04		23,850,906.20
2. Other operating income		3,061,038.97		5,141,305.68
		24,264,552.01		28,992,211.88
3. Cost of materials				
a) Expenses for raw materials, consumables and supplies and for purchased goods	-20,585,264.76		-22,956,873.58	
b) Expenses for purchased services	-2,622.59	-20,587,887.35	-35,889.31	-22,992,762.89
4. Personnel expenses				
a) Wages and salaries	-4,558,282.93		-7,196,855.18	
b) Social contributions	-673,058.44		-720,450.17	
c) Pension expenses	-12,962.92	-5,244,304.29	-22,572.04	-7,939,877.39
5. Depreciation on intangible assets and property, plant and equipment		-199,099.01		-210,359.07
6. Other operating expenses		-1,406,799.23		-2,466,832.65
		-3,173,537.87		-4,617,620.12
7. Income from profit transfer agreements	2,935,678.23		950,626.56	
8. Income from participations	34,289,722.23		0.00	
9. Other Interest and Similar Income	3,337.95		3,418.32	
10. Expenses from assumption of losses	0.00		-5,419,779.90	
11. Interest and Similar Expenses	0.00	37,228,738.41	-35,419.99	-4,501,155.01
12. Results of ordinary business activity		34,055,200.54		-9,118,775.13
13. Taxes on income and earnings	-405,198.55		-1,021,514.90	
14. Other taxes	-572.02	-405,770.57	-2,207.02	-1,023,721.92
15. Income from the assumption of losses		0.00		10,142,497.05
16. Profit transferred on the basis of a profit transfer agreement		-33,649,429.97		0.00
17. Annual net income		0.00		0.00

**Appendix for the 2015/16 financial year**

**General**

The annual financial statements as of September 30, 2016 were prepared in accordance with the provisions of the Commercial Code and the GmbH Act. The balance sheet was structured in accordance with Section 266 of the German Commercial Code. The total cost method was selected for the income statement (Section 275 (2) HGB).

**Accounting and valuation principles**

The acquired intangible assets and property, plant and equipment are valued at acquisition or production cost less scheduled depreciation. Depreciation is carried out according to the economic useful life of the respective asset using the straight-line method.

Financial assets are valued at cost or the lower fair value.

The inventories are valued at acquisition cost or at the lower applicable value.

Receivables and other assets are valued at their nominal value less individual value adjustments in the case of recognizable default risks and a general value adjustment to cover the general credit risk.

Cash in hand and bank balances are shown at their nominal value. The active prepaid expenses correspond to the pro rata amounts paid.

The valuation of the provisions for anniversary obligations is based on actuarial principles using the projected unit credit method. The evaluation was based on the following parameters:

	9/30/2016	9/30/2015
	%	%
interest rate	3.37	4.07
Salary dynamics in general	2.75	2.75
Biometric calculation bases	Mortality tables 2005 G / Prof. Dr. Klaus Heubeck	

The remaining other provisions are recognized in the amount of the settlement amount necessary according to prudent business judgment. The liabilities are carried at the settlement amount.

Short-term foreign currency receivables and liabilities are converted using the mean exchange rate on the balance sheet date. Expenses and income are converted using the rate of the foreign currency at the time of the business transaction.

Deferred taxes are taken into account with the parent company on the basis of the profit and loss transfer agreement.

**Notes on the balance sheet****Capital assets**

The development of fixed assets is shown in the schedule of fixed assets (Appendix to the Appendix).

The shareholdings according to § 285 No. 11 HGB are as follows:

	Share in capital	Equity	Result of
	%	TEUR	TEUR
Affiliates - Domestic			
Knürr Electronics GmbH, Arnstorf	100.00	10,328	338
Knürr Electronics GmbH & Co. Grundbesitz OHG, Arnstorf	100.00	2,081	-11
Knürr Technical Furniture GmbH, Arnstorf	100.00	1,468	0
Knürr-Ercotec GmbH, Arnstorf	100.00	2	0
Knürr GmbH & Co. Grundbesitz OHG, Arnstorf	100.00	11,108	34
Knürr-Lommatec mechanics for the electronics participation and administration GmbH, Munich	100.00	43	0
Knürr-Ercotec GmbH & Co. Grundstücksverwaltungs KG, Arnstorf	100.00	0	0
foreign countries			
Knürr AG, Fällanden / Switzerland	100.00	774	-1,147
Knürr Ltd., St. Ives / England	100.00	3,631	177
Knürr sro, Volyne / Czech Republic	100.00	4,372	2,784

Control and profit and loss transfer agreements with Knürr GmbH exist with Knürr Electronics GmbH and Knürr Technical Furniture GmbH. Knürr GmbH is personally liable partner of Knürr GmbH & Co. Grundbesitz OHG.

**Receivables and other assets**

The other assets include receivables amounting to EUR 13 thousand (previous year: EUR 13 thousand) with a remaining term of more than one year. The remaining receivables and other assets are due within one year.

The receivables from affiliated companies are broken down as follows:

	30.09.2016	30.09.2015
	EUR	EUR
Receivables from the cash pool	25,534	3,677
Requests from deliveries and services	4,347	2,281
Receivables from profit transfer	2,936	3,210
Other liabilities (previous year: other receivables)	-1,692	1,211
Claims against shareholders (from the assumption of losses)	0	11,461
	31,125	21,840

**Profit participation rights**

In 2005, Knürr GmbH issued profit participation rights with a total nominal amount of EUR 10 million with the approval of the supervisory board at the time and the general meeting. The profit participation rights give the holder of the profit participation rights a share in the annual surplus or annual deficit in the amount of the simple amount that is allotted to shares of the subscribed profit participation capital. Profit sharing exists only to the extent that the profit participation capital is reduced by the loss sharing below the nominal amount of EUR 10 million. The profit participation rights were issued for an indefinite period of time, but the contract can be terminated by Knürr GmbH at the earliest five years after conclusion with a notice period of two years. The repayment of the profit participation rights was possible for the first time in 2013. In the event of liquidation and insolvency, the repayment claim and its interest rate subordinate to all claims of all other future and current non-subordinated creditors of the company whose capital provision does not meet the criteria for an equity disclosure.

### Other provisions

	30.09.2016	30.09.2015
	EUR	EUR
Restructuring	1,159	1,680
Other staff entitlements	647	1.009
Outstanding invoices, etc.	735	549
	2,541	3,238

### liabilities

As in the previous year, all liabilities are due within one year. The liabilities to affiliated companies are broken down as follows:

	30.09.2016	30.09.2015
	EUR	EUR
Liabilities to shareholders (from profit transfer)	20,149	0
liabilities from goods and services	136	583
Other liabilities	66	1,627
Liabilities from assumption of losses	0	5,420
	20,351	7,630

The other liabilities include liabilities from taxes in the amount of EUR 398 thousand (previous year: EUR 85 thousand) and liabilities in the context of social security in the amount of EUR 1 thousand (previous year: EUR 1 thousand).

### Notes on the income statement

#### Sales according to geographic markets

	2015/16	2014/15
	kEUR	kEUR
inland	1.952	4,059
European Union	10.301	9,903
Third countries	8,951	9,889
	21,204	23,851

#### Revenues by division:

	2015/16	2014/15
	kEUR	kEUR
19 "products / outdoor	20.506	22,929
Commissions	339	456
License revenue	478	569
	21,323	23,954
Sales deductions	-119	-103
	21,204	23,851

#### Other company income

	2015/16	2014/15
	kEUR	kEUR
Current operating income	3,056	4,725
Income from foreign currency translation	5	416
	3,061	5.141

#### Other operating expenses

	2015/16	2014/15
	kEUR	kEUR
Ongoing operating expenses	1,353	2,332
Currency translation expenses	54	132
Out-of-period expenses	0	3
	1,407	2,467

#### interest

	2015/16	2014/15
	kEUR	kEUR

	2015/16 kEUR	2014/15 kEUR
Other interest and similar income		
Income from affiliated companies	3	3
Interest and similar expenses		
Other interest expenses	0	35
	3	-32

### Taxes on income and earnings

As in the previous year, taxes on income and earnings relate exclusively to expenses for previous years.

### Other Information

#### Other financial obligations

	Total amount 09.30.2016 EUR	Thereof with a remaining maturity		
		up to one year kEUR	from one to five years kEUR	over five years kEUR
Land and building rents (to affiliated companies)	9	9	0	0
Other rental and leasing obligations	388	189	199	0
	397	198	199	0

#### Average number of employees over the year

	2015/16	2014/15
Employees	62	67
Wage earners	4th	3
	66	70
trainee	1	1
Marginally employed	4th	5
	71	76

### Managing directors

The following gentlemen have been appointed as managing directors of the company:

- Reinhard Purzer, businessman, Ingolstadt
- Appal Chintapalli, businessman, Munich (from January 27, 2016)
- Anton Conrad, businessman, Stallikon / Switzerland (from March 7, 2016)

The total remuneration of the managing directors is not disclosed in accordance with Section 286 (4) HGB.

### Profit and loss transfer agreement

A profit and loss transfer agreement has been in place with the controlling shareholder Knürr Holding GmbH, Arnstorf, since October 1, 2012 (agreement of August 21, 2013).

### Group affiliation

The financial statements of Knürr GmbH are included in the consolidated financial statements of "ORTRUD" Verwaltungsgesellschaft mbH, Arnstorf (consolidated financial statements for the smallest group of companies), which are published in the electronic Federal Gazette.

The company is also included in the consolidated financial statements of Emerson Electric Co., St. Louis / USA (ultimate parent company until November 30, 2016; consolidated financial statements for the largest group of companies). The consolidated financial statements of Emerson Electric Co. are filed with the Securities and Exchange Commission (SEC) in Washington DC / USA.

In addition, the company was included (until April 18, 2016) in the consolidated financial statements of Emerson Electric Nederland BV, Amsterdam / Netherlands, which are disclosed in the electronic company register.

**Arnstorf, September 6, 2017**

**Knürr GmbH**  
**Reinhard Purzer**  
**Appal Chintapalli**  
**Anton Conrad**

### Development of fixed assets in the 2015/16 financial year

	Acquisition and production costs			
	October 1, 2015 EUR	Additions EUR	Disposals EUR	9/30/2016 EUR
I. Intangible Assets				
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	8,620,521.52	44,922.80	0.00	8,665,444.32
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	1,635,012.91	0.00	0.00	1,635,012.91
2. Other equipment, factory and office equipment	4,322,715.04	10,325.48	-1,184.95	4,331,855.57

		Acquisition and production costs			
		October 1, 2015 EUR	Additions EUR	Disposals EUR	9/30/2016 EUR
3. Advance payments and assets under construction		7,452,551	3,247.45	0.00	20,700.00
		5,965,180.50	23,572.93	-1,184.95	5,987,568.48
III. Financial assets					
1. Shares in affiliated companies		39,950,602.56	0.00	0.00	39,950,602.56
2. Holdings		1,381,190.01	0.00	0.00	1,381,190.01
		41,331,792.57	0.00	0.00	41,331,792.57
		55,917,494.59	68,495.73	-1,184.95	55,984,805.37
		Accumulated depreciation			
		October 1, 2015 EUR	Additions EUR	Disposals EUR	9/30/2016 EUR
I. Intangible Assets					
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values		8,369,150.12	117,639.42	0.00	8,486,789.54
II. Tangible assets					
1. Land, land rights and buildings, including buildings on third-party land		1,614,516.76	6,544.01	0.00	1,621,060.77
2. Other equipment, factory and office equipment		4,051,412.67	74,915.58	-120.94	4,126,207.31
3. Advance payments and assets under construction		0.00	0.00	0.00	0.00
		5,665,929.43	81,459.59	-120.94	5,747,268.08
III. Financial assets					
1. Shares in affiliated companies		5,119,799.67	0.00	0.00	5,119,799.67
2. Holdings		581,190.01	0.00	0.00	581,190.01
		5,700,989.68	0.00	0.00	5,700,989.68
		19,736,069.23	199,099.01	-120.94	19,935,047.30
		Book values			
			9/30/2016 EUR	9/30/2015 EUR	
I. Intangible Assets					
Acquired concessions, industrial property rights and similar rights and values as well as licenses to such rights and values			178,654.78	251,371.40	
II. Tangible assets					
1. Land, land rights and buildings, including buildings on third-party land			13,952.14	20,496.15	
2. Other equipment, factory and office equipment			205,648.26	271,302.37	
3. Advance payments and assets under construction			20,700.00	7,452.55	
			240,300.40	299,251.07	
III. Financial assets					
1. Shares in affiliated companies			34,830,802.89	34,830,802.89	
2. Holdings			800,000.00	800,000.00	
			35,630,802.89	35,630,802.89	
			36,049,758.07	36,181,425.36	

## Management report for the 2015/16 financial year

### A. Basics of society

Knürr GmbH develops and sells products and solutions made from mechanical, electrotechnical and thermal components.

The main product groups include:

- Modular cabinet and housing systems
- Subracks and bus systems
- Air conditioning
- Power supplies

#### **Business model of Knürr GmbH and its affiliated companies in the "Emerson Network Power" business area in Europe, the Middle East and Africa - EMEA**

Knürr GmbH develops its products at the Arnstorf location and has them manufactured at its subsidiaries Knürr Electronics GmbH, Arnstorf, and Knürr sro, Volyne / Czech Republic.

After the acquisition of the Knürr Group by Emerson Electric Inc in 2007, Knürr GmbH was organizationally integrated into the "Data Center Infrastructure" division - Emerson Network Power - of the group in Europe. Knürr GmbH is still responsible for the products that are connected to cabinet systems and thus for the "Racks & Integrated Solutions" business area. In addition to cabinets and housings, this primarily includes air conditioning and power supplies close to cabinets. Other important business areas of Emerson Network Power in Europe are the areas of "Thermal Management" and "AC Power".

The distribution of all business fields was standardized in Europe via 14 sales organizations. After the foreign subsidiaries of Knürr GmbH in France, Sweden and the Netherlands were integrated into the local sales companies (market units) in the course of the 2011/12 financial year, Knürr GmbH has only been generating sales with the sales companies since July 1, 2013 outside Germany and Switzerland as well as third-party sales with customers in the MENA (Middle East and North Africa), CSE (Central and Southern Europe) and SSA (Subsahara and Africa) regions, in which deliveries to customers are not carried out via the local companies.

### **Research and Development**

Knürr GmbH is constantly developing new products with its central development department. For this purpose, it mainly uses internal and in-house resources, making use of suppliers and occasionally external service providers in the design area.

#### **subsidiary**

Knürr GmbH holds the following major investments:

- Knürr Electronics GmbH, Arnstorf
- Knürr Technical Furniture GmbH, Arnstorf
- Knürr AG, Fällanden / Switzerland
- Knürr sro, Volyne / Czech Republic
- Knürr GmbH & Co. Grundbesitz OHG, Arnstorf
- Knürr Electronics GmbH & Co. Grundbesitz OHG, Arnstorf

Profit and loss transfer agreements were in place with Knürr Electronics GmbH and Knürr Technical Furniture GmbH during the financial year. Knürr Electronics GmbH and Knürr Technical Furniture GmbH were merged into Knürr GmbH on August 1, 2017.

#### **Group**

Until November 30, 2016, Knürr GmbH was a subsidiary of Emerson Electric Co. (Emerson Co.), which is listed on the New York Stock Exchange and based in St. Louis / USA.

With effect from December 1, 2016, Emerson Co. sold the Network Power division to the global investment company Platinum Equity, LLC, Beverly Hills / USA. From this point on, the new group will operate under the name Vertiv Co., Columbus, Ohio / USA.

With effect from October 1, 2012, Knürr GmbH concluded a control and profit and loss transfer agreement with Knürr-Holding GmbH.

### **B. Economic report**

#### **1. Economic framework**

##### **Overall Economic Development**

According to the monthly report of the Deutsche Bundesbank from November 2016, the overall economic development in Germany in the 2015/16 financial year was as follows:

The upturn in the German economy temporarily lost momentum in the summer of 2016. According to the quick report from the Federal Statistical Office, real gross domestic product (GDP) rose in the third quarter, seasonally and calendar adjusted, compared to the previous quarter by just 0.2%. After industrial production, which was still declining in the spring, at least did not fall any further and construction activity clearly swung back on an expansion course, a weakening of the previously very dynamic service economy may have been responsible for the lower increase. In addition, the demand-side drivers have changed compared to the previous quarter. The exports, which in the spring had made a significant contribution to the GDP growth, suffered a setback that was not entirely offset by the renewed strength of the domestic economy. The basic economic momentum is still quite strong. For the last quarter of the current year, it is expected that the GDP growth rate will match the higher pace of the first half of the year. This is indicated by the sharp brightening of the sentiment indicators. The overall economic capacities continue to be utilized at an above-average rate. that the GDP growth rate will match the higher pace of the first half of the year. This is indicated by the sharp brightening of the sentiment indicators. The overall economic capacities continue to be utilized at an above-average rate. that the GDP growth rate will match the higher pace of the first half of the year. This is indicated by the sharp brightening of the sentiment indicators. The overall economic capacities continue to be utilized at an above-average rate.

After the dip in spring, the domestic economy returned to the strength it had had since the end of 2014. The more dynamic pace of the domestic economy was mainly driven by government and private consumption. In addition to the particularly high pension increase in the middle of the year and the wage increase in the public sector, which was paid out with a delay, the still favorable framework conditions for private consumption gave the consumer economy a strong boost. To be mentioned here are primarily the favorable income and labor market prospects, but also the low energy prices. In the case of construction investments, the adjustment phase appears to be over in the second quarter after the weather-related above-average production at the beginning of the year. Although investment in equipment remained without impetus, it no longer dampened economic activity to the same extent as in the spring. German exports took a breather in the summer quarter of 2016 after making a significant contribution to the strong GDP growth in the first half of the year. Adjusted for price and seasonality, exports of goods even fell slightly compared to the previous quarter. In nominal terms, however, they increased slightly because export prices rose. While deliveries in terms of value to the countries of the European Economic and Monetary Union followed the trend from the first half of the year and increased moderately according to the information available up to August, exports to countries outside the monetary union fell slightly in value. The main reasons for this were the weak demand for German products in OPEC countries and the decline in exports to the United Kingdom since the previous quarter. For the latter, however, the minus was significantly lower than in the spring and thus before the referendum on leaving the EU. After the sharp decline in the previous quarter, deliveries to the United States only increased slightly. In the China business, on the other hand, there was a strong plus. Goods exports to Russia also expanded strongly - after the downward movement of recent years. Here, German exporters should benefit from the slow recovery of the Russian economy from the persistent recession.

The subdued development in industry and exports also left its mark on investment activity. Equipment investments by companies are likely to have fallen slightly in the summer quarter of 2016 compared to the previous quarter. This is supported by the domestic sales of German industrial companies in capital goods, which - in contrast to sales in foreign business - have fallen significantly. Furthermore, the only slight increase in the number of registrations for commercial vehicles suggests that investments in companies' vehicle fleets tended to be characterized by restraint.

According to the monthly report of the Deutsche Bundesbank for April 2017, it is assumed that the German economy picked up significantly in the winter quarter of 2017.

Industrial production rose sharply and the mood in manufacturing is extremely optimistic. The Ifo business climate index for the industry reached its highest level since the summer of 2011. The strong increase in incoming orders indicates that the lively industrial economy is likely to continue for the time being. Exports have also increased significantly recently. In addition, due to the favorable development in the labor market and the positive mood among consumers, private consumption contributes to the general development as a growth driver. German industrial production continued to rise and, in February 2017, increased significantly by a seasonally adjusted 1% compared to the previous month. With an increase of 1.5%, it went well above the level reached in the last quarter of 2016. The upward trend extends to all major branches of industry.

At the beginning of the 2017 calendar year, industrial incoming orders initially fell significantly, but were able to recover slightly in the course of February. However, this development has to be seen against the background of the extraordinarily strong incoming orders in the final quarter of 2016.

At the beginning of the year, sales in German industry expanded significantly by 1.75% compared to the previous quarter. German industrial companies benefited above all from the lively demand in Germany and in the euro area. In third countries, on the other hand, sales increased much more slowly.

## 2. Industry development

The ICT market remains stable and continues to show growth of 3 to 5% per year. While worldwide sales in the cabinet and housing systems segment are expected to increase by an average of 5.8% by 2020, an average growth in units sold of 3.2% is expected in the EMEA region. The market for power distribution units, so-called PDUs, will develop somewhat more strongly with global sales growth of 6.6%, or 4.8% in the EMEA region.

## 3. Course of business

Due to the changed sales structures of Knürr GmbH and an expected group-wide technical realignment in the area of air conditioning, the management had assumed a further significant decline in sales with corresponding effects on the operating result within the scope of the 2015/16 budget. After sales in the first half of the financial year were still at budget level, a slight recovery was foreseeable in the second half of the year, so that the management assumed that the target figures could be exceeded by 5% with a sales decline of 19%.

In fact, sales of EUR 21,204 thousand were realized in the 2015/16 financial year, a decrease of EUR 2,647 thousand or 11.1%. This did not meet expectations.

Overall, the development of sales compared to the previous year is as follows:

	2015/16		2014/15		change	
	KEUR	Share %	KEUR	Share %	KEUR	%
19 <sup>'''</sup> technology	20.506	96.7	22,929	96.1	-2,423	-10.6
Commissions	339	1.6	456	1.9	-117	-25.7
License revenue	478	2.3	569	2.4	-91	-16.0
	21,323	100.6	23,954	100.4	-2,631	-11.0
Sales deductions	-119	-0.6	-103	-0.4	-16	-15.5
	21,204	100.0	23,851	100.0	-2,647	-11.1
	2015/16		2014/15		change	
	KEUR	Share %	KEUR	Share %	KEUR	%
inland	1.952	9.2	4,059	17.0	-2,107	-51.9
foreign countries	19,252	90.8	19,792	83.0	-540	-2.7
	21,204	100.0	23,851	100.0	-2,647	-11.1

As expected, the total business volume decreased compared to the previous year. On the one hand, after the termination of the distribution contract between Knürr GmbH and Knürr Electronics GmbH, sales with German customers were now almost entirely handled by Emerson Network Power GmbH. This is the reason for the decline in sales with domestic customers amounting to EUR 2,107 thousand. On the other hand, sales with foreign customers decreased by EUR 540 thousand due to an overall difficult economic environment in other European and non-European countries.

The company continues to be exposed to significant price pressure on the market. In price-sensitive European countries, local suppliers and producers who offer less high-quality products on the market increasingly dominate.

Compared to the previous year, commission income fell by EUR 117 thousand or 25.7% to EUR 339 thousand.

The license revenues decreased compared to the previous year by KEUR 91 or 16.0% to KEUR 478. This decrease is mainly caused by the lower revenues from the group companies in the USA, Australia and Singapore, as well as from CEC Inc., Japan.

Revenue developed as follows over the past five financial years:

	Sales KEUR	change KEUR	%
2011/12	60,618	-36,745	-37.7
2012/13	65,294	4,676	7.7
2013/14	26,039	-39,255	-60.1
2014/15	23,851	-2,188	-8.4
2015/16	21,204	-2,647	-11.1

A profit (before profit transfer) of EUR 33,649 thousand was achieved in the 2015/16 financial year. The operating result improved by EUR 1,445 thousand or 31.3% over the previous year to a loss of now EUR 3,175 thousand. Income from the profit transfer improved by EUR 7,405 thousand to EUR 2,936 thousand, particularly due to the restructuring measures carried out at Knürr Electronics GmbH in the previous

year. The result of the financial year is mainly characterized by the income from investments in the amount of EUR 34,290 thousand, which are based on distributions from Knürr AG, Switzerland, and Knürr sro, Czech Republic.

However, the expectations regarding the operating result could not be fully met.

In summary, it can be said that the course in the 2015/16 financial year was not entirely satisfactory. The company's economic situation at the time the management report was prepared (September 2017) can be assessed as stable.

#### 4. Earnings position

The result from ordinary business activities increased by EUR 43,174 thousand to EUR 34,055 thousand in the 2015/16 financial year compared to the previous year.

The following factors, in particular, are responsible for the positive earnings development with lower sales and an increased material ratio:

- Increase in the financial result by EUR 41,730 thousand, in particular due to the distributions by Knürr AG, Fällanden / Switzerland and Knürr sro, Volyne / Czech Republic, as well as the increased income from the profit transfer

- Reduction in personnel expenses by EUR 2,696 thousand or 34.0% due to the restructuring measures implemented

- Reduction of other operating expenses by EUR 1,060 thousand or 42.9% due to lower group allocations

The development of the earnings situation compared to the previous year is as follows:

	2015/16		2014/15		Result change	
	KEUR	%	KEUR	%	KEUR	%
Sales	21,204	100.0	23,851	100.0	-2,647	-11.1
Other company income	3,061	14.4	5,141	21.6	-2,080	-40.5
Operating performance	24,265	114.4	28,992	121.6	-4,727	-16.3
Cost of materials	-20,588	-97.1	-22,993	-96.4	2,405	10.5
Personnel expenses	-5,244	-24.7	-7,940	-33.3	2,696	34.0
Scheduled depreciation	-199	-0.9	-210	-0.9	11	5.2
Other operating expenses	-1,409	-6.7	-2,469	-10.4	1,060	42.9
Operating expenses	-27,440	-129.4	-33,612	-141.0	6,172	18.4
Operating profit	-3,175	-15.0	-4,620	-19.4	1,445	-31.3
Investment result	37,226	175.6	-4,469	-18.7	41,695	
Interest income	3	0.0	-32	-0.1	35	109.4
Earnings before income taxes	34,054	160.6	-9,121	-38.2	43,175	-473.4
Income taxes	-405		-1,021		616	
Result before loss transfer	33,649		-10,142		43,791	

The other operating income fell by EUR 2,080,000 or 40.5% to EUR 3,061,000, on the one hand due to the EUR 411 thousand decrease in currency gains and, on the other hand, due to the group allocations which fell by EUR 1,660,000.

The cost of materials fell slightly less than the decline in sales by EUR 2,405 thousand or 10.5% to EUR 20,588 thousand.

Personnel expenses decreased by EUR 2,696 thousand or 34.0% to EUR 5,244 thousand. The decrease is mainly due to the restructuring measures introduced in the previous year, which are associated with a decrease in the average number of employees.

The average workforce developed as follows:

	2015/16	2014/15	2013/14
Employees	62	67	56
Industrial workers	4th	3	4th
	66	70	60
Apprentices and marginal part-time employees	5	6	5
Number of employees as an annual average	71	76	65

The material and personnel cost ratio (material and personnel costs in relation to sales) developed as follows over the last three financial years:

	2015/16	2014/15	2013/14
	%	%	%
Material cost ratio	97.1	96.4	97.1
Staff cost ratio	24.7	33.3	18.4
	121.8	129.7	115.5

The decrease in other operating expenses (including other taxes) by KEUR 1,060 or 42.9% to KEUR 1,409 is mainly due to the reduction in group allocations.

The investment result developed as follows:

	2015/16	2014/15	Change in
	KEUR	KEUR	TEUR
Profit transfer - Knürr Electronics GmbH (previous year loss transfer)	1,088	-5,420	6,508
Transfer of profits - Knürr Technical Furniture GmbH	1,848	951	897
	2,936	-4,469	7,405
Dividends - Knürr AG (Switzerland) and Knürr sro (Czech Republic)	34,290	0	34,290
	37,226	-4,469	41,695

The income tax expenses relate exclusively to expenses for previous years in the amount of EUR 405 thousand.

In accordance with the profit and loss transfer agreement with Knürr Holding GmbH, the profit for the year under review was transferred to the shareholder.

#### 5. Financial position

As of the balance sheet date, total assets increased by EUR 12,352 thousand or 20.1% to EUR 73,774 thousand, after an increase of EUR 7,741 thousand or 14.4% in the previous year. The increase is due to the increase in liquid funds and cash pool receivables by EUR 25,724 thousand with a simultaneous decrease in other receivables from affiliated companies by EUR 12,572 thousand.

	9/30/2016		30.9.2015		change
	KEUR	Share %	KEUR	Share %	KEUR
Tangible assets and intangible assets	419	0.6	550	0.9	-131
Financial assets	35,631	48.3	35,631	58.0	0
	36,050	48.9	36,181	58.9	-131
Requests from deliveries and services	2,554	3.4	3,092	5.0	-538
Receivables from affiliated companies	5,591	7.6	18.163	29.6	-12,572
Cash and cash equivalents (including cash pool receivables)	29,433	39.9	3,709	6.0	25,724
Other assets	146	0.2	277	0.5	-131
	37,724	51.1	25,241	41.1	12,483
Total assets	73,774	100.0	61,422	100.0	12,352
Equity	50,215	68.1	50,215	81.8	0
accruals	2,541	3.4	3,238	5.3	-697
Liabilities to affiliated companies	20,351	27.6	7,630	12.4	12,721
Other liabilities	667	0.9	339	0.5	328
liabilities	21,018	28.5	7,969	12.9	13,049
Total capital	73,774	100.0	61,422	100.0	12,352

Fixed assets fell due to lower investments and scheduled depreciation of EUR 199 thousand (previous year: EUR 210 thousand) by a total of EUR 131 thousand to EUR 36,050 thousand. The share of fixed assets in the increased total assets decreased from 58.9% to 48.9%.

Trade accounts receivable were 17.4% below the level of the previous year at EUR 2,554 thousand. Due to the significantly reduced domestic sales, the receivables from customers in Germany decreased by approx. 32% more clearly than the receivables from customers abroad, which decreased by KEUR 454 or 15.6% to KEUR 2,451.

Due to the profit and loss transfer agreement with Knürr-Holding GmbH, equity remained unchanged at EUR 50,215 thousand. Due to the increased total capital, the equity ratio decreased from 81.8% in the previous year to 68.1%.

The liabilities to affiliated companies have increased significantly mainly due to the liabilities from the profit transfer to Knürr Holding GmbH.

## 6. Financial position

The company is financed exclusively from equity, operating cash flow and within the Group within the framework of cash pool agreements. The company's liquid funds (including receivables from the cash pool) amounted to EUR 29,433 thousand on the balance sheet date (previous year: EUR 3,709 thousand). Their share in total assets is 39.9% (previous year 6.0%). The company is always able to meet its payment obligations.

The cash flow from operating activities increased by EUR 39,391 thousand to EUR 32,974 thousand compared to the previous year. The summarized cash flow statement is as follows:

	2015/16	2014/15	Change in
	KEUR	KEUR	TEUR
Cash generated from operations	32,974	-6,417	39,391
Cash flow from investing activities	-65	-138	73
Cash flow from financing activities	-7,185	3,188	-10,373
Cash change in financial resources	25,724	-3,367	29,091
Cash funds at the beginning of the period	3,709	7,076	-3,367
Cash funds at the end of the period	29,433	3,709	25,724

Due to the solid financing structure of the Knürr Group, the management sees no difficulties in financially managing the current business as well as a future growing business volume.

## C. Supplementary report

Emerson Electric Co., St. Louis / USA, announced on June 30, 2015 that it intended to outsource the Network Power division. On August 2, 2016, Emerson Electric Co. announced that it had entered into an agreement with the global investment company Platinum Equity, LLC and a group of co-investors to sell the Network Power division. The transaction was completed on November 30, 2016. From this point in time, the group operates under the name Vertiv Co., Columbus, Ohio / USA.

With a deed dated November 14, 2016, the company acquired all shares in Vertiv GmbH, Munich (formerly Emerson Network Power GmbH), from Liebert Hiross Holding GmbH, Munich.

Knürr Electronics GmbH and Knürr Technical Furniture GmbH were merged into the shareholder Knürr GmbH on August 1, 2017.

No other events that would be essential to assess the company's asset, financial and earnings position have occurred since the end of the financial year.

## D. Forecast, opportunities and risk report

### 1. Risk management

Knürr GmbH is confronted with a number of risks that are inextricably linked with entrepreneurial activity. Due to the close interlinking of the companies within the Knürr Group, the statements are of fundamental importance for all companies belonging to this group. This applies in particular to risks resulting from market developments, the positioning of products and services, from contractual and non-contractual

liability and from commercial transactions. Our business policy is to make the best possible use of existing business opportunities. It is the task of our risk policy to carefully weigh up the associated risks.

The company is integrated into the risk management system of the Vertiv Group. The central components of the risk management system are the planning and controlling process, the internal group rules, reporting and the risk early warning system. The functionality of the internal control and monitoring system as well as compliance with the organizational security measures are continuously checked by the internal audit department. The findings from these audits are taken into account in the continuous process for improving the risk management system.

The risk management system includes the control and monitoring of all financial processes, pricing, contracts, human resources and project controlling. All of the company's employees are included in the Emerson Ethics Program.

With the internal control instruments installed, it is possible to identify developments threatening the continued existence of the company at an early stage so that suitable measures can be taken to ensure the continued existence of the company.

## 2. Opportunities

The following factors in particular give rise to opportunities for the future development of the company:

- Good demand for products, especially in the field of PDUs
- Opening up new business areas through the development of new products
- Growth in the core markets
- Further integration and process harmonization within the group companies in the Europe, Middle East and Africa region
- Continuous optimization of cost structures

The management is convinced that the company is in a good starting position to maintain and further expand its market position.

## 3. Risks

In the following, the risks that could have a negative impact on the asset, financial and earnings position are presented. However, this is not necessarily a complete list of risks. Any risks that we are not yet aware of, or risks that are classified as insignificant, could have a negative impact on our business activities.

### Risks from the product portfolio

Through its history, Knürr GmbH has set itself apart from its competitors, particularly through technically sophisticated products. The customer was always ready to honor this technical advantage together with the high processing quality of the products. With this strategy, Knürr GmbH was able to establish itself on the German and Swiss markets.

With the increasing internationalization of sales activities in markets with other competitors and, in some cases, significantly lower purchasing power than in the core markets, the requirements placed on Knürr GmbH's products in terms of price segment and complexity are increasing.

Knürr GmbH reacts to this with additional products as well as alternative manufacturing and assembly concepts in order to meet the requirements of the most diverse markets.

### Procurement market risks

Since Knürr GmbH only trades products that are manufactured in the Knürr Group, there is no significant risk for the company on the procurement markets. Possible influences resulting from fluctuating prices for raw materials, components and finished parts are appropriately addressed by the manufacturing companies and central purchasing.

In principle, the Knürr Group has the option of accessing the Group's global suppliers as part of its increasing integration into the group. In addition to the cost advantages that can be achieved from this, there is a potential risk for Knürr of losing direct influence on suppliers.

### Economic performance risks

Die internationalen Geschäftsaktivitäten machen die Knürr GmbH sowohl von den nationalen als auch von den internationalen Konjunkturlagen abhängig. Die Risiken auf den Absatzmärkten hängen im Wesentlichen von den allgemeinen Wirtschaftserwartungen und damit vom Investitionsverhalten der Kunden ab. Von besonderer Bedeutung ist die Bereitschaft der Kunden, insbesondere von Großkunden, in Projekte zu investieren. Auf kurzfristige konjunkturelle Schwankungen kann die Knürr Gruppe jederzeit durch eine flexible Anpassung der Kapazitäten reagieren. Auf die Wettbewerbssituation im teilweisen preissensiblen Server- und Netzwerksegment reagiert die Knürr-Gruppe neben Produktinnovationen mit zusätzlichen Kostensenkungen und Produktionsoptimierungen. Innerhalb Europa, dem Mittleren Osten und Afrika wurden bereits 2013 die Vertriebsaktivitäten des Geschäftsbereiches "Emerson Network Power" neu organisiert. Dabei wurden die Vertriebsaktivitäten der Komponentenanbieter sog. COE's (Center of Expertise) in 14 Vertriebsgesellschaften sog. Market Units gebündelt. Neben der Knürr, die mit ihren wesentlichen Bereichen für das COE "Racks & Integrated Solutions" steht, sind in den Vertriebsgesellschaften auch die COE's AC-Power und Industrial (USV-Anlagen), Thermal Management (Raumkühlsysteme), Monitoring (Überwachung und Steuerung) und den Service Bereich vertreten.

Since sustainable technical competence and market knowledge is required for the individual COE's in sales, the employees of the sales units have been organizationally assigned to the respective component suppliers so that they can continue to influence the sales strategy in the respective region.

As a support, the European sales companies are informed about Knürr products in regular sales training courses and an annual internal kick-off meeting.

Thanks to this uniform market presence, the Knürr Group will continue to have access to new markets and new customers without losing the technical orientation of sales and thus a competent presence on the market.

### Financial risks

Risk of default - When goods are delivered and services are rendered, there is a natural risk of bad debts. In the past financial year, the del credere risk increased slightly compared to previous years. As a result of the bundling of sales activities in the market units, Knürr GmbH has mainly retained receivables from sales in the regions (Middle East and North Africa), CSE (Central and South Europe) and SSA (Sub-Saharan and Africa) since the beginning of the 2013/14 financial year. .

Bad debt risks are subject to strict, proactive receivables management. The ongoing control of the payment behavior of our customers, the examination of their creditworthiness and, if necessary, an adjustment of the payment modalities are essential components for avoiding and

reducing the risk of bad debt.

Liquidity risk - Knürr GmbH and the other companies in the group are financed exclusively through the group and the associated cash pool. Knürr does not need to have its own credit line to ensure liquidity.

Currency risk - Due to our international business, we are active in different currency areas. The currency risk in the Knürr Group is particularly significant for the US dollar and the Czech crown. The currency risks are systematically recorded, analyzed and controlled centrally at Knürr GmbH. The scope of the hedge is regularly evaluated and, if necessary, determined in coordination with the Group's central treasury department. No currency hedging was concluded in the 2015/16 financial year.

### **Contract risks**

By integrating the sales activities in the group, the direct customer relationship is subject to the so-called regions. This means that Knürr can no longer control customer relationships directly and advertise the products directly on site. The option of being able to continue to adapt products to the customer's wishes in direct dialogue with the customer is largely dependent on the sales companies and the central European sales management. An exception to this are the so-called OEM customers, whose support the Knürr Group took over at the beginning of the reporting year in order to be able to support projects that go beyond the EMEA region worldwide.

In order to ensure that this does not result in any order risks, the activities of the sales companies have been integrated into the Knürr reporting system. Training measures in the field of product training are carried out with the sales companies in order to expand the know-how of the sales staff. In addition, marketing measures tailored to market needs are initiated centrally by Knürr in the respective countries. In addition, Knürr will prepare market studies and market analyzes with additional staff and inform the sales companies about specific data center projects and developments in their markets and monitor processing.

### **Legal risks from lawsuits and claims by third parties**

Legal risks can arise from lawsuits against Knürr GmbH. In order to keep the risk as low as possible, all major contracts are checked in advance by our own legal advisors. If necessary, they are supported in legal disputes by external lawyers. We minimize claims for damages from product liability through high-quality products.

Should contractual partners raise claims against Knürr GmbH from delivery and service contracts, these will be carefully examined and provisions will be made if necessary, provided that payment obligations in connection with these claims are considered probable.

### **Overall statement on the risk situation**

An overall assessment of the risks shows that Knürr GmbH is essentially endangered by market risks. These include in particular economic developments and the dependence on the development of important customers.

Overall, the risks at Knürr GmbH are limited and manageable and do not jeopardize the continued existence of the company. There are also no identifiable risks that could threaten the continued existence of the company in the future. In terms of organization, all the prerequisites have been created in order to gain early knowledge of emerging risk situations and to be able to take countermeasures promptly.

In summary, the management does not currently see any facts that could jeopardize the continued existence of the company or significantly impair its development.

## **4. Forecast for the 2016/17 financial year**

### **Overall Economic Development**

The German economy is experiencing a solid upswing. The mainstay is lively domestic demand, which is benefiting from the favorable labor market situation and rising household incomes. It is assumed that the framework conditions that are currently very favorable for private consumption will, however, deteriorate somewhat. Employment is likely to grow less dynamically for demographic reasons, and rising energy prices are reducing the purchasing power of consumers. Foreign business, which is still suffering somewhat from the subdued growth in world trade, will slowly increase in line with the labor markets of German exporters,

Overall, according to the forecast of the Deutsche Bundesbank (monthly report December 2016), the German economy could grow by 1.8% in 2017 and grow somewhat less strongly in 2018 and 2019 by 1.6% and 1.5% respectively.

Against the background of the lower foreign trade impulses from third countries, the expected growth in gross domestic product (GDP) for the euro area (excluding Germany) is 1.7% in 2017 and 1.6% in the following year. Growth of 1.6% is also expected for 2019.

### **Business development of Knürr GmbH**

For the 2016/17 financial year, Knürr GmbH has again assumed declining sales. The main influencing factors for this were the further adjustment of the sales structures and the associated increasing dependence on unchanged unstable foreign markets, as well as the group-wide technical realignment in the area of air conditioning. The goals set were achieved in the first half of the new financial year. For the second half of the financial year, a slight increase compared to the planned figures is assumed.

In order to optimize the cost structure and to simplify the processes within the Knürr Group, Knürr Elektronik GmbH and Knürr Technical Furniture GmbH were merged into Knürr GmbH on August 1, 2017. The company expects a significant increase in efficiency from this.

In addition to the ongoing economic uncertainty in many countries in the euro area, the increasing foreign policy tensions in the region are not helping to stabilize the framework conditions. On the contrary, there are considerable uncertainties regarding the short-term development of the export markets.

To counteract this, among other things, the strengthening of the OEM business through a dedicated sales team, which will be assigned directly to Knürr GmbH. Naturally, the margin achieved in the OEM business lags behind the business with traditional customers.

For the 2017/18 financial year, based on current planning, we are anticipating a slight increase in sales. This is primarily expected in Knürr's core markets, Germany and Switzerland. At the same time, it is assumed that the restructuring measures of the last two years and the mergers of Knürr Electronics and Knürr Technical Furniture will lead to further increases in efficiency with positive effects on earnings.

The overriding goal is to keep the quality and the readiness to deliver at a high level and thus to meet the requirements of the customers in the long term. In addition, the product and know-how portfolio in the Vertiv group is used in order to be able to offer customers integrated system solutions. The management also expects to benefit from the wide sales network.

The fact that all forward-looking statements are of a prognostic nature entails the possibility that the actual results may differ from the expectations of the probable development.

*Reinhard Purzer  
Appal Chintapalli  
Anton Conrad*

## Auditor's report

We have audited the annual financial statements - comprising the balance sheet, income statement and notes - including the bookkeeping system and the management report of Knürr GmbH, Arnstorf, for the financial year from October 1, 2015 to September 30, 2016. The bookkeeping and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. It is our task to provide an assessment of the annual financial statements including the bookkeeping and the management report on the basis of the audit we have carried out.

We carried out our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking into account the generally accepted German auditing principles established by the Institut der Wirtschaftsprüfer (IDW). According to this, the audit is to be planned and performed in such a way that inaccuracies and violations that have a material impact on the presentation of the asset, financial and earnings position conveyed by the annual financial statements in accordance with the principles of proper bookkeeping and the management report are given with sufficient certainty be recognized. When determining the audit procedures, knowledge of the business activity and the economic and legal environment of the company as well as expectations of possible errors are taken into account. As part of the audit, the effectiveness of the accounting-related internal control system and evidence of the information in the books and records, the annual financial statements and the management report are assessed primarily on the basis of random samples. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe

Our audit has not led to any reservations.

In our opinion, based on the knowledge gained during the audit, the annual financial statements comply with the statutory provisions and, in compliance with the principles of proper bookkeeping, give a true and fair view of the assets, financial and earnings position of Knürr GmbH. The management report is consistent with the annual financial statements, as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

**Munich, September 19, 2017**

**KPMG Bayerische Treuhandgesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft  
Huber, auditor  
Eder, auditor**

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