

Annual Report 2013



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Cover:
Triodis high-performance butterfly valve
for shutting off liquefied gas

GROUP FINANCIAL HIGHLIGHTS

BUSINESS DEVELOPMENT AND EARNINGS

		2013	2012	2011	2010	2009
Order intake	€m	2,241.2	2,257.4	2,132.3	2,075.0	1,934.0
Sales revenue	€m	2,247.3	2,268.2	2,091.0	1,939.3	1,892.8
Earnings before interest and taxes (EBIT)	€m	136.2	150.4*	133.4	148.9	185.7
Earnings before taxes (EBT)	€m	119.4	132.8*	120.5	135.8	172.8
Earnings after income taxes	€m	79.9	90.3*	83.3	90.0	122.4
Cash flow	€m	142.3	156.9*	137.0	148.5	172.4

BALANCE SHEET

		2013	2012	2011	2010	2009
Balance sheet total	€m	2,151.5	2,188.0*	1,974.1	1,861.3	1,645.4
Fixed assets	€m	591.2	602.0	560.5	515.3	469.3
Capital expenditure	€m	57.1	91.4	93.5	72.8	86.6
Depreciation and amortisation expense	€m	60.2	58.6	51.0	48.1	43.4
Current assets	€m	1,520.6	1,546.2	1,389.2	1,329.2	1,158.6
Equity (incl. non-controlling interest)	€m	844.5	832.2*	869.1	825.6	720.6
Equity ratio (incl. non-controlling interest)	%	39.3	38.0*	44.0	44.4	43.8

PROFITABILITY

		2013	2012	2011	2010	2009
Return on sales	%	5.3	5.9*	5.8	7.0	9.1
Return on equity	%	14.2	15.6*	14.2	17.6	26.1
Return on capital employed	%	6.6	7.5*	7.4	8.9	12.4

EMPLOYEES

		2013	2012	2011	2010	2009
Number of employees at 31 Dec.		16,546	16,207	15,674	14,697	14,249
Staff costs	€m	787.6	758.3*	698.0	649.8	618.3

SHARES

		2013	2012	2011	2010	2009
Market capitalisation at 31 Dec.	€m	804.3	769.4	741.0	1,051.2	707.6
Earnings per ordinary share (EPS)	€	37.38	42.48*	40.95	44.09	61.32
Earnings per preference share (EPS)	€	37.64	42.74*	41.21	44.35	61.58
Dividend per ordinary share	€	12.00	12.00	12.00	12.00	12.00
Dividend per preference share	€	12.26	12.26	12.26	12.26	12.26

* Adjustment to reflect the retroactive amendment to IAS 19

PRODUCTS AND SERVICES



SINGLE-STAGE PUMPS

Standardised pumps, process pumps, circulator pumps, service water pumps, slurry pumps



MULTISTAGE PUMPS

Boiler feed pumps, boiler circulating pumps, booster pumps, pressure booster pumps, high-pressure pumps for reverse osmosis applications, water transport pumps



SUBMERSIBLE PUMPS

Well pumps, waste water, sewage and drainage pumps, mixers, tubular casing pumps, condensate pumps



AUTOMATION AND DRIVES

Control systems, energy-efficient pump drives, pressure booster systems, fire-fighting systems, lifting units



VALVES

Butterfly valves, globe valves, gate valves, control valves, diaphragm valves, ball valves, actuators and control systems



SERVICE

Installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves; modular service concepts and system analyses for entire systems

Assuming responsibility. All sorts of fluids keep our society in motion. They enable agriculture and industry to be productive, provide people with water and energy, and supply cleaning and fire protection systems. As one of the leading international suppliers of pumps, valves and associated services, KSB is responsible for the functioning of strategically important parts of this infrastructure. – But for KSB, responsibility does not end here. It is part of our value-based corporate culture, it shapes how we act and interact in our day-to-day work and governs how we serve our customers. Three examples in this report show how we understand and fulfil our ecological, social and economic responsibility.

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Energy-efficient and safe – the latest Magnochem generation is an extremely economic solution for customers.



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LEGEND

 Glossary



Dr. Wolfgang Schmitt,
Chairman of the Board
of Management

Dear shareholders and business partners,

There is no point in beating about the bush: 2013 was not one of KSB's better financial years. Certainly, we made progress in many of our strategic projects, launched new products on to the market and ensured that, globally, we are well-positioned to face the future. However, we cannot be content with a 10.1 % fall in pre-tax earnings and a 0.9 % drop in sales revenue. Rather, what our performance has made very clear is the extent to which our company's success to date has also been dependent on a prospering project business. And it is this project business that has failed to take off in the present economic climate, with investors in many sectors continuing to postpone their investment projects.

We will therefore now be expanding our general business even more rapidly. Outside Europe in particular is where we see great potential for this business with standard pumps and valves. At the same time, we will of course be exploiting the opportunities associated with growing project business in 2014, as the expected economic upturn comes into play. In this context, we are assuming that the global backlog of investments will slowly clear.

SERVICE OFFERS GROWTH PROSPECTS

A further development focus for us is our service and spare parts business. We continue to view the aftermarket segment as a good source of growth opportunities. We will be tapping into these by establishing new sites, providing customers with a rapid service and offering a broad range of services, complete with energy-saving measures. In 2013, we made good progress in this regard, as reflected in the performance of our Service segment. Looking to the current year, our aim is to grow strongly in this segment while focusing our attention on

growth outside our European core market. To achieve this, we will be setting up new and expanding existing service centres, not least in the world's mining regions. New framework agreements with the energy industry give us the opportunity to demonstrate our service expertise in France and to do so over the long term.

REORGANISATION STRENGTHENS GLOBALISATION

This year, we will be putting our energy into making the necessary progress in the targeted areas. Our Group's organisational structure, implemented in 2014, will help us to achieve this. The new organisation, including in particular a promising positioning of Sales, will contribute to serving our customers across the world as effectively as possible using all of the different sales channels, from e-commerce through to individual project management. At the same time, we are strengthening our global networks and regional responsibility for business operations and our finances.

The KSB Group's management team was also restructured at the beginning of the year. It now comprises the Board of Management together with eleven top managers, with the aim of shortening decision-making channels and facilitating liaison at a global level. Another aim of these organisational measures is to strengthen team spirit and the sense of responsibility across all hierarchical levels.

RESPONSIBILITY HAS MANY ASPECTS

For KSB, responsibility is one of the key values underpinning our corporate culture. It is only when every single employee feels responsible for the company's success, and commits to achieving that success, that we can achieve the excellence that we promise our customers. Yet, for us, responsibility also means promoting economically reasonable production processes, contributing to the protection of the environment and helping to find solutions to social issues. Some examples of how we go about doing this are provided in this Annual Report.

Not least, however, we have an obligation to you, our shareholders, to ensure that KSB has a successful future ahead of it. This year we will be working on a range of measures that reflect this responsibility, reducing our structural and project costs, improving our range of products and services and making targeted use of the opportunities presented by the global economic recovery. We are more than confident that KSB will be able to report on renewed levels of growth over the coming year.



Dr. Wolfgang Schmitt,
Chairman of the Board of Management of KSB Aktiengesellschaft

BOARD OF MANAGEMENT





NEW APPOINTMENT WITH EFFECT FROM 2014

Dipl.-Kfm. Werner Stegmüller

has been a member of the Board of Management since 1 January 2014. He is responsible for Processes, Group Controlling, Regional Finance, Purchasing, IT, Legal & Compliance and Internal Audits.

MEMBERS OF THE BOARD OF MANAGEMENT IN 2013

From left to right:

Dr. Wolfgang Schmitt

joined the Board of Management on 7 April 2006, and has been Chairman of the Board since 15 December 2006. In the year under review he was primarily responsible for Finance and Accounting, Controlling, Legal, Communications, Strategy and the Business Units Valves and Service.

Dr.-Ing. Peter Buthmann

has been on the Board of Management since 1 January 2007. His main responsibilities in 2013 included Operations, Sales and Marketing, Human Resources, Central Purchasing, Programme Coordination and the Business Unit Submersible Pumps. He was also Human Resources Director.

Prof. Dr.-Ing. Dieter-Heinz Hellmann

was a member of the Board of Management from 1 January 2007 to 31 December 2013 with functional responsibility for Technology. The areas assigned to him were Research, Development and Business Processes (Technology). In addition, he was in charge of the three Business Units Single-stage Pumps, Multistage Pumps, and Automation and Drives. He was also in charge of Internal Audits during the year under review.

REPORT OF THE SUPERVISORY BOARD

Throughout the last financial year, the Supervisory Board continued to perform its tasks with great care in accordance with the law, the Articles of Association and the Rules of Procedure. We regularly advised the Board of Management on corporate management issues and monitored its work. The Supervisory Board was consulted directly and at an early stage with regard to decisions of fundamental importance. The Board of Management informed us about the position of the company, in particular its business, financial and staffing situation, planned investments, as well as corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis in a comprehensive and timely manner. We continued to meet on a regular basis to discuss selected issues, both with and in the absence of the Board of Management.

We discussed the Company's significant business transactions in detail on the basis of the Board of Management's reports. Any departures in business developments from the plans and targets were reviewed and commented on in detail by the Board of Management. After thorough examination and discussion, we adopted our resolutions on the reports and proposals by the Board of Management. Beyond the intensive work in the plenary sessions and in the committees, the Chairman of the Supervisory Board in particular and other Supervisory Board members were in frequent contact with the Board of Management outside the meetings to discuss the current business development and significant transactions as well as questions of strategy, planning, risk assessment, risk management and compliance.

In the reporting period, no conflicts of interest arose involving members of the Board of Management or the Supervisory Board that would have been subject to compulsory disclosure in the Report of the Supervisory Board.

MAIN FOCUS OF WORK IN THE SUPERVISORY BOARD PLENARY SESSIONS AND IN THE COMMITTEES

Core topics of our discussions with the Board of Management were strategy implementation and the continued development of the corporate organisation. The analysis of business development in selected Business Units and Regions represented an additional focus, as did comprehensive investment programmes at various different sites. We also closely examined the economic situation in and the prospects associated with specific market areas.

Four regular Supervisory Board meetings were held in 2013, and one constituent meeting. The performance of KSB Aktiengesellschaft and the Group was the subject of regular discussions in the plenary sessions, primarily with regard to order intake, sales revenue, earnings, assets and employment levels as well as the current economic situation, strategy, and investment, divestment and acquisition projects. We carefully studied the German and international service activities, including the concept in place for expanding these in China. Given the large number of acquisitions in recent years, we paid continued attention to their structured integration and management to ensure the desired level of profitability.

The Board of Management regularly explained to us in detail the ways in which KSB can achieve the planned growth for the coming years, including the underlying methodological and strategic considerations. All investments were subjected to critical analysis before being

COMMITTEES OF THE SUPERVISORY BOARD

and their chairs
(as of 16 May 2013)
and number of meetings
in the year under review

PLANNING AND FINANCE COMMITTEE

Dr. Martin Auer
No. of meetings: 4

MEDIATION COMMITTEE

Klaus Kühborth
No. of meetings: 0

CORPORATE DEVELOPMENT COMMITTEE

Dr. Hermann Nestler
No. of meetings: 4

AUDIT COMMITTEE

Dr. Thomas Seeberg
No. of meetings: 4

PERSONNEL COMMITTEE

Klaus Kühborth
No. of meetings: 6

NOMINATION COMMITTEE

No chair
No. of meetings: 4

approved and subsequently overseen by us. In this context, the Supervisory Board released initial funds for the purpose of modernising the foundry at the Pegnitz site in Germany. On several occasions, we reviewed the status of modernisation and expansion work at our locations in North and South America. A major investment decision was made for the benefit of our US subsidiary GIW Industries, Inc.; its headquarters in Grovetown, Georgia, will be gradually expanded and modernised over the coming years. In order to obtain a major Chinese order for the supply of pumps, we had to comprehensively expand our local manufacturing facilities. We received several reports from the Board of Management on the status of the order, which is now being processed and will take several years to complete. In a number of countries, the start or expansion of business activities led to property acquisitions. In each case we discussed the long-term impact of such measures.

Given the changes in the energy sector, not least the turnaround in energy policy in Germany, we continued to look at the issue of how these radical market movements are impacting or will impact in future our business operations. We subjected the deliberations of the Board of Management on this subject to critical scrutiny, focusing in particular on the qualitative assessment of corresponding measures, and on the current state of progress.

Repeatedly on the agenda was the continued development of our organisational structure. We devoted particular attention in this respect to the structuring of our international sales activities. Another focus was on the adjustments to our Group management structure. The concept adopted at the end of 2012 was fleshed out in greater detail and presented to top management in the middle of the year. The changes entered into force at the beginning of 2014. As well as a strengthening of regional responsibilities, we expect the changes to result in the Board of Management being able to focus to a greater extent on fundamental, strategic issues. Another focus of our work was the status – as explained regularly by the Board of Management – of the measures in place to develop our value-based corporate culture.

In September the Supervisory Board convened for a meeting near the Beinwil site in Switzerland, where it was able to assess how business was developing there and visit the production facilities. In addition, we informed ourselves about selected products and functions of the Group. Against the background of the changes to the composition of the Supervisory Board in the year under review, and the appointment of a new Chairman of the Supervisory Board, we discussed further ways of optimising the Supervisory Board's work, through for example a more efficient internal organisational structure. At the December meeting, we discussed and approved a major investment in the expansion of valve production at the La Roche Chalais site in France. We also looked at business performance during the year and planning for 2014.

In order to perform its duties efficiently, the Supervisory Board worked with six committees in the past financial year. These prepare the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they also make their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved worthwhile in practice. The Chairs of the committees regularly and comprehensively report in the plenary sessions on the content and results of the work carried out in the committees.

The **Nomination Committee** looks at the shareholder representative nominations prior to the Supervisory Board elections at the Annual General Meeting.

The **Planning and Finance Committee** focuses on corporate and investment planning and the financial situation of the company. Given our strategic objectives, the Committee discussed in detail the tools available for reliable and forward-looking planning, including appropriate and informative performance indicators. The new methodology used to incorporate forecasts and requirements was presented by the Board of Management and also dealt with in depth.

The **Corporate Development Committee** deals with a changing range of key issues. It discussed in particular the areas of strategy controlling, production management and innovation, and looked at a number of major investments, including in France and North America. Discussions on a comprehensive and Group-wide overhaul of the controlling and internal management system also figured on the agenda, as did measures to accompany the establishment of new Group companies in the Philippines and Colombia. The discussions on securing and optimising the provision of castings to our manufacturing facilities continued. The heads of the relevant specialist departments often took part in the committee meetings, along with the responsible members of the Board of Management.

The **Personnel Committee** primarily addresses topics relating to the Board of Management's remuneration, including the terms of the individual service contracts, as well as other Board of Management issues. Decisions on the Board of Management's remuneration are made in plenary sessions, with the Committee meeting regularly to act in a preparatory capacity. In addition, the Committee discussed staff development issues with the aim of prioritising the recruitment of candidates for the Board of Management and other management positions from within the company's own ranks. In 2013, the Committee members again participated

in events with potential candidates for various different management levels in an effort to foster a direct exchange of ideas. The committee discussed in detail the need to reassign responsibilities as a consequence of the retirement from the Board of Management of Prof. Dr. Dieter-H. Hellmann on age grounds with effect from the 2013 year end. Also the subject of careful deliberation was the first-time appointment of Dipl.-Kfm. Werner Stegmüller to the Board of Management of KSB Aktiengesellschaft, with effect from 1 January 2014 for four years.

The meetings of the **Audit Committee** were always attended by the Member of the Board responsible for Finance and, on several occasions, by the auditors. The committee primarily discussed the 2012 annual and consolidated financial statements, the audit reports submitted by the auditors and the internal auditors, and the effectiveness and further development of the risk management system and compliance organisation. In particular, the Committee prepared the independent examination by the Supervisory Board of the financial statements, the management reports and the proposal on the appropriation of the net retained earnings. In this context, it also defined key audit areas for the external auditing of the 2013 financial statements. In addition, the half-year financial report was discussed with the Board of Management. The committee submitted a proposal to the plenary session for the selection of auditors by the Annual General Meeting on 15 May 2013 and subsequently commissioned them to carry out the audit of the annual and consolidated financial statements for the 2013 financial year. The declaration of independence by the auditors was obtained in accordance with section 7.2.1 of the German Corporate Governance Code and the auditors' continued independence was monitored. The committee also discussed the monitoring of the financial reporting process and the effectiveness of the internal control and auditing system.

There was no requirement during the year under review to convene the **Mediation Committee** pursuant to section 27(3) *MitbestG* [*Mitbestimmungsgesetz* – German Co-Determination Act].

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored developments in corporate governance standards throughout the year. The Board of Management and the Supervisory Board report on corporate governance at KSB in accordance with section 3.10 of the German Corporate Governance Code as part of the Corporate Governance Statement pursuant to section 289a *HGB* [*Handelsgesetzbuch* – German Commercial Code]. On 5 December 2013 they issued a joint updated statement of compliance in accordance with section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act] and made it permanently available to shareholders on the company's web site. With just a few exceptions, KSB Aktiengesellschaft complies with the recommendations set out in the Code in the version dated 13 May 2013.

AUDIT OF THE 2013 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings and the audit reports submitted by the auditors, was provided in good time to all members of the Supervisory Board. The documents were

examined in detail by the Audit Committee on 18 March 2014 as well as by the Supervisory Board plenary session on 25 March 2014 and explained in depth in both cases by the Board of Management. The auditors attended the meetings of both bodies, reported on the findings of the audit and were available to provide additional information.

The Supervisory Board examined the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2013, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* [HGB – German Commercial Code], as well as the consolidated financial statements and the group management report for the year ended 31 December 2013, which were prepared in accordance with the International Financial Reporting Standards (IFRS), and the proposal by the Board of Management on the appropriation of net retained earnings.

The Frankfurt am Main offices of BDO AG Wirtschaftsprüfungsgesellschaft based in Hamburg audited the annual financial statements and the management report of KSB *Aktiengesellschaft* for the year ended 31 December 2013, as well as the consolidated financial statements and the group management report for the year ended 31 December 2013, and issued an unqualified audit opinion. The key audit areas defined for the auditors by the Audit Committee for the year under review were: Verification of the appropriateness and effectiveness of the Group-wide risk management system and of the proper nature of management reporting in accordance with the new German Accounting Standard No. 20 (DRS 20), particularly with regard to the report on expected developments, as well as the opportunities and risk report. The auditors reported their findings on these key audit areas both orally and in writing.

The Supervisory Board concurs with the auditors' findings. Based on its own final examination results, the Supervisory Board plenary session did not raise any objections to the annual financial statements, consolidated financial statements, management report and group management report. In accordance with the recommendation of the Audit Committee the Supervisory Board approved the financial statements prepared by the Board of Management; the annual financial statements are thus adopted. After its own examination, the Supervisory Board deems the proposal by the Board of Management on the appropriation of net retained earnings of KSB Aktiengesellschaft to be appropriate and concurs with it.

DEPENDENT COMPANY REPORT

The auditors also audited the dependent company report for the 2013 financial year prepared by the Board of Management in accordance with section 312 *AktG* and issued the following unqualified audit opinion on this report:

“On completion of our audit and assessment in accordance with professional standards, we confirm that

1. the actual amounts and disclosures in the report are correct;
2. the consideration paid by the company for the transactions listed in the report was not inappropriately high.”

The reports by the Board of Management and the auditors were provided in good time to all members of the Supervisory Board and were also discussed by the Audit Committee and at plenary sessions. The auditors attended the meetings of both bodies, reported on the material findings of the audit and were available to provide additional information. The Supervisory Board concurs with the auditors' findings. Both the recommendation by the Audit Committee and the final results of the Supervisory Board plenary session's examination did not give rise to any objections to the dependent company report prepared by the Board of Management and to the statement by the Board of Management at the end of the dependent company report.

CHANGES ON THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The changes on the Board of Management have already been described above. Dr. Hans-Joachim Jacob, the long-standing Chairman of the Supervisory Board, retired with effect from the close of last year's Annual General Meeting on 15 May 2013, having reached the age limit for members. The Annual General Meeting elected Prof. Dr. Michael Hoffmann-Becking as a new member of the Supervisory Board. In addition, Dr. Jörg Matthias Großmann – following his appointment by court order in 2012 – and, once again, Mr. Klaus Kühborth, were elected to the Supervisory Board. The period of office of the employee representatives on the Supervisory Board came to an end, as scheduled, at the close of this Annual General Meeting. At the elections on 16 and 17 April 2013, Ms Sigrid Maurer, Dr. Stephan Bross, Mr. Alois Lautner and Mr. Volker Seidel were all re-elected to the Supervisory Board with Mr. René Klotz and Mr. Wolfgang Kormann being elected for the first time. At its constituent meeting on 15 May 2013, the Supervisory Board elected Mr. Klaus Kühborth as its Chairman and Mr. Alois Lautner as its Deputy Chairman. In this context, the Supervisory Board wishes to thank the departing members for the many years of cooperation in an atmosphere of mutual trust.

The Supervisory Board would like to acknowledge and thank the Board of Management, the employees and employee representatives of all Group companies for their good work in the year under review.

Frankenthal, 25 March 2014

The Supervisory Board

A LOOK BACK AT 2013

Q1

ORGANISATIONAL STRUCTURE PROJECT

KSB AG restructures its activities and organises itself in a way that makes a clearer distinction between operative tasks and Group functions.

NORWAY

KSB acquires a 34 percent interest in WM Teknikk AS in Ski with the objective of promoting our general business with standard products in Norway.

RELEASE FOR SALE

KSB is pushing on with its harmonisation of standardised pumps. The technically revised Etanorm offers customers a particularly energy-efficient pump set in 43 sizes.



YOUNG RESEARCHERS



93 pupils present their projects in the regional round of “Jugend forscht – Schüler experimentieren” [Youth researches – pupils experiment], organised by KSB in its Frankenthal vocational training centre.

DISTRIBUTION CHANNELS

KSB is establishing a network of franchises in France to increase sales of standard pumps and valves. The new sales concept is named “K2”, after the second highest mountain on earth.

INNOVATION

The new Calio circulator pump is launched onto the market. Fitted with a particularly energy-efficient hydraulic system, it meets the legal requirements applicable from 2015 as stipulated in the Energy-related Products Directive.



INAUGURATION

The new plant in Jundiaí, Brazil, is officially opened. All facilities are designed in accordance with the latest energy efficiency and environmental standards.



AWARD

KSB is judged one of the best 100 employers in Germany in a survey organised by the Focus news magazine and the Xing online career platform. KSB is rated second among mechanical engineering companies.

Q2

Q3

VALVES



328 KSB butterfly valves help to right the wreck of the Costa Concordia cruise ship and keep it upright off the Italian island of Giglio.

ONLINE LEXICON

KSB is making its reference work on pump engineering available online for the first time.

www.pumpenlexikon.de lets engineers, technicians and students obtain information on technical terms and their meanings quickly and easily.

SAUDI ARABIA

KSB receives an order to supply more than 100 Omega pumps for the expansion of the King Abdulaziz International Airport in Jeddah, Saudi Arabia. The units will be used in the district cooling systems serving various supply centres.

INNOVATION

The Federal Ministry of Food, Agriculture and Consumer Protection and *Fachagentur Nachwachsende Rohstoffe e.V.* [German government advisory agency] support a joint biogas project. KSB is involved as an expert on the transportation of highly viscous fluids.

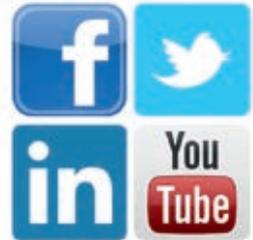
INAUGURATION

KSB Pumps Limited inaugurates a new workshop at the Coimbatore site in India. Staff assemble high-pressure valves with nominal diameters of 350 to 600 mm for power plants across an area of 1,125 square metres. The workshop also boasts a new test facility.



SOCIAL MEDIA

KSB is expanding its communication via social media. In October, the “KSB Company” Facebook page takes off to a widely acclaimed start.



FLOOD CONTROL

KSB is supplying pump sets for a new rainwater pumping station in Huainan, China. The plant transports 95,000 m³ of rainwater per hour from the communal sewerage system into the Huaihe river. This protects the city from flooding during heavy rain.

Q4

EMPLOYEES

Highly trained, experienced employees are key to the success of our business. Our future will be shaped by their skills and dedication. To this end we create a working environment that inspires and connects people and is founded on an open leadership culture that is based on mutual trust, respect, commitment and performance.

STRATEGIC HR PLANNING

We currently employ 16,546 people worldwide. In order to assess our future employee requirements more precisely we have been introducing strategic HR planning in stages since 2011. It is intended to ensure that all KSB companies around the world have sufficient employees with the right qualifications in the medium and long term. In particular, in 2013 we determined the personnel requirements of our Indian companies in all areas of activity in the coming years. In addition, we are defining measures to develop the skills of the workforce in accordance with this target structure.

In order to adapt our staff to future needs in qualitative terms, we are using training and development options and preparing replacements for vacant positions early on. Alongside the age, skills and qualification profile of our workforce, a significant factor in our strategic HR planning is the staff numbers needed to accommodate the targeted growth in the individual areas.

CULTIVATING COMPETENCIES

Managing skills plays an increasingly important role in our company's HR development planning. Changes in technology and commercial methodology require us to continually train our employees and equip them to perform new tasks throughout their working lives. At KSB we distinguish between core, specialist, and leadership skills, which we foster by means of innovative development concepts. The objective is to expand and broaden the skills of our employees in line with changing business activities, while taking into account the personal objectives of our employees. As the basis of our planning, in the year under review we defined the competencies and skills that our management worldwide already possessed and those that needed to be developed. In 2014, we will be creating this transparency for our other employees as well.

QUALIFICATION STANDARDS FOR EMPLOYEE INTEGRATION

If new employees are to integrate successfully, it is essential that they are familiar with the most important methods, systems and rules in the company. We impart the basic knowledge they require as quickly as possible. With this in mind, in 2013 we created international qualification standards for the first time. They define how KSB companies have to instruct employees to ensure that they can fulfil their responsibilities independently. In a first step, these standards will be implemented in 13 countries, including Germany, France and the BRIC² countries. Some of the required learning modules are taught by our trainers in person, while others are accessed by our employees via a media centre on our global Intranet.

STRENGTHENING THE VALUE-BASED APPROACH

Trust, honesty, responsibility, professionalism and appreciation inform work processes at KSB and the way we act and interact with customers and other partners. These values provide the basis for our activities and are part of our corporate culture. To ensure that we act in accordance with our values, employees and managers meet in communication forums to address how these are incorporated into our work and our interaction with each other. They come together in "value dialogues" to discuss the extent to which values are already successfully applied and where opportunities remain to improve cooperation. In the year under review, around 150 people in Germany took part in such exchanges of views. In addition, some 90 members of management attended a seminar on "Value-based Leadership – Leading Professionally with the KSB Values". Value-based training sessions were also held in France, Thailand and South America.

EDUCATION AND ENCOURAGING YOUNG TALENT

We consider the technical and commercial training of young talent to be of prime importance for our future. By addressing this topic, we are counteracting the anticipated shortage of skilled personnel. For this reason, in 2013 we invested € 8.7 million in preparing 317 school leavers across Germany for their later employment in the company. In 2012 we launched a training programme combined with academic studies to

cover our own future engineering needs, which offers trainees expert support right through to their bachelor's degree. We also help graduates of dual work/degree programmes with their master's studies. Ten students took part in such programmes in the year under review.

KSB IS TOP EMPLOYER

We wish to be a particularly attractive employer – both per se and in comparison with other companies – for our staff members and potential employees. A survey organised by the Focus news magazine and the Xing career platform in 2013 revealed that KSB is considered to be one of Germany's 100 best employers. Of the mechanical engineering companies, KSB was in second place, while overall our company was ranked 53rd. The rankings were based on responses from around 6,300 employees, who evaluated their employers and companies within their own industries. Criteria included image, social responsibility, loyalty to employees, remuneration, recognition for achievements, further education/training and the working environment.

COMMITMENT AND INVENTIVENESS

“Our technology. Your success.” That summarises our approach to creating added value for our customers. Our activities are therefore focused on providing products and services that offer our customers quantifiable advantages.

In line with this objective, our employees each make their own special contribution to our company's success in their daily work. Their commitment and inventiveness are what characterise our company – both internally and externally. It is down to them that we earn our customers' loyalty and attract new customers to our company.

The Board of Management would like to thank all employees for their commitment in 2013. Special thanks also go to the members of the employee representative committees, including the Executives' Committee. They were both critical and constructive in promoting the interests of the staff, thereby contributing positively to the working environment.



KSB's trainees also put teamwork to the test outside their companies.

CORPORATE SOCIAL RESPONSIBILITY

Our actions as a company are not measured solely against economic benchmarks. We also take ecological and social interests into account. That means that we take a responsible approach to natural resources and the environment, take care of our employees and fulfil our social responsibilities.

In particular we aim to meet the requirements of sustainable development for the sake of future generations. Our company committed itself to that objective when it signed the UN Global Compact² in 2010. This compact between the United Nations, companies and organisations aims to bring about a higher level of social and economic justice. There are also many KSB customers among its 10,000 signatories.

OBSERVING STANDARDS

We not only wish to achieve the improvements defined in the UN Global Compact with respect to labour standards, environmental protection, business conduct and observance of human rights within our own company, we also require these of our suppliers. In 2012 we surveyed KSB Aktiengesellschaft's key suppliers on these issues. In the year under review we expanded the survey and enquired at global level about the extent to which our business partners share our commitment to the social, ecological and economic values defined by the United Nations. To date, our ongoing survey has reached more than 50 % of our supplier chain.

We are committed to observing legal and ethical standards. By doing so, we preserve KSB's good reputation, which bolsters the confidence of customers and business partners. To avoid the possibility of any misconduct, we have acquainted more than 4,000 employees with compliance topics such as corruption prevention and cartel/antitrust law. Such training was, of course, of particular relevance to employees in sales and purchasing, who need to react with great sensitivity to any deviations from standards.

Even if all reasonable precautions are taken, infringements of applicable law or internal rules of conduct can occur. In such cases, employees can inform their line managers or the Group Compliance Officer. In addition, there is an independent ombudsman whom they can contact in confidence. Since

2013, this impartial arbitrator has also functioned as a contact for any instances of human rights infringements such as discrimination.

PROMOTING HEALTH

Staff absences reduce a company's productivity and competitiveness. For this reason, our commitment to the health of our employees extends the legal occupational health requirements. In Germany, for example, this takes the form of occupational health management under medical supervision. A holistic approach allows physical and psychological stresses to be identified and contained in good time.

Our approach focuses on employees making their own decisions regarding their health. To this end we offer options ranging from vaccinations and other preventative measures to PC-based exercise programmes and corporate sports events.

PROTECTING NATURAL RESOURCES

Companies face complex requirements when it comes to environmental protection, quality and occupational health that require globally coordinated activities. These are handled by specialist staff members as part of an Integrated Management System². These same staff members are also responsible for obtaining international standards certifications. Of our 36 production plants, 32 currently possess such certifications. Our Australian plant in Tottenham was added to the list in 2013 and we also had sales and service offices in Australia, Germany, the Czech Republic and Hungary certified in the year under review.

We are reducing our consumption of energy and raw materials as much as possible by means of efficient production processes. At some of our sites we are generating environmentally friendly electricity for our own use. In Nashik, India, wind, sun and biogas contribute towards the plant's energy requirements. We are also conscious of the origins of electrical energy in some of our smaller locations without production facilities. Since 2013 our British company has been using "green electricity"² whose generation causes 10 % fewer emissions.

In Jundiaí, Brazil, we inaugurated a plant that serves as a showpiece from an ecological perspective. All of the plant's facilities meet the latest energy consumption and environmental protection standards. The construction of the production facility allows it to operate using only natural light; no artificial lighting at all is required during daytime. Hot water is obtained using solar energy and there is a system in place to collect rainwater for use in industrial processes, sanitary facilities and, in the event of emergencies, fire protection. In India we expanded an existing rainwater harvesting system in 2013.

EXPLOITING GREEN POTENTIAL

Our employees' environmentally aware behaviour saves energy. We encourage our staff to come up with ideas to protect valuable resources. In 2013 we received suggestions for improvements from employees in Australia, Germany, Switzerland, Turkey and the United States. These resulted in numerous individual measures, such as the introduction of lights with movement sensors that avoid unnecessary lighting.

A global company requires people to cooperate across great distances, which creates a need for meetings. To reduce travel costs and environmental emissions, we use an international video network for such direct communications. In 2013 we set up eight new video-conferencing rooms and we now have 54 such facilities in 17 countries. More than 10,000 video conferences were held in the past year to discuss and resolve cross-location matters. We will continue to expand the video network.

When companies engage in manufacturing, waste is an inevitable by-product. We try to employ recyclable materials wherever possible. If such materials are to be reused, they must first be separated, which is why, from 2013, we have obliged all our service locations to separate their waste, even where local legislation does not require this. In China we changed our packaging to minimise the use of materials that cannot be recycled.

KSB is testing environmentally friendly electric vehicles with a range of 100 km in two of its German plants.



EFFICIENT PRODUCTS SAVE ENERGY

The distinguishing feature of environmentally friendly technical products is that their use requires little electricity. Manufacturing and providing energy-efficient products is in line with our customers' growing interest in such equipment. KSB was quick to adapt to this development and offers a comprehensive concept to utilise savings potentials.

The idea: KSB optimises not just individual components, such as pumps and drives; we take entire hydraulic systems into consideration. To achieve this, system specialists pay visits to pump system operators and perform a comprehensive analysis. Where necessary, they recommend technical adjustments and harmonise plant components to make the system work efficiently. In many cases this can result in energy savings of up to 60 %. The demand for this service offer rose by about 10 % in the year under review. We therefore increased our advertising of the service in 2013 to attract even more customers.

In 2012 and 2013 our designers completely redesigned several standardised chemical and water pumps, with a major focus on improved energy efficiency.

In the year under review we launched a highly efficient circulator pump on the market that meets the European Union's 2015 efficiency requirements. In Europe alone, there are 140 million circulator pumps that run at fixed speed and are often the largest electricity consumer in a home. Energy consumption and emissions can be reduced by exchanging old units for high-efficiency pumps. The European Commission estimates there to be a savings potential of 23 terawatt hours by 2020, which is equivalent to Ireland's annual electricity consumption and would lower CO₂ emissions by around 11 tonnes.

SUPPORTING EDUCATION

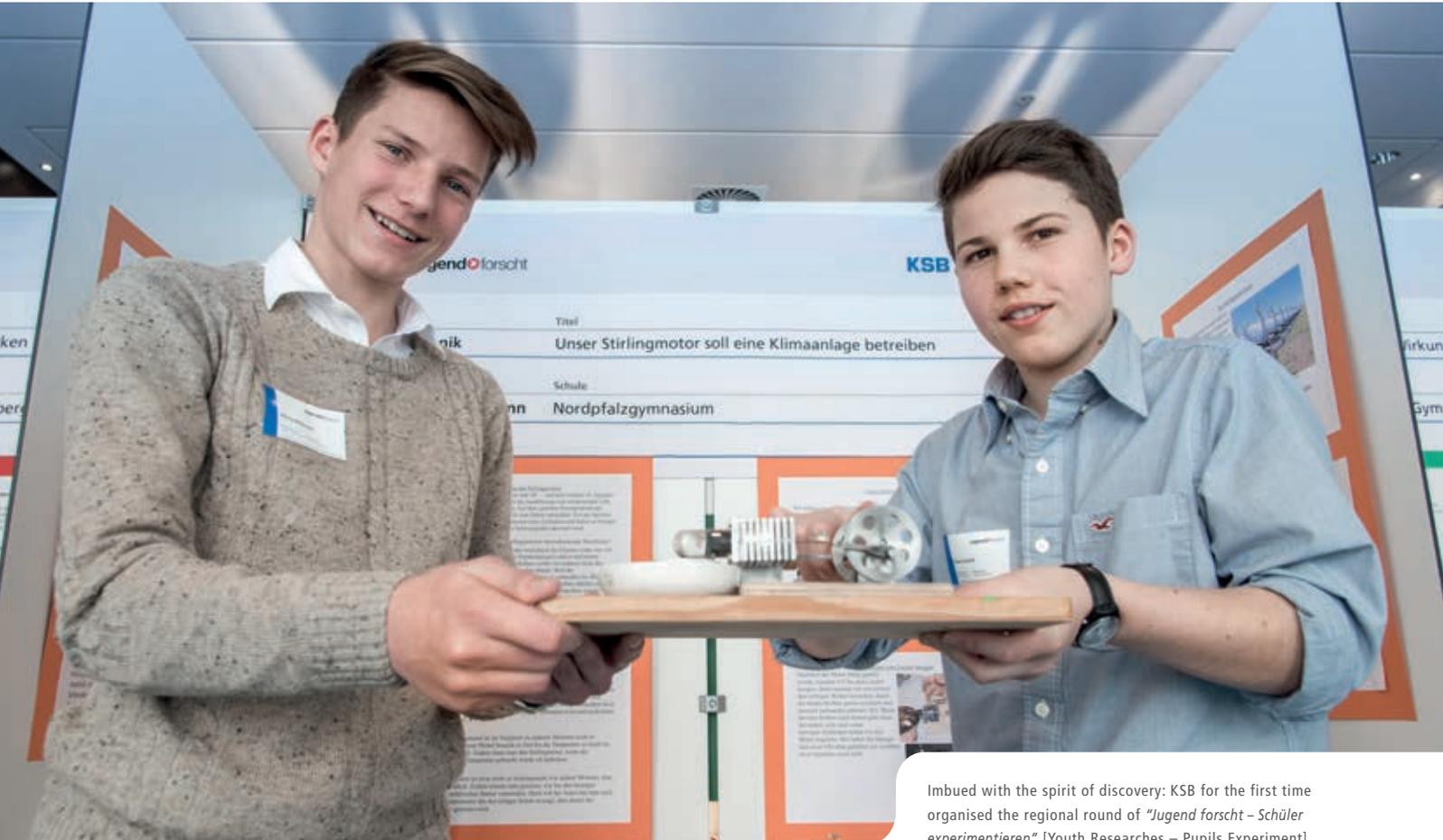
Social responsibility is an integral part of our corporate identity. Three of four KSB companies currently play an active role in the social, ecological and economic

development in the vicinity of their locations. We are involved in initiatives and institutions to help people in many locations. A focus of our social activities is education. Not least because of demographic developments in some Western countries, the number of skilled personnel is set to fall, so education is, in our opinion, an important topic for the future. As a founding member of the "*Wissensfabrik – Unternehmen für Deutschland e.V.*" [Knowledge Factory – Companies for Germany], we help kindergartens and schools awaken young people's interest in science and technology at an early stage. KSB provides learning materials for experiments and practical exercises and trains teachers and educators to use them correctly. Another element of our involvement in the Knowledge Factory is a storytelling project for speech development in early childhood.

In 2013 we played host for the first time in the regional round of the largest European youth competition in the field of sciences and technology. The 93 participants in "*Jugend forscht – Schüler experimentieren*" [Youth Researches – Pupils Experiment] presented their projects, which addressed a variety of topics.

It is not always easy for young people to master the transition from school to the world of work. In Germany we are members of a network in which schools and business regularly exchange views. The aim is for young people to realise via concrete projects that different aspects of the academic knowledge they acquire at school can be a requirement for some careers. We are playing an active part in persuading other companies and organisations to join the initiative.

We also support a programme in Brazil that prepares young people for the job market. See our report on page 62.



Imbued with the spirit of discovery: KSB for the first time organised the regional round of "Jugend forscht – Schüler experimentieren" [Youth Researches – Pupils Experiment].

GLOBAL COMMITMENT

We are engaged in various social projects in Asia via our KSB CARE[®] aid fund, where the focus of our involvement in 2013 was again on educational projects. For example, we equipped schools and needy pupils in India and Indonesia with learning materials and equipment.

The KSB companies in South Korea and Taiwan assisted the victims of the devastating typhoon in the Philippines.

Our US employees are traditionally strongly involved in charitable work. For example, they actively support local charitable institutions that take care of needy children and their families. The staff regularly give blood for the US Red Cross.

In addition, KSB offers financial assistance worldwide. KSB Aktiengesellschaft alone donated around € 170,000 and made contributions in kind to various organisations and social projects in 2013.

KSB SHARES

STOCK MARKET ENVIRONMENT

Low interest rates and the continuation of an expansionist monetary policy in many industrial states shaped events on the capital markets during 2013. The additional levels of liquidity enabled the central banks to calm the markets somewhat, helping to combat the higher levels of volatility of the past few years triggered by the financial and debt crisis. The monetary policy measures were also intended to favour an economic upturn. This environment lent the equity markets renewed impetus. Many of the major indices were able to grow again, reaching new all-time highs.

Despite this growth, and after a strong start to the year, prices began to falter again across the world's stock markets in May. This sudden fall was sparked by the US Federal Reserve's announcement that it intended to restrict the buying up of bonds. Investors were unsettled by the prospect of liquidity being gradually reduced. Yet, by the middle of the year, the prevailing opinion on the capital markets was that interest rates would remain low for some time to come despite the

Fed's plans. Investors were duly reassured that a monetary policy turnaround was not imminent, clearing the way for an upwards movement on the stock markets during the second half of the year.

In Europe, the European Central Bank cut interest rates by 25 basis points in May and then again in November, to a record low of 0.25 %. These interest rate reductions also had a positive impact on the stock markets.

In this environment, the DAX recorded a gain of 24 % for 2013, ending the year on 9,552 points, only just below its all-time high of 9,594 points.

The EuroStoxx, meanwhile, grew by 17 %. This slightly smaller increase can be attributed to the fact that the fundamentals for Europe as a whole were somewhat weaker than the German equivalents, as was also reflected in the valuations.

DIVIDEND DEVELOPMENT

	2013 (proposed)	2012
Ordinary share		
Dividend	€ 12.00	€ 12.00
Dividend yield	2.5 %	2.6 %
Preference share		
Dividend	€ 12.26	€ 12.26
Dividend yield	2.8 %	3.0 %

	Ordinary share	Preference share
ISIN	DE0006292006	DE0006292030
Reuters symbol	KSBG	KSBG_p
Bloomberg symbol	KSB	KSB3
Share capital	€ 22.7 million	€ 22.1 million
Shares in free float	approx. 20 %	100 %
Year-end closing price 30 Dec. 2013	€ 481.0	€ 437.0
Market capitalisation 31 Dec. 2013		€ 804.3 million

The US Dow Jones index ended 2013 close to 27% up on the previous year, while the Nikkei 225 in Japan recorded a considerable gain of 54%. The growth policy pursued by the Japanese government was a key factor in this performance.

KSB SHARES MAKE GAINS

The KSB shares were also able to grow in 2013. The year-end price for the preference shares was around 6% up on the previous year, with growth of around 4% recorded by the ordinary shares.

At the start of the year both shares initially appeared relatively robust, moving in a strong upwards direction. By the spring, however, prices had started to fall, with ordinary shares at times dipping below the level recorded at the start of the year.

Following a sideways movement over the summer months, both shares began to rise strongly again, with the more liquid preference shares even recording a new high for the year in

October. Although some of these gains were shed again over the subsequent months, both the preference and the ordinary shares ended the year valued more highly.

The company’s market capitalisation at the year end was € 804.3 million, around 5% higher than at the previous year end.

DIVIDEND

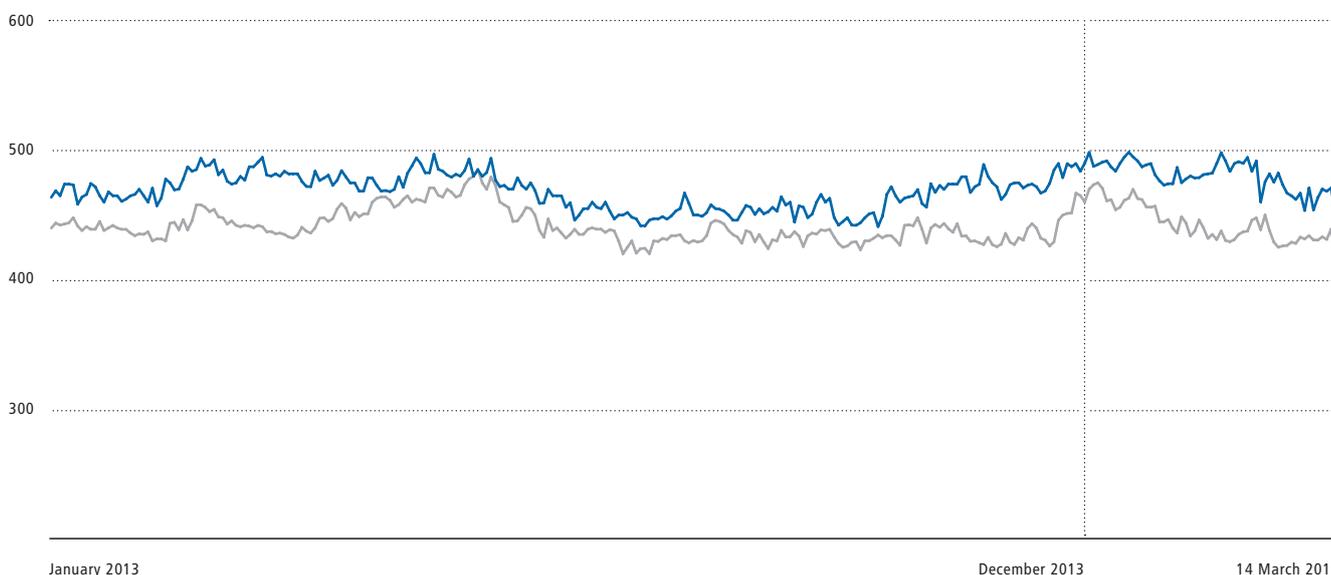
The Board of Management and Supervisory Board will propose to the Annual General Meeting on 14 May 2014 that an unchanged dividend of € 12.26 per preference share and € 12.00 per ordinary share be distributed.

EARNINGS PER SHARE

Earnings per share are down on the previous year as a result of the fall in consolidated earnings. They totalled € 37.38 for ordinary shares, compared with € 42.48 in the previous year, and € 37.64 for preference shares compared with € 42.74 in 2012.

KSB SHARE PRICE DEVELOPMENT IN €

■ KSB ordinary share ■ KSB preference share





ECOLOGICAL RESPONSIBILITY

KSB has developed the Amaprop low-speed submersible mixers for use in biogas production. They ensure particularly reliable and efficient gas extraction from biomass, helping to tap the potential of this growing source of energy.



“Thanks to our technology, biogas plants can produce the maximum quantity of usable gas. Our low-speed Amaprop mixes extremely efficiently, marking a major advance compared with the systems used until now.”



Maik Ulmschneider
Head of Sales Global Projects Water / Waste Water

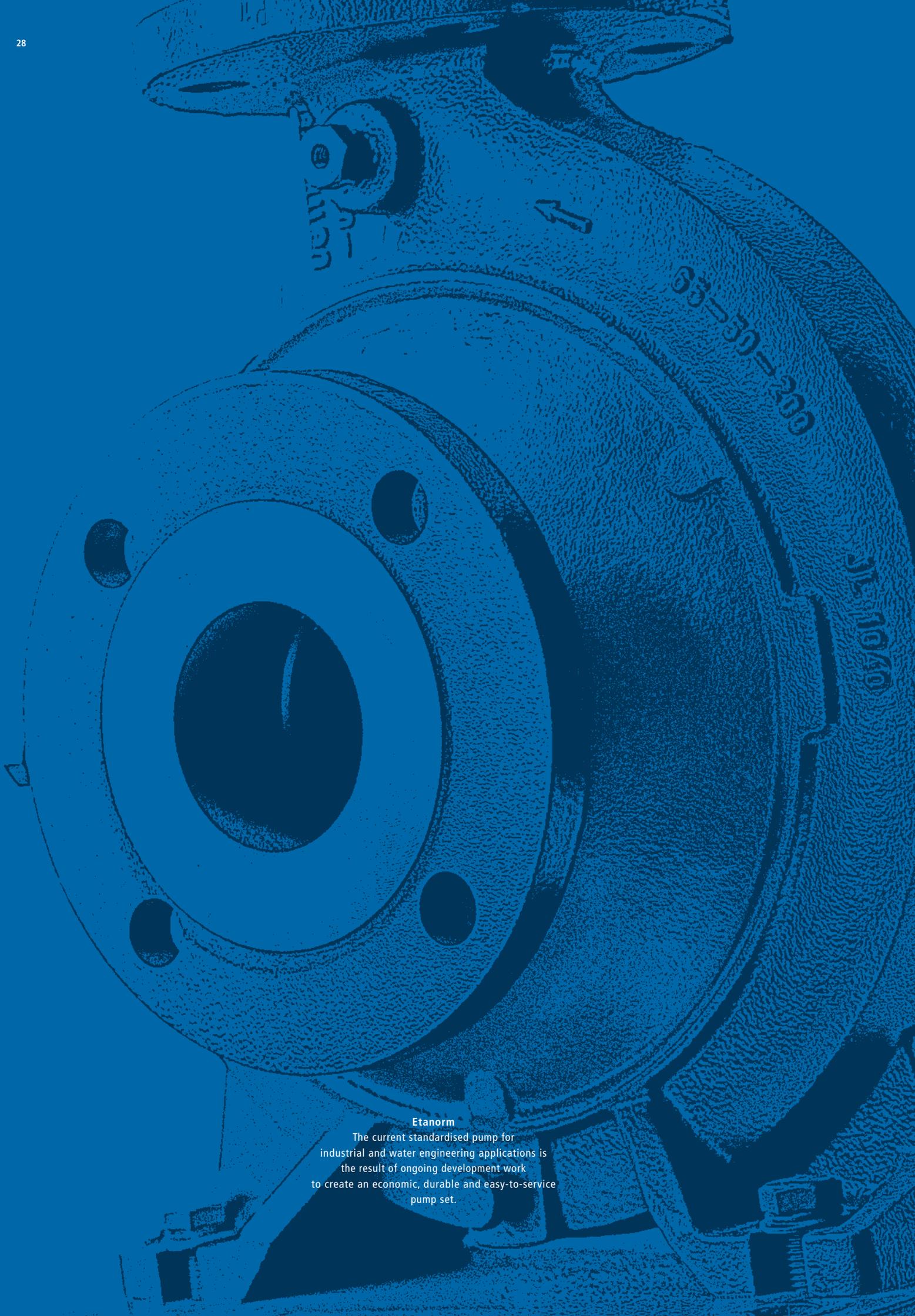


Energy-saving mixer from the Amaprop series

EFFICIENT LOW-SPEED MIXER

Producing 3.2 megawatts of electricity, Blue Mountain Biogas in Beaver County/Utah is the USA's largest biogas plant, capable of supplying 3,500 homes with energy. And it is equipped with Amaprop submersible mixers. Their horizontal, slow-moving propellers guarantee not only reliable but also high-yield production of biogas. The mixer's large-diameter propeller is the key component, along with its blades developed using computer simulations. Optimally positioned in the basin of the biogas plant, the mixer with its specially designed hydraulic system generates a powerful thrust in the biomass, resulting in the correct contact between bacteria and substrate and thus maximum production of combustible methane gas. Compared with higher-speed mixers with small propellers, this process also uses considerably less energy to run.

A plant operator from Balzheim in Baden-Württemberg, Germany, has been reaping the benefits of this technology since the implementation of a repowering [measure](#): By using the Amaprop mixers, the operator slashed energy consumption for biogas production by 75 %. Customers can also benefit from the KSB mixer flat rate scheme, known as "Amaflat". For a monthly lump sum, KSB will assume full liability for the mixing process in a biogas plant, covering the technical risk. This service package includes the installation of the equipment, maintenance work and repairs. Plant operators save the high investment costs they used to face. KSB is also a reliable partner in other areas of renewable energy, such as wind and solar power plants, geothermal plants and the exploitation of hydropower.



Etanorm

The current standardised pump for industrial and water engineering applications is the result of ongoing development work to create an economic, durable and easy-to-service pump set.

GROUP MANAGEMENT REPORT

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BASIC PRINCIPLES OF THE GROUP

GROUP BUSINESS MODEL

The KSB Group's mission is to supply customers around the world with top-quality pumps and valves as well as related systems. We also provide a wide range of service offerings to users of these products.

In the year under review, 85 operative subsidiaries in 40 countries were dedicated to achieving this mission. Nine Group companies exercised a holding company function. In the current financial year we plan to extend the consolidated Group to include two smaller companies in Spain and Morocco that have not yet been consolidated.

KSB AG, Frankenthal/Pfalz, Germany, as the parent company, directly or indirectly holds the shares in the companies belonging to the Group. Besides KSB AG itself, the companies in the KSB Group with the highest sales revenue are

- KSB S.A.S., Gennevilliers (Paris), France
- GIW Industries, Inc., Grovetown/Georgia, USA
- KSB Shanghai Pump Co. Ltd., Shanghai, China
- KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil
- KSB Service GmbH, Frankenthal, Germany
- KSB Pumps Limited, Pimpri (Pune), India

The economic and political changes that occurred in the year under review affected our business activity to some extent. These are – where relevant to KSB – described in the following sections. However, these external influencing factors have not affected our basic business model.

ORGANISATION, MANAGEMENT AND CONTROL

KSB AG's Board of Management manages and controls the KSB Group. The strategy and instructions formulated by the Board of Management are implemented within an organisation that is structured into three areas of responsibility: pumps, valves and service. At the centre of this organisation are the Business Units with their areas of focus.

All organisational units act with the aim of ensuring sustainable, profitable growth that will secure both KSB's financial independence and its medium- and long-term future. Management is monitored by a Supervisory Board consisting

of twelve members. The Annual General Meeting of shareholders appoints six members of the Supervisory Board, with the remaining six being delegated by the employees under the terms of the *Mitbestimmungsgesetz* [German Co-determination Act].

MARKETS AND LOCATIONS

Within the KSB Group, centrifugal pumps account for around two thirds of sales revenue. These pumps, as well as valves, are sold to engineering contractors, OEMs and end users or, in some cases, distributed via dealers. The same applies to control and monitoring systems, and to package units with pumps and valves.

The best developed sales market for these products is Europe, where KSB operates its main manufacturing facilities in Germany and France. KSB AG's main plant in Frankenthal is its largest in Europe, ahead of those in Pegnitz (Bavaria) and Halle (Saxony-Anhalt) in Germany, and La Roche-Chalais in France.

The second-largest market for KSB products is the Region Asia, followed by the Region Americas/Oceania and the Region Middle East/Africa. Outside Europe, KSB's biggest manufacturing facilities are in Brazil, China, India and the USA.

KSB manufactures products and components in a total of 18 countries; they are sold through the Group's own companies or agencies in more than 100 countries. With their products, the Group companies serve customers in the manufacturing sector (industry), the chemical and petrochemical industries, the energy industry and building services, transport equipment manufacturers and operators (e.g. ships, rail vehicles), water supply and waste water utilities and mining companies. The top-selling markets for our products in 2013 were the manufacturing and energy supply sectors.

In order to be able to offer our products at affordable prices, we combine the Group's purchasing requirements and source affordable suppliers around the world who meet our quality standards. The focus is currently upon Asian companies. We are able to maintain our market position as one of the leading pump and valve manufacturers through our good

and long-term relationships with our customers and suppliers. Our highly trained and motivated employees as well as the high quality of our products have also helped cement our reputation.

CONTROL SYSTEM

Based upon our matrix organisation, we determine our key financial performance indicators as follows:

Our management decisions are made primarily on the basis of the key indicators that are determined for the Business Units Pumps, Valves and Service: order intake, sales revenue and earnings before interest and taxes (EBIT). For further information on these key indicators see the Notes to the Consolidated Financial Statements, section VIII. Segment Reporting.

We also consider the pre-tax return on sales as well as the net financial position for controlling the Group. The pre-tax return on sales indicates the ratio between the earnings before taxes (EBT) and the sales revenue; the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash and cash equivalents, and receivables from cash deposits) accounts for the net financial position. When specifying and evaluating these key indicators, we are guided on the one hand by developments in the market, and on the other by the performance of our key competitors.

We do not consult any other key indicators or non-financial performance indicators for controlling the Group and for making decisions regarding management issues. However, we attach great importance to matters relating to our employees, environmental protection and corporate social responsibility. For more information see the Management and Issues 2013 section.



Centrifugal pumps and shut-off valves continue to be the main product groups for the global business of the KSB Group.

RESEARCH AND DEVELOPMENT

The Research and Development department provides innovative methods, generates new products and works continuously towards improving existing type series. In doing so, it contributes towards enhancing our competitiveness and expanding our business.

To carry out these tasks, we spent € 47 million (previous year: € 45 million) on research and development in the year under review. In relation to sales revenue we invested, as in the previous year, around 2 % in this area. The activities financed in this way focus primarily on hydraulics, materials technology and the automation of our products. Around the world 531 (previous year: 440) of our employees worked in research and development. Staff costs accounted for around half of the budget as was the case in the previous year.

TECHNICAL DEVELOPMENT OF STANDARDISED AND CLOSE-COUPLED PUMPS

Our greatest expenditure in 2013 was made in order to technically optimise the Etabloc, Etanorm SYT, Etabloc SYT, Etaline-Z, HPK-L as well as the Magnochem and Magnochem-Bloc type series. Along with Etanorm and MegaCPK, which we modernised in 2012, they form the backbone of our business in industry, the process engineering sector and building services. “More performance per pump” – this describes the substantial progress made during the year under review. Quite a few calculations, simulations and tests were necessary to turn hydraulically improved designs into practical solutions. Once the type series had been re-developed, the next task was to integrate them into our EasySelect product configurator software.

Our customers can use EasySelect to select the pumps or valves that are appropriate for their applications and offer the greatest energy-saving potential. An inter-disciplinary team of specialists has developed a new version of this software that combines our product, process and control know-how. It proposes a pump, for example, taking into consideration criteria like price, efficiency and energy costs. Users can quickly and easily obtain individual solutions for their projects that are appropriate at both a technical and a commercial level.

COMPUTER SIMULATION OF STRESS CONDITIONS

Many vital components in pumps and valves are produced using cast materials which are subject to special manufacturing conditions. This is particularly true for corrosion- and wear-resistant metal alloys. Our research activities in this domain during the year under review focused on stress and how it is generated when fluid metal solidifies during the casting process. It can lead to deformations and in the worst case can cause the material to crack meaning that the part cannot be used for further processing. In order to cast complicated elements such as impellers with a low reject rate, our material experts in Pegnitz have been developing a computer simulation since 2013 that predicts such stress conditions on an atomic basis. These virtual results are compared with experimental material tests to verify practical feasibility. We will use the findings to reduce production and development costs and to ensure the quality of our products.

NEW GENERATION OF AUTOMATION AND DRIVE SYSTEMS

For many years pumps combined with electronics have been considered state of the art. Intelligent control systems are used to make pump operation economical and resource-efficient. Thanks to precise interaction of the pump, motor and control system, the pump set offers high overall efficiency. Energy costs can be reduced by up to 60 % for systems with fluctuating flow rate requirements. The new generation of our PumpDrive that we will introduce successively from August 2014 onwards offers our customers a flexible variable speed system . A basic model will be available for building services and a more complex variant for industry. The latter is characterised by a broad range of communication interfaces that enable smooth integration into the different bus systems  commonly used in industry.

95 % of all pumps have an electric drive. Our highly efficient KSB SuPremeE motor sets new standards in the area of standard drives. A frequency inverter  is always required to operate the motor as it cannot start directly on the mains supply system. But as this device is very useful for applications involving varying rates of flow in any case, it does not really represent an “extra” investment. However there also applications where a pump transports a constant volume flow rate. In order to make the energy-efficient motor technology  cost-effective for such applications, we are



KSB developers use model testing to complement computer-aided flow simulation results.

developing hybrid motors with rotors that have a squirrel cage as well as magnets. On these types of drives, the cage is used to set the rotor into rotation during start-up. Thanks to the installed magnets it runs synchronously with the frequency provided by the power supply system. This means that it operates at a low loss and low energy consumption rate, as the initial prototypes have proven.

Depending on the design, there is also a range of pump types for which special drives are used. Submersible borehole pumps², for example, have electric motors that are very slim and are filled with water. Due to the slender, cylindrical design of these pumps we cannot use the same technology that we use in our KSB SuPremE motor. There is always a gap between the rotor and the stator, which is necessary to enable free rotary movement. As the magnetic field lines become weaker in water, this gap reduces the motor's efficiency. In order to fill this gap we are experimenting with ferrofluids². These are fluids that react to magnetic fields without solidifying or lumping together. This enables the

magnetic forces to travel better from the stator coils to the rotor. In the year under review we have started to research whether the use of these fluids in the motor compartment can cost-effectively increase the level of efficiency. We will continue these tests in the current year.

We assess all our research and development activities in accordance with their value for enhancing the competitiveness of KSB as well as in terms of protecting resources and the environment. To achieve the best possible results we channel the individual competencies of our Group companies in shared development tasks. We also involve research institutes and universities in our activities or work with other companies on collaborative projects.

ECONOMIC REVIEW

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

After a slow start, the global economy in 2013 continued to grow; global gross domestic product increased by 3%. Gross domestic product in industrialised countries rose by approximately 1.3% despite a predominantly restrictive financial policy. The emerging countries demonstrated a comparatively stronger growth rate of +4.7%, however the overall economic development in this group of countries was again weaker than in the previous year. Economic and structural reasons were major contributors towards the low growth rate. The depreciation of the currencies in Australia, Brazil, India, Indonesia, Pakistan, South Africa and Turkey, primarily as a result of capital flowing back around the middle of the year from emerging markets to the USA, was a financial burden on these economies.

KEY GROWTH AREAS OUTSIDE EUROPE

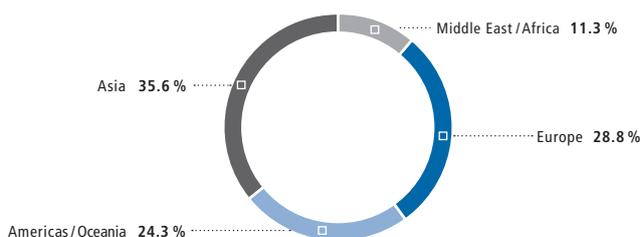
In Europe, which is still the most important market for KSB's business, the demand situation made a slow recovery in 2013. This was mainly due to exports to non-European countries; there was only a slight increase in domestic demand. The gross domestic product in the euro zone fell by 0.4% in real terms. However, Germany and Austria demonstrated an inverse trend with figures that were slightly higher compared with the previous year. Outside the European Monetary Union, the economies of Great Britain and some Eastern European countries in particular, experienced slight growth. Economic development in Russia, where the KSB business has expanded significantly over the last few years, fell short of expectations however. This is down not least to falling commodity prices. Contrary to other emerging countries, the volume of capital investments in Russia declined.

In 2013 market development was again weak in the countries of the Middle East and North Africa, some of which are affected by political turmoil. The region's gross domestic product only rose by 2% with development in the different countries varying enormously. Saudi Arabia and the United Arab Emirates were rays of hope. The countries in sub-Saharan Africa were able to maintain the growth rate of the previous year; they achieved an increase in gross domestic

product of around 5% in real terms. The economy of the Republic of South Africa also continued to develop despite the ongoing social unrest and the depreciation of its currency.

The market situation in Asia was largely affected by the slow development in China, where the economy in 2013 only grew in the single-digit percentage range by +7.7%. Besides poor demand from abroad, restrictive monetary policy measures dampened the economic expansion of the People's Republic where we are represented by five subsidiaries. The situation in India was still weighed on by unresolved structural problems and uncertainty about the political future. The outflow of capital to the USA caused financing constraints. The economic performance of South-East Asian emerging nations, where we have had strong exposure for some years, was mixed, with scenarios ranging from one of renewed buoyant expansion in Indonesia to a recessionary trend in Thailand. In Japan, where we only serve a niche market, the growth-oriented fiscal policy boosted investment.

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: KSB estimates, EIF 2013

In the Americas region, the USA cut public budgets and along with Canada achieved moderate growth. Brazil's economic recovery was slow due to falling commodity prices and domestic political difficulties. Nevertheless, the country continued to develop new oil and gas reserves. Chile, where KSB sales revenue has grown considerably in recent years, remained an attractive sales market despite depressed copper prices.



New offshore projects off the Brazilian coast offer new order opportunities for process engineering pumps and valves.

ONLY SLIGHT UPSWING IN MECHANICAL ENGINEERING MARKET

Germany was again one of the world's largest machinery exporters in 2013, together with the USA and China. The growth in sales for these products slowed down compared with the previous year, however, and growth in global sales revenue for machinery, including pumps and valves, fell from 2 % to 1 %.

According to the German Engineering Federation (VDMA), the backdrop to this was underutilisation of production capacities in many countries limiting the need for investments in new plants. In this respect, customers primarily ordered new machinery in the form of replacement investments.

In 2013 China presumably was once again the country with the highest growth in machinery production, even though the rate of increase was lower than in previous years. In the USA, the process of re-industrialisation and investments in the oil and gas industry provided for above-average growth.

Deviating from the upward trend of these global competitors, the sales revenue for the German mechanical engineering sector fell by 1 % in the year under review. According to the estimates of the VDMA, the order intake was 2 % lower year on year.

SLOW DEMAND FOR PUMPS AND VALVES

KSB continued to be one of the world's leading manufacturers of centrifugal pumps in 2013. The market for these products again developed inconsistently during the year under review: While demand for standard pumps for industry and building services was satisfactory, there were insufficient project order volumes to utilise the capacities of the manufacturers of pump sets designed for specific orders. The price pressure for large pumps continued.

In many European countries, no notable expansion investments were made as a result of the realignment in energy policy regarding power plants. As a result, the demand for pumps for energy applications was restricted to replacement pump sets. However, new buildings incorporating highly efficient equipment in Asia as well as the construction of gas-fired power plants in the USA represented individual sales opportunities for suppliers of power plant pumps. Manufacturers of pumps also had opportunities to get involved in large projects in the refinery and petrochemical sector, though the competition was fierce.

Collectively the German pump companies recorded a 2 % increase in sales revenue in 2013, according to the VDMA [\[2\]](#).

KSB remained among the ten companies with the highest sales revenue in the market for shut-off valves. During the year under review, development in this area was as weak as in the pump sector. The VDMA reported only a 1 % increase in sales revenue in real terms for the industrial valves sector, which includes most of the globe, gate and butterfly valves manufactured by KSB.

Demand developed well in the oil and gas sector, partially served by KSB. Buoyant business activity was reported specifically in the equipping of liquefied gas tankers and terminals for which we provide cryogenic valves. In contrast, the manufacturers of power plant valves were still faced with an overall weak market.

In the sectors where customers postponed investments, there was increased demand for service offerings to maintain and modernise equipment. The companies providing services relating to pumps and valves also benefited from this development.

COMPETITORS ARE INVESTING IN BRIC COUNTRIES

The process of company acquisitions did not continue in the pumps and valves industry, except for a few takeovers in the USA and India. On the one hand, the number of interesting target businesses was reduced through earlier acquisitions, and on the other hand their prices rose. Furthermore, the uncertainties in the energy industry prevented the pump and valve manufacturers in this area from expanding through business acquisitions.

Various pump companies have taken steps, however, to expand their activities in the water and waste water sectors through acquisitions. This relates to the processes for filtration and water treatment, for example.

Similarly to KSB, other pump and valve manufacturers also increased their presence in the BRIC countries as well as other attractive markets. This is the case in Brazil for example, where competitors who want to participate in the

offshore projects for oil and gas production are setting up local production facilities. International pump and valve companies also increasingly invested in service facilities in the growth markets.

In China domestic high-pressure pump manufacturers increasingly targeted the power plant market, while Chinese and Korean pump suppliers pushed their way into foreign markets that had previously not been served by them.

The KSB Group and its competitors in the market were essentially faced with the same opportunities and risks. However, due to the continued reluctance of customers in the project business to invest, there was greater pressure upon suppliers who operate partially or fully within this sector than upon those who exclusively operate a general business.

BUSINESS DEVELOPMENT

In 2013 the order situation for the project business was once again challenging. This was due to weak demand in the power plant market, but also deferrals of larger projects for water supply and waste water treatment. The correspondingly high pressure on prices in the project business made it in some cases less attractive to accept fiercely contested orders.

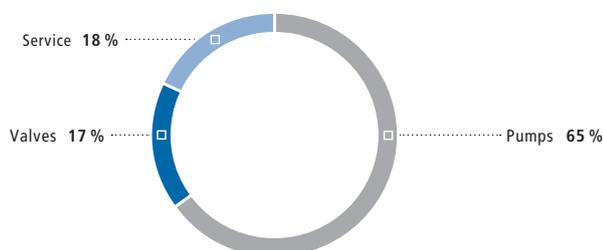
In contrast, the general business for standard pumps performed well overall. Our initiatives to expand this business segment for KSB showed initial signs of success in Europe. In several Asian countries and Brazil, the order intake for standard pumps for use in industry and building services was higher.

SLIGHT DECLINE IN ORDER INTAKE

In 2013 the volume of the Group's new incoming orders was 0.7 % lower than in the previous year, amounting to € 2,241.2 million. Alongside the difficult project business, negative currency effects amounting to € 70.4 million represented a determining factor behind this development.

The order intake also includes eight operative companies consolidated for the first time; these companies recorded € 27.2 million.

SALES REVENUE BY SEGMENT



The order intake in the Business Unit Pumps was € 1,453.3 million, 2.5 % less than in the previous year. One of the main causes besides the changes in exchange rate, was the weak business in the water and waste water industry as well as the mining sector. Order intake for high-pressure pumps for power plants was also unsatisfactory.

On the other hand, the pump business in industry continued to grow. The introduction of technically improved standardised pump type series manufactured identically by our companies at several locations around the world has contributed towards this. In addition we recorded growth for refinery pumps in South Korean plant engineering which is of international importance. Business for our energy-efficient circulators developed well, despite the continued domination of two large competitors. Due to the increasing energy and cost awareness of many customers, the order intake for automation products and energy-efficient drives grew.

Business performance in the Business Unit Valves improved for our cryogenic valves for the oil and gas industry, which are primarily supplied for equipping liquefied gas tankers. The expansion of our product range by triple-offset high-performance butterfly valves contributed towards this improvement. Our valves were also successful in the chemical

industry and general industry sectors in Europe, where we have launched new shut-off gate valves onto the market for price-sensitive applications. Demand for power plant valves was weak however. The order intake for valves was € 387.0 million, down 1.3 % from the previous year.

The Business Unit Service reported strong growth in its order intake including the companies that were first consolidated in 2013. The value of incoming orders for service and spare parts increased by 7.1 % to € 400.9 million. The business unit profited from the expansion of service centres in the Asian and American mining regions, where mining operations that use pumps for solids transport, have a high application-related demand for spare parts and repairs. Thanks to the new local facilities we were able to better position ourselves to meet this demand. Power plant service in France and service activities for industry in Italy developed positively. We reported a decline in orders in the German power plant business. As part of the change in energy policy, the need for our service personnel in traditional operating areas in this sector decreased.

MORE OR LESS STABLE ORDERS IN EUROPE AND ASIA

Our companies in Europe recorded incoming orders of € 1,338.4 million, which was 0.5 % below the previous year's level, as development was slower in Russia where OOO "KSB" did not achieve the strong order intake recorded over the previous two years. Most of the companies based in Southern Europe experienced a persistently low development within the market. Our French company KSB S.A.S. performed well however. Its incoming orders grew, which was primarily due to higher demand for butterfly valves that are used by customers to shut off liquefied gases. The order intake for KSB AG was up slightly at € 807.8 million (+ 0.8 %), supported by the strong demand for our standard pumps in the chemical and processing engineering sectors.

Our four Group companies in the Region Middle East/ Africa reported strong growth in orders. They succeeded in increasing their order intake by 9.7 % to € 129.8 million. More orders for standard products were received in the Region, in particular for our technically improved standardised water and chemical pumps. However, in the project business our customers lacked the funds to some extent to realise new projects. Companies in Saudi Arabia and the United Arab Emirates proved to be exceptions and placed an increasing number of orders for our products for the building services, water and energy sectors.

In Asia order volumes at our Group companies totalled € 355.6 million. The year-on-year difference was -0.5 %, so the trend in the Region was more or less stable, as in Europe. Despite the challenging economic environment, KSB Pumps Limited in India increased its order intake. Our largest Chinese firm, KSB Shanghai Pump Co. Ltd., only achieved marginal growth in the volume of incoming orders. Our valve companies in China and India reported falling orders

due to the situation in the power plant market; the companies in Indonesia and Thailand posted significant improvements.

Incoming orders at our companies in the Region Americas/ Oceania totalled € 417.4 million, down 4.4 % on the previous year. A key reason for this was a marked drop in orders at our Brazilian firm KSB Bombas Hidráulicas S.A. This was mainly due to the devaluation of the national currency, the real, against our Group currency, the euro. Our business in Brazil also suffered as a result of the deferral of larger projects in industry, the energy sector and the water and waste water business. The decline was almost counter-balanced by improved business in standard pumps and orders to kit out new deep-sea drilling platforms, measured in the national currency. Thanks to a growing distribution network and local warehouses, we continued to expand our general business with standard products outside Brazil in other South American companies. This includes KSB Chile S.A., which saw a significant increase in its order intake, partly due to service activities in the mining sector.

Employees in La Roche-Chalais conduct tests in liquid nitrogen to see whether valves for liquefied gases still function reliably at temperatures of -196 °C.



In the North American market where our companies operate a niche business, the project business in the waste water engineering sector and in mining was also restricted by a lower number of orders being placed. We received a large order for water supply to the oil sands industry in Canada.

The recession in Australia impacted upon the order situation for pumps and valves. The new construction and expansion of mines slowed down, reducing the order volumes for slurry pumps.

CONSOLIDATED SALES REVENUE IMPACTED BY CURRENCY INFLUENCES

Our two Business Units (Pumps and Service) with the strongest sales revenue developed positively in 2013. Nevertheless, the total sales revenue of the KSB companies of € 2,247.3 million fell 0.9 % short of the prior-year value. This was a result of reconciliation effects from the measurement of construction contracts in accordance with IAS 11. Similarly to the order intake, the sales revenue also suffered from negative currency influences amounting to € 68.4 million. The companies newly consolidated in the year under review accounted for € 27.1 million of Group sales revenue.

At € 1,526.2 million, the sales revenue in the Business Unit Pumps was slightly (+ 0.6 %) up on the previous year. Single-stage pumps continued to be the strongest product group. The sales revenue for this product group remained stable, while business with multistage pumps as well as automation equipment and drives grew considerably. By contrast, the sale of submersible pumps was down compared with the previous year, due to a lack of project orders from the waste water sector.

The Business Unit Valves reported a 3.4 % drop to € 372.5 million, due primarily to the subdued development of the general business in Europe as well as weak sales for power plant valves in Asia. In the previous year, the Business Unit Valves had shown the strongest growth by comparison.

The Business Unit Service reported a markedly positive development in sales revenue. The 9.2 % growth to € 402.3

million was due to expansion initiatives as well as structural changes within the Group.

GROWTH IN SALES REVENUE ONLY IN THE REGION MIDDLE EAST / AFRICA

After two financial years where sales revenue increased in all four Regions, in 2013 the companies in the Region Middle East/Africa were the only ones to post growth (+ 4.3 %). The Group companies in Europe (– 0.8 %), Asia (– 1.9 %) and Americas/Oceania (– 1.8 %) reported a decline. Currency influences played a decisive role in this in the latter two Regions.

The European companies achieved sales revenue of € 1,358.4 million in the year under review, equating to just under 60.5 % of the overall volume for the Group. KSB AG remained the company with the highest sales revenue by far, also due to a 3.4 % increase (in accordance with *HGB* [German Commercial Code]) to € 856.0 million. Russia-based OOO “KSB” posted an outstanding increase due to the invoicing of several large orders in the energy sector.

The Region Middle East/Africa benefited especially from the good performance of KSB Middle East FZE in Dubai. Collectively, the four consolidated operative companies in the Region recorded a sales revenue of € 117.5 million.

In Asia the sales revenue development of two Indian companies contributed considerably to the decline in the Region. In contrast, our Chinese business KSB Shanghai Pump Co. Ltd. reported a marked increase in sales revenue. Overall, our Asian subsidiaries reached a volume of € 352.7 million.

The company in the Region Americas/Oceania with the highest sales revenue in 2013 was again our slurry pump manufacturer GIW Industries, Inc., which continued to grow. In contrast, however, two companies in Brazil and Australia reported a marked decline in sales revenue. With a sales revenue of € 418.7 million, the companies in the Region therefore did not match the prior-year level.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

We did not fully meet our previous year's expectations due to the economic conditions. Contrary to our forecasts, the order intake only rose in the Business Unit Service, as described in the Business Development section. Our Business Units Pumps and Valves suffered declines caused to some extent by currency translation. Therefore our order intake for the entire Group was slightly lower (−0.7 % to € 2,241.2 million). Sales revenue did not reflect our expectations (moderate growth) either, it experienced a 0.9 % decline across the Group. Alongside negative reconciliation effects from measuring construction contracts in accordance with IAS 11, the translation of currency into euro also had a negative impact. Compared with the previous year, the Business Unit Service improved considerably and the Business Unit Pumps moderately, whereas the Business Unit Valves recorded a slight decline. As a result of the unexpectedly difficult market environment combined with the continued price pressure in the project business, the moderate increase that was expected failed to materialise. Earnings before interest and taxes (EBIT) fell by € 14.2 million to € 136.2 million. The Business Units Valves and Service experienced a decline, while the Business Unit Pumps improved earnings. Earnings before taxes for the Group were 10.1 % below the previous year's level; accordingly we also failed to meet our target for pre-tax return on sales. Contrary to initial expectations, we did not increase our investment volumes. In fact, we held off making new investments due to the economic situation. Accordingly, the net financial position also developed better than planned twelve months previously.

It should be borne in mind in the following explanations that the prior-year figures presented include the effects resulting from the revision of IAS 19 Employee Benefits. For more information, see the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The difficult economic situation at large – in particular for the project business that continues to be affected by high pressure on prices – resulted in a decline in earnings within the Group.

Total output of operations

The above-mentioned decline in sales revenue as well as the considerable reduction in work in progress and inventories of finished goods resulted in a lower total output of operations, which amounted to € 2,223.9 million, 3.0 % below the 2012 figure (€ 2,293.8 million).

Income and expenses

Other income remained more or less constant, rising from € 44.3 million to € 44.6 million. The slightly higher contributions from the reversal of provisions no longer required compensated for declined earnings from the current assets.

The cost of materials fell by 9.4 %. As a percentage of total output of operations, the cost of materials (€ 892.3 million) dropped from 42.9 % in the previous year to 40.1 % in the year under review. More favourable market conditions on the procurement side together with price optimisation initiatives in purchasing led to this improvement.

Staff costs rose by 3.9 % to € 787.6 million in absolute terms. In relation to total output of operations, this meant an increase of 2.3 percentage points. This was caused by the collectively agreed salary increases and the higher number of employees. Compared with 2012, the number of employees rose by 339, taking the total figure at the end of the year under review to 16,546. This growth of 2.1 % is due exclusively to the first-time consolidation of nine smaller subsidiaries in Europe and India. 365 employees joined the Group as a result. Therefore, the KSB Group employed on average 369 more people than in the previous year. Due to the lower total output of operations, the average output per employee fell from € 141 thousand to € 134 thousand compared with the previous financial year.

The ratio of other expenses to total output of operations rose from 16.5 % to 17.2 %. In absolute terms, they changed little, and now total € 383.4 million compared with € 377.7 million in the previous year.

Financial income/expense improved by € 1.2 million. This is above all attributable to higher income from investments accounted for using the equity method (€ +3.5 million), which more than compensated for the decline in financial income (€ -2.4 million).

Earnings

The KSB Group achieved earnings before interest and taxes (EBIT) of € 136.2 million (previous year: € 150.4 million). The Business Unit Pumps reported EBIT of € 105.2 million (previous year: € 91.3 million), the Business Unit Valves € 7.3 million (previous year: € 8.8 million) and the Business Unit Service € 42.7 million (previous year: € 50.7 million). The reconciliation effect from the measurement of construction contracts in accordance with IAS 11 changed by € -18.7 million year on year.

The earnings before taxes (EBT) amounted to € 119.4 million, following € 132.8 million in 2012. This means we achieved a pre-tax return on sales of 5.3 % (previous year: 5.9 %). The income tax rate increased by 1.1 percentage points, up from 32.0 % in 2012 to 33.1 %. As a result, the 11.5 % fall in earnings after taxes to € 79.9 million (previous year: € 90.3 million) was thus somewhat more pronounced than the decline in earnings before taxes (EBT) (-10.1 %).

Earnings attributable to non-controlling interest fell by a similar percentage from € 15.6 million to € 14.2 million. They remained virtually constant relative to earnings after taxes (17.8 % compared with 17.3 % in the previous year).

The earnings attributable to shareholders of KSG AG (€ 65.7 million) were € 8.9 million lower than in the previous year (€ 74.6 million).

Earnings per ordinary share were € 37.38, compared with € 42.48 in the previous year, and € 37.64 per preference share, compared with € 42.74 in 2012.

FINANCIAL POSITION

The financial position of the KSB Group improved slightly. The net financial position in particular developed positively as a result of a restrictive investment policy and our systematic working capital management.

Equity

The KSB Group's equity amounts to € 844.5 million (previous year: € 832.2 million). This includes KSB AG's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves total € 618.8 million (previous year: € 596.4 million), including the proportion of earnings after taxes attributable to shareholders of KSB AG of € 65.7 million (previous year: € 74.6 million). € 114.2 million (previous year: € 124.3 million) is attributable to non-controlling interest. Due to the € 36.5 million (1.7 %) decline in total equity and liabilities, the equity ratio has improved (39.3 %; previous year: 38.0 %).

Non-controlling interest mainly relates to the following companies: KSB Pumps Limited, India (€ 36.2 million), KSB America Corporation, USA (€ 17.3 million), GIW Industries, Inc., USA (€ 13.5 million), KSB Shanghai Pump Co. Ltd., China (€ 12.7 million) and PAB GmbH, Germany (€ 8.2 million).

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions. Due to an amendment to the applicable accounting standard IAS 19 Employee Benefits, it is no longer possible to manage actuarial gains and losses in a corridor outside the balance sheet and spread them over the remaining period of service of the employees. They now form part of the provision. Changes in the actuarial assumptions have a direct impact on the Group's equity. We have adjusted the previous year's figures in accordance with the accounting principles. On the basis of this new initial figure, the provision as at the reporting date was reduced by 0.6 % to € 398.1 million. A large number of the pension plans currently in use in the KSB Group are defined benefit models. We will be reducing the associated risks, such as demographic changes, inflation and salary increases, for example by introducing defined contribution plans for new staff.

Our obligations for current pensioners and vested benefits of employees who have left the company account for just over half of the amount recognised in the balance sheet. The rest relates to defined benefit obligations for our current employees.

The remaining provisions for employee benefits, which, in contrast to pension provisions, are predominantly current, fell slightly from € 126.9 million to € 124.1 million.

Compared with the previous year, the other provisions fell primarily as a result of lower provisions for taxes. They include non-current components of € 14.4 million (previous year: € 16.2 million) for warranty obligations. The excess relates to provisions for mainly current uncertain liabilities.

Non-current other liabilities remained more or less unchanged at € 205.0 million, following € 208.0 million at the end of 2012. As in the previous year, they include liabilities from a loan against borrower's note of € 175 million, which we placed in December 2012 due to the favourable capital market conditions. It is divided into repayment tranches of 3 to 10 years. Current other liabilities fell overall by € 27.7 million (€ 455.3 million compared with € 483.0 million at year end 2012). The financial liabilities included in this increased by € 6.6 million. At the end of 2013, the remaining commitments from the loan against borrower's note placed in

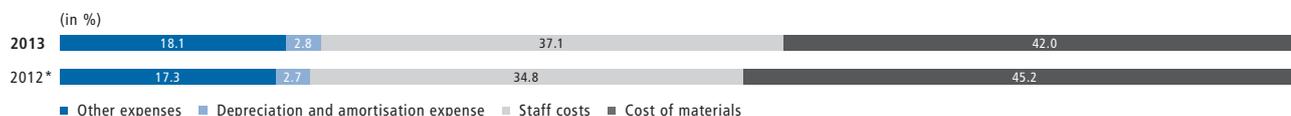
2009 stood at € 6 million, which we will pay back in 2014, thus reporting them now as current. Inversely, other liabilities fell from € 223.8 million to € 188.7 million as a result of declining advances from customers. Trade payables were practically unchanged at € 204.8 million (previous year: € 204.0 million). Taking into account the decline in total equity and liabilities, the share of current liabilities in total equity decreased to 22.3 % (previous year: 23.1 %).

Investments

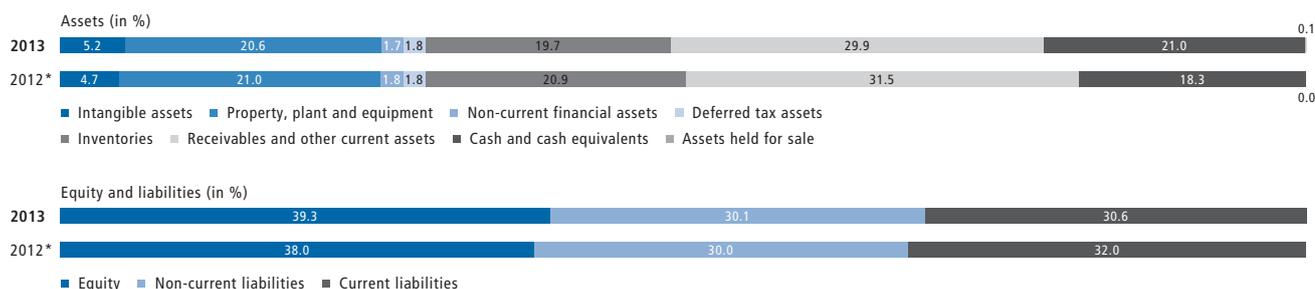
As in the previous year, the additions to intangible assets amounting to € 4.2 million (previous year: € 9.8 million) primarily concerned the sale of licences.

Investments in property, plant and equipment in the year under review amounted to € 52.8 million, considerably below the figure of € 81.5 million for the previous year. The highest additions at € 21.6 million (previous year: € 23.1 million) relate to technical equipment and machinery. The focus of our investment activities remained Europe, predominantly Germany and France. Outside Europe, the

EXPENSES IN STATEMENT OF COMPREHENSIVE INCOME



BALANCE SHEET STRUCTURE



* Adjustment to reflect the retroactive amendment to IAS 19

highest additions were again made at our plants in the USA as well as India, China and Brazil. We maintained our policies for measuring depreciation and amortisation in the year under review.

Net financial position

The net financial position of the KSB Group has improved considerably from € 141.2 million to € 189.6 million. One of the contributing factors was the considerably decreased expenditure on financial assets.

Liquidity

Cash flows from operating activities amounted to € 135.3 million, a year-on-year increase of € 41.3 million. As well as a decline in receivables, the freeing up of resources from inventories had a positive impact on cash flows. This contrasted with more funds released from advances received from customers and the lower earnings.

In the year under review, we reduced our investment activities primarily in property, plant and equipment. Accordingly, cash flows from investment activities decreased markedly to € -60.7 million (previous year: € -99.4 million).

Cash flows from financing activities changed from € +102.9 million to € -22.3 million as a result of the new loan against borrower's note raised in the previous year.

The KSB Group's cash and cash equivalents from all cash flows together increased from € 401.0 million to € 451.4 million (including € 18.0 million of cash used to secure credit balances for partial retirement obligations and – for the first time in the year under review – credit balances for long-time working hours accounts, which is available for immediate use at any time, compared with € 14.8 million the previous year). Exchange rate effects amounting to € -5.0 million (previous year € -2.8 million) played a role in this.

We assume that, in future, we will continue to be able to meet our outgoing payments largely from operating cash flow. From the current perspective our financial management is meeting the goal of ensuring liquidity at all times without any significant additional external financing measures. For more information on liquidity management (such as credit lines) see

the section on Risk Reporting on the Utilisation of Financial Instruments elsewhere in this group management report.

Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 11.1 million as at the reporting date (previous year: € 14.1 million). These arise mainly from collateral and performance guarantees.

There are no other extraordinary obligations and commitments beyond the reporting date. Other financial obligations arise only within the normal scope of long-term rental, lease and service agreements (in particular IT and telecommunications) necessary for business operations and from purchase commitments amounting to € 12.5 million (previous year: € 11.8 million).

NET ASSETS

Our total assets fell by 1.7 % to € 2,151.5 million. Declines in non-current assets (in particular for property, plant and equipment) for inventories and receivables as well as other current assets contrasted with the higher cash and cash equivalents.

Around 28 % is attributable to fixed assets, as in the previous year. Intangible assets and property, plant and equipment with a historical cost of € 1,168.7 million (previous year: € 1,155.5 million) have carrying amounts of € 554.2 million (previous year: € 563.2 million). Above all the first-time consolidations of older KSB companies in the year under review resulted in changes in goodwill of € +10.9 million. As investments in property, plant and equipment in the year under review were below the figure for the previous year as well as the figure for write-downs (€ 54.7 million following € 52.1 million in 2012), this balance sheet item changed by € -17.7 million. Taking into account the opposing effects of the first-time consolidations, the carrying amount of financial assets fell by € 1.8 million to € 37.0 million.

The inventories decreased by 7.3 % to € 423.8 million because of the project business which continued to be challenging. They tied up around 20 % of our resources (previous year: 21 %).

As a result of the decreased sales revenue, trade receivables were € 4.7 million below the figure at the end of the previous year. The difficult situation in the project business was also reflected in the development of receivables for customer orders, measured according to the percentage-of-completion method. Besides a reduction in advances received from customers for these orders, the associated value also decreased by € 58.0 million. As a result, receivables and other current assets made up around 30 % of total assets (previous year: around 32 %), taking into account the change in total assets.

Cash and cash equivalents account for around 21 % of assets (previous year: approx. 18 %). Improved cash flows from operating activities along with reduced investments contributed to this change.

Inflation and exchange rate effects

There were no consolidated companies within the Group whose financial statements were required to be adjusted for the effects of inflation.

The translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of € –53.5 million (previous year € –13.9 million). This was taken directly to equity.

SUMMARY

Despite the difficult market situation faced predominantly by the project business, Management considers the KSB Group to be in good economic shape overall in comparison with the previous year. Our three Business Units – Pumps, Valves and Service – contributed as follows:

The Business Unit Pumps achieved order intake amounting to € 1,453.3 million, which represents a decline of 2.5 % compared with 2012. In contrast, the sales revenue and earnings before interest and taxes (EBIT) developed positively; we increased sales revenue by € 9.1 million to € 1,526.2 million; EBIT rose by € 14.0 million to € 105.2 million.

The order intake for the Business Unit Valves also fell slightly by € 5.0 million to € 387.0 million compared with the previous year. Sales revenue decreased as well from € 385.6 million to € 372.5 million. Earnings before interest and taxes (EBIT) fell by € 1.5 million to € 7.3 million.

The order intake and sales revenue in the Business Unit Service developed positively. The volume of incoming orders increased by 7.1 % to € 400.9 million, while sales revenue rose from € 368.2 million to € 402.3 million. However, due to one-time costs incurred earnings before interest and tax (EBIT) fell by € 8.0 million to € 42.7 million.

As a result of stagnating business development along with a fall in earnings, the pre-tax return on sales, at 5.3 %, remained below the comparative figure for 2012 (5.9 %). Due to our systematic working capital management as well as modest investment activity, we nevertheless considerably improved our net financial position.

At the end of 2013, the economic situation of the KSB Group was therefore stable at a high level. We consider this a good basis for achieving continued success in the coming years.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the balance sheet date that would have a material effect on the company's results of operations, financial position and net assets.

REPORT ON EXPECTED DEVELOPMENTS

According to the forecasts made by the International Monetary Fund (IMF), the global economy is expected to grow by 3.7 % in 2014. Taking the IMF's estimates into consideration, we have assumed in our planning that the industrialised countries will see slightly accelerated growth of 2 % in the current financial year. It is also assumed that the euro zone will once again come out of recession and grow by 1 %; for the German economy, the forecast for gross domestic product is +1.6 %. Provided that the global economy continues to recover, it is estimated that the emerging countries will achieve economic growth of 5.1 %. However, the political development in Russia and Ukraine must be taken into account.

The information provided by the German Engineering Federation (VDMA) suggests that demand in our sector will improve around the world. It estimates that global sales revenue for machinery will increase by 5 % in real terms. It is expected that the sales revenue for German manufacturers of pumps, systems and industrial valves will increase by just 1 %, although this is considerably lower than the overall forecast published in December 2013.

We are planning significant business growth during the current financial year under these economic conditions. A higher order intake in the general business for standard pumps and valves will, along with more service orders, result in a short-term increase in sales revenue. On the other hand, we assume that a potential improvement in the order situation for our project business will not be reflected in sales revenue before 2015, as the delivery dates for pumps and valves for larger projects in the plant engineering sector are one to several years in the future.

PUMPS

We will continue to develop our business for pumps and related automation products during the current financial year. Other activities include trying to increase the volume of orders from the chemical and petrochemical industries. A contributing factor will be the introduction of several pump ranges, including technically optimised magnetic coupling pumps and canned motor pumps.

To further increase our volume in the general business, we are targeting this sales area more closely with the support of the sales organisation that was introduced at the start of the current year. In doing so, we shall focus upon countries where we have been successful in particular in the project business in the past. Activities to encourage the sale of standard pumps and valves include production engineering and logistics projects, for example in countries such as China.

To prepare for the expected growth in the mining sector, we will expand our foundry capacities at our US subsidiary GIW Industries, Inc. This will enable us to manufacture and machine larger and heavier pump parts. Through technical developments and by expanding our product range, such as by adding cyclone separators, we want to tap into the mining engineering market and provide greater added value.

The order situation for our multistage high-pressure pumps, as used primarily by customers in power plant engineering, will at best see a slight improvement during the current financial year.

We will be in a position to benefit from the continuing trend towards greater energy efficiency for pumps and motors. To exploit this to our best advantage, in 2014 we are introducing the improved KSB SuPremE high-efficiency motor to our customers, along with the new-generation PumpDrive variable speed system, for which we procure vital components from our Italian subsidiary REEL s.r.l.

Due to technical similarities with our pumps, we are also producing mixers that are used in biogas plants, for example. We have entered new ground in 2013 with a "flat rate" for mixers. In return for a monthly fee, we assume technical functional accountability including servicing and maintenance. We anticipate increasing demand for this customer-friendly solution that enables owners/operators to save investment costs.

In view of these prospects, we expect overall moderate growth for the order intake and sales revenue in the Business Unit Pumps.

VALVES

In the valves market we anticipate that the order situation for our power plant globe and gate valves will continue to be challenging due to low demand. There are good prospects for cryogenic valves for shutting off liquefied gas. Asia continues to be our most important market in this area, and is served by our South Korean subsidiary KSB Seil Co., Ltd.

Our sales realignment will make it easier for us to expand the general business for standard valves in 2014. We expect to see a significant increase in demand especially in Europe and Asia that we will serve through our sales units, field sales and distributors. We will be able to quickly supply our customers with the products they need through our production facilities in Europe, Asia and the Americas.

Additional opportunities will be tapped with the new ANSI globe and gate valves as well as an extended range of control valves for different applications. In collaboration with a German manufacturer of special valves, we also want to develop our control valve business in Asia.

For the Business Unit Valves, we expect that we will be able to expand our business overall for globe, gate, butterfly and ball valves. We aim to achieve order intake and sales revenue growth in the medium single-digit percentage range.

SERVICE

We aim to expand our service business considerably during the current financial year. The starting point for this initiative is the aftermarket project that we referred to in the previous Annual Report. The aim of the project is to strengthen our position in all Regions through greater presence as well as a comprehensive offering of service and spare parts. This enables us to benefit from the appreciation of many system operators who realise that high-quality service “pays off” over time through shorter downtimes and lower energy costs. We will increasingly market our service portfolio, which extends beyond pumps and valves, through specialist field

sales employees. They offer customers the services provided by our stationary repair centres and mobile units for KSB products as well as other manufacturers’ products.

As well as the classic tasks of servicing, repair and spare part supply, our consultancy services are also becoming increasingly important. These include showing interested customers how we can help them save energy by retrofitting their pumps or by installing energy-saving control systems.

The modernisation of pumps and valves in existing systems is one way of avoiding or delaying new investments. These retrofit activities are currently a major focus within our offering.

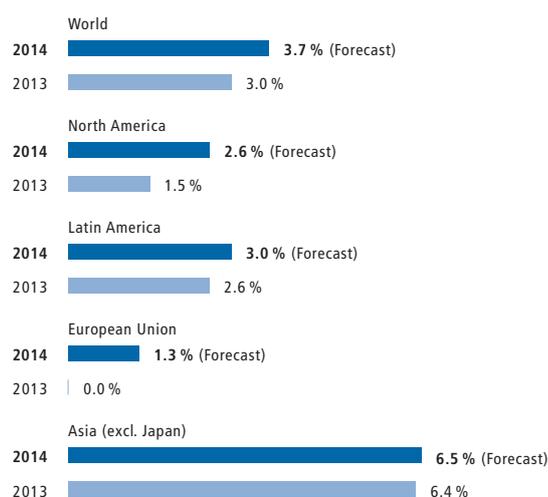
We see prospects for increasing service sales revenue primarily outside of Europe. The above-mentioned trend towards professional service will attract new customers, especially in Asia. There are good business prospects for mining in Asia and the Americas, where there is a high demand for repairs and spare parts for installed pumps. We wish to retain our prominent market position in the European service market, where we have been the leading supplier for many years.

In 2014 we anticipate a higher single-digit percentage increase in both order intake and sales revenue of the Business Unit Service.

OUTLOOK FOR THE GROUP AND THE REGIONS

We are aiming for moderate to considerable growth in business volumes in all four Regions during the current financial year. The eventualities and contingencies outlined in the subsequent opportunities and risks report must be taken into account however. They can lead to developments of a general nature and also within individual Regions that may have a greater influence on business development than expected.

GROSS DOMESTIC PRODUCT GROWTH



Source: International Monetary Fund 2014

Europe

Our companies in the European market are aiming to achieve moderate growth overall. This is based on the continued expansion of the general business as well as our initiatives to encourage the sale of service and spare parts. Backed up by these initiatives, we will face stable demand in the Central European countries and a trend towards growing demand in Northern and Eastern Europe. According to our estimates, the market situation in most countries within Southern Europe will not change materially compared with 2013.

We envisage higher order potential in the European market, above all in the general industry sector as well as in chemical and process engineering. We aim to achieve above-average growth in these sales areas and thus grow our market share. We expect a revival of the project business through exports from Europe. Furthermore some of the projects that were delayed in previous years in the energy, water and waste water sectors may be awarded.

Our new sales organisation and e-commerce facility will enable us to serve our customers better. To this end, we have added new functionality to our online sales portal aimed at customers in building services as well as a greater number of customers in industry and in the water engineering sector.

Middle East / Africa

In the Region Middle East / Africa we expect economic growth during the current financial year. This will be shaped especially through financially strong countries such as Saudi Arabia and the United Arab Emirates as well as some countries, such as Iraq, where the infrastructure is in great need of being updated. We do not expect to see positive business development in the North African countries that are faced with political upheaval. In contrast, in sub-Saharan Africa we anticipate an increase in our order intake, based on the demand in the mining and water sectors.

From the current perspective, our Group companies in the Region will be able to grow their business overall. Noticeable growth is expected for the service and spare parts business; the expansion of our service centre in Abu Dhabi will be a contributing factor.

Asia

In the Region Asia, demand will increase in the current financial year, although we do not anticipate it to match the growth rates achieved in earlier years. The general slowdown in economic growth in China, stagnating investments in India and weaker business development in South Korea and Indonesia are responsible for the "drag effect".

We see good sales opportunities in individual sectors however, such as industry and the energy sector in China, the South Korean power plant and shipbuilding sectors as well as the water and waste water industries in Malaysia, Singapore, Vietnam and the Philippines. Following the parliamentary elections in India in May 2014 there is a possibility that the willingness to invest will increase and that the economy will pick up again.

Aiming to better harness the opportunities in the Asian market, we are setting up new sales companies, modernising parts of our product range and establishing a tighter service network. In competition with national manufacturers of pumps and valves, we draw on our capacity for cost-effective local manufacture of products and components. We anticipate overall growth for our Asian Group companies.

Americas / Oceania

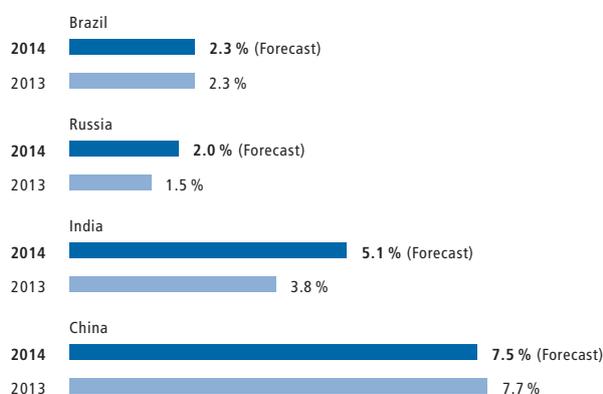
As a result of the development in the price of commodities, the mining companies in North America have not planned to make any notable new investments. This also applies to the development of further oil sand resources in Canada. Business at our US subsidiary GIW Industries, Inc. is therefore focused primarily upon the secondary market for service and spare parts at a local level. Its offering includes retrofitting in order to enhance the productivity of its customers' systems. The power station market in the USA is also not sending out any signals of notable investments in new fossil-fuelled or nuclear large-scale plants. Opportunities exist where smaller combined gas and steam cycle power plants are being built as a result of lower natural gas prices.

In 2014, in South America, we will continue to expand the general business with pumps and valves as well as the service and spare parts business. Both have good growth potential in our view. Opportunities for orders are presented through projects in the mining sector as well as the oil and gas sector where our projects include the equipping of offshore drilling platforms. The outlook for the water and waste water market is also expected to be better than in 2013. We are setting up our own company in Colombia during the current financial year, in addition to our businesses in Brazil, Argentina, Chile and Peru.

Mining remains the driver of the Australian economy. Even if commodity prices are not expected to produce any notable

expansion in this sector, we do anticipate comparatively significant growth in orders for our products and service offerings there in the current year.

GROSS DOMESTIC PRODUCT GROWTH IN THE BRIC COUNTRIES



Source: International Monetary Fund 2014

SUMMARY OF EXPECTED DEVELOPMENT

Despite economic uncertainties we see good opportunities to improve our volume figures during the 2014 financial year in all three Business Units. In the Business Unit Pumps we are expecting a considerable increase in order intake and a slight increase in sales revenue compared with the figures for 2013. It is anticipated that earnings before interest and taxes (EBIT) will fall slightly short of the prior-year figures as a result of the difficult sales revenue situation that still prevails in the project business. Compared with the previous year, we envisage marked growth in the order intake for the Business Unit Valves, a slight increase in sales revenue and a substantial improvement in EBIT. In the Business Unit Service we are aiming for significant growth for all three key indicators.

For the Group as a whole we estimate considerable growth in order intake and moderate growth in sales revenue compared with 2013. Earnings before taxes (EBT) are also expected to increase moderately, so that the pre-tax return on sales for 2014 will increase in a similar manner. The net financial position is expected to improve to around € 200 million.

In order to increase the operative income level of KSB AG, in 2014 we will consequently pursue the measures that were initiated at the end of 2013 to improve earnings. As well as continuing our cautious investment policy and keeping a sharp focus on the development of structural costs, we will reduce our workforce by approx. 250 employees through a socially responsible early retirement programme.

The forecast horizon for the above-mentioned information and statements is the 2014 financial year. We are not aware of other important influences that extend beyond this period.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information that are based upon the assumptions of Management. They express our current forecasts and expectations with regard to future events. As a result, these forward-looking statements and information are exposed to risks and uncertainties that lie outside the Management's sphere of influence. We wish to point out that actual events or results may differ materially from the forward-looking statements and information mentioned, if one or more of the following opportunities or risks, or other opportunities, risks and uncertainties should materialise, or if the assumptions underlying the statements prove to be inaccurate.

The order intake and sales revenue for service and spare parts are expected to grow markedly in 2014.



OPPORTUNITIES AND RISKS REPORT

As an organisation that operates throughout the world, the KSB Group is exposed to both global and regional risks. Our risk policy is designed to enable us to grow sustainably and profitably. We aim to reduce the risks associated with our business and where possible avoid them completely. At the same time our global alignment and our extensive product range offer a wealth of opportunities. This includes in particular any opportunities that arise on the basis of our research and development activities, as well as any that are linked to the quality and cost effectiveness of our products. Our competitive position for the awarding of orders is also improved by the expansion of our worldwide sales and production network. We always review opportunities to expand our global presence and are able to achieve this through start-ups on the one hand and acquisition projects on the other.

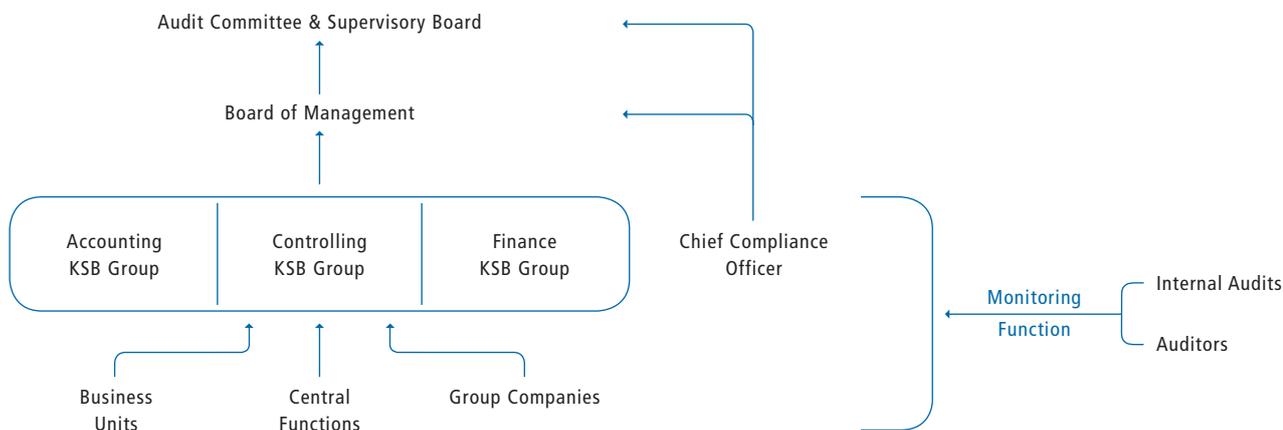
In order to manage the varied opportunities and risks professionally and efficiently, we align our actions accordingly and focus upon the respective situation when

selecting the persons responsible. In doing so, Controlling, Finance and Accounting as well as Internal Audits perform important monitoring tasks. Accounting also produces the annual and consolidated financial statements.

RISK MANAGEMENT SYSTEM

KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks and reporting these to Group headquarters. This process and the responsibilities of Management are documented in our Risk Management Manual. Managers are encouraged to take timely action to prevent or limit damage that may result from the occurrence of risk events. All Business Units, central corporate departments and Group companies, including Group companies that are not consolidated, are included in this risk management system. The responsible managers are required to supply their relevant key business and financial indicators each month. As well as creating quarterly forecasts on business trends, they also report recognised risks to Group headquarters twice a year. A distinction is made between high

RISK MANAGEMENT SYSTEM OF THE KSB GROUP



(> 70 %), medium (30 % to 70 %) and low (< 30 %) probability of occurrence for the risk areas of markets/competition, projects/products, finance/liquidity, procurement, technology/research and development as well as environment, human resources and other risks. According to their potential economic impact, we categorise risks as high, medium and low. This approach gives us the necessary transparency to identify risks in their entirety and to manage them effectively, professionally and in an economically responsible manner. Furthermore, Finance and Accounting as well as Controlling review all reported risks in terms of their relevance for the preparation of the financial statements and as such ensure a systematic link with the Group accounting process. The Board of Management and the Supervisory Board's Audit Committee receive at least two risk reports based upon this information per financial year. These reports include all the risks that are categorised as high or medium that exceed pre-defined threshold values individually or collectively, not considering any action that has been taken. Particularly critical topics are reported on an ad-hoc basis by the managers in charge. In contrast, opportunities are not taken into account in this system, but are examined separately in consultation with Business Unit Managers and Regional Managers.

With regard to financial risks we also make use of additional risk identification, assessment, management and communication. The central Finance department is responsible for this task which is described in further detail later in this section.

Compliance risks are dealt with by the Chief Compliance Officer, who is assigned to the Legal and Compliance staff function. The Chief Compliance Officer is supported by the members of the Compliance Committee and the Compliance Managers of the individual companies.

The Internal Audits department is integrated into the risk management system as part of our internal control system. When planning audits, it prioritises areas according to potential risks and is provided with all the necessary information. The auditors ensure that all audited units adhere to the applicable guidelines, actively participate in the risk management system, and control or avoid their risks.

Information obtained by Internal Audits on both the recognised risks and the countermeasures introduced in response forms an integral part of the reporting to the Board of Management and the Audit Committee of the Supervisory Board.

Our risk management system is regularly reviewed and promptly updated where necessary, for example, in the event of relevant legal or organisational changes. It is also reviewed by our auditor as part of the audit of the annual financial statements.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS

The accounting-related internal control system (ICS) contributes towards ensuring proper financial reporting. The aim is to ensure that the consolidated financial statements and group management report comply with all relevant regulations. Key elements of the ICS are – as well as the risk management system described above – guidelines and regulations which include standard accounting policies. They must be applied to the full extent by all our Group companies. Functional separation and the principle of dual control are observed; this is ensured by the audits carried out by our Internal Audits department.

The Accounting department carries out regular analytical plausibility checks of time series analyses and actual/budget variance analyses. This enables us to identify significant changes early on, which we then examine for accounting and measurement discrepancies. The resulting findings are discussed at management level.

The responsibility for Group accounting lies with the employees in the central Accounting KSB Group department. We employ the services of qualified external reviewers for certain calculations as part of financial reporting (such as the calculation of complex pension obligations using actuarial assumptions).

Binding schedules and guidelines apply to accounting within the KSB Group and to accounting at each individual subsidiary. The accounting methods that must be applied to compile the consolidated financial statements are defined in writing in a manual that we update and revise on a continual basis. This also includes the guidelines for posting intra-group transactions. We continually analyse new accounting principles and other official announcements with regard to their relevance and impact on the consolidated financial statements. To this end we maintain regular contact with our auditors. We adapt our guidelines and manual where necessary and communicate any changes immediately to our companies. Accounting KSB Group monitors compliance with these regulations. This enables us to reduce the risk of compiling inappropriate financial statements or failing to publish them by the defined deadlines.

We automatically process the financial statement information for all Group companies using certified and tested standard consolidation software. Systematic checks are implemented to help us validate the data. Employees in Accounting KSB Group verify any warning signals that arise before using the data. The sequence of the processing steps is strictly specified through the use of the consolidation monitor within our IT system. This ensures that data we process is always accurate.

To enable a seamless and accurate accounting process, we only assign employees to this task who have the appropriate specialist know-how. These employees are trained on a regular basis to make sure that their expert knowledge remains up to date.

We have defined access authorisations for the accounting-related IT system. This protects the data against unauthorised access as well as improper usage and modification. The data is checked at many stages, helping to ensure the processing quality. Alongside regular system reviews by the auditors, these checks contribute to limiting operational risks.

OPPORTUNITIES AND RISKS CATEGORIES

The categories outlined below indicate risk areas that can have a major negative impact on our results of operations, financial position and net assets, as well as our reputation. The risks and the important opportunities for business development are listed within these categories. Economic development has the greatest level of influence, whereas all other opportunities and risks are rated as subordinate.

Markets / Competition

Our business is affected by changes in the economic and political environment. This includes uncertainties within the global economy and current economic developments such as the high level of public sector debt in the USA and certain European countries. They harbour the risk of a recession which would have a negative impact upon the demand for our products.

In the project business, we are dependent on sectors with long investment cycles. This can cause customers to delay placing orders. Because of the ongoing overcapacity on the supply side, the pressure on our products' selling prices also continues. Asian competitors in particular are entering the global market with their products. We manage the risk of fluctuations in the economy and in demand by remaining active in several market sectors and industries with different economic cycles. Furthermore we are monitoring the development of the economic environment for our market sectors. If necessary, we adapt our capacities and implement cost-cutting measures.

If the investment climate were to improve faster than expected, boosting the economy accordingly, this would encourage demand for our products in the project business.

The success of our pumps, valves and service business in power plant engineering depends on global energy demand as well as the regulations introduced as part of energy and

environmental policies in our customers' countries. In Germany in particular the power plant market is still undergoing a transformation due to the change in energy policy initiated by the Federal Government. As we offered our products and service range on a large scale to the owners/operators of large power stations including nuclear plants, we have lost business volumes. We must compensate this through a growth in sales revenue in other countries and areas of application for pumps and valves. To the extent that this substitution involves an unexpectedly high expenditure, this can result in a considerably higher burden upon the results of operations than initially planned. Greater focus by our clients on operating reliability and low life cycle costs, as offered by our products, can open up additional business opportunities.

If energy suppliers outside of Europe decide to build new power plants earlier than anticipated, this will increase our opportunities in the project business.

Realisation of many major projects is pending in the markets of the Middle East as well as North Africa. The background to this is the continuing instability in several countries. The current lower number of new orders entails high price and delivery time pressure, to which we are adapting. We see opportunities in some countries such as Saudi Arabia, Kuwait and Oman as well as in the sub-Saharan region, where we offer our pumps and valves for infrastructure projects for water and energy supply as well as for improved waste water treatment. We are also ramping up our activities in the mining business in certain resource-rich countries. The imposition of export restrictions relating to some countries in the region can in principle put both our orders in hand and order opportunities at risk.

In growth markets such as the BRIC[®] countries there is a risk that competitors with new production capacities will make competition tougher and delay our planned growth. If

currencies weaken in countries that are of importance to us, this can have a negative effect in particular on our exports from Europe. At the same time there is an opportunity for our production facilities in countries with weak currencies to benefit from such a development and increase exports in the medium term. They could contribute increasingly towards global growth within the Group.

We will get more involved in some South American and Asian countries where economic and political stability has improved and where the need for infrastructure is high. This development makes additional markets available to our products in the medium term.

Overall, our projects aim to increase the number of potential opportunities for sustained profitable growth. However, market and technical requirements might change during the period in which we are carrying out our projects, meaning that individual opportunities must be reassessed. Therefore we do not expect all of our projects to lead to success as planned. If necessary we will adapt our goals and measures to new circumstances. Changing market conditions usually also represent further success potential.

Additionally, an improved product range increases our market opportunities. We see good business opportunities in areas including building services where we have launched new circulator pumps. Improved products also enhance our opportunities in the oil and gas industry as well as the mining sector. We aim to increase customer value and improve our market penetration across all our businesses through more efficient electrical drives.

Projects / Products

Large-scale projects with longer-term agreements are also always associated with risks. There may be cost overruns, staff shortages, technical difficulties or quality problems – including possible penalties – that reduce our margins. We

therefore train our employees in project management and enable them to identify risks associated with longer-term contracts at an early stage. Our project managers are provided with appropriate management tools. Decisions are made in conjunction with clearly structured authorisation processes. We set aside suitable provisions for warranty and penalty risks. These amounted to € 43 million in the annual financial statements for 2013 compared with € 49 million in the previous year; beyond which there is no other major residual risk (net risk).

Orders including newly designed products involve both technical and financial risks. We limit technical risks to the extent that we define intermediate steps for development work and subject partial solutions to assessments. This also applies to pumps that we provide within the framework of a major contract running over a number of years for the construction of a new type of power plant in China. We minimise financial risks by using appropriate contractual clauses, and ensure that advances cover the costs incurred.

Technical developments essentially support us in opening up new attractive areas of application and improving customer value.

Acquiring companies or establishing joint ventures enables us to strengthen our product portfolio. Such steps inevitably involve risks as we have to integrate new employees, harmonise processes and add products to an existing programme. We evaluate these projects by applying appropriate analysis methods to closely weigh up the opportunities and risks.

The political demands to develop energy-saving, environmentally friendly products and the resulting demand from customers open up further opportunities for growth through new and efficient products.

By stepping up our capacities at certain locations, we are increasing our opportunities to respond quickly to the increasing demand of our customers and to provide larger quantities. There are also investment risks such as exceeding

time schedules and costs or insufficient order volumes at the time of completion. To minimise these risks and safeguard our opportunities in the best possible manner, all investments run through a step-by-step approval process.

Finances / Liquidity

Acquisitions generally result in an increase in intangible assets. Adverse changes in the market environment or delayed integration of our acquisitions may affect the commercial and financial development of a new unit. This may lead to reduction of goodwill. Therefore we monitor very closely the course that the businesses of our acquired companies take (post-merger phase).

In the project business we see risks for our margins and liquidity. As well as the continued pressure on our selling prices, which is reducing our profit margins, these include unfavourable contract conditions such as reduced advances and tougher contractual penalties. We counter this risk by paying careful attention to the approval processes in the tender phase, and constantly monitoring our net financial position. In this way we are able to recognise and avoid liquidity shortages. Where necessary, we secure sufficient liquidity by agreeing corresponding credit lines early on.

Persistent recessions can aggravate the financial situation of our customers. Delayed payments and credit losses as a result of this can place a burden upon our results of operations. The same effect might occur if the foreign exchange regulations become stricter for individual countries.

Litigation and regulatory proceedings can also affect our business.

We use foreign exchange hedges to reduce risks from transactions involving different currencies. These are generally currency forwards, which we use both for transactions that have already been recognised and for future cash flows from orders still to be processed. By strengthening our production sites worldwide, we can realise natural currency hedging in currency markets that continue to be volatile.

Our global production network also offers us the opportunity to benefit from currency effects and to use this where appropriate in competition with other manufacturers.

The most important currency for the KSB Group after the euro is the US dollar. If the exchange rate deviates from our assumptions, this would have positive or negative effects upon our business volumes and our earnings.

To prevent the loss of receivables, we have established a strict credit management system and use trade credit insurance.

Procurement

Commodity prices and procurement times are subject to increasingly stronger fluctuations due to market volatility. Where we are unable to offset cost increases or pass them on to our customers, this can have a negative impact on our earnings. Shortages or delays in our supply chain for raw materials and components can also lead to the impairment of our business activities. If we do not benefit promptly from declining procurement prices, the persistent pressure on the selling price of our products can have a negative effect on our earnings.

Therefore, we are actively seeking to identify alternative and better value supply sources, especially in Asia. In this context, we want to integrate our purchasing activities more closely and continue pooling our requirements. Depending on the subsequent procurement volumes, the price benefits could be greater than initially planned. However, we also pay attention to preventing dependencies caused by focusing upon just a few suppliers, as this could constitute significantly higher risk potential.

Technology/ Research and Development

It is essential to our future success that we have a product and service range that is suited to the market in terms of technology, price and delivery time. The changing needs of our customers and new standards and regulations require that we continuously develop and improve our products and services. Research and development for innovations consumes significant financial and human resources, and the resulting products cannot always be successful.

To avoid any negative impact on earnings, it is important to recognise the market-related or technical risks early on. To this end, we are constantly updating our development process, which incorporates various control levels. As sales employees are regularly included in this process, risks arising from changes in markets or applications can be taken into account in good time in the evaluation. This close integration also enables us to respond to new market trends more quickly than our competitors.

Changing technical processes offer scope for new products. This includes, for example, ways in which energy can be used more efficiently, water can be treated more effectively and natural resources can be obtained at a lower cost. Our network with technology partners, customers and suppliers as well as representatives from science and politics enables us to identify such developments at an early stage and to adapt our product range accordingly.

Environment

Our production activities in particular are subject to numerous environmental protection laws and regulations. There is a risk that losses will result from environmental damage not covered by insurance. Therefore, at all company sites officers monitor compliance with laws and regulations as well as with internal KSB rules, which in some cases exceed the prescribed environmental standards.

As part of acquisition projects, we examine existing properties for possible contamination before purchase. If we discover any contamination, we set aside provisions to pay for the necessary clean-up work.

In markets where environmental regulations are becoming more stringent, there is a risk that our products and own or purchased services may cause infringements that lead to us losing our market authorisation and which damage our reputation. A change in rules on liability in environmental protection can also increase the risks for our business success. As a member of national and international professional associations we become aware of imminent changes in environmental law early on. We also continually update the legal frameworks that are in place in our Operational Units, enabling us to ensure that our employees always abide by the applicable law. This is also monitored by external auditors as part of the management certifications.

Through our environmental management system that conforms with international standards as well as our membership in the UN Global Compact [G](#), we meet the requirements of many customers who expect their suppliers to operate in an ecological manner. Therefore our environmental protection initiatives and sustainable business practices help us to maintain and enhance our order opportunities.

Human Resources

To achieve our growth and profitability targets, we need qualified employees at all our locations, including technical specialists. Due to the demographic change in some countries, the competition for these and other highly skilled professionals is increasing, and will intensify if economic recovery sets in.

We counter this risk with demand-oriented measures, systematic human resources planning and international recruitment processes.

Changing market conditions can have a negative impact on the funded status of our pension obligations. We are currently looking at alternative models.

Other Opportunities and Risks

The manipulation and loss of electronic data can lead to serious commercial disadvantages. We minimise this risk through suitable access procedures and backup systems. By centralising the IT systems of our various operating units, we implement high security standards and thus reduce the risk of data loss or corruption.

Other potential risks that might be associated with the activities of our employees include dishonest conduct or violations of laws, which could damage the image of KSB. We counter these risks and safeguard our reputation among our customers by organising regular compliance training and through individual initiatives in critical regions.

IMPORTANT OPPORTUNITIES AND RISKS BY SEGMENT

The opportunities and risks for the Business Units Pumps, Valves and Service are most influenced by economic development. Furthermore, the uncertainty surrounding the future development of the power plant business is of great importance to the Business Unit Pumps and to a lesser degree to the Business Units Service and Valves. In many countries the question as to how the energy sector will cover the upcoming demand for power remains unanswered. Future political decisions may have a greater impact than currently assumed on the development of sales of our products for systems used in conventional or renewable energy supply. An unexpectedly high commitment of some countries to expand nuclear power plant capacities would potentially have a positive impact on our business.

We expect the risk assessment to remain more or less unchanged for economic development, which is the greatest influential factor for us. In this respect we expect initial impulses and therefore better opportunities for our project business. Furthermore the European and American national debt crises also offer opportunities and risks for all Business Units. Where there is increasing pressure from competitors,

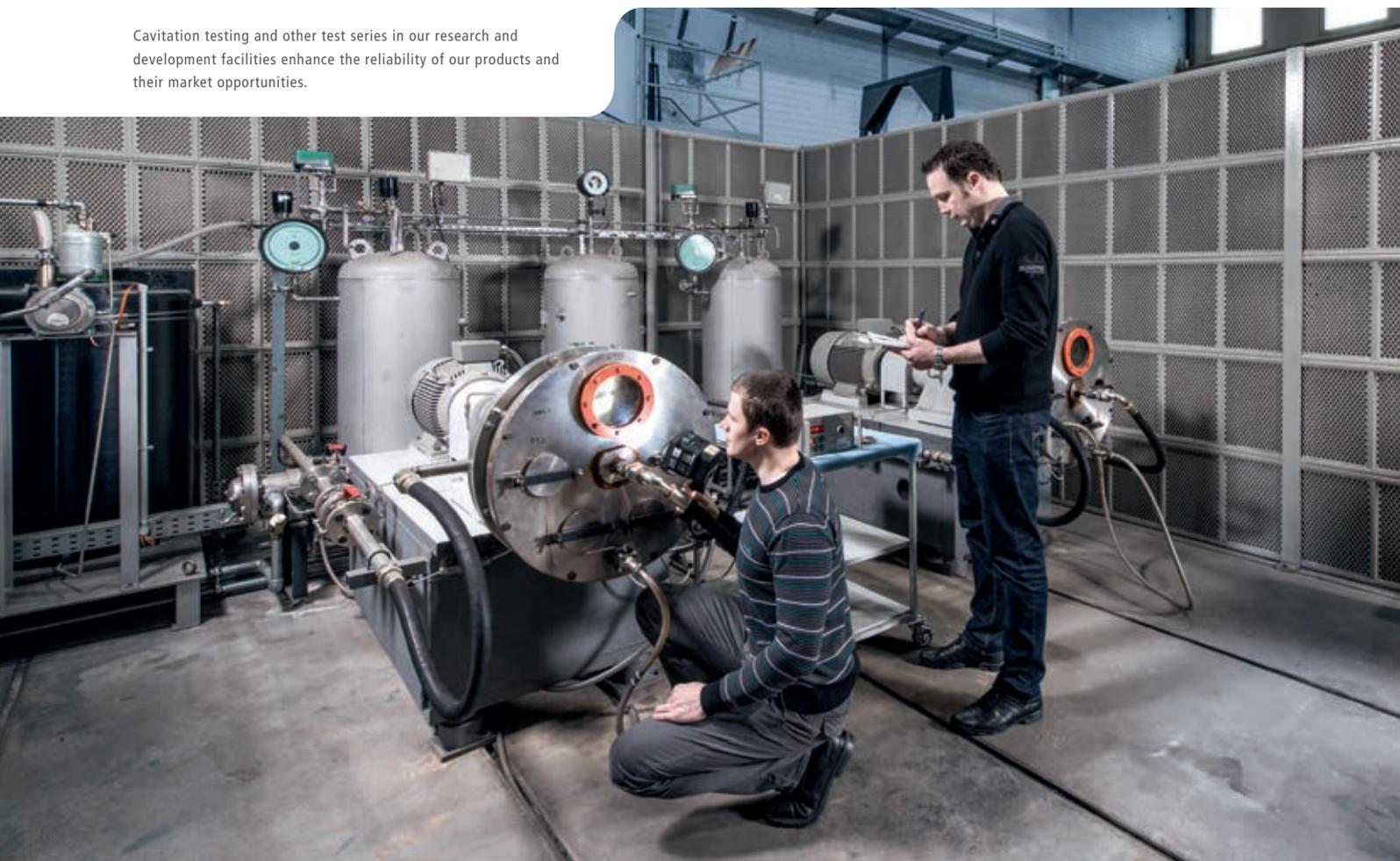
this influences the profit quality for new orders, especially in the USA and countries in Southern Europe. Our customers are also often affected by recessions and more intense competition, which can have a negative impact upon their ability to pay in individual cases.

Weaker currencies in growth countries can threaten our exports, in particular those from our European plants. At the same time, there is an opportunity for our production facilities in the countries affected to benefit from such developments and to increase their export volumes.

RISK REPORT ON THE UTILISATION OF FINANCIAL INSTRUMENTS

Central financial management in the KSB Group performs its duties within the framework of the guidelines laid down by the Board of Management. We base the nature and scope of all financial transactions exclusively on the requirements of our business. The aim is to ensure liquidity at all times and to finance our activities under optimal conditions. With respect to our export business, we hedge foreign exchange and credit risks to the greatest extent possible. We continuously improve our receivables management methods with the goal of settling our outstanding amounts by their due dates.

Cavitation testing and other test series in our research and development facilities enhance the reliability of our products and their market opportunities.



We are exposed to the following financial risks as a consequence of our business activities:

On the one hand, we are exposed to credit risk. We define credit risk as potential default or delays in the receipt of contractually agreed payments. We are also exposed to liquidity risk, which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full. In addition, we are exposed to market price risk. Exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in the prices of financial instruments are not material for us.

We use foreign exchange hedges to reduce the risks from transactions involving different currencies. These are generally currency forwards, which we use both for transactions that have already been recognised and for future cash flows from orders still to be processed. At year end, the notional volume of currency forwards used to hedge exchange rate risks was € 211.9 million (previous year: € 196.5 million). Foreign currency items denominated in USD account for the major volume hedged by forwards. By strengthening our production sites worldwide, we can realise natural currency hedging in currency markets that continue to be volatile.

To minimise interest rate risks, we concluded interest rate swaps to hedge cash flows from underlyings amounting to € 70.7 million (previous year: € 75.1 million). Underlyings and hedge transactions share the same floating interest rates and maturities (2 to 4 years).

We limit all these risks through an appropriate risk management system, defining how these risks are addressed through guidelines and work instructions. In addition, we monitor the current risk characteristics and continuously provide the information obtained in this way to the Board of Management and the Supervisory Board in the form of standardised reports and individual analyses.

For more information on the three risk areas and the impact on the balance sheet, see the Notes, section VI. Additional Disclosures on Financial Instruments.

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION

The opportunities and risks for the KSB Group are mainly derived from macroeconomic influencing factors and their effects on the global mechanical engineering markets and the competition.

Overall, we assume there will be moderate economic recovery over the next year. However, an economic slowdown in the growth markets as well as negative developments that could result from the national debt crises in Europe and America present risks. New politico-economic consolidations and uncertainties with regard to the future realignment in energy policy can be a greater burden on the project business than expected. This would have a negative effect on our business volumes as well as the planned earnings.

In this environment, the KSB Group continues to rely on its ability to match capacities and resources to the changing market conditions.

Considering all known issues and circumstances, no developments have as yet been identified that would threaten the progress of the Group and the individual companies.

ACQUISITION-RELATED DISCLOSURES

A summary of the acquisition-related disclosures required by section 315(4) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] is given below and explanatory information is provided pursuant to sections 175(2) and 176(1) of the *AktG* [*Aktiengesetz* – German Public Companies Act]. Information is disclosed only to the extent that it applies to KSB AG.

KSB AG's share capital amounts to € 44.8 million, of which € 22.7 million is represented by 886,615 no-par value ordinary shares and € 22.1 million by 864,712 no-par value preference shares. Each no-par value share represents an equal notional amount of the share capital. All shares are bearer shares. They are listed for trading on the regulated market and are traded in the General Standard segment of the Frankfurt Stock Exchange.

Each ordinary share entitles the holder to one vote at KSB AG's Annual General Meeting. Klein Pumpen GmbH, Frankenthal, holds approximately 80 % of the ordinary shares; the *KSB Stiftung* [KSB Foundation], Stuttgart, holds the majority of the shares of Klein Pumpen GmbH. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. Detailed information on the share capital and shareholders holding an interest of more than 10 % is provided in the Notes to the Consolidated Financial Statements. Holders of preference shares are entitled to voting rights only in the cases prescribed by law. The issue of additional ordinary shares does not require the consent of the preference shareholders. Similarly, the issue of additional preference shares does not require the consent of the preference shareholders provided that the subscription rights do not exclude newly issued senior or *pari passu* preference shares.

The company is authorised by a resolution passed at the Annual General Meeting on 19 May 2010 to purchase company shares totalling up to € 4,477,196 of the registered share capital by 18 May 2015. The Board of Management shall be entitled to: (1) Sell company shares purchased on the basis of this authorisation either on the stock exchange or by another means that safeguards the rule of equal treatment of all shareholders; (2) Sell the shares with the consent of the

Supervisory Board, excluding shareholders' subscription rights, if the shares are sold for cash and at a price that is not materially lower than the market price for company shares of the same type and with the same features at the time of the sale. This authorisation is limited to the sale of shares which overall represent no more than 10 % of the existing share capital on the date on which such authorisation becomes effective or, if the amount is lower, the date this authorisation is used. The 10 % limit shall include the proportional amount for shares issued within the scope of a capital increase during the term of the authorisation excluding subscription rights or for the maximum number of shares that can be issued for the purpose of servicing warrants and convertible bonds; (3) Sell the shares with the consent of the Supervisory Board, excluding shareholders' subscription rights, to third parties for the purpose of acquiring companies, parts thereof and/or financial interests in companies as well as within the scope of corporate mergers or (4) Redeem the shares. KSB AG has not yet made use of this authorisation to purchase treasury shares.

There are no resolutions by the Annual General Meeting authorising the company's Board of Management to increase the share capital (authorised capital).

KSB AG is managed by a Board of Management that, in accordance with its Articles of Association, must consist of at least two persons and in the year under review comprised three persons. The Supervisory Board decides on the appointment and termination of the mandate of members of the Board of Management in accordance with the statutory provisions.

Amendments to the company's Articles of Association are resolved by the Annual General Meeting. If the amendments only affect the wording of the Articles of Association, they can be made by the Supervisory Board, which operates and is formed in accordance with the regulations of the German Co-determination Act.

CORPORATE GOVERNANCE STATEMENT (SECTION 289a HGB)

The updated Corporate Governance Statement pursuant to section 289a of the *HGB* will be made accessible to the public from 27 March 2014 at www.ksb.com > Investor Relations > Corporate Governance > Corporate Governance Statement.

In addition to the Corporate Governance Report (including the Statement of Compliance in accordance with section 161 of the German Public Companies Act), the Corporate Governance Statement includes relevant information on corporate governance practices applied at KSB AG that go beyond statutory requirements. Also described are the working methods of the Board of Management and Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.

REMUNERATION OF THE BOARD OF MANAGEMENT (REMUNERATION REPORT)

The Remuneration Report summarises the principles applied when determining the remuneration arrangements for the Board of Management of KSB Aktiengesellschaft. It is prepared in accordance with the recommendations of the German Corporate Governance Code (item 4.2.5) and explains the remuneration system in place for Board of Management members. This system is geared towards sustainable corporate development. It is adopted by the Supervisory Board plenary session based on the recommendation of the Personnel Committee and reviewed at regular intervals. The same applies to individual Board of Management compensation amounts.

The remuneration arrangements for the Board of Management are structured as clearly and transparently as possible. The total amount of remuneration for the individual Board of Management members is determined based on various parameters. Criteria for assessing the appropriateness of the remuneration include the responsibilities of the individual Board of Management members, their personal performance, the economic situation, the company's results and prospects as well as customary remuneration amounts when taking peer companies and the remuneration structure used elsewhere within the company into consideration.

The remuneration of the Board of Management consists of fixed and variable components. Fixed components are granted regardless of performance and consist of a fixed sum plus benefits, as well as pension commitments (retirement, disability, widow's or orphan's pension). The fixed sum makes up 60 % of the maximum annual salary and is paid out as a monthly basic remuneration. All Board of Management members are equally entitled to the accompanying fringe benefits which include the private use of a company car, payment of insurance premiums and any payments associated with a post-contractual non-competition clause. No loans or advance payments were granted to members of the Board of Management in the year under review.

To ensure the sustainability of the nature of the remuneration, the variable remuneration component consists mainly of components determined on the basis of a multi-year assessment. They are partly based (60 %) on the degree of

implementation of the corporate strategy and its actual market success, and partly (20 %) on the return on investment measured according to the “economic value added” method based on a past average value over a medium-term horizon. The remaining short-term share (20 %) is based on the development of the net financial position in the respective financial year as compared with the planned development. The total amount of the variable remuneration components is limited in order to take extraordinary, unforeseen developments into account.

The weighting factors above do not reflect the additional possibility of a bonus, to be paid out in individual cases at the discretion of the Supervisory Board, of no more than three monthly salary payments per financial year in recognition of any special performance of individual members of the Board of Management. Such decisions are only made on an irregular basis, meaning that they do not necessarily have to be made annually.

Furthermore, when Board of Management contracts are concluded it is agreed that payments made to a Board of Management member in the event of his or her Board of Management tenure being terminated prematurely without good reason shall not exceed the value of two years’ remuneration including fringe benefits (settlement cap in accordance with item 4.2.3 of the German Corporate Governance Code). No other payments have been promised to any Board of Management members in the event of termination of service; similarly no compensation will be paid in the event of a takeover offer. If the employment contract is terminated for good reason for which the Board of Management Member is responsible, the company shall not make any severance payments.

On 19 May 2010 – using a legally permissible option – the Annual General Meeting again resolved not to disclose the details of the compensation for individual members of the Board of Management for a period of five years. Overall, the short-term benefits (total remuneration) paid to the members of the Board of Management for their activities in the 2013 financial year amounted to € 1,890 thousand (previous year: € 2,620 thousand). Payments for benefits after termination of

work on the Board of Management were made in the amount of € 1,566 thousand (previous year: € 2,133 thousand). € 30,103 thousand (previous year: € 30,270 thousand) has been provided for pension obligations to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 1,699 thousand in the year under review (previous year: € 1,770 thousand). No stock options or other share-based payment arrangements are granted to members of the Board of Management.

The short-term benefits (total remuneration) paid to members of the Supervisory Board amounted to € 1,219 thousand for the 2013 financial year (previous year: € 1,409 thousand). Information on the structure of the remuneration arrangements for the Supervisory Board is provided in the Corporate Governance Statement pursuant to section 289a of the *HGB*. The updated Statement will be made accessible to the public from 27 March 2014 at www.ksb.com > Investor Relations > Corporate Governance > Corporate Governance Statement.



SOCIAL RESPONSIBILITY

A young person's career prospects should not be determined by his or her social environment growing up. Through a specially tailored training programme, KSB is offering young people in Brazil with limited educational opportunities access to the world of employment.



“Through our programme we are making a very targeted investment in vocational training for young people, so that, despite a difficult start in life, they can find their place in the modern-day working world.”



Roque Zanatta
Head of Operations Region Americas



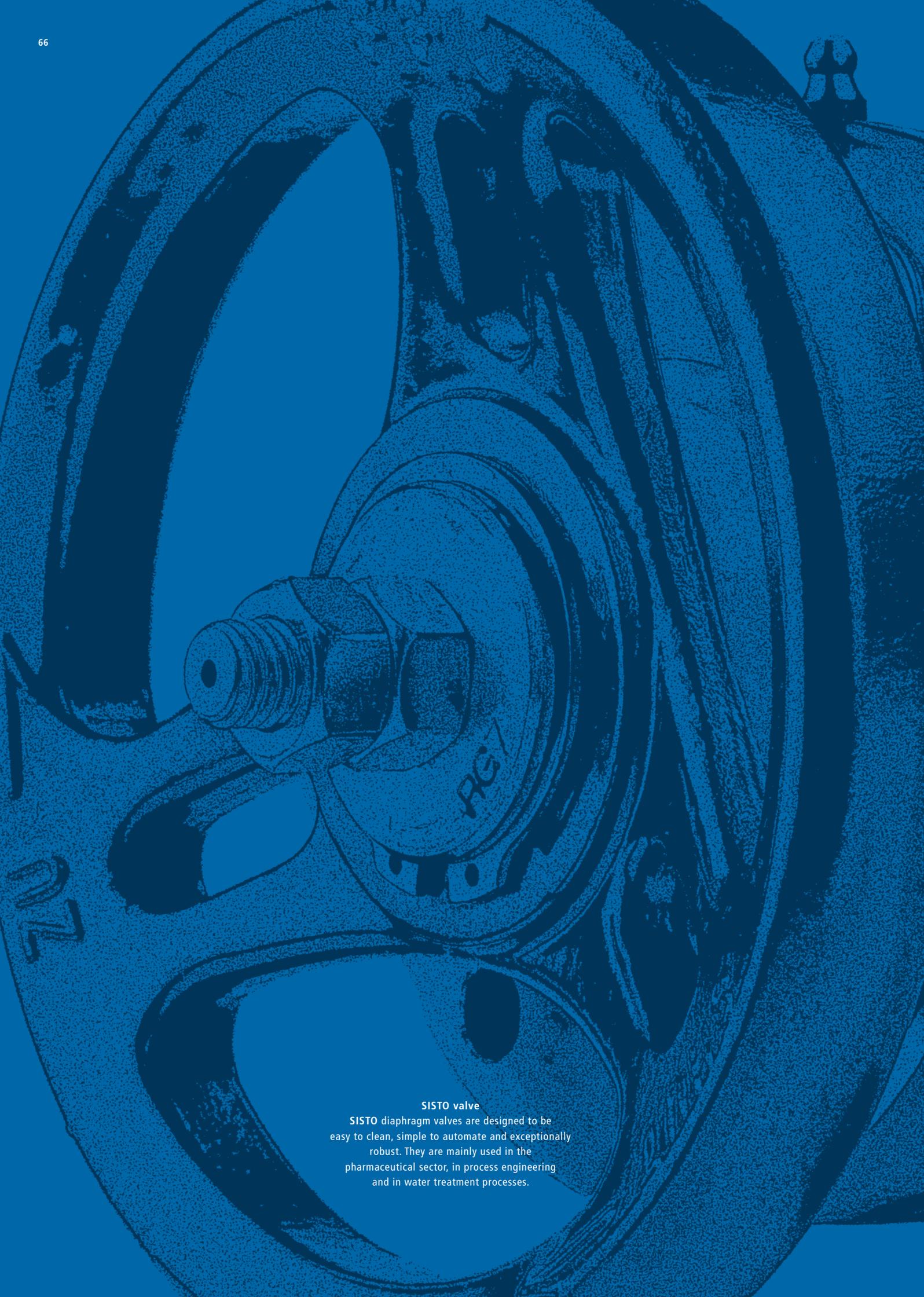
A KSB support programme gives young people in Brazil an insight into business and technology.

FUTURE OPPORTUNITIES THROUGH TRAINING

Every morning Lucas Felipe dos Santos arrives punctually at the KSB site ready for his six-hour day. After two years of daily training he will have learned all the skills he needs to find a good job. Evening classes are also provided to help him catch up with any basic schooling. Forty young people like Lucas are being given the chance to make a success of their lives in this way, taking part in training schemes at one of four KSB Brazil sites. Most of them come from a social background that would otherwise offer little in the way of career prospects. Some live in the very poor favelas of Brazil.

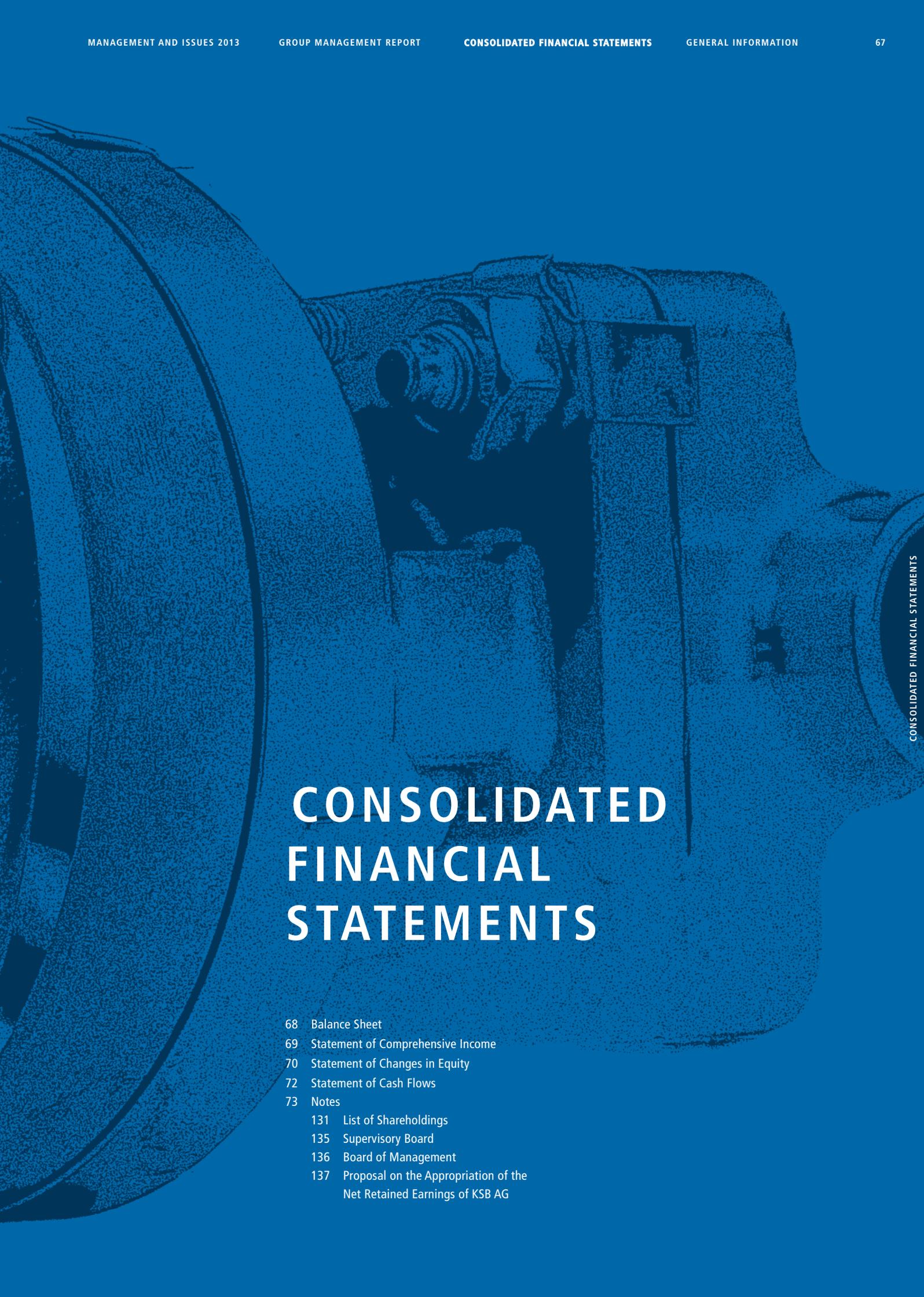
“We at KSB have been working with an association in Brazil for ten years now, giving young people from poorer families the chance of a better future,” explains Roque Zanatta, one of the people responsible for designing the 24-month programme. Lucas Felipe and his classmates are taught how to use a PC, learn manual crafts, work on improving their communication skills and attend classes in mathematics and sports. There is even time and space for a game of football during their lunch break. The young people also benefit from free travel, lunch and dental care, and are provided with baskets of basic foods. On completing the programme, some of the young people even progress to university.

And it doesn't stop with Lucas Felipe and his peers. KSB is also demonstrating its sense of social responsibility in other regions too. In Asia, the KSB CARE aid fund provides money to enable young people to attend school. In Germany, the Group is committed through the *Wissensfabrik* [Knowledge Factory] to educational projects in the field of natural science and technology in kindergartens and schools.



SISTO valve

SISTO diaphragm valves are designed to be easy to clean, simple to automate and exceptionally robust. They are mainly used in the pharmaceutical sector, in process engineering and in water treatment processes.



CONSOLIDATED FINANCIAL STATEMENTS

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BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2013	31 Dec. 2012*	1 Jan. 2012*
Non-current assets				
Intangible assets	1	111,302	102,624	91,697
Property, plant and equipment	1	442,861	460,595	428,756
Non-current financial assets	1	10,432	38,820	40,073
Investments accounted for using the equity method	1	26,617	–	–
Deferred tax assets	2	39,633	39,750*	25,166*
		630,845	641,789*	585,692*
Current assets				
Inventories	3	423,848	457,208	425,056
Receivables and other current assets	4	644,144	687,960	658,394
Current financial instruments	5	–	–	11
Cash and cash equivalents	5	451,438	401,031	305,707
Assets held for sale	1	1,185	–	–
		1,520,615	1,546,199	1,389,168
		2,151,460	2,187,988*	1,974,860*

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2013	31 Dec. 2012*	1 Jan. 2012*
Equity	6			
Subscribed capital		44,772	44,772	44,772
Capital reserve		66,663	66,663	66,663
Revenue reserves		618,819	596,495*	628,085*
Equity attributable to shareholders of KSB AG		730,254	707,930*	739,520*
Non-controlling interest		114,240	124,316*	114,093*
		844,494	832,246*	853,613*
Non-current liabilities				
Deferred tax liabilities	7	15,499	13,641*	32,047*
Provisions for employee benefits	8	412,870	418,297*	301,443*
Other provisions	8	15,402	17,205	17,409
Other liabilities	9	204,982	208,041	61,743
		648,753	657,184*	412,642*
Current liabilities				
Provisions for employee benefits	8	109,285	109,109*	111,908*
Provisions for taxes	8	4,799	11,438	12,110
Other provisions	8	65,211	72,989	75,070
Tax liabilities	9	23,645	22,047	19,947
Other liabilities	9	455,273	482,975	489,570
		658,213	698,558*	708,605*
		2,151,460	2,187,988*	1,974,860*

* Adjustment to reflect retroactive amendment to IAS 19

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	2013	2012*
Sales revenue	10	2,247,331	2,268,211
Changes in inventories		-24,931	23,871
Work performed and capitalised		1,530	1,755
Total output of operations		2,223,930	2,293,837
Other income	11	44,568	44,316
Cost of materials	12	-892,304	-985,171
Staff costs	13	-787,552	-758,285*
Depreciation and amortisation expense	1	-60,163	-58,647
Other expenses	14	-383,410	-377,712
Other taxes		-12,573	-11,260
		132,496	147,078*
Financial income	15	6,840	9,212
Financial expense	15	-23,380	-23,519
Income / expense from investments accounted for using the equity method	15	3,459	-
		-13,081	-14,307
Earnings before income taxes		119,415	132,771*
Taxes on income	16	-39,550	-42,502*
Earnings after income taxes		79,865	90,269*
Attributable to: Non-controlling interest	17	14,183	15,649
Attributable to: Shareholders of KSB AG		65,682	74,620*
Diluted and basic earnings per ordinary share (€)	19	37.38	42.48*
Diluted and basic earnings per preference share (€)	19	37.64	42.74*

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY**

(€ thousands)	Notes	2013	2012*
Earnings after income taxes		79,865	90,269*
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		13,056	-75,162*
Actuarial gains / losses under IAS 19	8	18,991	-107,193*
Taxes on income		-5,935	32,031*
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		-50,596	-10,398
Currency translation differences		-53,452	-13,891
Measurement of financial instruments		4,212	4,918
Taxes on income		-1,356	-1,425
Other comprehensive income		-37,540	-85,560*
Total comprehensive income		42,325	4,709*
Attributable to: Non-controlling interest		4,889	12,227*
Attributable to: Shareholders of KSB AG		37,436	-7,518*

Also see the relevant explanations in the Notes to the Consolidated Financial Statements.

* Adjustment to reflect retroactive amendment to IAS 19

** Presentation adjusted to reflect first-time application of amended IAS 1

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2012	44,772	66,663
Change in accounting policies in accordance with IAS 19 (Notes No. 8)	–	–
1 Jan. 2012 (adjusted)	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	–	–
Dividends paid (Notes No. 6)	–	–
Capital increases / decreases (Notes No. 6)	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2012 (adjusted)	44,772	66,663

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2013	44,772	66,663
Change in accounting policies in accordance with IAS 19 (Notes No. 8)	–	–
1 Jan. 2013 (adjusted)	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	–	–
Dividends paid (Notes No. 6)	–	–
Capital increases / decreases (Notes No. 6)	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2013	44,772	66,663

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity
Balance at 1 Jan. 2012	–25,554	–17,089	–42,643
Change in 2012	–10,196	–3,695	–13,891
Balance at 31 Dec. 2012 / 1 Jan. 2013	–35,750	–20,784	–56,534
Change in 2013	–43,447	–10,005	–53,452
Balance at 31 Dec. 2013	–79,197	–30,789	–109,986

Statement of Changes in Equity

Revenue reserves							
Other revenue reserves	Currency translation differences	Measurement of financial instruments	Actuarial gains / losses under IAS 19	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity	
670,203	-25,554	-2,574	-	753,510	115,614	869,124	
268	-	-	-14,258	-13,990	-1,521	-15,511	
670,471	-25,554	-2,574	-14,258	739,520	114,093	853,613	
-	-10,196	3,250	-75,192	-82,138	-3,422	-85,560	
74,620	-	-	-	74,620	15,649	90,269	
74,620	-10,196	3,250	-75,192	-7,518	12,227	4,709	
-21,240	-	-	-	-21,240	-1,858	-23,098	
-	-	-	-	-	-	-	
-2,567	-	-	-	-2,567	-155	-2,722	
-265	-	-	-	-265	9	-256	
721,019	-35,750	676	-89,450	707,930	124,316	832,246	

Revenue reserves							
Other revenue reserves	Currency translation differences	Measurement of financial instruments	Actuarial gains / losses under IAS 19	Equity attributable to shareholders of KSB AG	Non-controlling interest	Total equity	
720,801	-35,750	676	-	797,162	125,807	922,969	
218	-	-	-89,450	-89,232	-1,491	-90,723	
721,019	-35,750	676	-89,450	707,930	124,316	832,246	
-	-43,330	2,785	12,299	-28,246	-9,294	-37,540	
65,682	-	-	-	65,682	14,183	79,865	
65,682	-43,330	2,785	12,299	37,436	4,889	42,325	
-21,240	-	-	-	-21,240	-12,735	-33,975	
-	-	-	-	-	-	-	
7,023	-117	-	-119	6,787	-2,497	4,290	
-659	-	-	-	-659	267	-392	
771,825	-79,197	3,461	-77,270	730,254	114,240	844,494	

Also see the relevant explanations in the Notes to the Consolidated Financial Statements.

STATEMENT OF CASH FLOWS

(€ thousands)	2013	2012*
Earnings after income taxes	79,865	90,269*
Depreciation and amortisation expense / Write-ups	60,291	59,141
Increase in non-current provisions	7,554	6,268*
Loss on disposal of fixed assets	-834	-2,010
Other non-cash expenses / income	-4,528	3,259
Cash flow	142,348	156,927*
Decrease / Increase in inventories	8,168	-27,435
Decrease / Increase in trade receivables and other assets	30,490	-18,656*
Decrease in current provisions	-11,541	-6,537
Decrease in advances received from customers	-40,692	-8,402
Increase / Decrease in liabilities (excluding financial liabilities)	6,575	-1,832
Other non-cash expenses / income (operating)	-	-
	-7,000	-62,862*
Cash flows from operating activities	135,348	94,065*
Proceeds from disposal of intangible assets	25	198
Payments to acquire intangible assets	-1,719	-8,043
Proceeds from disposal of property, plant and equipment	1,990	4,829
Payments to acquire property, plant and equipment	-53,954	-80,232
Proceeds from disposal of non-current financial assets	80	18
Payments to acquire non-current financial assets	-3,972	-9,788
Net cash flows from the acquisition and sale of consolidated companies and other business units	-3,161	-6,408
Other non-cash expenses / income (investing)	-	-
Cash flows from investing activities	-60,711	-99,426
Proceeds from additions to equity / Payments related to capital decreases (Notes No. 6)	-	-
Dividends paid for prior year (including non-controlling interest) (Notes No. 6)	-33,975	-23,098
Net cash flows from financial liabilities	11,359	127,512
Payments resulting from financial receivables	286	-1,555
Other non-cash expenses / income (financing)	-	-
Cash flows from financing activities	-22,330	102,859
Net change in cash and cash equivalents	52,307	97,498
Effects of exchange rate changes on cash and cash equivalents	-5,039	-2,828
Effects of changes in consolidated Group	3,139	654
Cash and cash equivalents at beginning of reporting period	401,031	305,707
Cash and cash equivalents at end of reporting period	451,438	401,031
Thereof term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts	17,962	14,800

* Adjustment to reflect retroactive amendment to IAS 19

See also Section VII. Statement of Cash Flows in the Notes to the Consolidated Financial Statements.

NOTES

I. GENERAL INFORMATION ON THE GROUP

KSB Aktiengesellschaft, Frankenthal/Pfalz, Germany (hereinafter referred to as KSB AG), is a public limited company [*Aktiengesellschaft*] under the law of the Federal Republic of Germany. The company is registered with the *Handelsregister* [Commercial Register] of the *Amtsgericht* [Local Court] Ludwigshafen am Rhein, registration No. HRB 21016, and has its registered office in Frankenthal/Pfalz, Germany.

The KSB Group is a global supplier of high-quality pumps, valves and related systems and also provides a wide range of services to users of these products. The Group's operations are divided into three segments: Pumps, Valves and Service.

Basis of preparation of the consolidated financial statements

The accompanying consolidated financial statements of KSB AG were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law under section 315a(1) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code]. We applied the Framework, as well as all Standards and the Interpretations issued by the IFRS Interpretations Committee in force at the reporting date. For the purposes of this document, the term IFRSs includes applicable International Accounting Standards (IASs). The consolidated financial statements of KSB AG therefore meet the requirements of IFRS.

The consolidated financial statements were prepared on a going concern basis in accordance with IAS 1.25. They were prepared using the historical cost convention, with the exception of measurement at market value for available-for-sale financial assets and measurement at fair value through profit and loss for financial assets and liabilities (including derivatives). Our investments in associates are measured using the equity method.

The financial year of the companies consolidated is the calendar year.

The income statement has been prepared using the nature of expense method.

All material items of the balance sheet and the income statement are presented separately and explained in these Notes.

The main accounting policies used to prepare the consolidated financial statements are presented below. The policies described were applied consistently for the reporting periods presented unless stated otherwise.

The consolidated financial statements and the group management report, as well as the annual financial statements and management report of the Group's parent company, are submitted to and published in the *Bundesanzeiger* [German Federal Gazette].

The accompanying consolidated financial statements were approved for issue by the Board of Management on 14 March 2014 and are expected to be approved by the Supervisory Board on 25 March 2014.

New accounting principles

a) Accounting principles applied for the first time in financial year 2013

The following new and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2013:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IAS 1 Presentation of Financial Statements	16 June 2011	5 June 2012	1 July 2012
IAS 12 Income Taxes	20 Dec. 2010	29 Dec. 2012	1 Jan. 2013
IAS 19 Employee Benefits	16 June 2011	5 June 2012	1 Jan. 2013
IFRS 1 First-time Adoption of International Financial Reporting Standards – Hyperinflation and Removal of Fixed Dates	20 Dec. 2010	29 Dec. 2012	1 Jan. 2013
IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans	13 Mar. 2012	4 Mar. 2013	1 Jan. 2013
IFRS 7 Financial Instruments: Disclosures	16 Dec. 2011	13 Dec. 2012	1 Jan. 2013
IFRS 13 Fair Value Measurement	12 May 2011	11. Dec. 2012	1 Jan. 2013
Improvements to the International Financial Reporting Standards (2009 to 2011)	17 May 2012	27 Mar. 2013	1 Jan. 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	19 Oct. 2011	11 Dec. 2012	1 Jan. 2013

The amendment to **IAS 1 Presentation of Financial Statements** requires a breakdown in other comprehensive income into items that in subsequent periods are reclassified in the income statement (recycled to profit or loss) and those that are not reclassified. In addition, the related tax effects for these two categories are to be presented separately. As far as the KSB Group is concerned, the only impact is on the presentation of the statement of comprehensive income.

The revised version of **IAS 19 Employee Benefits** includes new provisions on the recognition, measurement and presentation of the cost of defined benefit pension plans and of benefits relating to the termination of employment (top-up amounts relating to partial retirement schemes are recorded on a pro rata basis as “Other long-term employee benefits” over their term and are no longer carried as liabilities in their full amount as “termination benefits” upon the signing of the contract). The expected return on plan assets may no longer be applied as interest rate. Instead, the discount rate applied to the liability is used (net interest

method). As a result of the elimination of the corridor method, actuarial gains and losses (experience adjustments and impact of changes to actuarial and demographic assumptions) are now immediately recognised directly in equity in other comprehensive income, taking into account the relevant tax effect. In accordance with the transitional provisions, the first-time application of the revised IAS 19 is retroactive. Thus, the prior-period figures presented have been calculated as though the new regulations had already been applied last year. Actuarial gains and losses which to date have been accounted for outside the balance sheet in line with the corridor method have been adjusted within equity as at 31 December 2012 by direct recognition of € 91 million, with € 11 million in deferred tax assets and € 28 million in deferred tax liabilities being taken into account. The effects on provisions as at 31 December 2012 amounted to € 130 million. The impact in the income statement of past service cost is insignificant. This similarly applies to the individual effects resulting from the new accounting rules on top-up amounts in conjunction with partial retirement schemes.

The provisions of **IFRS 1 First-time Adoption of IFRS** relate to serious hyperinflation and the removal of fixed dates for first-time adopters of IFRS, as well as to government loans. These are not relevant to the KSB Group. Similarly, the changes to **IAS 12 Income Taxes** concerning the measurement of deferred taxes for investment properties are not relevant.

The amendments to **IFRS 7 Financial Instruments: Disclosures** cover extended disclosure requirements for the offsetting of recognised financial assets and liabilities pursuant to IAS 32.42. This has no impact on KSB's consolidated financial statements.

IFRS 13 Fair Value Measurement to be applied prospectively as from 1 January 2013 provides a single framework across standards for measuring fair value, and requires additional disclosures in the Notes. Fair value is the price that independent market participants would, under standard market conditions, receive when selling an asset or pay when transferring a liability at the measurement date. The first-time application did not result in any material deviations when measuring fair values.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine relates exclusively to costs incurred for the removal of mine tailings and waste in the production phase of a mine and is of no relevance to the KSB Group.

b) Accounting principles that have been published but that are not yet mandatory

The following new Interpretations, Standards and revised Standards were not yet mandatory and were not applied in the 2013 financial year:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
Application in financial year 2014			
IFRS 10 Consolidated Financial Statements	12 May 2011	11 Dec. 2012	1 Jan. 2014
IFRS 11 Joint Arrangements	12 May 2011	11 Dec. 2012	1 Jan. 2014
IFRS 12 Disclosure of Interests in Other Entities	12 May 2011	11 Dec. 2012	1 Jan. 2014
IAS 27 Consolidated and Separate Financial Statements	12 May 2011	11 Dec. 2012	1 Jan. 2014
IAS 28 Associates and Joint Ventures	12 May 2011	11 Dec. 2012	1 Jan. 2014
IAS 32 Financial Instruments: Presentation	16 Dec. 2011	13 Dec. 2012	1 Jan. 2014
IAS 36 Impairment of Assets	29 May 2013	20 Dec. 2013	1 Jan. 2014
IAS 39 Financial Instruments: Recognition and Measurement	27 June 2013	20 Dec. 2013	1 Jan. 2014
Transition guidance (Changes to IFRS 10, IFRS 11 and IFRS 12)	28 June 2012	4 Apr. 2013	1 Jan. 2014
Investment companies (Changes to IFRS 10, IFRS 12 and IAS 27)	31 Oct. 2012	20 Nov. 2013	1 Jan. 2014

IFRS 10 Consolidated Financial Statements replaces the guidelines in **IAS 27 Consolidated and Separate Financial Statements** on control and consolidation, and changes the definition of “control” to the extent that the same criteria are applied to all companies for the purposes of determining whether a control relationship exists or not. Control requires exposure to variable returns and the ability to affect these returns through power over an investee.

IFRS 11 Joint Arrangements affects companies involved in joint ventures or joint operations and supersedes **IAS 31 Interests in Joint Ventures**. The previously permitted pro rata consolidation method may no longer be used for joint ventures, which must now exclusively be accounted for in the consolidated financial statements using the equity method.

IFRS 12 Disclosure of Interests in Other Entities pools all of the required disclosures in the Notes in relation to subsidiaries, joint arrangements and associate companies, and also non-consolidated structured companies, in one single standard. The disclosure requirements previously set out in IAS 27, 28 and 31 have thus been replaced and additional disclosure requirements have been added. Consequently, we expect the application of IFRS 12 to result in more comprehensive disclosures in the Notes to the Consolidated Financial Statements.

The addition to **IAS 32 Financial Instruments: Presentation** clarifies the conditions for the offsetting of financial assets and liabilities in the balance sheet.

The aim of the amendment to **IAS 36 Impairment of Assets** is to eliminate the undesired consequences with regard to disclosure obligations resulting from the introduction of IFRS 13.

The amendment to **IAS 39 Financial Instruments: Recognition and Measurement** means that, subject to certain conditions, hedge accounting may be continued in cases where derivatives designated as hedging instruments have been transferred to a central clearing agent to comply with statutory provisions or regulatory rules.

The changes to IFRS 10 and 11 and to IAS 27, 28, 32, 36 and 39 are not expected to have any (material) effect on the KSB Group's net assets, financial position and results of operations or on its disclosures in the Notes.

IFRS announcement	Adoption	Expected publication in EU	First-time application in the EU
Application likely in financial year 2014 or later			
IFRS 9 Financial Instruments	2 Nov. 2009 / 16 Dec. 2011	Open	Open
IAS 19 Employee Benefits	21 Nov. 2013	Q3/2014	1 July 2014
Improvements to the International Financial Reporting Standards (2010 to 2012)	12 Dec. 2013	Q3/2014	1 July 2014
Improvements to the International Financial Reporting Standards (2011 to 2013)	12 Dec. 2013	Q3/2014	1 July 2014
IFRIC 21 Levies	20 May 2013	Q2/2014	1 Jan. 2014

IFRS 9 Financial Instruments sets out the classification and measurement requirements for financial assets and liabilities. The new provisions have not yet been incorporated into European law. The impact on the KSB Group is being reviewed.

The other new or amended IFRS standards in the above list are not relevant or have no material relevance to the KSB Group based on a current assessment of the situation.

As a matter of principle, we have not voluntarily applied the above-mentioned new or revised Standards and Interpretations prior to their effective dates.

II. BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 10 German and 83 foreign companies (previous year: 10 German and 75 foreign companies) were fully consolidated. We hold a majority interest in the voting power of these subsidiaries, either directly or indirectly. The Thai company KSB Pumps Co. Ltd., Bangkok, and the Indian company KSB Pumps Limited, Pimpri (Pune) are included in the group of fully consolidated affiliates despite the fact that we hold less than 50 % of the voting rights. We do, however, have the power to appoint the majority of the members of these companies' management and/or to govern their financial and operating policies (de-facto control).

The following affiliates were fully consolidated in our consolidated financial statements for the first time with effect from 1 January 2013:

- KSB, Bombas e Válvulas, SA, Albarraque, Portugal
- KSB Service EITB-SITELEC S.A.S., Montfavet, France
- Metis Levage S.A.S., Villefranche sur Saône, France
- KSB SERVICE ETC S.A.S., Chalon-sur-Saône, France
- KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône, France
- Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen, France
- MD Invest, Déville lès Rouen, France
- VRS Industries SA, Feluy, Belgium
- KSB Tech Pvt. Ltd., Pimpri (Pune), India

These affiliates that were consolidated for the first time were acquired or established in previous years. They contributed around € 2.6 million to earnings after income taxes and in addition had the following impact on the consolidated financial statements:

(€ thousands)	2013
Non-current assets	8,384
Current assets	13,058
Assets	21,442
Equity	7,067
Non-current liabilities	990
Current liabilities	13,385
Equity and liabilities	21,442

The following associate companies were included in the consolidated financial statements for the first time with effect from 1 January 2013 and were accounted for using the equity method:

- Nikkiso-KSB GmbH, Bruchköbel, Germany
- KSB Atlantic Pump & Valve Service S.L., Las Palmas de Gran Canaria, Spain
- KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
- KSB Service LLC, Abu Dhabi, U.A.E.
- Motori Sommersi Riavvolgibili S.r.l., Cedegolo, Italy
- Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
- WM Teknikk AS, Ski, Norway

Associate companies are accounted for using the equity method. Companies are classed as associates if the Group is capable of exerting a significant influence through its involvement in the company's financial and operating policies but does not have control. A significant influence is generally deemed to exist if the Group holds between 20 % and 50 % of the voting rights.

Furthermore, both in Finland and in France a relatively small company that had not previously been consolidated was merged with a company included in the group of consolidated companies, and two companies in France that were already consolidated were merged with one another.

A full list of the shareholdings held by the KSB Group is provided at the end of these Notes.

Consolidation methods

For the purposes of consolidation, the effects of any intercompany transactions are eliminated in full. Any receivables and liabilities between the consolidated companies are offset against each other, and any unrealised gains and losses recognised in fixed assets and inventories are eliminated. Any revenues from intercompany sales are offset against the corresponding expenses.

Capital consolidation uses the purchase method of accounting, under which the acquisition cost of the parent's shares in the subsidiaries is eliminated against the equity attributable to the parent at the date of acquisition.

Any goodwill arising from initial consolidation is accounted for in accordance with IFRS 3 in conjunction with IASs 36 and 38. It is measured at the relevant current closing rate, presented in intangible assets and tested for impairment at least once a year. An impairment loss is recognised if any impairment is identified. Any excess of our interest in the fair values of net assets acquired over cost remaining after reassessment is recognised in profit or loss.

Those shares of subsidiaries' equity not attributable to KSB AG are reported as non-controlling interest.

The financial statements of all material companies or those required to be audited under local law have been audited by auditors. This audit also extended to the correct reconciliation of the financial statements prepared under local GAAP to the uniform Group IFRS accounting policies.

Currency translation

The consolidated financial statements have been prepared in euros (€). Amounts in this report are presented in thousands of euros (€ thousands) using standard commercial rounding rules.

Currency translation is effected on the basis of the functional currency of the consolidated companies. As in the previous year, the functional currency is exclusively the local currency of the company consolidated, as it operates as a financially, economically and organisationally independent entity.

Transactions denominated in foreign currencies are translated at the individual companies at the rate prevailing when the transaction is initially recognised. Monetary assets and liabilities are subsequently measured at the closing rate. Currency translation gains and losses are recognised in profit or loss.

When translating financial statements of consolidated companies that are not prepared in euro, assets and liabilities are translated at the closing rate; the income statement accounts are translated at average exchange rates. The resulting effects are reported within equity.

Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity.

The exchange rates of our most important currencies to one euro are:

	Closing rate		Average rate	
	31 Dec. 2013	31 Dec. 2012	2013	2012
US dollar	1.3791	1.3194	1.3281	1.2857
Brazilian real	3.2576	2.7036	2.8670	2.5099
Indian rupee	85.3660	72.5600	77.8711	68.6370
Chinese yuan	8.3491	8.2207	8.1655	8.1099

III. ACCOUNTING POLICIES

Acquisition cost

In addition to the purchase price, acquisition cost includes attributable incidental costs (except for costs associated with the acquisition of a company) and subsequent expenditure. Purchase price reductions are deducted from cost. Should borrowing costs pursuant to IAS 23 arise, these will be capitalised from 2009 onwards. As in the previous year, no borrowing costs were incurred in the financial year.

Production cost

In addition to direct material and labour costs, production cost includes production-related administrative expenses. General administrative expenses and selling expenses are not capitalised. Should borrowing costs pursuant to IAS 23 arise, these will be capitalised from 2009 onwards. As in the previous year, no borrowing costs were incurred in the financial year.

Fair value

Fair value is the price that independent market participants would, under standard market conditions, receive when selling an asset or pay when transferring a liability at the measurement date. This applies irrespectively of whether the price is directly observable or has been estimated using a measurement method.

For the purposes of calculating value, we make use wherever possible of estimates from market participants or estimates derived from these. In the absence of any market estimates, we make use of experience-based assumptions of Management. In a first step we review the extent to which there are current prices on active markets for identical transactions. If no quoted market prices are available, our preference is to use market price-oriented processes (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or capital value-based processes (calculation of fair value as a future value by discounting future cash surpluses).

Based upon the input factors used in the measurement methods, fair values are assigned to different levels of the fair value hierarchy.

- Level 1: Quoted prices (unadjusted) on active markets for identical assets and liabilities.
- Level 2: Measurement parameters that are not the quoted prices taken into account for level 1, but that are observable for the asset or the liability either directly as a price or indirectly derived from prices.
- Level 3: Measurement parameters for assets or liabilities that are not based on observable market data.

If input factors categorised into different levels are included in the fair value measurement, the measurement must be categorised in its entirety in the level of the lowest level input factor that is significant to the entire measurement.

We record reclassifications between different levels in the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no reclassifications carried out in the year under review.

Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets and financial liabilities are recognised in the consolidated balance sheet at the time when KSB becomes a party to a financial instrument. When the contractual right to payments from financial assets expires, these are derecognised. Financial liabilities are derecognised at the time when the contractual obligations are settled or cancelled or have expired. Regular way purchases and sales of financial instruments are recognised at their value at the settlement date; only derivatives are recognised at their value at the trade date. This applies to so-called primary financial instruments such as trade receivables and monetary receivables, as well as to trade payables and financial liabilities (from or to third parties as well as affiliates and equity investments).

a) Primary financial instruments

Within the KBS Group, primary financial instruments are allocated to the following categories as financial assets or liabilities:

- Loans and receivables (LaR)
Loans and financial assets not quoted in an active market
- Financial liabilities measured at amortised cost (FLAC) Liabilities that are not quoted in an active market, such as trade payables
- Available-for-sale (Afs) financial assets
Non-derivative financial instruments that are not allocated to any other measurement category, such as investments in non-consolidated affiliates or securities

None of our financial instruments are classified as “held-to-maturity investments”.

Financial instruments are measured at fair value on initial recognition. Subsequent measurement is generally based on fair value. Subsequent measurement of loans and receivables is based on amortised cost using the effective interest method. We do not currently make use of the fair value option. The fair values of the current and non-current financial instruments are based on prices quoted in active markets on the reporting date.

Changes in the fair value of “available-for-sale financial instruments” are recognised directly in equity. They are recognised in profit or loss when the assets are sold or deemed to be other-than-temporarily impaired.

As in the previous year, we did not make any reclassifications between the individual measurement categories.

b) Derivative financial instruments

Within the KBS Group, derivative financial instruments are allocated to the following categories as financial assets or liabilities:

- Financial assets held for trading (FAHfT) – Financial assets held for trading and measured at fair value through profit or loss (derivatives not included in hedging relationships)
- Financial liabilities held for trading (FLHfT) – Financial liabilities held for trading and measured at fair value through profit or loss (derivatives not included in hedging relationships)

We only use derivatives for hedging purposes. We hedge both existing recognised underlyings (fair value hedges) and future cash flows (cash flow hedges) against foreign currency and interest rate risks. The hedging instruments used are exclusively highly effective currency forwards, currency options and interest rate derivatives entered into with prime-rated banks. We hedge currency risks primarily for items in US dollars (USD). Interest rate risks are minimised through long-term borrowings at floating rates of interest. Group guidelines govern the use of these instruments. These transactions are also subject to continuous risk monitoring.

In the case of cash flow hedges, changes in the fair value of currency derivatives are taken directly to equity until the related hedged item is recognised.

Fair value changes of interest rate derivatives used to hedge against interest rate risks in liabilities are recognised directly in equity.

The carrying amounts equal fair value and are determined on the basis of input factors observable either directly (as a price) or indirectly (derived from prices). Fair values may be positive or negative. Fair value is the amount that we would receive or have to pay at the reporting date to settle the financial instrument. This amount is determined using the relevant exchange rates, interest rates and counterparty credit ratings at the reporting date. All our information is obtained from recognised external sources.

Derivatives are reported under other receivables and other current assets, and under miscellaneous other liabilities.

The maturities of the currency derivatives used are mostly between one and two years, and those of interest rate derivatives are between three and ten years. The maturities of the hedging instruments are matched to the period in which the forecasted transactions are expected to occur. In the year under review, almost all hedged forecasted transactions occurred as expected.

Intangible assets

Intangible assets are generally carried at (acquisition or production) cost and reduced by straight-line amortisation. The underlying useful lives are two to five years.

An impairment loss is recognised if the recoverable amount – the higher of the fair value less costs to sell and the value in use – is lower than the carrying amount. If the reasons for an impairment loss in a previous period no longer apply, it is reversed (write-up) up to a maximum of amortised cost.

If the recoverable amount is calculated as the fair value less costs to sell, the costs to sell are set at a maximum of 2 % of the fair value. For the purposes of calculating value, we make use wherever possible of estimates from market participants (Level 1) or estimates derived from these (Level 2). In the absence of any market estimates, we make use of experience-based assumptions of the management (Level 3). In a first step we review the extent to which there are current prices on active markets for identical transactions. If no quoted market prices are available, our preference is to use market price-oriented processes (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or capital value-based processes (calculation of fair value as a future value by discounting future cash surpluses).

We amortised goodwill originating between 1 January 1995 and 30 March 2004 over a maximum of 15 years. In accordance with IFRS 3, the resulting cumulative amortisation was eliminated against historical cost with effect from 1 January 2005. Goodwill has been tested for impairment at least once a year since 2005; it is not amortised any longer. A review is also conducted as soon as circumstances or events occur that indicate the carrying amount cannot be recovered. The impairment test relates to the “cash-generating units”, which at KSB are the legal entities. Occasionally a group of cash-generating units may also serve as the basis, provided these units reflect the lowest level on which we monitor goodwill. If the recoverable amount is lower than the carrying amount, the goodwill must be reduced by the difference in value (reported in the income statement as a component of the write-downs on intangible assets and property, plant and equipment). Reversal of an impairment loss from an earlier period is not possible. Goodwill originating up to and including 1994 has been deducted from revenue reserves. Any excess of our interest in the fair values of net assets acquired over cost originating until 30 March 2004 was eliminated against revenue reserves directly in equity. Any excess of our interest in the fair values of net assets acquired over cost arising after 30 March 2004 is, after reassessment, immediately recognised in profit or loss.

When acquiring companies we apply purchase price allocations and determine the fair value of the assets and liabilities acquired. In addition to the assets and liabilities already recognised by the selling party, we also assess marketing-related aspects (primarily brands or trademarks and competitive restrictions), customer-related aspects (primarily customer lists, customer relations and orders on hand), contract-related aspects (mainly particularly advantageous service, work, purchasing and employment contracts) as well as technology-related aspects (primarily patents, know-how and databases). To determine values we primarily apply the residual value method, the excess earnings method and cost-oriented procedures.

Development costs are capitalised as internally generated intangible assets at cost and reduced by straight-line amortisation where the criteria described in IAS 38 are met. Research costs are expensed as incurred. Where research and development costs cannot be reliably distinguished within a project, no costs are capitalised.

Property, plant and equipment

In accordance with IAS 16, property, plant and equipment is carried at cost and reduced by straight-line depreciation. No tax-motivated depreciation is recognised. Write-downs are charged for impairment if the recoverable amount is lower than the carrying amount. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up) up to a maximum of amortised cost.

Government grants relating to property, plant and equipment are transferred to an adjustment item on the liabilities side. This adjustment item is reversed over a defined utilisation period. As far as government grants recognised which are to be held for specific periods of time are concerned, we expect that these periods will be complied with.

Maintenance expenses are recognised as an expense in the period in which they are incurred, unless they lead to the expansion or material improvement of the asset concerned.

The following useful lives are applied:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Buildings	10 to 50 years
Plant and machinery	5 to 25 years
Other equipment, operating and office equipment	3 to 25 years

Leases

IAS 17 defines a lease as an arrangement under which a lessor provides a lessee with the right to use an asset for an agreed period of time in exchange for a payment. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. Otherwise, such transactions are classified as operating leases.

Lease payments that are payable under operating leases are recognised as expenses in the period in which they are incurred. In the case of finance leases, the leased asset is recognised at the time of inception of the lease at the lower of fair value and the present value of future minimum lease payments. A liability is recognised in the same amount for the future lease payment. The asset's carrying amount is reduced by depreciation over its useful life or the shorter lease term.

Non-current financial assets

Equity investments are carried at fair value. Non-current financial assets are measured at cost if their fair value cannot be reliably determined because they are not traded in an active market. Interest-bearing loans are recognised at amortised cost.

Investments accounted for using the equity method are companies with regard to which there is the possibility of exerting a significant influence on business or financial policy. This typically applies when KSB holds a share of between 20 and 50 % of the voting rights. These assets are recognised at cost at the time of acquisition. If the share of the net assets exceeds these costs of acquisition, adjustments are made on the basis of the fair value (pro rata hidden reserves and liabilities). The remaining amount is recorded as goodwill. It forms part of the carrying amount of the associate and is not amortised. For subsequent measurement, the carrying amounts are increased/reduced annually by the pro-rata earnings, distributed dividends or other changes in equity of the associate. Where necessary, we make adjustments to the IFRS standards used. The share of profits is reported in the consolidated income statement in a separate line (income from investments accounted for using the equity method), with changes such as currency translation effects being taken directly to Group equity. If the losses correspond to the company's carrying amount, no further loss is realised. Intercompany gains and losses from transactions between Group companies and investments accounted for using the equity method are offset against the carrying amount in profit or loss. At each reporting date we review whether there are any objective indications of impairment, and calculate the amount of such impairment if required. If the carrying amount exceeds the recoverable amount of an investment, it is written down to the recoverable amount. Any impairments or reversals of impairments are reported in the consolidated income statement under income from investments accounted for using the equity method.

Inventories

Pursuant to IAS 2, inventories are carried at the lower of cost and net realisable value. Cost is measured using the weighted average method. Write-downs to the net realisable value take account of the inventory risks resulting from slow-moving goods or impaired marketability. This also applies if the selling price is lower than production cost plus costs still to be incurred. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

Advance payments made on inventories are also presented here because of the correlation and expected realisation of these advances (through conversion into inventories) within the normal business cycle. Advances received from customers are recognised as current liabilities.

Construction contracts under IAS 11

The percentage of completion (PoC) method is applied to construction contracts defined under IAS 11. According to this method, a production order is a contract for the customer-specific production of individual items or a number of items that, in terms of their design, technology and function or with regard to their use, are linked to one another or dependent on each other. If the earnings from a production order can be reliably estimated, we recognise the revenue based on the percentage of completion method. The stage of completion of contracts is determined on the basis of the proportion that contract costs (excluding indirect material costs) incurred for work performed up to the reporting date bear to the estimated total contract costs (excluding indirect material costs) at the reporting date. Contract revenue consists of all contractually agreed revenues, as well as additional claims and incentive payments that are likely to result in revenue and are capable of being reliably measured. Contract revenue may vary from one period to the next, for instance because of cost escalation clauses, variations or penalties. It is measured at the fair value received or receivable. If the earnings from a production order cannot be reliably estimated, revenue will only be recognised in the amount of the contract costs incurred that are likely to be covered and the contract costs recognised as an expense for the period in which they are incurred.

The percentage contract revenue less the related advances received from customers is reported – depending on the balance – in receivables and other current assets or in current liabilities. Effects in the period are recognised in the income statement as part of sales revenue. The gross amount due to customers for contract work is included in other provisions.

Receivables and other current assets

Receivables and other current assets are subsequently carried at amortised cost. Low-interest or non-interest-bearing receivables are discounted. In addition, we take account of identifiable risks by charging specific write-downs and experience-based write-downs using allowance accounts. If the reasons for an impairment loss charged in a previous period no longer apply, the impairment loss is reversed (write-up).

We hedge part of the credit risk exposure of our receivables (further explanations are provided in the Financial Risks – Credit Risk section).

The prepaid expenses reported relate to accrued expenditure prior to the reporting date that will only be classified as an expense after the reporting date.

Current financial instruments

Financial instruments are carried at their fair values at the reporting date.

Cash and cash equivalents

Cash (cash and sight deposits) and cash equivalents (short-term, highly liquid financial investments that are readily convertible to defined amounts of cash, and that are subject to only immaterial fluctuations in terms of their value) are recognised at amortised cost.

Assets held for sale

Pursuant to IFRS 5, a non-current asset is classified as held for sale if its carrying amount will be realised primarily by a sales transaction and not through continued use of that asset. Assets held for sale are no longer written down but are recognised at the lower of the carrying amount and fair value less costs to sell. If the fair value less costs to sell subsequently increases, the value is written up again. The amount of this write-up is limited to the previous write-down in value. Assets held for sale are presented separately in the balance sheet.

Deferred taxes

We account for deferred taxes in accordance with IAS 12 using the balance sheet liability method on the basis of the enacted or substantively enacted local tax rates. This means that deferred tax assets and liabilities generally arise when the tax base of assets and liabilities differs from their carrying amount in the IFRS financial statements, and this leads to future tax expense or income. We also recognise deferred tax assets from tax loss carryforwards in those cases where it is more likely than not that there will be sufficient taxable profit available in the near future against which these tax loss carryforwards can be utilised. Deferred taxes are also recognised for consolidation adjustments. Deferred taxes are not discounted. Deferred tax assets and liabilities are always offset where they relate to the same tax authority. Changes to deferred taxes in the consolidated balance sheet generally result in deferred tax expense or income. If, however, a direct entry is made in equity, the change in deferred taxes is also included in equity.

Provisions

a) Provisions for pensions and similar obligations

Provisions for pensions and similar obligations pursuant to IAS 19 are calculated on the basis of actuarial reports. They are based on defined benefit pension plans. The reports are prepared using the projected unit credit method.

Actuarial gains and losses are taken directly to equity. The actuarial demographic assumptions and the definition of compensation and pension trends, as well as of the discount rate (based on senior, fixed-income bonds), are best estimates. The past service cost for pensions and similar commitments is expensed within the operating income/expense. The interest portion of pension costs is included as interest expense in financial income/expense in the consolidated income statement.

KSB companies that use a defined contribution pension plan do not recognise provisions. The premium payments are recognised directly in the income statement as pension costs in the staff costs. Other than an obligation to pay premiums, these companies have no further obligations. Consequently, the insurance risk remains with the insured parties.

b) Other provisions

Provisions are recognised if a past event results in a present legal or constructive external obligation that the company has no realistic alternative to settling, where settlement of this obligation is expected to result in an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. The amount of the provision corresponds to the best estimate of the settlement amount of the current obligation on the reporting date. Any recourse or reimbursement claims are recognised separately and are not deducted from the provisions concerned.

Provisions for restructurings are recognised only if the criteria set out in IAS 37 are met.

Non-current provisions are discounted if the effects are material.

Liabilities

Liabilities classified as financial liabilities measured at amortised cost (FLAC) are recognised at amortised cost using the effective interest method.

Contingent liabilities (contingencies and commitments)

Contingent liabilities, which are not recognised, are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events. Contingent liabilities may also be present obligations that arise from past events where it is possible but not probable that there will be an outflow of resources embodying economic benefits.

Contingent liabilities correspond to the extent of liability at the reporting date.

Income and expenses

Sales revenue consists of charges for deliveries and services billed to customers, and licence income. Sales allowances reduce sales revenue. Sales revenue is recognised pursuant to IAS 18

when the deliveries have been effected or the services have been rendered and the significant risks of ownership have thus been transferred to the buyer. Sales revenue from services is recognised as soon as the service has been performed. No sales revenue is recognised if there are material risks with regard to receipt of the consideration or if it is possible that the goods will be returned.

The proportionate realisation of revenue resulting from application of the percentage of completion method in accordance with IAS 11 is also recognised in the sales revenue.

Expenses are recognised when they are incurred or when the services are utilised.

Estimates and assumptions

The preparation of consolidated financial statements in accordance with the IFRSs as adopted by the EU requires management to make estimates and assumptions that affect the accounting policies to be applied. When implementing such accounting policies, estimates and assumptions affect the assets, liabilities, income and expenses recognised in the consolidated financial statements, and their presentation. These estimates and assumptions are based on past experience and a variety of other factors deemed appropriate under the circumstances. Actual amounts may differ from these estimates and assumptions. We continuously review the estimates and assumptions that we apply. If more recent information and additional knowledge are available, recognised amounts are adjusted to reflect the new circumstances. Any changes in estimates and assumptions that result in material differences are explained separately.

Impairment tests for goodwill which are conducted at least once per year, require an estimate of the recoverable amounts for each cash-generating unit. These correspond to the higher amount from the fair value less costs to sell and value in use. The earnings forecast on the basis of these estimates are affected by various factors, which may include exchange rate fluctuations, progress in Group integration or the expectations for the economic development of these units. Although management believes that the assumptions used to calculate the recoverable amount are appropriate, any unforeseen changes in these assumptions could lead to an impairment loss.

Estimates and assumptions must also be made to review the **value of assets**. For each asset it must be verified to what extent there are indications of an impairment. When determining the recoverable amount of property, plant and equipment, the decision on the relevant useful life may, for example, be subject to uncertainties. The measurement of doubtful receivables is based on forecasts about the creditworthiness of customers. A material change in the assumptions or circumstances can lead in future to additional impairment losses or reversals.

For **Construction contracts with clients in the project business** we recognise sales revenue according to the percentage of completion method. This requires estimates regarding the total contract costs and revenue, contract risks as well as other relevant factors. These estimates are reviewed regularly by the business units with operative responsibility and adjusted where necessary.

Provisions for employee benefits, especially pensions and similar obligations, are determined according to actuarial principles which are based on statistical and other factors so as to anticipate future events. Main factors are the reported market discount rates, salary and pension trends as well as life expectancy. The actuarial assumptions made may differ from actual developments as a result of changing market and economic conditions, and this can have material effects on the amount of provisions and thus on the company's overall net assets, financial position and results of operations.

Other provisions are reported based on the best possible estimate of the probability of future outflows. The later, actual outflow can, however, deviate from the estimate as a result of changed economic, political or legal conditions. This will be reflected in Additional expenses or Income from reversals.

The global scope of our activities must be taken into account in relation to **Taxes on income**. Based on our operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for determining our tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. Although we believe we have made a reasonable estimate regarding any tax uncertainties, it is possible that the actual tax obligation will differ from our original estimate. With regard to future tax benefits, we assess their realisability as of every reporting date. For this reason, we only recognise deferred tax assets if sufficient taxable income is available in future. In assessing this future taxable income it must be taken into account that expected future business developments are subject to uncertainties and are in some cases excluded from control by company management (for example changes to applicable tax legislation). If we come to the conclusion that previously reported deferred tax assets cannot be realised because of changed assumptions, then the assets will be written down by the appropriate amount.

Maturities

Maturities of up to one year are classified as current.

Assets that can only be realised after more than 12 months, as well as liabilities that only become due after more than 12 months, are also classified as current if they are attributable to the operating cycle defined in IAS 1.

Assets and liabilities not classified as current are non-current.

IV. BALANCE SHEET DISCLOSURES

1 Fixed assets

STATEMENT OF CHANGES IN INTANGIBLE ASSETS

(€ thousands)	Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets		Goodwill		Advance payments		Intangible assets Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Historical cost								
Balance at 1 January	58,658	52,014	89,287	79,977	1,187	1,035	149,132	133,026
Changes in consolidated Group	19	222	12,677	6,528	–	–	12,696	6,750
Currency translation adjustments	–1,938	–410	–1,645	1,403	–	–	–3,583	993
Other	47	–31	–	–	–	–	47	–31
Additions	1,583	7,328	13	–	2,636	649	4,232	7,977
Additions from business combinations	–	479	–	1,379	–	–	–	1,858
Disposals	3,467	1,438	547	–	–	–	4,014	1,438
Reclassifications	1,144	494	–	–	–1,090	–497	54	–3
Balance at 31 December	56,046	58,658	99,785	89,287	2,733	1,187	158,564	149,132
Accumulated depreciation and amortisation								
Balance at 1 January	42,635	37,794	3,873	3,535	–	–	46,508	41,329
Currency translation adjustments	–727	–107	–7	–	–	–	–734	–107
Other	23	–	–	–	–	–	23	–
Additions	5,300	6,188	154	338	–	–	5,454	6,526
Disposals	3,442	1,240	547	–	–	–	3,989	1,240
Reclassifications	–	–	–	–	–	–	–	–
Balance at 31 December	43,789	42,635	3,473	3,873	–	–	47,262	46,508
Carrying amount at 31 December	12,257	16,023	96,312	85,414	2,733	1,187	111,302	102,624

As in the previous year, we did not capitalise any development costs in the year under review because not all of the comprehensive recognition criteria defined in IAS 38 were met. The item “Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets” includes € 10.3 million (previous year: € 12.6 million) of software including software licences valid for a limited period.

We conduct our impairment tests once a year. If an additional impairment test is deemed to be required because there is an indication that an asset may be impaired (trigger event), the test is performed promptly. As in the previous year, this proved unnecessary in the year under review.

We apply the discounted cash flow model to determine the recoverable amount (value in use). The future earnings (EBIT in accordance with IFRS) applied were taken from a multi-year financial plan (generally covering a maximum of five years), the basis of which was adopted in December taking into account the medium-term strategy approved by management for the respective cash-generating unit. We carried out this planning based on certain assumptions which were drawn from both forecasts from external sources, e.g. current German Engineering Federation (VDMA) publications, and our own experience-based knowledge of markets and competitors. In our calculations we consistently extrapolated the result of the last plan year as a constant, considering that level to be achievable in the long term. We derived growth rates taking account of the rate of inflation and estimates with regard to regional and segment-specific circumstances. We applied growth rates of between 0.75 % and 1.25 %.

The carrying amounts of cash-generating units do not contain any items related to taxes or financing activities.

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM), taking into account a peer group. Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure. The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 2.8 % in the year under review (previous year: 2.2 %). The market risk premium was set at 5.75 % (previous year: 5.50 %), with a beta factor of 1.0 (previous year: 1.0). In addition, country-specific tax rates and country risk premiums are taken into account individually for each CGU.

DISCOUNT RATES (AFTER TAXES)

in %	2013	2012
Germany	7.9	7.3
The Netherlands	8.0	7.3
Italy	10.8	9.9
USA	7.8	7.1
South Africa	10.5	9.5
South Korea	9.0	8.3
Other European countries	8.0–11.7	7.3–11.0

GOODWILL

(€ thousands)	31 Dec. 2013	31 Dec. 2012
KSB Seil Co., Ltd., South Korea	24,001	24,763
DP industries B.V., The Netherlands	18,285	18,285
REEL s.r.l., Italy	9,681	9,681
KSB Italia S.p.A., Italy	3,710	3,710
Dynamik-Pumpen GmbH, Germany	3,150	3,150
Uder Elektromechanik GmbH, Germany	2,980	2,980
KSB Service Centre-Est S.A.S., France	2,609	2,609
KSB Pumps (S.A.) (Pty) Ltd., South Africa	2,043	2,664
KSB Finland Oy, Finland	1,764	1,764
KSB Service Est S.A.S., France	1,550	1,550
	69,773	71,156
Companies consolidated for the first time in 2013:		
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	–
KSB SERVICE MEDIATEC S.A.S., France	3,179	–
KSB Service EITB-SITELEC S.A.S., France	1,944	–
KSB SERVICE ETC S.A.S., France	1,412	–
Metis Levage S.A.S., France	453	–
	12,677	–
Other 19 (previous year: 20) companies	13,862	14,258
Total	96,312	85,414

Impairment testing with regard to the cash-generating unit KSB Singapore (Asia Pacific) Pte Ltd resulted in an impairment loss of € 154 thousand due to ongoing economic difficulties facing a business line of the Business Unit Pumps in Malaysia.

A 5 % increase in the relevant discount factor, this being viewed as a realistic change to a key underlying assumption, on which we have based determination of the unit's recoverable amount, would result in a write-down requirement of around € 1.9 million, of which € 1.0 million relates to KSB Italia S.p.A. (Business Unit Pumps) and € 0.8 million to KSB ITUR Spain (Business Unit Pumps). Write-downs of around € 1.2 million would have been recorded in the previous year.

DETAILED INFORMATION ON KEY GOODWILL ITEMS

Cash-generating unit	Method	Carrying amount of goodwill (€ million)	Percentage of total goodwill	Discount rate after taxes	Underlying assumptions, corporate planning	Method for assessing the value of the underlying assumption
KSB Seil Co., Ltd.	Fair value less costs to sell (costs to sell set at 1%)	24.0	25 %	9.0 %	<ul style="list-style-type: none"> ■ Improved business cycle expectations in shipbuilding (liquefied gas tankers) ■ Little change in exchange rates 	Consideration of macro-economic key data and external market research.
DP industries B.V.	Value in use	18.3	19 %	8.0 %	<ul style="list-style-type: none"> ■ Greater customer focus ■ Moderate market growth rates 	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments.
REEL s.r.l.	Value in use	9.7	10 %	10.8 %	<ul style="list-style-type: none"> ■ Moderate market growth rates ■ Greater customer focus ■ Improved energy efficiency 	Consideration of external market data and macro-economic environment.

The business performance of KSB Seil Co., Ltd. is closely linked to the economic development of the long-cycle shipbuilding industry. This is also documented in the market development studies from external sources we used, which contain forecasts for the next seven years. Correspondingly, we have selected a monitoring period of seven years instead of our commonly used five-year period for impairment testing of this cash-generating unit.

For the purposes of calculating the fair value less costs to sell, the South Korean KSB Seil Co., Ltd. is classed as Level 2 pursuant to IFRS 13. The input factors used for the discounted cash flow method are largely based on observable market data (base interest rate) or freely accessible information (for example sovereign risk classification, tax rates, procurement prices, sales prices, market studies).

As in the previous year, we did not recognise any impairment losses on other intangible assets in the year under review.

STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

(€ thousands)	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction		Property, plant and equipment Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Historical cost										
Balance at 1 January	312,089	283,346	483,766	458,337	191,201	182,340	19,337	19,623	1,006,393	943,646
Changes in consolidated Group	5,181	4,496	729	2,487	412	1,285	–	134	6,322	8,402
Currency translation adjustments	–11,153	–2,005	–14,963	–6,070	–7,853	–2,488	–1,082	–499	–35,051	–11,062
Other	16	–460	191	–679	50	–	–	–	257	–1,139
Additions	5,091	17,816	21,611	23,149	18,515	21,224	7,631	18,976	52,848	81,165
Additions from business combinations	–	3,539	–	4,536	–	696	–	2	–	8,773
Disposals	1,052	508	7,868	7,466	10,260	13,434	121	1,987	19,301	23,395
Reclassifications	4,503	5,865	11,045	9,472	1,171	1,578	–16,773	–16,912	–54	3
Reclassification as assets held for sale	–1,315	–	–	–	–	–	–	–	–1,315	–
Balance at 31 December	313,360	312,089	494,511	483,766	193,236	191,201	8,992	19,337	1,010,099	1,006,393
Accumulated depreciation and amortisation										
Balance at 1 January	121,355	114,261	299,512	280,366	124,931	120,263	–	–	545,798	514,890
Currency translation adjustments	–2,200	–721	–7,919	–3,120	–5,150	–1,697	–	–	–15,269	–5,538
Other	16	–119	213	–679	46	–	–	–	275	–798
Additions	7,660	7,098	27,610	25,977	19,439	19,046	–	–	54,709	52,121
Additions from business combinations	–	1,250	–	4,031	–	422	–	–	–	5,703
Disposals	1,018	437	7,470	7,145	9,657	12,998	–	–	18,145	20,580
Reclassifications	11	23	–7	82	–4	–105	–	–	–	–
Reclassification as assets held for sale	–130	–	–	–	–	–	–	–	–130	–
Balance at 31 December	125,694	121,355	311,939	299,512	129,605	124,931	–	–	567,238	545,798
Carrying amount at 31 December	187,666	190,734	182,572	184,254	63,631	66,270	8,992	19,337	442,861	460,595

Assets resulting from finance leases are recognised as fixed assets in accordance with IAS 17, and corresponding financial liabilities are recognised. The carrying amount of these capitalised assets amounts to € 3,016 thousand (previous year: € 3,524 thousand), of which € 1,437 thousand (previous year: € 1,948 thousand) relate to land and buildings, € 319 thousand (previous year: € 433 thousand) to plant and machinery and € 1,260 thousand (previous year: € 1,143 thousand) to other equipment, operating and office equipment.

During the year under review it was decided to close down a relatively small production site of the Business Unit Valves in Germany. The real estate there is planned to be sold off in 2014 and, for this reason, it is reported pursuant to IFRS 5 in a separate balance sheet item within current assets (assets held for sale).

Property, plant and equipment in the amount of € 5,491 thousand (previous year: € 5,917 thousand) have been pledged as security for bank loans and other liabilities on the basis of standard terms and conditions. Information on the purchase obligation is provided in Section IX. Other Disclosures of these Notes to the Consolidated Financial Statements.

Disposals of items of property, plant and equipment resulted in book gains of € 1,487 thousand (previous year: € 2,371 thousand) and book losses of € 653 thousand (previous year: € 361 thousand). The book gains and losses are reported in the income statement under other income and other expenses. As in the previous year, we did not recognise any impairment losses on property, plant and equipment.

STATEMENT OF CHANGES IN NON-CURRENT FINANCIAL ASSETS

(€ thousands)	Other investments		Investments accounted for using the equity method		Non-current financial instruments		Loans		Non-current financial assets Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Acquisition cost										
Balance at 1 January	24,324	50,659	22,531	–	784	764	140	2,097	47,779	53,520
Changes in consolidated Group	–15,319	–12,881	2,716	–	–	–	53	–1,985	–12,550	–14,866
Currency translation adjustments	–77	12	–601	–	–4	–	–482	–	–1,164	12
Other	1,793	–	–	–	–	–	–	–	1,793	–
Additions	578	9,722	3,885	–	–	35	2,976	31	7,439	9,788
Disposals	384	657	1,914	–	35	15	44	3	2,377	675
Reclassifications	–	–	–	–	–	–	–	–	–	–
Balance at 31 December	10,915	46,855	26,617	–	745	784	2,643	140	40,920	47,779
Accumulated impairment losses										
Balance at 1 January	8,642	12,837	245	–	72	100	–	510	8,959	13,447
Changes in consolidated Group	–4,587	–3,819	–245	–	–	–	–	–510	–4,832	–4,329
Currency translation adjustments	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Additions	90	740	–	–	23	1	15	–	128	741
Disposals	384	657	–	–	–	–	–	–	384	657
Reclassifications	–	–	–	–	–	–	–	–	–	–
Reversal (write-up)	–	214	–	–	–	29	–	–	–	243
Balance at 31 December	3,761	8,887	–	–	95	72	15	–	3,871	8,959
Carrying amount at 31 December	7,154	37,968	26,617	–	650	712	2,628	140	37,049	38,820

Other investments reported under non-current financial assets declined considerably due to first-time consolidations. The additions mainly comprise a capital increase for the scheduled financing of the expansion of business activities at our sales company in Peru, which has not yet been consolidated because this would not have had a material impact.

The companies that were reported as investments accounted for using the equity method in the year under review were insignificant in the past. In 2013, however, the business spectrum expanded considerably, above all at Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai (China), with the result that the lack of significance – due to the time and technology limitations of its operations – no longer applies. This company was established in 2008 to produce suitable auxiliary pumps (secondary coolant circuits) for older reactor types. However, in the wake of the Fukushima reactor accident in 2011 China considerably slowed down or did not start construction of new nuclear reactors of the old type. In the course of

2013, it was also decided to build only nuclear power stations meeting substantially higher safety standards. These will need to be equipped with, among other things, more modern reactor coolant pumps (primary cooling circuits) that comply with the new safety requirements. Responding to the changed market requirements, the company will now offer different, state-of-the-art KSB products. To this end, first agreements were made with government bodies in mid-2013. This development has prompted us to reassess our investment; we now consider it to be of material significance for the KSB Group. As well as this company, which has the largest value within this item, our Group company in Saudi Arabia (KSB Pumps Arabia Ltd., Riyadh) has also gained significance. This is attributable to the expansion of its activities in the energy market. Within the scope of reassessing the two above-mentioned companies, which have the highest value, we included all other associates in the consolidated Group; they were accounted for using the equity method. Overall, the first-time consolidation of investments in associates resulted in an effect on earnings of € 3.0 million.

We currently have no plans for the sale of equity investments.

As in the previous year, none of the loans are loans to equity investments.

The effect of currency translation adjustments taken directly to equity on fixed assets was a loss of € 23,795 thousand (previous year: loss of € 4,412 thousand).

The list of shareholdings is included at the end of these Notes to the Consolidated Financial Statements.

2 Deferred tax assets

Explanations on deferred tax assets are presented under “Taxes on income”.

3 Inventories

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Raw materials and production supplies	153,715	161,594
Work in progress	147,009	168,172
Finished goods and goods purchased and held for resale	105,152	105,136
Advance payments	17,972	22,306
	423,848	457,208

€ 70,785 thousand (previous year: € 62,191 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the period under review amount to € 6,667 thousand (previous year: € 2,561 thousand). Due to changed estimates, we reversed write-downs totalling € 696 thousand (previous year: € 1,364 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 917,235 thousand (previous year: € 961,300 thousand) were recognised as expenses in the period under review.

4 Receivables and other current assets

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Trade receivables	474,717	481,900
Receivables from other investments and associates	18,489	16,937
Receivables recognised by PoC	85,934	130,737
Receivables recognised by PoC (excl. advances received from customers PoC)	172,574	230,546
Advances received from customers (PoC)	-86,640	-99,809
Other receivables and other current assets	65,004	58,386
	644,144	687,960

Receivables from other investments include loans at the usual interest amounting to € 1,791 thousand (previous year: € 2,690 thousand). Impairment losses on receivables from other investments amount to € 3,052 thousand (previous year: € 6,374 thousand) and on receivables from associates to € 345 thousand (previous year: € 765 thousand).

Construction contracts under IAS 11 include recognised earnings of € 34,041 thousand (previous year: € 45,034 thousand) and costs of € 138,533 thousand (previous year: € 185,512 thousand). Sales revenue in accordance with IAS 11 amounted to € 523,638 thousand (previous year: € 535,221 thousand).

The other receivables and other current assets include receivables from employees and deferred interest. They also include recoverable taxes (primarily from VAT) in the amount of € 25,037 thousand (previous year: € 22,909 thousand) and other financial assets from currency forwards in accordance with IAS 39 in the amount of € 6,557 thousand (previous year: € 3,409 thousand). Receivables relating to interest rate derivatives totalled € 115 thousand (previous year: zero).

At the reporting date, the notional volume of all currency forwards was € 211,920 thousand (previous year: € 196,506 thousand), and the notional volume of all interest rate derivatives was € 70,740 thousand (previous year: € 75,105 thousand).

The contractual maturities of payments for currency forwards and interest rate derivatives are as follows:

NOTIONAL VOLUMES 2013

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards	211,920	194,033	17,887	–
Interest rate derivatives	70,740	10,000	60,740	–
	282,660	204,033	78,627	–

NOTIONAL VOLUMES 2012

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards	196,506	166,886	29,499	121
Interest rate derivatives	75,105	288	72,086	2,731
	271,611	167,174	101,585	2,852

€ 39,861 thousand (previous year: € 30,890 thousand) of all receivables and other assets is due after more than one year.

5 Current financial instruments, cash and cash equivalents

As in the previous year, there were no current financial instruments.

Cash and cash equivalents are deposits with short maturities and call deposits, and also current account balances. German Group companies used € 17,962 thousand of cash and cash equivalents (previous year: € 14,800 thousand) to hedge credit balances for partial retirement arrangements and, for the first time in the year under review, also for long-term working hours accounts as required by law. They are available to us at any time due to the underlying contractual structure.

6 Equity

There was no change in the share capital of KSB AG as against the previous year. In accordance with the Articles of Association, it totals € 44,771,963.82 and, as in the previous year, is composed of 886,615 ordinary shares and 864,712 preference shares. Each no-par value share represents an equal notional amount of the share capital. The preference shares carry separate cumulative preferred dividend rights and progressive additional dividend rights. All shares are no-par value bearer shares. The individual shares have no par value.

The capital reserve results from the appropriation of premiums from capital increases in previous years.

In addition to revenue reserves from previous years, the revenue reserves primarily include currency translation adjustments, consolidation effects and actuarial gains and losses in accordance with IAS 19 taken directly to equity. These effects resulted in deferred tax assets in the amount of € 32,367 thousand (previous year: € 38,041 thousand, of which € 37,867 thousand due to adjustment to reflect the retroactive amendment to IAS 19) and deferred tax liabilities of € 1,630 thousand (previous year: € 481 thousand).

A total of € 21,240 thousand (dividend of € 12.00 per ordinary share and € 12.26 per preference share) was paid from equity by a resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 15 May 2013.

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € 3,446 thousand (previous year: € 1,008 thousand). They changed as follows:

(€ thousands)	2013	2012
Opening balance at 1 January	1,008	-3,882
Changes in consolidated Group / Currency translation adjustments / Other	-29	26
Disposals	-1,611	2,447
Additions	4,078	2,417
Closing balance at 31 December	3,446	1,008

Non-controlling interest relates primarily to PAB GmbH, Frankenthal, and the interests it holds, as well as to our companies in India and China. KSB AG holds a 51 % interest in PAB GmbH, while Klein Pumpen GmbH, Frankenthal, holds a 49 % interest.

Details of the changes in equity accounts and non-controlling interest are contained in the Statement of Changes in Equity.

The proposal on the appropriation of the net retained earnings of KSB AG calculated in accordance with *HGB* is shown at the end of these Notes.

Capital Disclosures

Adequate capital resources and sufficient financial independence are key requirements for sustainably increasing KSB's enterprise value and safeguarding the company's continued existence in the long term. Obtaining the necessary funds for ongoing business operations is also extremely important for us. In addition to order intake, sales revenue and the corresponding earnings, our key performance indicators are the return on sales before income taxes and our net financial position (the difference between interest-bearing financial assets on the one hand, and financial liabilities on the other). We regularly monitor the development of these indicators and manage them through active working capital management and by constantly optimising our financial structure, among other things.

We present the development of these indicators in the Group management report.

		2013	2012
Order intake	€ million	2,241.2	2,257.4
Sales revenue	€ million	2,247.3	2,268.2
Earnings before interest and taxes (EBIT)	€ million	136.2	150.4*
Earnings before taxes (EBT)	€ million	119.4	132.8*
Return on sales before taxes on income	%	5.3	5.9*
Net financial position	€ million	189.6	141.2

* Adjustment to reflect the retroactive amendment to IAS 19

7 Deferred tax liabilities

Explanations on deferred tax liabilities are presented under “Taxes on income”.

8 Provisions

The provisions disclosed in the balance sheet under current and non-current liabilities can be broken down as follows:

Changes (€ thousands)	1 Jan. 2013*	Changes in consolidated Group/CTA*/Other	Utilisation/Prepayments	Reversal	Additions	31 Dec. 2013
Employee benefits	527,406*	-2,952	-102,426	-20,206	120,333	522,155
Pensions and similar obligations	400,486**	-406	-16,524	-18,238	32,738	398,056
Other employee benefits	126,920***	-2,546	-85,902	-1,968	87,595	124,099
Taxes	11,438	-402	-15,835	-67	9,665	4,799
Taxes on income	10,169	-308	-15,172	-7	8,670	3,352
Other taxes	1,269	-94	-663	-60	995	1,447
Other provisions	90,194	-706	-52,673	-11,071	54,869	80,613
Warranty obligations and contractual penalties	48,540	-263	-28,216	-5,730	28,838	43,169
Miscellaneous other provisions	41,654	-443	-24,457	-5,341	26,031	37,444
	629,038*	-4,060	-170,934	-31,344	184,867	607,567

* Adjustment of € 129 million to reflect the retroactive amendment to IAS 19, of which ** € 130 million relates to the elimination of the corridor method and *** € -1 million to the new accounting rules for provisions for partial retirement schemes.

^ CTA = currency translation adjustments

Provisions for pensions and similar obligations

More than 95 % of the provisions for pensions result from defined benefit plans of the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also considered. This pension provision can be broken down into purely company-financed basic provision and the top-up provision from the employer. The latter is based on the amount of own contributions and the generated return on sales before taxes on income. Both components take account of the general pension contribution (the amount of which partially depends on company performance), personal income (the relationship between pensionable income and maximum income threshold) and the annuity conversion factor (based on age). These defined benefit plans impose actuarial risks on the Group, such as the risk of longevity and interest rate risk. The payments linked to pension obligations are paid from our liquid assets, without the need for specialist investment strategies to cover pension plan obligations. There are smaller benefit plans at certain foreign Group companies. At the US companies, there are post-employment medical care obligations

for employees. These are measured using comparable principles.

The amounts provided for these defined benefit obligations and the annual expense for pension benefits are measured and calculated each year on the basis of actuarial reports using the projected unit credit method (IAS 19).

The actuarial assumptions used at the Group companies are as follows:

in %	31 Dec. 2013		31 Dec. 2012	
	Germany	Other countries	Germany	Other countries
Discount rate	3.5	2.0 to 9.4	3.3	2.5 to 8.2
Assumed rate of salary increase	2.7	1.0 to 8.0	2.7	1.0 to 8.0
Assumed rate of pension increase	2.0	1.0 to 3.5	2.0	1.0 to 2.0

A mean fluctuation rate (2.0 %) continues to be applied to staff turnover for the German plans. The biometric assumptions are again based on the mortality tables [2005G *Richttafeln*] published by Prof. Klaus Heubeck, and the retirement age used for the calculations is based on the *Rentenversicherungs-Altersgrenzenanpassungsgesetz 2007 [RVAGAnpG – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System]*.

Other measurement parameters (e.g. cost trends in the medical care area) are not material.

CHANGES IN DBO (PRESENT VALUE OF THE OBLIGATION)

(€ thousands)	2013	2012
Opening balance at 1 January	400,486	280,151*
Current service cost	13,982	8,212
Interest cost	13,221	14,623
Employee contributions	5,566	3,708
Remeasurements		
–/+ Gain/loss from the change in demographic assumptions	1,251	–
–/+ Gain/loss from the change in financial assumptions	–16,308	107,204*
–/+ Experience-based gain/loss	–3,905	–11*
Benefit payments	–12,395	–13,020
Past service cost (incl. effects of settlements and curtailments)	101	–
Transfer of assets	–	–
Currency translation adjustments	–779	–158
Changes in consolidated Group/Other	–3,164	–223*
Closing balance at 31 December	398,056	400,486*

* Adjustment to reflect the retroactive amendment to IAS 19

The expected contributions in the following year are anticipated to amount to € 15,614 million.

The current service cost as well as actuarial gains and losses are recognised in staff costs under pension costs, and the interest cost is recognised in financial income/expense under interest and similar expenses.

Contributions totalling € 26,388 thousand (previous year: € 26,948 thousand) were paid to state pension insurance funds in the year under review.

The discount factor and future mortality were identified as key actuarial assumptions. Were the discount factor to increase by 100 basis points, the DBO would fall by € 58 million. A 100 basis point reduction in the discount factor would increase the DBO by € 77 million. It should be noted that a change to the discount factor due to particular financial effects (such as compound interest) does not affect the development of the DBO on a straight-line basis. Were life expectancy to increase by 1 year, the DBO would increase by € 14 million.

Additionally, the individual actuarial assumptions are mutually dependent, but these interdependencies are not taken into account in the sensitivity analysis.

On 31 December 2013 the weighted average term of the DBO was 20 years (previous year: 19 years). The following table shows the pension benefit payments expected over the coming years:

(€ millions)	2014	2015	2016	2017	2018
Expected payments	13,332	14,628	15,781	16,807	17,993

Other employee benefits

Provisions for other employee benefits relate primarily to profit-sharing, jubilee payments, compensated absence, partial retirement obligations and severance payments.

Tax provisions and other provisions

The tax liabilities shown contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received. The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers. The miscellaneous other provisions include provisions for anticipated losses from uncompleted transactions and onerous contracts (primarily from construction contracts in accordance with IAS 11 with gross amounts due to customers in the amount of € 2,939 thousand for 2013 and € 1,383 thousand for 2012), customer bonuses, accruing expenses (outstanding invoices) and environmental protection measures.

€ 30,216 thousand of other employee benefits and other provisions is non-current (previous year: € 35,016 thousand of which € -265 thousand resulting from the adjustment made to reflect the retroactive amendment to IAS 19). This relates mainly to provisions for jubilee payments, partial retirement and warranty obligations. As in the previous year, no compounding effects were incurred in the financial year.

9 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Financial liabilities		
Loan against borrower's note	174,682	180,597
Bank loans and overdrafts	28,507	24,638
Finance lease liabilities	1,374	1,352
Other	419	1,454
	204,982	208,041
Total non-current liabilities	204,982	208,041

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Financial liabilities		
Loan against borrower's note	6,000	–
Bank loans and overdrafts	54,325	54,060
Finance lease liabilities	533	703
Liabilities to other investments and associates	903	430
Other	12	14
	61,773	55,207
Trade payables		
Trade payables to third parties	198,693	193,564
Trade payables to other investments and associates	6,073	10,450
	204,766	204,014
Tax liabilities	23,645	22,047
Other liabilities		
Advances received from customers	69,625	94,054
Advances received from customers (PoC)	42,321	54,121
Social security and liabilities towards employees	27,074	20,473
Miscellaneous other liabilities	49,714	55,106
	188,734	223,754
Total current liabilities	478,918	505,022

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Total liabilities	683,900	713,063

To safeguard liquidity in the medium term, in 2009 KSB AG took the precaution of placing a loan against borrower's note worth € 100 million with a 3-year and 5-year maturity. This originally served to ensure the solvency of the company even in a protracted crisis situation. € 37.5 million was repaid before maturity in 2011, and € 56.5 million in 2012. Based on the favourable capital market conditions, we decided to place another loan against borrower's note with a total volume of € 175 million in December 2012. This loan is divided into repayment tranches of 3, 5, 7 and 10 years, and the interest rate is in part fixed and in part based on variable interest rate agreements. The residual obligation at year-end 2013 of both loans against borrower's note was thus € 181 million. As in the previous year, € 161 million of the liabilities arising from the loans against borrower's note are classified as bank loans and € 20 million as other financial liabilities.

Assets amounting to € 8,642 thousand (previous year: € 11,353 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities on the basis of standard terms and conditions. Of these, € 5,491 thousand (previous year: € 5,917 thousand) relate to property, plant and equipment, € 371 thousand (previous year: € 2,091 thousand) to inventories, € 981 thousand (previous year: € 669 thousand) to receivables and € 1,799 thousand (previous year: € 2,676 thousand) to cash and cash equivalents, as well as other securities.

€ 9,287 thousand (previous year: € 2,906 thousand) of the liabilities were secured by land charges or similar rights in the year under review.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 2.78 % (previous year: 2.82 %). Interest rate risk exists for the major portion of the loan against borrower's note mentioned above.

There were no covenant agreements for loans in the year under review, as was the case in the previous year too.

Miscellaneous other liabilities include changes in the fair value of hedging instruments amounting to € 897 thousand (previous year: € 2,134 thousand). € 92 thousand (previous year: € 600 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 2,843 thousand (previous year: € 1,298 thousand). This also includes investment grants and subsidies totalling € 4,666 thousand (previous year: € 4,962 thousand) received primarily for new buildings in Germany.

V. INCOME STATEMENT DISCLOSURES

10 Sales revenue

(€ thousands)	2013	2012
Revenue from the sale of goods and goods purchased and held for resale	2,005,969	2,047,277
Services sales revenue	241,362	220,934
	2,247,331	2,268,211

The impact of the percentage of completion method pursuant to IAS 11 and the breakdown of sales revenue by product group (pumps, valves and service) is presented in the segment reporting.

The companies that were fully consolidated for the first time accounted for € 27,103 thousand of the sales revenue. The sales revenue from smaller affiliates that have not yet been consolidated is not material.

11 Other income

(€ thousands)	2013	2012
Gains from asset disposals and reversals of impairment losses (write-ups)	1,487	2,371
Income from current assets (basically measurement effects concerning receivables)	3,822	7,233
Currency translation gains	2,125	1,218
Income from the reversal of provisions	13,412	11,488
Miscellaneous other income	23,722	22,006
	44,568	44,316

Miscellaneous other income relates primarily to commission income, rental and lease income, insurance compensation, grants and subsidies. Income from government grants for individual projects (for example, for research activities) amounted to € 3,230 thousand (previous year: € 3,386 thousand).

The companies that were fully consolidated for the first time accounted for € 1,765 thousand.

12 Cost of materials

(€ thousands)	2013	2012
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	832,465	918,594
Cost of purchased services	59,839	66,577
	892,304	985,171

The companies that were fully consolidated for the first time had no material impact on the cost of materials.

13 Staff costs

(€ thousands)	2013	2012
Wages and salaries	635,641	607,309*
Social security contributions and employee assistance costs	123,742	129,668
Pension costs	28,169	21,308**
	787,552	758,285*

* Adjustment of € 72 thousand to reflect the retroactive amendment to IAS 19, of which ** € 4 thousand relates to the elimination of the corridor method

Pension costs are reduced by the interest component of provisions for pensions and similar obligations, which is reported as an interest cost in financial income/expense. € 4,531 thousand was spent on defined contribution schemes in the year under review (previous year: € 4,427 thousand).

The companies that were fully consolidated for the first time accounted for € 16,171 thousand.

EMPLOYEES

	Average for the year		At reporting date	
	2013	2012	31 Dec. 2013	31 Dec. 2012
Wage earners	7,510	7,171	7,461	7,157
Salaried employees	8,556	8,458	8,557	8,463
	16,066	15,629	16,018	15,620
Apprentices	517	585	528	587
	16,583	16,214	16,546	16,207

The changes in the consolidated Group in the year under review led to an increase of 377 in the average number of employees over the year and to a rise of 365 in the total number at the reporting date.

14 Other expenses

(€ thousands)	2013	2012
Losses from asset disposals	653	361
Losses from current assets (basically measurement effects concerning receivables)	5,668	10,075
Currency translation losses	3,177	1,955
Other staff costs	27,586	22,615
Repairs, maintenance, third-party services	88,474	95,869
Selling expenses	91,282	90,920
Administrative expenses	92,243	92,768
Rents and leases	27,821	27,237
Miscellaneous other expenses	46,506	35,912
	383,410	377,712

Miscellaneous other expenses relate primarily to warranties, contractual penalties and additions to provisions.

The companies that were fully consolidated for the first time accounted for € 7,433 thousand.

15 Financial income / expense

(€ thousands)	2013	2012
Financial income	6,840	9,212
Income from equity investments	286	3,817
thereof from other investments	(286)	(2,027)
Interest and similar income	6,387	5,088
thereof from other investments	(58)	(145)
thereof from associates	(23)	(–)
Write-ups of financial assets	–	214
Income from the remeasurement of financial instruments	–	1
Other financial income	167	92
Financial expense	– 23,380	– 23,519
Interest and similar expenses	– 23,169	– 22,668
thereof to other investments	(–)	(– 3)
Write-downs of financial assets	– 110	– 740
Other financial expenses	– 101	– 111
Income / expense from investments accounted for using the equity method	3,459	–
Financial income / expense	– 13,081	– 14,307

Interest and similar expenses include the interest cost on pension provisions amounting to € 13,221 thousand (previous year: € 14,623 thousand). The improvement in financial income/expense is mainly attributable to higher interest income as a result of an increase in cash and cash equivalents as well as a decline in write-downs on financial assets. As in the previous year, the latter were mainly attributable to a smaller service company in Germany, which faced continued economic difficulties.

The companies that were fully consolidated for the first time basically had no material impact on financial income/expense.

The following information on the investments accounted for using the equity method is based on the most recently published annual financial statements in each case (without being adjusted in line with the size of KSB's investment):

(€ millions)	2013
Sales revenue	82.8
Earnings after income taxes	7.6
(€ millions)	
	31 Dec. 2013
Non-current assets	60.6
Current assets	57.2
Assets	117.8
Equity	57.0
Non-current liabilities	18.8
Current liabilities	42.0
Equity and liabilities	117.8

The non-recorded proportionate losses from the at-equity consolidation of associates totalled € 0.1 million and arose for the first time during the year under review.

16 Taxes on income

All income-related taxes of the consolidated companies and deferred taxes are reported in this item. Other taxes are reported in the income statement after other expenses.

(€ thousands)	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Effective taxes	45,187	44,555	44,555
Deferred taxes	-5,637	-2,053	-2,031
	39,550	42,502	42,524

€ 719 thousand (previous year: € 1,525 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 5,741 thousand (previous year: € 278 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Change in deferred tax assets	117	-14,584	-4,296
Change in deferred tax liabilities	1,858	-18,406	3,359
Change in deferred taxes recognised in balance sheet	1,975	-32,990	-937
Change in deferred taxes taken directly to equity	-7,295	30,617	-1,418
Changes in consolidated Group / Currency translation adjustments / Other	-317	320	324
Deferred taxes recognised in income statement	-5,637	-2,053	-2,031

ALLOCATION OF DEFERRED TAXES

(€ thousands)	Deferred tax assets			Deferred tax liabilities		
	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Non-current assets	2,564	2,013	2,013	34,974	34,659	34,659
Current assets	50,328	60,716	60,716	53,298	73,189	73,189
Non-current liabilities	50,244	54,027	15,477	156	146	195
Current liabilities	14,686	21,031	21,014	9,534	9,254	9,254
Tax loss carryforwards	4,274	5,570	5,570	–	–	–
Gross deferred taxes – before offsetting	122,096	143,357	104,790	97,962	117,248	117,297
Offset under IAS 12.74	–82,463	–103,607	–76,061	–82,463	–103,607	–76,061
Net deferred taxes – after offsetting	39,633	39,750	28,729	15,499	13,641	41,236

At the reporting date, deferred tax assets amounting to € 7,960 thousand (previous year: € 8,006 thousand, of which € 974 thousand due to adjustment to reflect the retroactive amendment to IAS 19) were recognised, whose realisation exclusively depends on the creation of future profit. Based on the planning figures available, we expect realisation to take place.

The taxes included under equity can be broken down as follows:

INCOME TAXES INCLUDED UNDER EQUITY

(€ thousands)	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Actuarial gains / losses under IAS 19	18,991	–107,193	–
Taxes on income	–5,935	32,031	–
Currency translation differences	–53,452	–13,891	–13,891
Taxes on income	–	–	–
Measurement of financial instruments	4,212	4,918	4,918
Taxes on income	–1,356	–1,425	–1,425
Other comprehensive income	–37,540	–85,560	–10,398

As in the previous year, the introduction of new local taxes had no effects in the year under review. Equally, changes in foreign tax rates did not have any material impact (€ 162 thousand) on the total tax expense, as was the case in the previous year.

In the case of net income from affiliates and other equity investments, withholding taxes incurred in connection with distributions and German taxes incurred are recognised as deferred taxes if these gains are expected to be subject to corresponding taxation, or there is no intention of reinvesting them in the long term.

We did not recognise deferred tax assets from loss carryforwards amounting to € 39,216 thousand (previous year: € 33,243 thousand). It is unlikely that there will be sufficient taxable profit available in the near future against which these deferred tax assets can be utilised. There were no deductible temporary differences for which no deferred tax assets would have to be set up.

RECONCILIATION OF INCOME TAXES

(€ thousands)	2013	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Earnings before taxes (EBT)	119,415	132,771	132,843
Calculated income taxes on the basis of the applicable tax rate (30 %, as in the previous year)	35,825	39,831	39,853
Differences in tax rates	1,128	320	320
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	701	863	863
Tax-exempt income / non-deductible expenses	-1,791	-786	-786
Prior-period taxes	5,022	-1,247	-1,247
Non-deductible foreign income tax	2,161	1,597	1,597
Investments accounted for using the equity method	-1,354	-	-
Other	-2,142	1,924	1,924
Current taxes on income	39,550	42,502	42,524
Current tax rate	33 %	32 %	32 %

The unchanged applicable tax rate of 30 % is a composite rate resulting from the current German corporation tax, solidarity surcharge and trade tax rates.

The first-time inclusion of fully consolidated companies had no material impact on the taxes on income.

17 Earnings after income taxes – Non-controlling interest

The non-controlling interest in net profit amounts to € 14,501 thousand (previous year: € 15,802 thousand), and the non-controlling interest in net loss amounts to € 318 thousand (previous year: € 153 thousand). These relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

The companies that were fully consolidated for the first time did not have any material impact on the earnings after income taxes attributable to non-controlling interests.

The amendment to IAS 19 had no impact on the non-controlling interest in the previous year.

18 Research and development costs

Research and development costs in the year under review amounted to € 47,400 thousand (previous year: € 45,046 thousand).

The companies that were fully consolidated for the first time did not have any impact on research and development costs.

19 Earnings per share

		2013	2012
Earnings after income taxes – Attributable to KSB AG shareholders	€ thousands	65,682	74,620*
Additional dividend – attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	–225	–225
	€ thousands	65,457	74,395*
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		1,751,327	1,751,327
Diluted and basic earnings per ordinary share	€	37.38	42.48*
Diluted and basic earnings per preference share	€	37.64	42.74*

* Adjustment of € –50 thousand to reflect amendment to IAS 19 (corresponds to € –0.03 for earnings per ordinary share and € –0.03 for earnings per preference share), of which € –3 thousand relates to the elimination of the corridor method

The first-time inclusion of fully consolidated companies did not have any material impact on earnings per share.

VI. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The changes in the consolidated Group did not have any material impact on below disclosures on financial instruments.

Financial instruments – Carrying amounts and fair values by measurement category:

ASSETS

Balance sheet item / Class (€ thousands)	Measure- ment category	Initial / subsequent measurement	Carrying amount 31 Dec. 2013	Fair value 31 Dec. 2013	Carrying amount 31 Dec. 2012	Fair value 31 Dec. 2012
Non-current assets						
Other investments	AfS	Fair value / Historical cost	7,154	7,154	37,968	37,968
Non-current financial instruments	AfS	Fair value	650	650	712	712
Loans	LaR	Fair value / Amortised cost	2,628	2,628	140	140
Current assets						
Trade receivables	LaR	Fair value / Amortised cost	474,717	474,717	481,900	481,900
Receivables from other investments and associates	LaR	Fair value / Amortised cost	18,489	18,489	16,937	16,937
Receivables recognised by PoC, net	LaR	Fair value / Amortised cost	85,934	85,934	130,737	130,737
Other receivables and other current assets	LaR	Fair value / Amortised cost	27,138	27,138	25,740	25,740
Derivatives included in hedging relationships	n / a	Fair value	4,036	4,036	2,545	2,545
Derivatives not included in hedging relationships	FAHfT	Fair value	2,636	2,636	864	864
Current financial instruments	AfS	Fair value	–	–	–	–
Cash and cash equivalents	LaR	Fair value / Amortised cost	451,438	451,438	401,031	401,031

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Measure- ment category	Initial / subsequent measurement	Carrying amount 31 Dec. 2013	Fair value 31 Dec. 2013	Carrying amount 31 Dec. 2012	Fair value 31 Dec. 2012
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	203,608	191,462	206,689	195,934
Finance lease liabilities	n / a	In accordance with IAS 17	1,374	1,374	1,352	1,352
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	61,240	61,240	54,504	54,504
Finance lease liabilities	n / a	In accordance with IAS 17	533	533	703	703
Trade payables	FLAC	Fair value / Amortised cost	204,766	204,766	204,014	204,014
Advances received from customers (PoC)	LaR	Fair value / Amortised cost	42,321	42,321	54,121	54,121
Other liabilities – Miscellaneous	FLAC	Fair value / Amortised cost	41,308	41,308	46,712	46,712
Derivatives included in hedging relationships	n / a	Fair value	591	591	1,499	1,499
Derivatives not included in hedging relationships	FLHfT	Fair value	306	306	635	635
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	1,018,023	1,018,023	1,002,364	1,002,364
Available-for-sale financial instruments	AfS	Fair value	650	650	712	712
Available-for-sale financial instruments	AfS	Fair value / Acquisition cost	7,154	7,154	37,968	37,968
Financial assets held for trading	FAHfT	Fair value	2,636	2,636	864	864
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	510,922	498,776	511,919	501,164
Financial liabilities held for trading	FLHfT	Fair value	306	306	635	635

The fair value of the measurement category “Loans and receivables” changed by € 15,659 thousand during the reporting period (previous year: € 120,335 thousand), with the “Financial liabilities at amortised cost” category changing by € –2,388 thousand (previous year: € 128,047 thousand).

The carrying amounts and fair values of all financial assets measured at amortised cost are identical. This also applies to finance lease liabilities, trade payables and other liabilities. This is mainly due to the short maturities of these financial instruments.

In the case of financial liabilities excluding finance lease liabilities, the fair values are determined as the present value of the cash flows associated with the liabilities. We apply an appropriate yield curve to arrive at this present value.

The fair values of the current and non-current financial instruments presented in the table above are based on prices quoted in active markets. The fair values of derivatives included and not included in hedging relationships is determined on the basis of input factors observable either directly (as a price, level 1) or indirectly (derived from prices, level 2). Level 3 includes financial instruments whose fair value is determined on the basis of inputs not based on observable market data. Foreign exchange derivatives are measured using forward exchange rates. For interest rate swaps the fair value is determined through the discount rate of future expected cash flows based on the market interest rates and yield curves that apply to the remaining term of the contracts.

The following table shows the financial assets and liabilities measured at fair value on a recurring basis, broken down into measurement categories and the previously described hierarchy levels. There were no reclassifications carried out during the year under review.

PRESENTATION OF HIERARCHY LEVELS OF FAIR VALUE 2013

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Other Investments	–	–	7,154	7,154
Financial Instruments	650	–	–	650
Derivatives	–	6,672	–	6,672
Financial liabilities recognised at fair value				
Derivatives	–	897	–	897

The following table shows the reconciliation from the opening balance to the closing balance for fair values within level 3.

FAIR VALUES CATEGORISED WITHIN LEVEL 3

(€ thousands)	Total
Balance at 1 Jan. 2013	37,968
Disposal due to new materiality assessment of equity investments	-33,018
Additions (basically from capital increases)	578
Write-down due to impairment (financial expense)	-90
Currency translation differences (loss in other comprehensive income)	-77
Change in fair value (measurement of financial instruments in other comprehensive income)	1,793
Balance at 31 Dec. 2013	7,154

Fair values within level 1 are determined from the capital market quotations.

Fair values within level 2 are determined based on a discounted cash flow method. Future cash flows from currency forwards are estimated on the basis of forward exchange rates (observable rates on the reporting date) and the contracted forward exchange rates, and are discounted with an adequate interest rate. Future cash flows from interest rate swaps are estimated on the basis of forward interest rates (observable interest structure curves on the reporting date) and the contracted interest rates, and are discounted with an adequate interest rate.

A measurement model that determines the discounted cash flows of earnings before income taxes was used as the basis for determining the fair value within level 3. The weighted average cost of capital (WACC between 7.9 % and 11.3 %) is based on the interest for risk-free 30-year Bunds and takes into account the market risk premium and country risk premium as well as the taxation situation of the country where the company is located. Growth rates were not estimated. Sensitivity to the weighted average cost of capital of 5 % would not lead to significantly different results.

The net results from financial instruments, after taking into account the relevant tax effect, are presented in the following table:

NET RESULTS BY MEASUREMENT CATEGORY IN 2013

(€ thousands)	From interest and dividends	From subsequent measurement			From disposal	Net results
		At fair value	Currency translation	Impairment losses		
LaR	6,387	-	-611	-2,913	-	2,863
AfS	303	1,775	-	-95	-	1,983
FAHfT / FLHfT	-	2,106	-	-	-	2,106
FLAC	-9,108	-	39	-	-	-9,069
	-2,418	3,881	-572	-3,008	-	-2,117

NET RESULTS BY MEASUREMENT CATEGORY IN 2012

(€ thousands)	From interest and dividends	From subsequent measurement			From disposal	Net results
		At fair value	Currency translation	Impairment losses		
LaR	5,068	–	–290	–1,581	–	3,197
AfS	3,837	28	–	–526	–	3,339
FAHfT / FLHfT	–	1,271	–	–	–	1,271
FLAC	–6,649	–	161	–	–	–6,488
	2,256	1,299	–129	–2,107	–	1,319

The interest presented above is a component of financial income/expense; the other gains and losses are partly reported in other income and other expenses.

The AfS measurement category resulted in a remeasurement loss of € 18 thousand (previous year: gain of € 28 thousand), which was recognised directly in equity. In the year under review, € –5 thousand (previous year: zero) was withdrawn from equity or realised.

Financial risks

We are exposed to certain financial risks as a consequence of our business activities. These risks can be classified into three areas:

On the one hand, we are exposed to credit risk. We define credit risk as potential default or delays in the receipt of contractually agreed payments. We are also exposed to liquidity risk, which is the risk that an entity will be unable to meet its financial obligations, or will be unable to meet them in full. Finally, we are exposed to market risk. The risk of exchange rate or interest rate changes may adversely affect the economic position of the Group. Risks from fluctuations in securities prices are not material for us.

We limit all of these risks through an appropriate risk management system. We define how these risks are addressed through guidelines and work instructions. In addition, we monitor the current risk characteristics continuously and regularly provide the information obtained in this way to the Board of Management and the Supervisory Board in the form of standardised reports and individual analyses.

The three risk areas are described in detail in the following. Additional information is also provided in the group management report, in particular in the Economic Review, Report on Expected Developments, Opportunities and Risks Report sections.

Credit Risk

The primary credit risk is that there is a delay in settling a receivable, or that it is not settled either in full or in part. We minimise this risk using a variety of measures. As a matter of principle, we run credit checks on potential and existing counterparties. We only enter into business relationships if the results of this check are positive. Additionally, our European companies in particular take out trade credit insurance policies. In exceptional cases we accept other securities (collateral) such as guarantees. The insurance policies primarily cover the risk of loss of receivables. Moreover, we also take out cover against political and commercial risks in the case of certain customers in selected countries. For both types of insurance, we have agreed deductibles, which represent significantly less than 50 % of the insured volume. As part of our receivables management system, we continuously monitor outstanding items, perform maturity analyses and establish contact with customers at an early stage if delays in payment occur. In the case of major projects, our terms and conditions provide for prepayments, guarantees and – for export transactions – letters of credit. These also mitigate risk. Impairment losses are recognised for the residual risk remaining in trade receivables. We examine regularly the extent to which individual receivables need to be written down for impairment. Indications of this are significant financial difficulties of the debtor, such as insolvency or bankruptcy. We also cover the credit risk of receivables that are past due by providing for the risk involved on the basis of historical loss experience. Receivables are derecognised if it is reasonably certain that receipt of payment cannot be expected (for example, after completion of insolvency or bankruptcy proceedings).

Impairment losses on “Trade receivables” are the only material impairment losses in the KSB Group. They changed as follows:

(€ thousands)	2013	2012
Opening balance at 1 January	32,232	33,513
Additions	6,305	6,988
Utilised	-4,344	-2,802
Reversals	-2,645	-5,419
Changes in consolidated Group / Currency translation adjustments / Other	-1,211	-48
Closing balance at 31 December	30,337	32,232

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Receivables that are neither past due nor individually impaired	372,433	371,040
Receivables that are past due but not individually impaired		
1 to 30 days	43,360	48,980
31 to 90 days	28,999	29,347
91 to 180 days	12,419	15,953
>180 days	8,276	9,114
Total	93,054	103,394
Receivables individually determined to be impaired	9,230	7,466
Receivables individually determined to be impaired at their principal amount	39,567	39,698
Specific write-downs	30,337	32,232
Carrying amount (net)	474,717	481,900

With regard to the trade receivables that are neither past due nor individually impaired, there are no indications at the reporting date that our debtors will not meet their payment obligations. The same applies to all other financial instruments.

The maximum default risk, excluding collateral received, corresponds to the carrying amount of the financial assets.

There is no concentration of risk because the diversity of our business means that we supply a considerable number of customers in different sectors.

Liquidity Risk

Our liquidity management ensures that we minimise this risk in the Group and that our solvency is ensured at all times. There are no concentrations of risk because we work together with a number of credit institutions, on which we impose strict creditworthiness requirements.

We generate our financial resources primarily from our operating business. We use them to finance investments in non-current assets. We also use them to cover our working capital requirements. To keep these as low as possible, we monitor changes in our receivables, inventories and liabilities regularly using a standardised Group reporting system.

The reporting system additionally ensures, with the help of monthly rolling cash flow planning, that the Group's centralised financial management is continuously informed about liquidity surpluses and requirements. This enables us to optimally meet the needs of

the Group as a whole and of the individual companies. For selected companies we use a cash pooling system to ensure that available cash is deployed optimally within the Group. We also apply a worldwide receivables netting procedure within the KSB Group so as to minimise both the volume of cash flows and the associated fees. In order to be able to provide the necessary collateral in the project business, corresponding guarantee volumes are made available. Adequate proportions are confirmed for a period of more than one year. In addition, we always ensure that credit facilities are sufficient; we identify the need for these on the basis of regular liquidity plans. In this way we can react to fluctuating liquidity requirements at all times. Our approved cash loans and credit lines total approximately € 979 million (previous year: approx. € 973 million), of which € 671.2 million has not yet been utilised (previous year: € 661.7 million).

The following tables present the contractual undiscounted cash flows of primary and derivative financial liabilities. Interest payments on fixed-rate liabilities are determined on the basis of the fixed rate. Floating-rate interest payments are based on the last floating interest rates fixed before 31 December. Net payments on derivatives result both from derivatives with negative fair values and from derivatives with positive fair values. Projections for future new liabilities are not included in the presentation. Based on our current state of knowledge, it is neither expected that the cash flows will take place significantly earlier, nor that the amounts will deviate significantly.

CASH FLOWS OF FINANCIAL LIABILITIES 2013

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	290,068	78,149	141,630	70,289
Trade payables	204,766	204,439	327	–
Other liabilities	41,308	34,525	6,783	–
Derivative financial instruments	4,784	5,267	–525	42
	540,926	322,380	148,215	70,331

CASH FLOWS OF FINANCIAL LIABILITIES 2012

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	291,664	61,314	153,070	77,280
Trade payables	204,014	203,190	824	–
Other liabilities	46,712	42,643	4,069	–
Derivative financial instruments	423	1,307	–883	–1
	542,813	308,454	157,080	77,279

Market Price Risk

Our global business activities expose us primarily to currency and interest rate risk. Any changes in market prices can affect fair values and future cash flows. We use sensitivity analyses to determine the hypothetical impact of such market price fluctuations on profit and equity. In doing so, we assume that the portfolio at the reporting date is representative for the full year.

We reduce the risks resulting from changes in prices on the procurement side for orders with extended delivery dates by agreeing cost escalation clauses or, in the case of fixed-price contracts, by including the expected rate of cost increases in our sales price.

Currency risk mainly affects our cash flows from operating activities. It arises when Group companies settle transactions in currencies that are not their functional currency. We minimise this risk using currency forwards and, on rare occasions, options. You will find further information on this in the “Derivative financial instruments” section of the Notes. We use micro hedges with regard to both transactions already recognised and cash flows that are expected in the future with a high degree of probability. The hedging instruments used share the essential terms and conditions with the underlying transactions, i.e. with regard to amount, term and quality. Internal guidelines govern the use of financial instruments. Such transactions are also subject to ongoing risk control measures. The hedging instruments used are exclusively highly effective currency forwards entered into with prime-rated banks. In order to measure the effectiveness of our hedges, the market values of the underlying and the hedge transactions are compared. Changes in the market values of the derivatives are offset by changes in the fair values of the cash flows from the underlyings. As a rule, we do not hedge foreign exchange risks from the translation of foreign operations into the Group currency (€).

One of the most significant foreign currencies in the KSB Group is the USD. The volume of trade receivables denominated in USD is around € 41 million (previous year: approx. € 52 million). Trade payables denominated in USD total around € 15 million (previous year: € 13 million).

For the currency sensitivity analysis, we simulate the effects based on the notional volume of our existing foreign currency derivatives and our foreign currency receivables and liabilities at the reporting date. For the analysis, we assume a 10 % increase (decrease) in the value of the euro versus the other currencies.

At the reporting date, equity and the fair value of the derivatives would have been € 11.0 million lower (higher) in this scenario; € 9.3 million results from USD and € 1.7 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 12.4 million lower (higher); € 9.7 million would result from USD and € 2.7 million from the other currencies.

The hypothetical impact on earnings in the year under review would have been a decrease (an increase) of € 3.5 million. € 1.2 million would have been attributable to USD and € 2.3 million to the other currencies. The hypothetical impact on earnings in the previous year would have been a decrease (an increase) of € 0.7 million. € – 1.0 million would have been attributable to USD and € 1.7 million to the other currencies.

We regularly monitor the interest rate risks associated with our financing activities. To avoid the negative effects of interest rate fluctuations on the international capital markets, we conclude interest rate hedges (interest rate swaps) where necessary, generally for long-term loans. These are used exclusively to hedge floating rate loans against rising interest rates.

As part of our interest rate sensitivity analysis, we simulate a 100 basis point increase (decrease) in market interest rates, with an interest rate of 0 % being the lower limit, however, and analyse the impact on the floating rate financial instruments. In 2013, the net interest balance would have been € 3.8 million (previous year: € 1.7 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 1.8 (1.6) million (previous year: € 2.4 (1.8) million).

VII. CASH FLOW STATEMENT

In the cash flow statement, cash flows are classified by operating, investing and financing activities. Effects of changes in the consolidated Group and in exchange rates are eliminated in the relevant items. The effect of exchange rate changes (based on annual average rates) and changes in the consolidated Group on cash and cash equivalents is presented separately.

Cash flows from operating activities include a “cash flow” subtotal that merely comprises the net profit for the year; depreciation, amortisation and impairment losses as well as reversals of impairment losses; changes in non-current provisions; and non-cash effects, for example, of the disposal of fixed assets. This subtotal is combined with the changes in the other operating components of assets (including current financial instruments) and liabilities to determine cash flows from operating activities. Only those changes that are recognised in the income statement are taken into account.

Cash flows from investing activities exclusively reflect cash-effective acquisitions and disposals of investments in intangible assets; property, plant and equipment; and non-current financial assets.

In addition to cash flows resulting from equity items (capitalisation measures and dividend payments), cash flows from financing activities comprise cash flows arising from changes in financial receivables and liabilities.

The funds included in the cash flow statement correspond to the balance sheet item “Cash and cash equivalents”.

If cash and cash equivalents include restricted cash, this is reported separately.

Cash flows from operating activities include cash flows from interest received amounting to € 6,387 thousand (previous year: € 5,088 thousand) and cash flows from income taxes totalling € –51,689 thousand (previous year € –45,257 thousand). Cash flows from investing activities include cash flows from dividends received of € 286 thousand (previous year: € 3,817 thousand). Cash flows from financing activities include interest expense of € –9,130 thousand (previous year: € –6,674 thousand).

The retroactive amendment to IAS 19 has resulted in the following adjustments within the statement of cash flows:

(€ thousands)	2012 after amendment to IAS 19	2012 before amendment to IAS 19
Earnings after income taxes	90,269	90,319
Increase in non-current provisions	6,268	6,196
Increase in trade receivables and other assets	–18,656	–18,634

The adjustments did not have any impact on the cash flows from operating, investing and financing activities. This also applies to cash and cash equivalents.

VIII. SEGMENT REPORTING

Segment reporting corresponds to our internal organisational and management structure, as well as the reporting lines to the Board of Management and the Supervisory Board. In our matrix organisation management decisions are primarily taken on the basis of the key performance indicators – order intake, external sales revenue and earnings before income taxes (EBIT) – determined for the Pumps, Valves and Service Business Units. Reporting the relevant assets, number of employees and inter-segment sales revenue for these Business Units is not part of our internal reporting. The managers in charge of the Business Units, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess our options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with our Sales organisation and Operations.

The **Pumps** product group covers single- and multistage pumps, submersible pumps and associated control and drive systems. Applications include process engineering, building services, water and waste water transport, energy conversion and solids transport.

The **Valves** product group covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. Applications primarily include process engineering, building services, energy conversion and solids transport.

The **Service** product group covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves; as well as modular service concepts and system analyses for complete systems.

The amounts disclosed for the individual segments have been established in compliance with the accounting policies of the underlying consolidated financial statements.

Transfer prices for intercompany sales are determined on an arm's length basis.

There were no discontinued operations in the year under review, as in the comparable period of the previous year.

The **order intake** of the Business Units by segment presents order intake generated with third parties and non-consolidated Group companies. The order intake figure is reported voluntarily and does not form part of the audited consolidated financial statements.

The **external sales revenue of the Business Units by segment** presents sales revenue generated with third parties and non-consolidated Group companies. The effects from measuring construction contracts in accordance with IAS 11 are presented separately as reconciliation effects.

The segment results show **earnings before interest and taxes (EBIT)**, including non-controlling interests. The effects from measuring construction contracts in accordance with IAS 11 are also presented separately as reconciliation effects.

(€ thousands)	Order intake		External sales revenue		EBIT	
	2013	2012	2013	2012	2013	2012
Business Unit Pumps	1,453,275	1,490,898	1,526,192	1,517,097	105,220	91,268*
Business Unit Valves	386,976	392,013	372,507	385,614	7,301	8,792
Business Unit Service	400,941	374,444	402,270	368,223	42,708	50,669
Reconciliation	–	–	–53,638	–2,723	–19,032	–378
Total	2,241,192	2,257,355	2,247,331	2,268,211	136,197	150,351*

* Adjustment of € –72 thousand to reflect retroactive amendment to IAS 19, of which € –4 thousand relates to the elimination of the corridor method

The EBIT of the Business Unit Pumps includes impairments of € 39.0 million (previous year: € 37.2 million), the EBIT of the Business Unit Valves includes impairments of € 10.5 million (previous year: € 10.6 million) and the EBIT of the Business Unit Service includes impairments of € 10.8 million (previous year: € 11.6 million).

€ 599,895 thousand (previous year: € 662,056 thousand) of the sales revenue presented was generated by the companies based in Germany and € 1,647,436 thousand (previous year: € 1,606,155 thousand) by the other Group companies.

There were no relationships with individual customers that accounted for a material proportion of Group sales revenue.

At the reporting date, the total non-current assets of the KSB Group amounted to € 457,851 thousand (previous year: € 477,805 thousand), with € 181,386 thousand (previous year: € 190,679 thousand) being attributable to the companies based in Germany and € 276,465 thousand (previous year € 287,126 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

IX. OTHER DISCLOSURES

The changes in the consolidated Group did not have any material impact on the other disclosures.

Contingent liabilities (contingencies and commitments)**CONTINGENT LIABILITIES AND COLLATERAL**

(€ thousands)	2013	2012
Liabilities from guarantees	3,451	5,364
Liabilities from warranties	3,998	6,813
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	3,652	1,903
	11,101	14,080

Other contingent liabilities include € 740 thousand for tax items. At present, there are no indications that any claims will be asserted under these obligations.

OPERATING LEASES

(€ thousands)	Minimum lease payments	
	2013	2012
Due within one year	14,955	14,984
Due between one and five years	24,648	19,936
Due after more than five years	8,597	4,285
	48,200	39,205

In the year under review, € 14,984 thousand was spent.

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

(€ thousands)	Minimum lease payments		Present values	
	2013	2012	2013	2012
Due within one year	567	769	533	703
Due between one and five years	1,273	1,202	1,222	1,115
Due after more than five years	165	312	152	237
	2,005	2,283	1,907	2,055

Finance leases relate almost entirely to real estate. The term of the contract covers most of the useful life of the asset concerned.

The annual obligations from IT services agreements amount to € 32,911 thousand (previous year: € 44,623 thousand) over a term of one to five years.

As in the previous year, there are no purchase price obligations from acquisitions of companies and no payment obligations from capitalisation measures at Group companies.

The aggregate purchase obligation for investments (principally items of property, plant and equipment) amounts to € 12,462 thousand (previous year: € 11,823 thousand). Almost all of the corresponding payments are due in 2014.

Related party disclosures

Related parties as defined in IAS 24 are natural persons and companies that can be influenced by KSB AG or that can exert an influence on KSB AG.

Pursuant to section 21(1) of the *WpHG* [*Wertpapierhandelsgesetz* – German Securities Trade Act], *KSB Stiftung* [KSB Foundation], Stuttgart, as the top-level parent company, notified us on 21 May 2008 that its voting interest in KSB AG, Frankenthal/Pfalz exceeded the 75.00 % threshold on 5 May 2008 and amounted to 80.24 % (711,453 voting shares) on this date. 0.54 % of the voting rights (4,782 voting shares) were held directly by *KSB Stiftung*, Stuttgart, and 79.70 % (706,671 voting shares) were attributed to *KSB Stiftung*, Stuttgart, pursuant to section 22(1), sentence 1, No. 1 of the *WpHG*. The voting rights attributed to *KSB Stiftung*, Stuttgart, were held by Klein Pumpen GmbH, Frankenthal.

A rental and services agreement has been entered into between KSB AG and Klein Pumpen GmbH. This resulted in the recognition of expenses of € 24 thousand (previous year: € 24 thousand) and income of € 12 thousand (previous year: € 19 thousand) at KSB AG in the year under review. Liabilities to Klein Pumpen GmbH as at 31 December 2013 amounted to € 18 thousand (previous year: € 37 thousand).

All transactions are entered into on an arm's length basis. This is also demonstrated by the dependent company report prepared in accordance with section 312 of the *AktG* [*Aktiengesetz* – German Public Companies Act].

Disclosures and information on affiliates and investments accounted for using the equity method provided in other section of these Notes refer to relations covering the supply of products and services on an arm's length basis, unless stated otherwise.

Pursuant to IAS 24, the remuneration of key management personnel of the Group must be disclosed.

The following table contains the relevant figures for the KSB Group with regard to the remuneration paid to members of the Board of Management:

(€ thousands)	31 Dec. 2013	31 Dec. 2013
Short-term benefits (total remuneration)	1,890	2,620
Post-employment benefits	1,566	2,133
Total	3,456	4,753

Based on the relevant legal provisions, the Annual General Meeting on 19 May 2010 resolved not to disclose the remuneration of the Board of Management separately for each member and classified by components.

€ 30,103 thousand (previous year: € 30,270 thousand) has been provided for pension obligations to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 1,699 thousand in the year under review (previous year: € 1,770 thousand).

The short-term benefits (total remuneration) paid to members of the Supervisory Board amount to € 1,219 thousand for the 2013 financial year (previous year: € 1,409 thousand).

The members of the Supervisory Board and the Board of Management are listed before the presentation of the proposal on the appropriation of the net retained earnings of KSB AG.

Auditors

On 15 May 2013, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, was appointed as auditors and group auditors for the financial year 2013 by the Annual General Meeting of KSB AG. The following fees (including expenses) were recognised as expenses.

(€ thousands)	31 Dec. 2013	31 Dec. 2012
Audit fees	413	412
Other certification services	–	4
Tax advisory services	–	–
Other services	50	57
Total fees	463	473

The audit fees include costs for the audit of the consolidated financial statements and of the statutory annual financial statements of KSB AG and the German subsidiaries included in the consolidated financial statements. The fees for other certification services primarily include attestation services outside of the audit of the annual financial statements. The fees for other services mainly include fees for project-specific consultancy services.

Use of exemption option

KSB Service GmbH, Frankenthal and KSB Service GmbH, Schwedt have made partial use of the exemption provision under section 264 (3) *HGB*.

Events after the reporting period

There were no reportable events after the reporting date.

German Corporate Governance Code

The Board of Management and Supervisory Board of KSB AG issued the current statement of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 of the *AktG* [*Aktiengesetz* – German Public Companies Act]. The statement of compliance is published on our web site (www.ksb.com) and has thus been made permanently accessible.

Notes

List of Shareholdings

LIST OF SHAREHOLDINGS

AFFILIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.
National				
1	B&C Pumpenvertrieb Köln GmbH, Cologne	Germany	100.00	
2	Dynamik-Pumpen GmbH, Stuhr	Germany	100.00	
3	KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	100.00	
4	KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	100.00	
5	KSB Service GmbH, Frankenthal	Germany	100.00	
6	KSB Service GmbH, Schwedt	Germany	100.00	
7	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	51.00	
8	PMS-BERCHEM GmbH, Neuss	Germany	100.00	
9	Pumpen-Service Bentz GmbH, Reinbek	Germany	100.00	
10	Uder Elektromechnik GmbH, Friedrichsthal	Germany	100.00	
International				
11	AMRI, Inc., Houston / Texas	USA	10.03	53
			89.97	19
12	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	100.00	29
13	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	100.00	
14	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	100.00	29
15	DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	28
16	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa	100.00	46
17	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	19
18	Hydoskepi GmbH, Amaroussion (Athens)	Greece	100.00	
19	KSB America Corporation, Richmond / Virginia	USA	100.00	7
20	KSB AMVI, S.A., Madrid	Spain	100.00	29
21	KSB Australia Pty.Ltd., Tottenham (Melbourne)	Australia	100.00	29
22	KSB Belgium S.A., Wavre	Belgium	100.00	29
23	KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	29
24	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	95.00	
25	KSB Chile S.A., Santiago	Chile	100.00	
26	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	100.00	29
27	KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	
28	KSB Finance Nederland B.V., Zwanenburg	The Netherlands	100.00	29
29	KSB Finanz S.A., Echternach	Luxembourg	100.00	
30	KSB Finland Oy, Kerava	Finland	100.00	
31	KSB, Inc., Richmond / Virginia	USA	100.00	19
32	KSB Italia S.p.A., Milan	Italy	100.00	29
33	KSB ITUR Spain S.A., Zarautz	Spain	100.00	12
34	KSB Korea Ltd., Seoul	South Korea	100.00	
35	KSB Limited, Hong Kong	China	100.00	
36	KSB Limited, Loughborough	United Kingdom	100.00	29

No.	Name and seat of company	Country	Capital share in %	Held by No.
37	KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya	Malaysia	100.00	64
38	KSB Middle East FZE, Dubai	U.A.E.	100.00	29
39	KSB Mörck AB, Gothenburg	Sweden	55.00	
40	KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	28
41	KSB New Zealand Limited, Albany / Auckland	New Zealand	100.00	21
42	KSB Norge AS, Ski	Norway	100.00	
43	KSB Österreich Gesellschaft mbH, Vienna	Austria	100.00	29
44	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	99.00	29
45	KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	100.00	
46	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	51
47	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
48	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
49	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	29
50	KSB Pumps Limited, Pimpri (Pune)	India	40.54	13
51	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	29
52	KSB-Pumpy+Armatury s.r.o., concern, Prague	Czech Republic	100.00	
53	KSB S.A.S., Gennevilliers (Paris)	France	100.00	29
54	KSB Seil Co., Ltd., Busan	South Korea	100.00	
55	KSB Service Belgium S.A./N.V., Wavre	Belgium	100.00	22
56	KSB Service Centre-Est S.A.S., Villefranche sur Saône	France	100.00	53
57	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	53
58	KSB Service Est S.A.S., Algrange	France	100.00	53
59	KSB SERVICE ETC S.A.S., Chalons-sur-Saône	France	100.00	62
60	KSB Service Italia S.r.l., Scorzè	Italy	100.00	32
61	KSB SERVICE MEDIATEC S.A.S., Chalons-sur-Saône	France	100.00	62
62	KSB Service Robinetterie S.A.S., Rambervillers	France	100.00	53
63	KSB Shanghai Pump Co. Ltd., Shanghai	China	80.00	29
64	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
65	KSB Szivattyú és Armatura Kft., Budapest	Hungary	100.00	
66	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
67	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
68	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
69	KSB Valves (Shanghai) Co. Ltd., Shanghai	China	100.00	
70	KSB Válvulas Ltda., Jundiaí	Brazil	100.00	23
71	KSB VIET NAM CO., LTD., Long Thanh District	Vietnam	100.00	64
72	KSB Zürich AG, Zurich	Switzerland	100.00	
73	Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula	Finland	100.00	30
74	MD Invest, Déville lès Rouen	France	100.00	62
75	Metis Levage S.A.S., Villefranche sur Saône	France	100.00	53
76	MIL Controls Limited, Annamanada	India	49.00 51.00	50
77	Nederlandse Pompservice (N.P.S.) B.V., Velsen Noord	The Netherlands	100.00	40
78	OOO "KSB", Moscow	Russia	100.00	4
79	Precision Pump and Machine-KSB, Inc., Bakersfield / California	USA	100.00	19

Notes
Shareholdings

No.	Name and seat of company	Country	Capital share in %	Held by No.
80	PT. KSB Indonesia, Cibitung, Jawa Barat	Indonesia	100.00	29
81	PUMPHUSET Sverige AB, Sollentuna	Sweden	100.00	39
82	REEL s.r.l., Ponte di Nanto	Italy	100.00	
83	Rotary Equipment Services Limited, Loughborough	United Kingdom	100.00	36
84	SISTO Armaturen S.A., Echternach	Luxembourg	52.85	29
85	SMEDEGAARD AG Pumpen und Motorenbau, Beinwil am See	Switzerland	100.00	90
86	Smedegaard Pumps Limited, Bridgwater	United Kingdom	100.00	90
87	Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen	France	100.00	74
88	SPI Energie S.A.S., La Ravoire	France	100.00	53
89	Standard Alloys Incorporated, Port Arthur /Texas	USA	100.00	19
90	T. Smedegaard A/S, Glostrup	Denmark	80.00	
91	VM Pumpar AB, Västra Frölunda	Sweden	100.00	90
92	VRS Industries SA, Feluy	Belgium	100.00	22
93	VRS Valve Reconditioning Services B.V., Vierpolders	The Netherlands	100.00	40

ASSOCIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity € thousands	Net profit / loss for the year € thousands
National						
94	Nikkiso-KSB GmbH, Bruchköbel	Germany	50.00		2,885	404 •
International						
95	KSB Atlantic Pump & Valve Service S.L., Las Palmas de Gran Canaria	Spain	47.00	5	–	– 150 •
96	KSB Pumps Arabia Ltd., Ryadh	Saudi Arabia	50.00	29	5,069	4,396 •
97	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		1,876	1,290 •
98	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		1,343	1,449 •
99	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		14,990	91 •
100	WM Teknikk AS, Ski	Norway	34.00	42	455	95 •

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COMPANIES NOT CONSOLIDATED BECAUSE OF IMMATERIALITY – AFFILIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity € thousands	Net profit / loss for the year € thousands	
National							
101	gear-tec GmbH, Eggebek	Germany	51.00		999	-173	■
International							
102	IOOO "KSB BEL", Minsk	Belarus	100.00	78	279	203	
103	KSB Algérie Eurl, Dar El-Beida (Algiers)	Algeria	100.00	29	586	-70	■
104	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		431	176	■
105	KSB črpalko in armature d.o.o., Ljubljana	Slovenia	100.00		-131	-246	■
106	KSB Ltd., Tokyo	Japan	100.00		-1,134	-367	
107	KSB Perú S.A., San Isidro	Peru	100.00		110	-191	■
108	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	53	426	154	■
109	KSB Pumpe i Armature d.o.o. Beograd, Belgrad	Serbia	100.00	105	58	-83	■
110	KSB pumpe i armature d.o.o., Zagreb	Croatia	100.00	105	-90	-192	■
111	KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	70.00		251	-157	■
112	KSB Service Suciba, S.L.U., Sondika	Spain	100.00	12	674	195	■
113	KSB TESMA AG, Amaroussion (Athens)	Greece	59.74	18	1,483	-10	■
114	KSB Viosen AG, Patras	Greece	60.28	18	294	-19	■
115	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	108	-208	-92	■
116	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	78	36	-96	
117	TOV "KSB Ukraine", Kiev	Ukraine	100.00	78	130	-87	

■ Prior-period figures

SUPERVISORY BOARD

Dr. Wolfgang Kühborth, Dipl.-Ing., Frankenthal
(Honorary Chairman of the Supervisory Board)

Klaus Kühborth, Dipl.-Wirtsch. Ing., Frankenthal
Managing Director of Klein Pumpen GmbH
(Chairman of the Supervisory Board since 15 May 2013)

Dr. Hans-Joachim Jacob, Dipl.-Kfm., Munich
(on the Supervisory Board until 15 May 2013)
Auditor, Management Consultant
(Chairman of the Supervisory Board until 15 May 2013)

Alois Lautner, Lathe Operator, Kirchenthumbach
Deputy Chairman of the Pegnitz Works Council
(Deputy Chairman of the Supervisory Board since 15 May 2013)

Karlheinz Leitgeb, Industrial Foreman, Pegnitz
(on the Supervisory Board until 15 May 2013)
Former Chairman of the European Works Council,
former Deputy Chairman of the General Works Council and
Chairman of the Pegnitz Works Council
(Chairman of the Supervisory Board until 15 May 2013)

Dr. Martin Auer, Mannheim¹⁾
Head of Corporate Legal, Compliance, Procurement and Logistic Services
MVV Energie AG

Dr.-Ing. Stephan Bross, Freinsheim
Head of Corporate Unit Pumps, KSB AG

Reiner Euler, Engineering Technician, Grünstadt
(on the Supervisory Board until 15 May 2013)
Member of the European Works Council,
Chairman of the General Works Council
and the Frankenthal Works Council

Dr. Jörg Matthias Großmann, Dipl.-Kfm., Grobhesselohe²⁾
Management / CFO
Freudenberg Chemical Specialities SE & Co. KG

Prof. Dr. Michael Hoffmann-Becking, Lawyer, Düsseldorf³⁾
(on the Supervisory Board since 15 May 2013)
Hengeler Mueller Partnerschaft von Rechtsanwälten

René Klotz, NC Programmer, Frankenthal
(on the Supervisory Board since 15 May 2013)
Deputy Chairman of the Frankenthal Works Council

Wolfgang Kormann, Hand Moulder, Pegnitz
(on the Supervisory Board since 15 May 2013)
Member of the European Works Council,
Deputy Chairman of the General Works Council,
Chairman of the Pegnitz Works Council

Sigrid Maurer, Insurance Trader, Neustadt / Weinstraße
Trade Union Secretary of IG Metall Ludwigshafen-Frankenthal

Dr.-Ing. Hermann Nestler, Regensburg
Former Managing Director of BSH Bosch und Siemens
Hausgeräte GmbH

Dr. Thomas Seeberg, Dipl.-Kfm., Icking⁴⁾
Former Managing Director of OSRAM GmbH

Volker Seidel, Electrical and Electronics Installer, Münchberg
1. Delegate of IG Metall Ostoberfranken

Mandates of KSB Supervisory Board members in the Supervisory Board / Board of Directors of other companies

¹⁾ PALATINA Versicherungsvermittlungsgesellschaft mbH, Frankenthal, Germany
MVV Energie CZ a.s., Prague, Czech Republic
Stadtwerke Ingolstadt Beteiligungs GmbH, Ingolstadt, Germany

²⁾ Klüber Lubrication München SE & Co. KG, Munich, Germany
Klüber Lubrication India Pvt. Ltd., Bangalore, India
FCS Holding Inc., Wilmington, USA
Chem-Trend Holding LP, Wilmington, USA
Externa Holding S.R.L., Milan, Italy

³⁾ Delton AG, Bad Homburg, Germany (until 16 April 2013)
Rheinbahn AG, Düsseldorf, Germany
Hella KGaA Hueck & Co., Lippstadt, Germany
Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main, Germany
Rheinisch-Bergische Verlagsgesellschaft mbH, Düsseldorf, Germany
Felix Schoeller Holding GmbH & Co.KG, Osnabrück, Germany
Stihl Holding AG & Co.KG, Waiblingen, Germany

⁴⁾ Alte Leipziger Lebensversicherung a.G., Oberursel (Taunus), Germany
Hallesche Krankenversicherung a.G., Stuttgart, Germany
Alte Leipziger Holding AG, Oberursel (Taunus), Germany
Member of the Board of Trustees of WTS-Stiftung für Altersversorgung, Munich, Germany

BOARD OF MANAGEMENT

The Corporate Units, Staff Functions and Regions are assigned to the members of the Board of Management as follows:

Board of Management collectively: Strategy, the Regions Europe Central (incl. Germany), Europe West (incl. France) and China

Dr. rer. pol. Wolfgang Schmitt (Chairman), Bad Dürkheim, Germany¹⁾
Service, Valves, External Accounting, Communications
and Investor Relations

Dr.-Ing. Peter Buthmann (Human Resources Director),
Frankenthal, Germany²⁾
Technology, Production, Sales, Human Resources, the Regions Europe
(excl. Europe Central and Europe West), South Asia and North America

Werner Stegmüller, Mering, Germany
(on the Board of Management since 1 Jan. 2014)
Processes, Group Controlling, Regional Finance, Purchasing, IT,
Legal and Compliance, Internal Audits, the Regions India,
Americas South and Middle East/Africa

Prof. Dr.-Ing. Dieter-Heinz Hellmann, Frankenthal, Germany³⁾
(on the Board of Management until 31 Dec. 2013)
Technology and Internal Audits

Mandates of the KSB Board of Management members in the Board of Directors of KSB companies

- ¹⁾ KSB Finanz S.A., Echternach, Luxembourg
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa
Canadian Kay Pump Limited, Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri (Pune), India
KSB Singapore (Asia Pacific) Pte Ltd, Singapore
KSB ITUR Spain S.A., Zarautz, Spain
- ²⁾ SISTO Armaturen S.A., Echternach, Luxembourg
DP industries B.V., Alphen aan den Rijn, The Netherlands
KSB Finanz S.A., Echternach, Luxembourg
KSB Shanghai Pump Co. Ltd., Shanghai, China
- ³⁾ GIW Industries, Inc., Grovetown / Georgia, USA
KSB Shanghai Pump Co. Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil

Notes

Board of Management

Proposal on the Appropriation of the Net Retained Earnings

PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 14 May 2014 that the net retained earnings of € 24,342,969.55 of KSB AG, containing retained earnings brought forward of € 204,605.10, be appropriated as follows:

Distribution of a dividend of € 12.00 per ordinary no-par-value share	€ 10,639,380.00
and, in accordance with the Articles of Association, € 12.26 € per preference no-par-value share	€ 10,601,369.12
Appropriation to revenue reserves	€ 3,000,000.00
<hr/>	
Total	€ 24,240,749.12
Carried forward to new account	€ 102,220.43
<hr/>	
	€ 24,342,969.55
	<hr/> <hr/>

Frankenthal, 14 March 2014
The Board of Management

The annual financial statements of KSB AG were prepared in accordance with German accounting principles. They are published in the *Bundesanzeiger* (German Federal Gazette). The annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.

ECONOMIC RESPONSIBILITY

Lower energy consumption, higher operating reliability, longer service life: KSB has revised its Magnochem series. The latest generation of the mag-drive pump offers industrial customers exceptional value for money.





“Customers now have a range of 52 sizes of Magnochem pump to choose from. This means they can select the most energy-efficient pump for their particular field of application.”



Miriam Nagler
Order Management Process Engineering Pumps

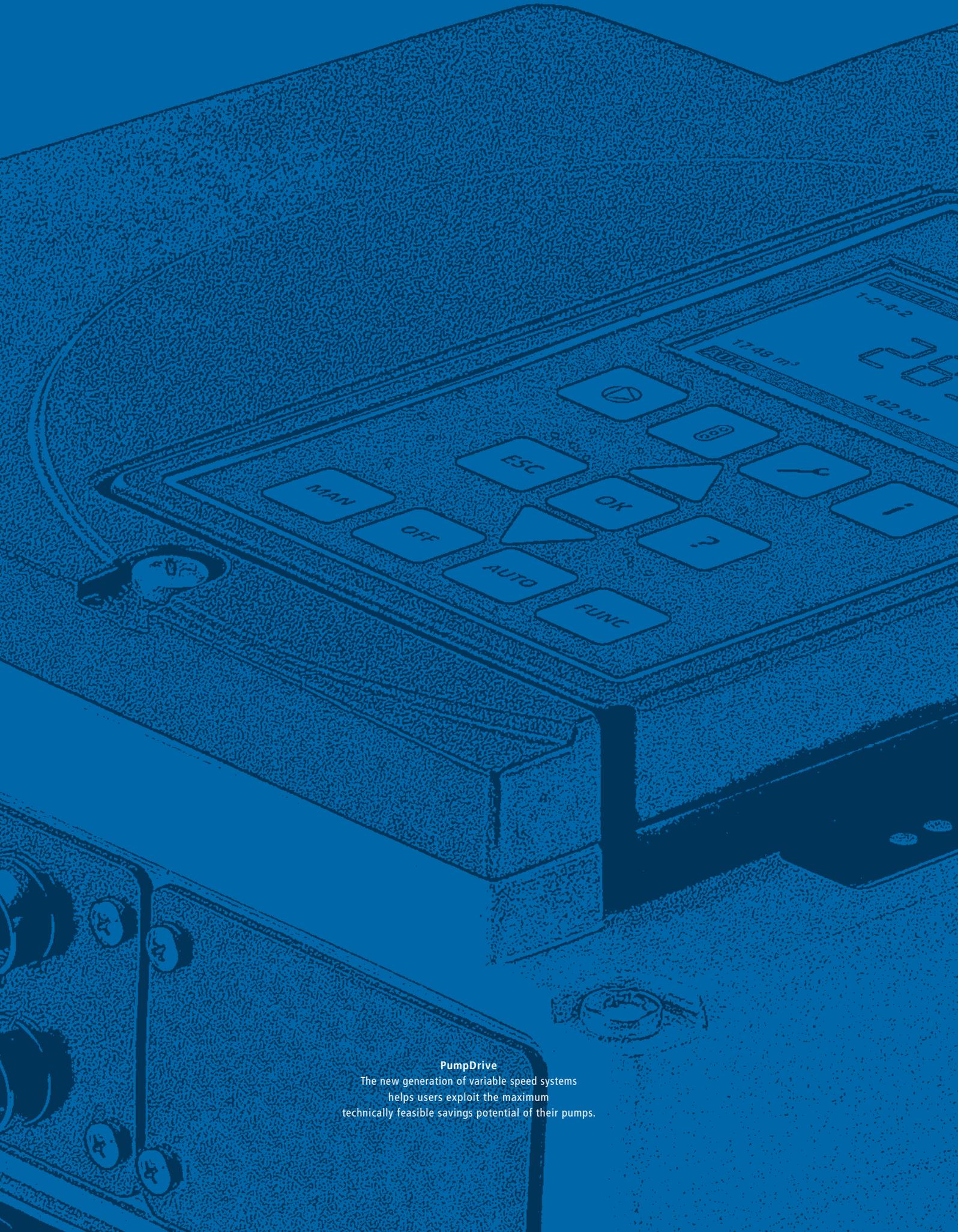


Magnochem mag-drive pumps can handle fluids at temperatures of up to 300 °C.

RELIABLE ENERGY SAVING

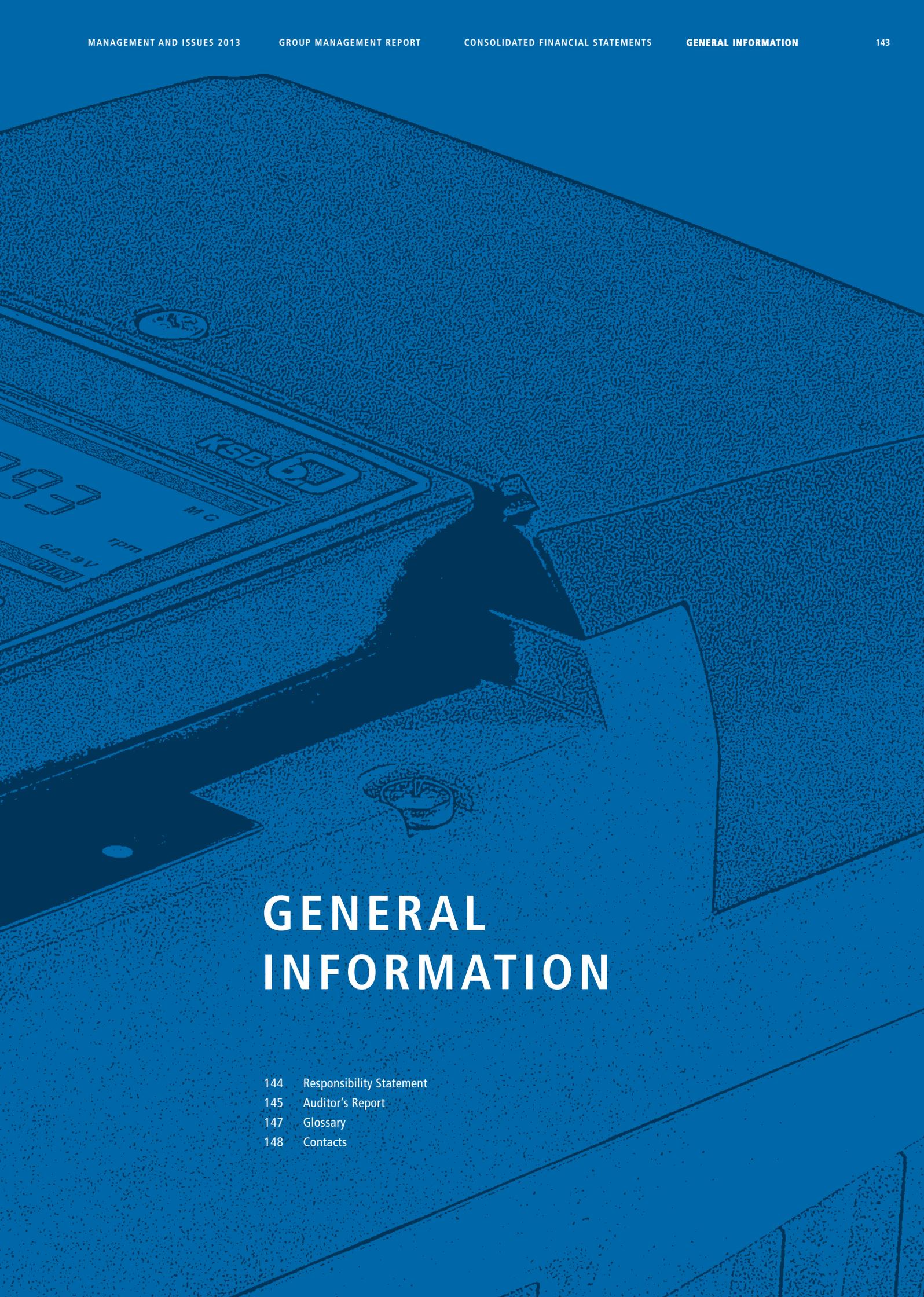
Chemical industrial plants consume electricity, and vast quantities of electricity at that. And because energy is expensive, their operators are permanently under huge pressure to keep costs down. Against this tough background, the new generation of Magnochem mag-drive pumps offers a particularly economic way of transporting liquids. Suitable for use in chemical plants and refineries, the pumps can be used to convey aggressive, toxic, combustible and hot substances not just extremely safely but also with a very low level of energy consumption. An improved hydraulic system, diamond-coated plain bearings and low vibration levels during operation also make the pump exceptionally reliable, avoiding expensive, unplanned downtimes.

KSB engineers have not restricted this combination of energy efficiency and maximum operating reliability to the new generation of Magnochem pumps. These characteristics also apply to additional pump series launched onto the market by KSB in 2013 and developed in line with the principle of "more performance per pump". This means that customers can now often select a smaller and thus more cost-effective pump than would have previously been possible. This is a further selling point for decision-makers who rate technical performance and economic efficiency as their top criteria.



PumpDrive

The new generation of variable speed systems helps users exploit the maximum technically feasible savings potential of their pumps.



GENERAL INFORMATION

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RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankenthal, 14 March 2014

The Board of Management

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KSB Aktiengesellschaft, Frankenthal (Pfalz), comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a(1) *HGB* [*Handelsgesetzbuch* – German Commercial Code] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the *HGB* and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [*IDW* – Institute of Public Auditors]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial reporting information of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a(1) of the *HGB* and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 20 March 2014

BDO AG
Wirtschaftsprüfungsgesellschaft

Dyckerhoff
Wirtschaftsprüfer

Dr. Rosien
Wirtschaftsprüfer

GLOSSARY

ABBREVIATIONS

ANSI

American National Standards Institute

BRIC countries

Group of emerging countries with high economic growth. BRIC is an acronym of the capital letters of Brazil, Russia, India and China.

IMF

International Monetary Fund, a specialised agency of the United Nations with headquarters in Washington D.C.

VDMA

Verband Deutscher Maschinen- und Anlagenbau e. V. [German Engineering Federation]

KEY CORPORATE AND TECHNICAL TERMS

Bus system

A wiring system that transfers data between a number of technical devices

Variable speed system

An electrotechnical or hydraulic system that adjusts the pump speed to match the required flow rate and discharge head

Triple-offset design

Butterfly valve design principle that allows easy actuation even at high operating pressures

Ferrofluids

Fluids that can be magnetised as they contain metal nanoparticles

Frequency inverter

A device that can be used to change the available mains frequency

Green electricity

Synonym for electricity produced from renewable energy sources like wind or solar power

Integrated Management System

KSB's Integrated Management System combines Quality, Environmental, Occupational Health and Safety, Energy and Sustainability Management in a harmonised structure and ensures compliance with the relevant requirements.

KSB Care

Aid fund of Asian KSB companies that supports educational institutions

Repowering

In biogas generation: Fitting new mixers in biomass-filled digesters with the aim of improving efficiency

Retrofit

Modernisation of installed systems or components, often aimed at extending their service life, increasing efficiency or complying with new legislation

Energy-efficient motor technology

An umbrella term for various physical principles that can be used to reduce the power consumption of electric motors

UN Global Compact

A global initiative for businesses and organisations launched by the United Nations with the aim of shaping social and ecological globalisation

Submersible borehole pump

Pump set, predominantly used in wells, with an electric drive whose rotor and stator are immersed in liquid

CONTACTS

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 on the KSB Group at: www.ksb.com

Should you need additional information,
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CONCEPT AND DESIGN

KSB Communications (CC), Frankenthal
 3st kommunikation, Mainz

PHOTOGRAPHY

Robert Kwiatek (CC), Frankenthal
 Getty Images (p. 35, p. 138)
 Maren Becker (p. 24)

PRINTING

Ottweiler Druckerei und Verlag GmbH, Ottweiler



As a signatory to the United Nations Global Compact , KSB is committed to endorsing the ten principles of the international community in the areas of human rights, labour standards, environmental protection and anti-corruption.

GLOBAL PRESENCE

KSB manufactures its products on five continents. With production and assembly sites and a close-knit global sales and service network, KSB staff are always close at hand when customers need to pump or reliably shut off fluids.

- KSB production / assembly sites
- KSB sales / service sites

GLOBAL PRESENCE

EUROPE

- Austria
- Belarus
- Belgium
- Croatia
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Italy
- Luxembourg
- Norway
- Poland
- Portugal
- Russia
- Serbia
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- The Netherlands
- Turkey
- Ukraine
- United Kingdom

MIDDLE EAST / AFRICA

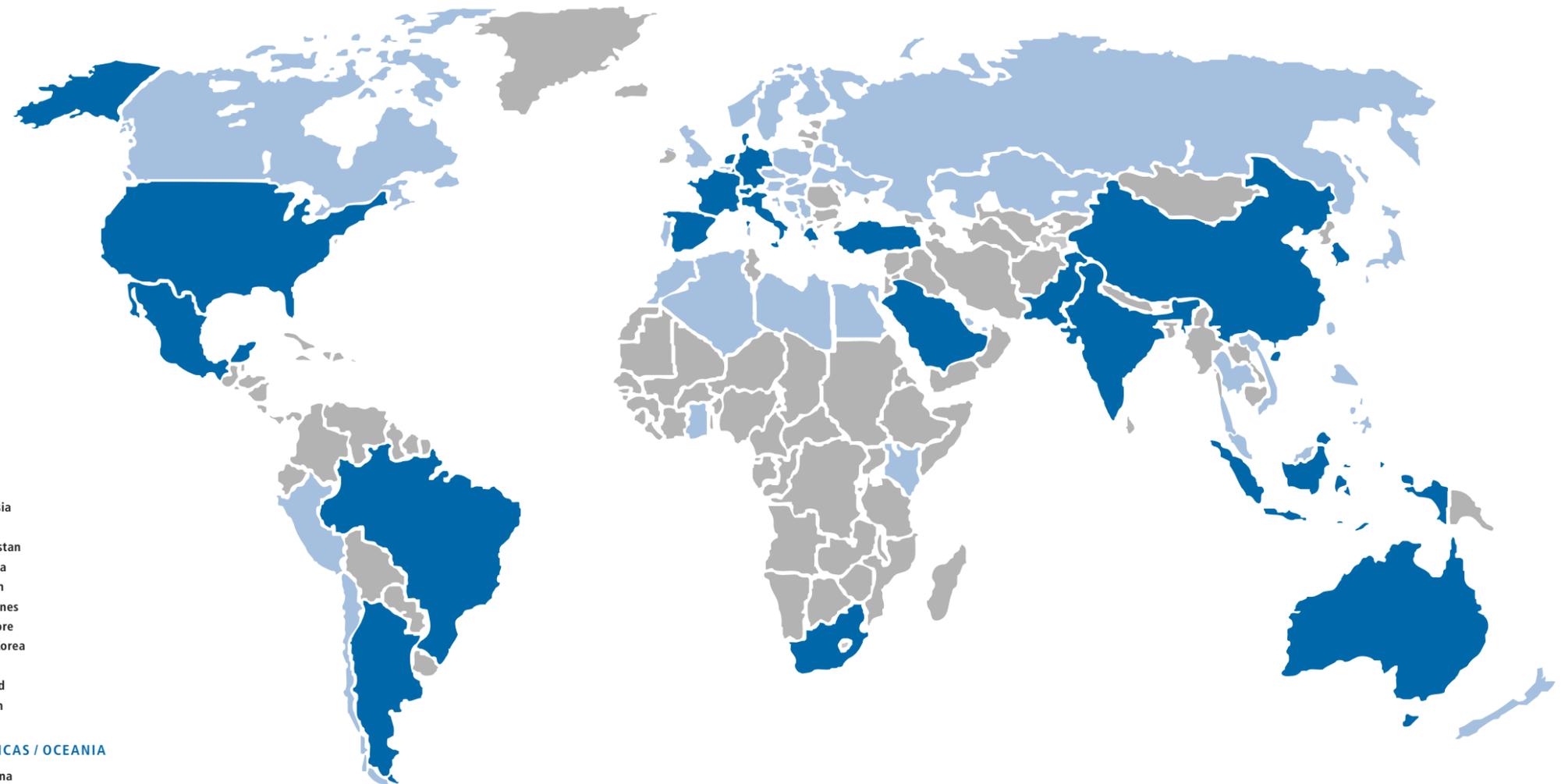
- Algeria
- Egypt
- Ghana
- Kenya
- Libya
- Morocco
- Qatar
- Saudi Arabia
- South Africa
- United Arab Emirates

ASIA

- China
- India
- Indonesia
- Japan
- Kazakhstan
- Malaysia
- Pakistan
- Philippines
- Singapore
- South Korea
- Taiwan
- Thailand
- Vietnam

AMERICAS / OCEANIA

- Argentina
- Australia
- Brazil
- Canada
- Chile
- Mexico
- New Zealand
- Peru
- USA



FINANCIAL CALENDAR

27 MARCH 2014

Financial Press Conference

10:00, Frankenthal

1 APRIL 2014

Invitation to Annual General Meeting

29 APRIL 2014

Interim report

January – March 2014

14 MAY 2014

Annual General Meeting

15:00, Frankenthal

13 AUGUST 2014

Half-year financial report

January – June 2014

13 NOVEMBER 2014

Interim report

January – September 2014



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