KSB Group

Annual Report 2014

Cover:
Cellular surface wear rings for multistage high-pressure pumps

GROUP FINANCIAL HIGHLIGHTS

BUSINESS DEVELOPMENT AND EARNINGS

		2014	2013	2012	2011	2010
Order intake	€ m	2,321.2	2,241.2	2,257.4	2,132.3	2,075.0
Sales revenue	€ m	2,181.7	2,247.3	2,268.2	2,091.0	1,939.3
Earnings before interest and taxes (EBIT)	€ m	88.6	136.2	150.4*	133.4	148.9
Earnings before income taxes (EBT)	€ m	72.6	119.4	132.8*	120.5	135.8
Earnings after income taxes	€ m	46.2	79.9	90.3*	83.3	90.0
Cash flow	€ m	124.3	142.3	156.9*	137.0	148.5

BALANCE SHEET

		2014	2013	2012	2011	2010
Balance sheet total	€ m	2,277.7	2,151.5	2,188.0*	1,974.1	1,861.3
Fixed assets	€ m	622.6	591.2	602.0	560.5	515.3
Capital expenditure	€ m	85.1	57.1	91.4	93.5	72.8
Depreciation and amortisation expense	€ m	66.2	60.2	58.6	51.0	48.1
Current assets	€ m	1,568.5	1,520.6	1,546.2	1,389.2	1,329.2
Equity (incl. non-controlling interests)	€ m	829.2	844.5	832.2*	869.1	825.6
Equity ratio (incl. non-controlling interests)	%	36.4	39.3	38.0*	44.0	44.4

PROFITABILITY

		2014	2013	2012	2011	2010
Return on sales	%	3.3	5.3	5.9*	5.8	7.0
Return on equity	%	8.7	14.2	15.6*	14.2	17.6
Return on capital employed	%	4.3	6.6	7.5*	7.4	8.9

EMPLOYEES

		2014	2013	2012	2011	2010
Number of employees at 31 Dec.		16,309	16,546	16,207	15,674	14,697
Staff costs	€ m	785.5	787.6	758.3*	698.0	649.8

SHARES

		2014	2013	2012	2011	2010
Market capitalisation at 31 Dec.	€ m	735.7	804.3	769.4	741.0	1,051.2
Earnings per ordinary share (EPS)	€	21.74	37.38	42.48*	40.95	44.09
Earnings per preference share (EPS)	€	22.00	37.64	42.74*	41.21	44.35
Dividend per ordinary share	€	8.50	12.00	12.00	12.00	12.00
Dividend per preference share	€	8.76	12.26	12.26	12.26	12.26

* Adjustment to reflect the retroactive amendment to IAS 19

PRODUCTS AND SERVICES

KSB pumps and valves are used in applications where fluids need to be transported or reliably shut off. Their efficient and reliable operation is taken care of by specialists in 160 service centres offering inspection, servicing, maintenance, repairs and consultancy services. The most important fields of application for our products are:

INDUSTRY

BUILDING SERVICES

WATER ENGINEERING

WASTE WATER ENGINEERING

ENERGY SUPPLY

MINING

Technology meets performance. In a world shaped by complex technology, pumps and valves perform vital functions. Their smooth and efficient operation is crucial if diverse systems in industry and power plant engineering, water and waste water management, building services and mining are to achieve their optimum performance. This demands the kind of top-flight technology expected by KSB's customers and provided across the globe by highly qualified staff. Their shared mission: to ensure their customers' success via outstanding products and services. In striving to achieve this vision, KSB continues to develop ground-breaking technical solutions as demonstrated by the three examples in this report.

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BOARD OF MANAGEMENT

Dipl.-Kfm Werner Stegmüller

joined the Board of Management on 1 January 2014. His responsibilities include Finance and Accounting, Controlling, Communications, Investor Relations, IT, Legal & Compliance, Patents & Trademarks, Internal Audits and the Service segment.

Dr.-Ing. Peter Buthmann

has been on the Board of Management since 1 January 2007. He is responsible for Technology, Production, Sales, Purchasing and Human Resources, as well as Pumps and Valves. He is also Human Resources Director.

The two members of the Board of Management are jointly responsible for strategy and the Regions.

Dear shareholders and business partners,

Since mid-2014, KSB has been managed by a smaller Board of Management comprising just two members. Part of this arrangement, which is new to KSB, involves us integrating the first management level below the Board, composed of experienced and very knowledgeable managers, more strongly into Group decision-making. Together, we have already adopted landmark changes to our Sales and Production. These will have an impact on our business figures as of the current year.

The good and the bad were never far apart during the 2014 reporting year. On the good side was our order intake, with significant growth of + 3.6 %, boosted by a slight increase in project business. However, due to the long terms of many customer projects and negative currency effects, sales revenue was unable to rise in the same way and dipped by 2.9 %. To this extent, we did not meet our own expectations. This similarly applies to consolidated earnings before income taxes, which were well down on the previous year at € 72.6 million. Apart from weak sales revenue, contributory factors included continued intense pressure on prices in some markets, as well as non-recurring and restructuring costs.

The 2014 sales revenue and earnings situation was the trigger that led us to introduce a rapid and long-term course correction, both structurally and strategically. During the past year we therefore initiated a series of far-reaching measures designed to generate higher profitability and stable growth.

Our priority, from an economic perspective, is to achieve an appropriate return. To do so, we must cut our costs at various different structural levels, and this is what we are doing.

NEW PRODUCTION AND PRODUCT RANGE CONCEPTS

One of the key levers in making long-term improvements to our cost structure lies in our realigning of the global KSB manufacturing network. This involves bringing together similar production tasks and defining remits more precisely.

We are achieving this through a global site concept whose implementation begins in 2015. In order to link up the work being done at our production sites more effectively while also making it more efficient, each plant is being assigned a specific functional profile. This defines its role within the global network for the coming years. In this way, we consolidate similar production tasks on a regional basis.

We are also looking to make our product world less complex. As part of this process we are getting rid of type series that, technically, can be replaced with better products, thereby cutting our structural costs. In 2014, for instance, 77 type series were removed from our range, with a further 95 being earmarked for the current year. In this way we are ensuring that our customers across the world have access to state-of-the-art products, while the sale of such products generates a positive contribution to earnings.

THREE SALES CHANNELS FOR BETTER CUSTOMER SERVICE

To have long-term success you need to look after your customers, ensuring that you can deliver the products and services they need quickly. Customer surveys have confirmed to us time and time again that our expert advice ranks among the best in the world. However, the need for technical expertise or ongoing support differs greatly from one category of buyers to the next.

Since 2014 we have been working to respond to this with a new sales system that takes better account of the needs of different customer groups, from plant engineering contractors to wholesalers and end users. Today, we use three separate distribution channels for the project business, general business and installed base business. Having a separate approach for plant operators is a new aspect, which helps us recognise and fulfil their requirements for services, spare parts and new products more quickly than in the past.

STRATEGY UPDATE OPENS UP NEW FIELDS OF ACTION

How can KSB enjoy profitable growth over the long term? To answer this question, we have basically turned to our Group strategy presented in 2009. Yet the political and economic environment has changed dramatically in the intervening period. Events like the debt crisis in Europe, political distortions in the Middle East and the shift in energy policy after the Fukushima disaster have all had an impact on our business activity. As a result, we have been forced to reassess our strategic position.

As well as doing this, we have also begun to define our key fields of action for the future and the measures needed to tackle these. One such example is our greater focus on the growth markets of China and India with regard to our power engineering range. In future, most of our boiler feed and cooling water pumps will be manufactured there.

We will continue to use our Group strategy as a flexible tool to shape the future. In doing so, we need to face up to changes with the determination and resolve that have featured so strongly throughout our 143-year history. Using these virtues, we will move back onto our growth path and are confident that we can make rapid progress in the current year.

We trust that you, our shareholders and business partners, will continue to accompany us on this path.

Yours,

Dr. Peter Buthmann

Werner Stegmüller

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 in a comprehensive and timely manner about the position of the company, in particular its business, financial and staffing situation, planned investments, as well as relevant corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis. 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 all business transactions significant for the company 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. We adopted our resolutions on the reports and proposals by the Board of Management after thorough examination and discussion. 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 year under review, no conflicts of interest arose involving members of the Board of Management or the Supervisory Board that would have been subject to 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 the preparation of the strategy revision and the continued development of the corporate organisation. The analysis of business development in the segments and Regions represented an additional focus, as did major investment projects at various sites. We also dealt on an ongoing basis with the company's economic position and the prospects facing selected markets.

Four regular Supervisory Board meetings were held in financial year 2014. 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 examined in detail global service activities and their further expansion. Given the large number of acquisitions in recent years, our focus was on their systematic integration; in a few cases where there were structural difficulties, we decided to approve the Board of Management's proposal to sell the units concerned.

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 required to pursue these objectives were subjected to critical analysis before being approved and their implementation was monitored by us. In this context, the Supervisory Board approved further financial resources for the modernisation, in stages, of the foundry at the Pegnitz site in Germany. On several occasions, we reviewed the status of far-reaching expansion work at our US subsidiary GIW Industries, Inc. This project will take several years. In contrast, we expect the new production facilities at our La Roche-Chalais site in France to be commissioned on schedule before the end of the year. In order to obtain a major Chinese order for the supply of pumps, we had to comprehensively expand our local manufacturing facilities, as already reported on several occasions. Following completion of these measures, we received regular updates from the Board of Management on the progress of order processing. Successful implementation of this demanding project will strengthen KSB's market position over the long term. 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 ongoing changes in the energy sector, we continued to look at the impact these radical market movements are having on 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 relevant measures and their implementation. The main focus in this regard was the overall optimisation of production capacities within our international manufacturing network.

Repeatedly on the agenda was the development of our corporate organisation. We devoted particular attention to the continuation of the process launched in 2013 to realign our international and worldwide sales activities, bringing them closer into line with our customers' needs. In addition, we tackled the reduction in the number of Group companies; in addition to streamlining the communication paths, we hope this will also lead to lower administrative expenses. Another central focus of our work was the progress made in the continued development of our value-based corporate culture, with the Board of Management providing regular updates. The new staff evaluation and development system presented by the Board of Management in this context will create opportunities for the continuous improvement of performance, at both employee and company level.

In September the Supervisory Board convened for a meeting at the Bremen site. This meeting dealt in detail with the background to the unexpected weakening of the sales revenue and profit figures for the year under review: Both the negative effects of the overall economic environment and considerable non-recurring and restructuring costs played a role. As a result, we advocated a number of measures that we discussed with the Board of Management. Work

to update our strategic objectives, for example, was launched without delay, as a means of ensuring that the latest market developments can be depicted more accurately. At the meeting in Bremen, we also familiarised ourselves with the successful progression of business there and the modern technical plant. We also informed ourselves about selected products and functions of the Group. As mentioned above, at the December meeting we discussed the restructuring of our global production concept; further details will be worked out step by step. We also looked at business performance during the financial year and planning for 2015. In order to streamline the organisational structure of the Supervisory Board itself, we took the step of abolishing the Planning and Finance Committee with effect from the end of the year under review, integrating its remit into the work of the remaining committees. Some of these have been reorganised in terms of their composition and given stronger decision-making powers.

In order to perform its duties efficiently, the Supervisory Board worked with six committees in 2014. 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.

In the run-up to the election at the Annual General Meeting, on 14 May 2014, of new shareholder representatives to the Supervisory Board, the **Nomination Committee** prepared the Supervisory Board's nominations, convening once in the year under review for this purpose. In looking for and evaluating suitable candidates with the requisite expertise and experience of the industry, long-term succession planning is a key factor.

The **Planning and Finance Committee** met four times in the year under review. It focused on corporate and investment planning and the financial situation of the company. Faced with unexpected differences between current business development and the announced goals and targets, the Committee dealt in detail with options available for improving the relevant forecasting processes and for introducing appropriate operational countermeasures. The Committee welcomed the deliberations presented by the Board of Management.

The **Corporate Development Committee** deals with a changing range of key issues. In four meetings in the year under review, 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. The development of particular markets also figured on the agenda, as did tie-in measures during acquisitions. Questions in relation to the strategy revision were discussed. Talks continued on the optimised and reliable supply of castings to our production sites and on accompanying the measures initiated for this purpose. The heads

COMMITTEES OF THE SUPERVISORY BOARD

and their chairs,
as well as 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 (until 14 May 2014)
Dr. Thomas Seeberg (until 17 Sep. 2014)
Klaus Kühborth (until 31 Dec. 2014)
No. of meetings: 4

AUDIT COMMITTEE

Dr. Thomas Seeberg
No. of meetings: 4

PERSONNEL COMMITTEE

Klaus Kühborth
No. of meetings: 4

NOMINATION COMMITTEE

Prof. Dr. Michael Hoffmann-Becking
No. of meetings: 1

of the relevant specialist departments frequently took part in the committee meetings, along with the responsible members of the Board of Management.

The **Personnel Committee** held four meetings in the year under review. It 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 session with the committee acting 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 2014, the committee members again participated in events with staff from various management levels in an effort to foster a direct exchange of ideas. Account was also taken in this regard of the now greater entrepreneurial focus of the management level immediately below the Board of Management.

The four 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 examined the 2013 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 2014 financial statements. In addition, the 2014 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 2014 Annual General Meeting and commissioned them to carry out the audit of the

annual and consolidated financial statements for the 2014 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. During the auditor selection process for the current financial year, the committee reviewed the offers submitted and then made its recommendation to the Supervisory Board for the election of the auditor by the Annual General Meeting. 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 financial year under review to convene the **Mediation Committee** required by section 27(3) of the *MitbestG* [*Mitbestimmungsgesetz* – German Co-Determination Act].

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored developments in corporate governance standards throughout the financial 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 of the *HGB* [*Handelsgesetzbuch* – German Commercial Code]. On 17 September 2014 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. KSB Aktiengesellschaft complies with the Code's recommendations subject to a few exceptions.

AUDIT OF THE 2014 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 17 March 2015 as well as by the Supervisory Board plenary session on 25 March 2015 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 2014, 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 2014, which were prepared in accordance with the International Financial Reporting Standards (IFRSs), and the proposal by the Board of Management on the appropriation of net retained earnings.

The Frankfurt am Main office of BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2014, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2014, and issued an unqualified auditors' opinion. The key audit areas defined for the auditors by the Audit Committee for the year under review were: verification of impairment testing for financial investments and goodwill, particularly the validity of the measurement assumptions, and the proper accounting and presentation of restructuring measures. 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, and in particular the reduced dividend following the significantly lower net profit for the year, to be appropriate and concurs with it.

DEPENDENT COMPANY REPORT

The auditors also audited the dependent company report for the 2014 financial year prepared by the Board of Management in accordance with section 312 of the *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 long-standing Chair of the Board of Management, Dr. Wolfgang Schmitt, retired as planned on 30 June 2014. Dr. Hermann Nestler resigned from the Supervisory Board at the end of last year's Annual General Meeting, having reached the age limit. The Annual General Meeting elected Dr. Jost Wiechmann to succeed him. Ms Sigrid Maurer also retired from the Supervisory Board with effect from 31 December 2014 following many years' service. Ms Birgit Mohme was appointed a member of the Supervisory Board in her place by order of the *Amtsgericht* (Local Court) Ludwigshafen on 10 December 2014, effective as of 1 January 2015. The Supervisory Board would like to thank the retiring members for their many years of close cooperation.

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

Frankenthal, 25 March 2015

The Supervisory Board

A LOOK BACK AT 2014

Q1

MAJOR ORDER

KSB receives an order worth more than 30 million euros to equip the Yanbu 3 power plant, located on the Red Sea in Saudi Arabia, with high-pressure pumps. The plant will supply electricity to the west of the country from 2017 onwards.

INNOVATION AWARD

The British Pump Manufacturers' Association (BPMA) awards the Technical Innovation Of The Year prize to the SALINO Pressure Center. The first compact system for seawater desalination by reverse osmosis combines a high-pressure and booster pump and an electric motor and energy recovery system.

PUMP TEST FACILITY

SEC-KSB opens a new test stand for reactor coolant pumps in Lingang near Shanghai. Here, engineers test pump sets for power plant applications with flow rates of 30,000 cubic metres per hour at temperatures of up to 300 °C.

ENERGY EFFICIENCY

The German Industry Initiative for Energy Efficiency [*Deutsche Unternehmensinitiative Energieeffizienz e. V.* – DENEFF] awards the Perpetuum 2014 prize to KSB for its SuPremE synchronous reluctance motor in recognition of its innovative technology, which enables low power consumption.

NEW GENERATION

KSB introduces a new generation of the Etabloc close-coupled pump onto the market, which has been successful for decades. The extended selection chart with 43 sizes allows the pumps to be matched even more precisely to the most economical operating point in plants and systems.

WIDE RANGE OF VALVES

For the construction of an Indian steam power plant in Barh, KSB supplies 6,580 different gate, globe and swing check valves. The valves come from German and Indian plants.

Q2

NEW PRODUCTS AT THE TRADE FAIR

KSB presents product innovations at IFAT, the world's leading trade fair for water, sewage, waste and raw materials management, which is held in Munich, including: a variant of the AmaDS³ waste water pump station with solids separation system, the UPA 150C submersible borehole pump with the UMA-S motor, and the PumpDrive variable speed system.

WORLD CUP PARTICIPANTS

KSB takes part in the World Cup in Brazil: pumps in six of the twelve stadiums ensure reliable water supply and drainage. They are also used in the air-conditioning and fire protection systems.

Q3

ANNIVERSARY

In September, the non-profit KSB Foundation celebrates its 50th anniversary. Its purpose is to promote the sciences and encourage young talent in the field of science at school and university level.

DUAL FUNCTION

With the Dualis type series, a compact butterfly valve comes onto the market that simultaneously serves as a check valve. In the event of system malfunction, the valve closes automatically and protects pumps, water turbines and piping against pressure surges.

GROUNDBREAKING

KSB invests twelve million euros in a new production hall for the Triodis valve range at the French site of La Roche-Chalais. This is in response to the growing demand for cryogenic valves required to shut off liquid gases. Production is scheduled to begin at the end of 2015.

SERVICE

In the city of Tianjin in northern China, KSB inaugurates a new service centre. It is one of 14 opened in the year under review in 12 different countries in order to be able to supply services more quickly.

CHINA

Customers and staff members of KSB Shanghai Pump Co. Ltd. celebrate the 20th anniversary of the company. Around 800 people are employed by the company, which has the highest sales revenue of KSB's six companies in China.

TOP PERFORMANCE

In Dubai, the CPI Industry journal once again names KSB manufacturer of the year for cooling system pumps on account of the long service life of the pumps under the harsh climatic conditions of the Arabian Peninsula, and their high operating reliability, quality and energy efficiency.

COLOMBIA

In October, KSB founds a subsidiary in Colombia. In South America's third largest economy (30th largest in the world), KSB Colombia SAS, Funza, focuses on selling pumps and valves.

PAKISTAN

In Pakistan, KSB is also considered an exemplary company with regard to environmental protection, and is awarded an industry prize by the National Forum For Environment & Health. KSB has a manufacturing plant and numerous sales offices in the country. In November, the Pakistani ambassador visits KSB in Frankenthal.

Q4

EMPLOYEES

The success of our business relies heavily on the commitment and performance of skilled employees. Ensuring that KSB hires, develops and retains the best possible staff is one of the core tasks of HR management.

GOAL-FOCUSED PERFORMANCE IMPROVEMENT

Our employees are highly dedicated to KSB. One of our key tasks is to coordinate their work optimally and to ensure that it is geared towards the Group's objectives. With this in mind, we launched an initiative in the year under review that is designed to improve performance and set in the context of strategy, organisational structure and corporate values. This initiative incorporates an open feedback culture with periodic evaluations that focus on the employees' strengths and tap into unfulfilled potential for even higher performance levels.

Another element of the initiative relates to the interfaces within the company. During "performance dialogues", managers and employees discuss how interdepartmental processes can be improved and how global market opportunities can be exploited more quickly.

DEVELOPING PROFESSIONAL COMPETENCIES AND SKILLS

Our business can only be and remain competitive in future if our employees are qualified, willing to perform and motivated. In a market that is constantly changing and that demands a flexible approach on our part, our employees make the difference. Our continuing professional development methods are aligned with these new requirements. We aim to give our staff access to a more flexible and simpler way of learning, while also avoiding long periods of absence from the office or workshop. At the same time, the knowledge that we pass on internally or through training institutes must be as practically oriented as possible so that it can be applied directly.

We are making increasing use of e-learning, enabling our employees to complete computer-based training courses at a time that suits them. In 2014, about 2,700 members of staff made use of such training programmes to immerse themselves in new subject areas, particularly with regard to IT, technology and law.

The German TrainingCenter and HR at KSB S.A.S. in France have also developed concepts for integrated learning or "blended learning" for training in the fields of production, hydraulics, management and business administration. This approach combines traditional face-to-face learning with electronic methods.

In Germany, we continue to offer the in-house developed Pump & Applications Professional distance learning course. This demanding one-year course provides engineers and technicians with training in pump technology and the relevant areas of application. In the year under review, the third group of students completed this course, with the fourth group embarking on the training.

STRENGTHENING THE QUALITY OF LEADERSHIP

Using specially designed management programmes, we support our managers in their leadership role. We provide them with the opportunity to develop their thought processes, methods and personal style, all in keeping with our KSB values and goals.

Value-based training sessions have also been used for several years, with some 600 managers from across the world now having taken part in this type of training. The aim is to develop a common understanding of KSB's corporate culture and of how to interact with employees in a positive way.

In India, the standard seminars offered to equip our employees with the necessary knowledge and skills were complemented in the year under review by innovative training concepts geared to staff working in sales, production and service. The course participants worked on methods designed to generate synergies in their work processes and to make their workflows more efficient. In total, 56 employees took part in this type of training in 2014.

EXPANDING APPLICATION KNOW-HOW

Our new sales structure in place since the start of 2014 allocates more responsibility to the regional sales offices. Consequently, sales staff across the world are building on their knowledge of applications and processes so that they can provide their customers with precisely tailored solutions.

In order to create a uniform knowledge basis globally, we have set up the Application Know-how Transfer project. This training concept is based on the multiplier principle, with participants going on to share their newly acquired knowledge with their colleagues. In the year under review more than 40 KSB experts, in the capacity of master trainers, trained 90 selected sales employees, who then passed on their new skills in their own work environment in the capacity of regional trainers.

FINDING AND DEVELOPING TALENTS

Every employee has strengths and talents, which we want to identify and promote. Systematic HR development helps us to provide training in individual skills. The aim is to ensure that our employees can prove themselves in a number of fields, thereby expanding their competencies and skills and the range of areas in which they can be deployed. Using a globally accessible job portal, key vacancies are advertised internally.

We also add to our ranks by hiring new experts and managers from outside KSB. The relevant online channels are used to target potential candidates. In this context, it helped that in 2014 we were one of the most active companies in social media in the German B2B sector. On LinkedIn, which is essentially a professional networking site, KSB had approximately 10,700 followers at year end. In November 2014 we also created a KSB presence on the business social networking platform Xing, which is more widely known in Germany.

CREATING FUTURE PROSPECTS FOR YOUNG PEOPLE

For decades now, KSB has been training up-and-coming talent with good results. In the year under review, we were able to offer young people in Germany 16 different vocational training courses and dual study programmes. Through these channels, 267 young people were working to equip themselves for their future careers at KSB during 2014. We also trained

Education opens up prospects: Young people undergoing training at KSB generally obtain good to very good professional qualifications.

Aiming high: Anyone who wants to enjoy professional success needs to be fit. And KSB's sports groups are ideal for getting fit.

young people for other companies. In 2014 we invested € 8.5 million in vocational training, which included fitting out three training workshops with the necessary equipment.

Our training concept is holistic in design. This means that, as well as providing young people with the specialist skills they need for their work, we also aim to impart social and methodological skills. In order to ensure that trainees broaden their horizons and have the opportunity to develop their social skills, we once again organised an exchange programme with the Paul Riebeck Foundation care home in Halle. This involved KSB trainees spending a week working in the old people's home on a voluntary basis.

In an increasingly globalised world, experience of working abroad will be of advantage in young people's careers. This is why, for several years now, we have been offering outstanding trainees as well as students on the dual study programmes the opportunity to spend a few months on a work placement at one of our companies abroad. In this way, the young KSB staff get to know other cultures and add to their linguistic and specialist skills. Across Germany 15 young people took advantage of this opportunity in 2014.

STAFF NUMBERS DOWN

At the end of the year under review, 16,309 people were employed in the KSB Group, 237 fewer than in 2013. Significant falls were recorded at KSB AG and KSB Service GmbH, with 176 fewer employees by the reporting date. This reduction is related to measures to adapt to new market conditions and to improve KSB's competitiveness. In addition, our Chinese subsidiaries cut their staff numbers by 103 employees in total. In contrast, 49 employees joined the Group in the year under review through the changes in the consolidated Group.

WILLINGNESS TO CHANGE AND TO ACHIEVE

The 2014 financial year featured a series of changes for our staff. Many of their activities have been reorganised in terms of structure and content. The Board of Management would like to thank all employees for their strong personal commitment to implementing the changes and for working to ensure that their customers, both internal and external, benefited from a rapid and professional service. In so doing they have actively pursued one of our primary goals, namely further improving the company's performance.

Special thanks also go to the members of the employee representative committees, including the Executives' Committee. They have accompanied key change processes, making a constructive contribution to the resolution of difficult issues.

CORPORATE SOCIAL RESPONSIBILITY

Economic success and corporate social responsibility are inextricably linked. A sustainable and responsible approach is the only way to remain viable for the future. Consequently, at KSB we base our actions not only on economic principles, but also consider ecological and social criteria. We focus on adopting a responsible approach to our natural environment and to the people we deal with, be they business partners or employees. We are also committed to social issues.

As a company with global operations, we signed the UN Global Compact back in 2010, thereby undertaking to align our business activities with ten universal principles in the areas of human rights, labour standards, environmental protection and anti-corruption. More than 12,000 companies and organisations have joined this UN initiative, among them many of our customers. We also require our suppliers to adhere to the rules set by the UN Global Compact.

Within our company, we use recognised certification systems to establish uniform high standards across the world in environmental protection, quality, and occupational health and safety. In the reporting year two more of our production plants were certified, which means that 34 production sites are now operating in accordance with international standards.

However, we also view ourselves as multipliers, working to persuade other companies to adopt a responsible approach to people and the environment. We present our activities in this regard at various events. For instance, we took part in an awareness week organised by the German Engineering Federation (VDMA), encouraging other companies to show greater social commitment.

At our Group headquarters in Frankenthal we also staged an innovation forum focusing on key future issues. This was attended by 150 representatives from the worlds of business, science and politics, and from relevant associations. One of the issues discussed was how mechanical engineering can help to respond to the key challenge of supplying a growing world population with sufficient water and energy.

SOCIAL COMMITMENT

Once again in 2014 we were involved in a series of social projects, including measures to tackle the effects of flooding and efforts to provide clean drinking water. In both of these cases we were able to help by donating pumps.

Another of our aims is to make an ongoing contribution to improving the local areas in which we are based. Traditionally, instead of giving Christmas presents, we have made donations to charitable causes, as was the case during the reporting year in Brazil, Germany and Austria. Financial donations were allocated to organisations supporting children, families, those in need and refugees. In Vietnam, donations of food were given to destitute families living near the plant we set up in 2012.

In India, we supported 14 different projects at the locations of our production sites. Our main focus was on helping establishments dedicated to children, women and the elderly. The aims of the supported projects included building and modernising water supply and waste water systems and sanitary facilities. Other projects helped charitable institutions to improve the everyday lives of the sick and disabled. KSB supplied one of these institutions with a solar energy system which is now being used for hot water and electric lighting. Overall, we provided funding of some € 250,000 for social projects in India in 2014.

Our social involvement also includes initiative and commitment on the part of our employees. To mark the 25th anniversary of our Canadian company, KSB employees planted 150 trees in support of a local forestation project. In Germany, we provided hands-on help to our neighbours. One example involved our trainees making an urgently needed railing for a ramp ensuring barrier-free access to a local church. Employees in Halle took part in a charity run, raising donations for children with cancer and for other charitable objectives.

EDUCATION, A KEY ISSUE FOR THE FUTURE

One of the key focuses of our social activities is education. In many countries, children and young people have only limited access to knowledge. In India, KSB sponsors children so that they can attend school, and in Indonesia we regularly provide educational institutions with learning resources and award scholarships to pupils. We also helped renovate a teaching establishment during the year under review. In Cambodia, we donated 145 bicycles to make it easier for pupils to get to school. Previously, the children had been forced to travel on foot for more than two hours every day.

In the light of demographic developments in many Western countries, the issue of education is also important to us in Germany. The threat of skills shortages affects us directly. As an innovative mechanical engineering company, we rely on qualified staff. We are particularly committed to the education of children and young people in Germany. As a founding member of the "*Wissensfabrik – Unternehmen für Deutschland e.V.*" [Knowledge Factory – Companies for Germany], we help schools and kindergartens to awaken young people's interest in science and technology from an early age. We supply learning materials for use in experiments and practical lessons. We then help the teachers and kindergarten staff to make best use of these resources. We also support early-childhood language development through a story-telling project.

CONSERVING OUR NATURAL ENVIRONMENT

Our products and technologies help our customers to save energy and to protect the environment. Work processes in our own plants are designed to use as little energy and as few resources as possible. We are also continuously monitoring our production workflows. Our valve testing processes in Finland were modified in 2014 to reduce scrap levels. In Spain, a long-term project running into 2015 is achieving annual cuts of 15 % in the use of solvents. We regularly exchange less efficient electric motors in our production for energy-saving models, as was particularly the case in Turkey during the year under review.

Production processes inevitably also generate waste. What we strive to do is to create as little waste as possible. Where waste cannot be avoided, we collect materials like metals so that they can be reused. We also separate our waste, regardless of whether this is required under national legislation or not.

Aiming to reduce energy consumption, we review the efficiency of lighting installations. Where necessary, conventional lamps are replaced with energy-efficient lighting. In China, Mexico, South Africa and the USA, high-efficiency lamps were fitted in our production halls in 2014. In Turkey, our offices were equipped with environmentally friendly energy-saving lamps. To avoid unnecessary electricity consumption, we installed motion sensor-controlled lighting systems in Argentina, Austria and Sweden.

We support environmentally aware behaviour on the part of our employees. Through our Intranet, we provide staff with access to a car sharing platform. At many of our plants, special bicycle parking spaces have been provided to make it easier for staff to travel to work using this environmentally friendly means of transport.

At KSB, colleagues from all over the world work together. To keep travel costs and emissions as low as possible, we are focused on the expansion of our international video conferencing network. Six new rooms were added in 2014, which means that we now have 60 video conferencing suites across 21 countries. There are an additional 90 individual users whose computers have their own video systems. In total, some 12,000 video conferences are held in our company every year.

Environmentally aware behaviour can also be small scale. With this in mind, we raise employees' awareness of ways in which they can save resources. Events are held to provide staff with useful tips on how to cut their consumption of energy and raw materials during their everyday work. Measures of this kind were implemented in such countries as Indonesia, Spain and the Czech Republic during 2014.

FOCUSING ON HEALTH

We aim to create a positive working environment for our staff in which they can achieve the best possible performance for our customers without any negative impact on their health. We achieve this with a company health management system embedded within the management systems in place. It covers five areas. We want to create a healthy workplace, promoting physical exercise and a balanced diet, looking after employees' mental health and ensuring they have access to appropriate medical care. The aim is to improve employee satisfaction and to cut staff absences.

We focus on our employees' sense of responsibility and offer them ways of promoting their health. These include preventive health measures. In Germany, for example, around 900 people took advantage of bowel cancer screening for those over the age of 45. The costs were borne by a health fund financed by KSB together with a health insurer. More than 400 employees received a free flu vaccination.

We have installed twelve defibrillators, at central locations, at our German sites. These can be used in the event of sudden cardiac arrest, when every second counts. Using the defibrillators, which give an electric shock, anyone can help to save a life in an emergency before professional help arrives.

In order to lower the risk of occupational accidents, we consistently apply the requirements of workplace safety. In Europe, our service staff received training in 2014 on how to avoid accidents when storing and using hazardous substances. Through regular training sessions, we also provide information on potential hazards in the workplace. In this way we help to ensure that the workplace remains safe and environmentally sound.

Education opens doors to the world: In Indonesia, we support pupils by providing learning resources and awarding scholarships. We also donated money for the renovation of a primary school in 2014.

KSB SHARES

The share capital of KSB AG is divided into 886,615 ordinary shares (ISIN DE0006292006) and 864,712 preference shares (ISIN DE0006292030). Both share classes are listed for trading on the regulated market and in the General Standard segment of the German Stock Exchange.

Approximately 80 % of the ordinary shares are owned by Klein Pumpen GmbH, Frankenthal, the majority of shares in which are held by KSB *Stiftung* [KSB Foundation], Stuttgart. The remaining ordinary shares and the preference shares are free float and can be traded on German regional stock exchanges as well as using the Xetra electronic trading system. The shares are included in continuous trading on Xetra. The Landesbank Baden-Württemberg is responsible for the share's pricing and ensures that the required share liquidity is in place for continuous trading.

KSB SHARE PERFORMANCE

Europe's major stock exchanges were unable to match the large price gains recorded in previous years, despite being bolstered by what remained an expansionist monetary policy in 2014. Investors and businesses were hit by increasing geopolitical tensions, which placed an additional burden on an already weak economy.

During the first half of the year the KSB share performed well, in line with the markets overall. At € 527.00, the preference shares reached their highest price for the year on 30 June, with ordinary shares peaking at € 532.95 on 8 July 2014.

However, the volatile state of the equity markets as a whole also impacted on the KSB share price in the course of the year. In addition, the correction in the company's profit forecast in August 2014 had an effect. Both the ordinary and the preference shares fell significantly, dropping to their lowest level for the year in December 2014. Ordinary shares fell to € 412.00 (on 22 December), with preference shares tumbling to € 406.00 (on 17 December).

As at the year end, both shares were down on their 2013 year-end prices. Ordinary shares closed the year at € 418.00 (– 13.1 %), and the preference shares at € 422.20 (– 3.4 %).

DIVIDEND DEVELOPMENT

	2014 (proposed)	2013
Ordinary share		
Dividend	€ 8.50	€ 12.00
Dividend yield	2.0 %	2.5 %
Preference share		
Dividend	€ 8.76	€ 12.26
Dividend yield	2.1 %	2.8 %

	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. 2014	€ 418.00	€ 422.20
Stock market capitalisation		€ 735.7 million

By way of comparison, Germany's leading indices, the DAX and MDAX, recorded slight increases of 2.7 % and 2.2 %, although these figures include dividend payments. If the dividends were included in the performance calculations for KSB shares, at least the preference shares would have ended the year close to their 2013 year-end price.

EARNINGS PER SHARE

Earnings per share are down on 2013 as a result of the year-on-year decline in consolidated earnings. Earnings per ordinary share are € 21.74 compared with € 37.38 in the previous year, while earnings for preference shares were € 22.00 compared with € 37.64 in 2013.

DIVIDEND

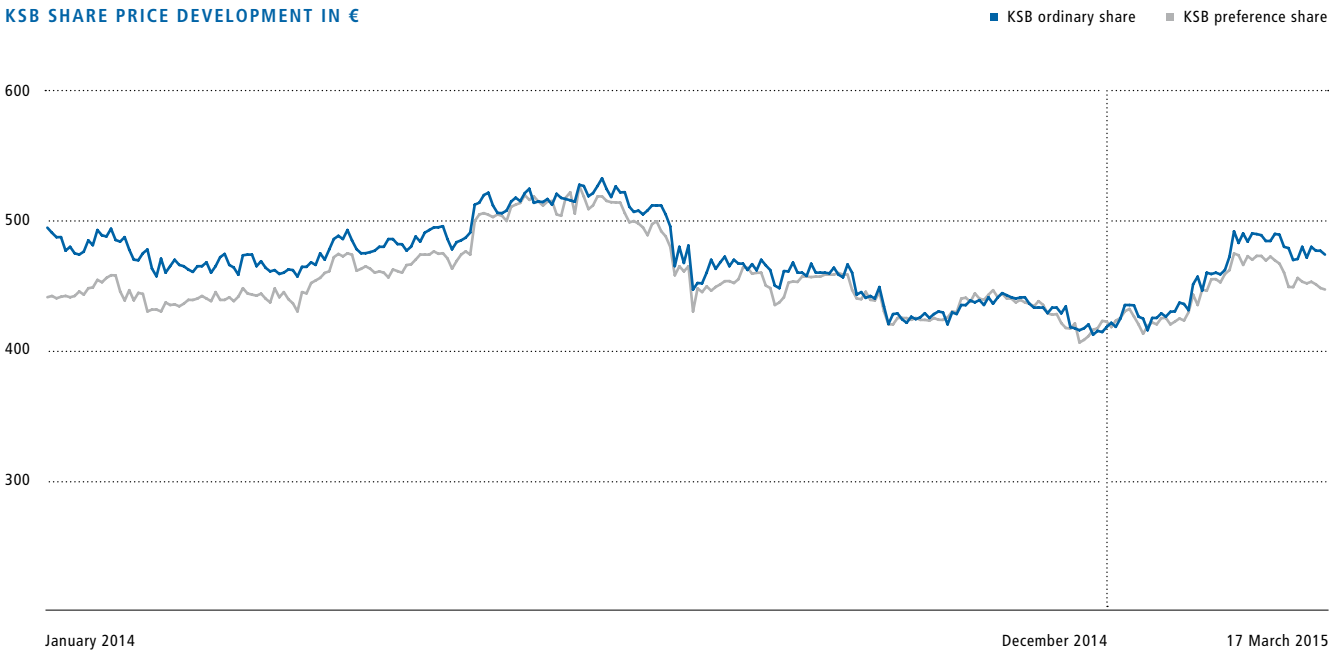
The Board of Management and Supervisory Board of KSB AG will propose to the 2015 Annual General Meeting that a dividend of € 8.50 per ordinary share and € 8.76 per preference share be distributed. Following a constant level of dividends over the past five years, namely € 12.00 for the ordinary share and € 12.26 for the preference share, this lower proposal reflects the weaker earnings for the reporting year. The dividend amount of € 8.50 (ordinary shares) and € 8.76 (preference shares) equates to a distribution volume of € 15.1 million, which represents 39.5 % of the earnings attributable to shareholders of KSB AG. The Annual General Meeting of KSB AG on 6 May 2015 will decide on the dividend.

The dividend yield, based on the 2014 year-end closing prices and the proposed dividend payment, is 2.0 % for the ordinary shares and 2.1 % for the preference shares.

ANNUAL GENERAL MEETING 2014

At the Annual General Meeting on 14 May 2014, about 47 % of the total share capital and approximately 90 % of the ordinary shares with voting rights were represented. The management's proposals were adopted by the Meeting with a very large majority.

KSB SHARE PRICE DEVELOPMENT IN €

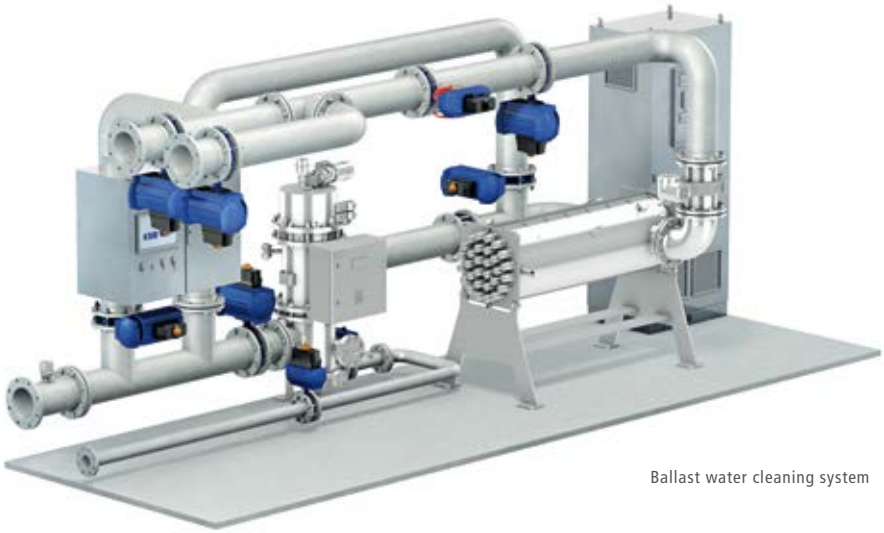


New technology protects the oceans

"The ecology of the world's oceans is under threat due to ballast water from around 60,000 cargo ships. Our cleaning system can help to halt the spread of non-native organisms – without the need for chemicals."

Shraddha Arjun Marwadi

Member of the Ballast Water Treatment team



Ballast water cleaning system

TACKLING INVASIVE SPECIES EFFICIENTLY

The limnotherma protonei clam from Asia has populated the west coast of the American continent. With no natural enemies, it has been able to reproduce rapidly and can clog the cooling water intakes of power stations and industrial plants. In the opposite direction, the American warty combed jellyfish has established itself in the Caspian Sea and now competes with native marine species for food. The consequence for local communities: significantly reduced fishing catches. Across the globe, imported invasive species are causing enormous ecological damage to waterways and generating costs running into the billions. The organisms find their way into foreign ecosystems via ballast water which is carried by ships to provide stability and balance out loads during voyages before being emptied in ports. In collaboration with the Emden University of Applied Sciences and Kaiserslautern Technical University, KSB has developed an innovative filter and UV system which treats the water without the need for chemicals. Water is filtered as it is taken on board to remove large organisms and particles, while the filter itself is flushed out during the cleaning process by the same water. Thereafter, UV irradiation with an energy-saving low-voltage lamp renders the remaining micro organisms harmless – a 100-percent effective and highly cost-efficient solution which must, however, be capable of functioning in the limited space available on board. With previous testing delivering uniformly positive results, market viability is now being assessed. For ship owners, ballast water cleaning is not merely an ecological problem, but a genuinely existential one. The United States Coast Guard has issued a rule effective within the next few years stipulating that only ships with ballast water management systems will be permitted to enter US waters. Similar ballast water management guidelines have also been proposed by the United Nations International Maritime Organisation. These developments will require around 60,000 ships to be equipped worldwide – a market with real potential.

GROUP MANAGEMENT REPORT

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.

KSB AG, Frankenthal/Pfalz, Germany, as the parent company, directly or indirectly holds the shares in the companies belonging to the Group. Besides it, 10 domestic and 86 foreign companies are fully consolidated; 5 other companies are accounted for under the equity method. An extension of the group of consolidated companies is currently not planned for the current financial year. KSB is represented in over 40 countries with its own subsidiaries.

Besides KSB AG itself, the companies in the KSB Group with the highest sales revenue are

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

Our basic business model has not changed during the year under review. External economic and political changes, however, have had a partial effect on our business. These are – where relevant and material to KSB – described in the following sections.

ORGANISATION, MANAGEMENT AND CONTROL

KSB AG's Board of Management manages and controls the KSB Group. This body formed of two persons is assisted in operational decisions by a management team of senior executives. Managers and employees implement the strategy and instructions of the Board of Management within an organisation that is structured according to responsibilities for product groups, corporate functions and regions.

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].

The KSB Group organises its business activities in three segments based on product groups: Pumps, Valves and Service.

The Pumps segment covers single- and multistage pumps, submersible pumps and associated control and drive systems. Applications are industry (manufacturing, chemical/petrochemical, transport), energy supply, water transport and waste water treatment, construction/building services and the hydraulic transport of solids in mining.

The Valves segment covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. The applications for these products are essentially identical to those for pumps.

The Service segment covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves for all these applications, as well as modular service concepts and system analyses for complete systems.

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 plants 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 industry including the chemical and petrochemical industries, customers in the energy and construction/building services sectors, transport equipment manufacturers and operators (e.g. ships, rail vehicles), water and waste water utilities, and mining companies. Once again in 2014, the top-selling markets for our products were the industrial and energy supply sectors.

In order to be able to offer our products at favourable 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 taken primarily on the basis of the key indicators that are determined for the Pumps, Valves and Service segments: 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.

In addition, we take the earnings before income taxes (EBT), pre-tax return on sales and net financial position into consideration for controlling the Group as a whole. The pre-tax return on sales describes the ratio between earnings before income taxes (EBT) and sales revenue; net financial position is the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash, and receivables from cash deposits). 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 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 2014 section.

RESEARCH AND DEVELOPMENT

KSB places great value in research and development. We examine the customer requests, requirements and trends encountered in the day-to-day business of transporting fluids. The insight gained finds consistent implementation in the development of products optimised for their applications. Our goal is to offer customers products and solutions which deliver exceptional quality at a fair price whether custom-engineered or supplied off-the-shelf. This aspiration defines the guiding principle behind our portfolio of technologies and core competencies. The know-how of our staff in the fields of hydraulics, electronics and materials technology is a critical factor in ensuring the market success of our pumps and valves. At year end 2014, 588 KSB employees worked in research and development worldwide (previous year: 531). The most important development locations are Frankenthal and Pegnitz in Germany, followed by Gradignan in France, Grovetown in the USA and Pune in India. We are also engaged in global cooperations with renowned research institutes and universities. Our development work principally revolves around improving and expanding existing type series and developing new markets and fields of application.

A selection of our current research and development projects is given below:

A LIGHTWEIGHT BOILER FEED PUMP FOR SPECIALISED APPLICATIONS

Global demand is rising for cost-effective boiler feed pumps as employed by customers in combined-cycle, solar and biomass power plant circuits. We are therefore working on a multistage high-pressure ring-section pump for such applications. This promises outstanding levels of energy efficiency at a price acceptable to customers in important markets such as China and India.

As these pumps will be manufactured with cast rather than forged materials, they can be produced at low cost with resources locally available in Asia. And thanks to improved flow profiles developed via computer simulations, the pumps will also benefit from optimum efficiency levels. The first size is scheduled to be released for sale in the middle of 2015.

A FULL-RANGE SUPPLIER OF CIRCULATORS

Following an acquisition in 2012, we are currently in the process of completing our range of circulators. In this market segment, a comprehensive programme of products is essential in order to be competitive. To this end, we extended our Calio range in early September 2014 to include models with 350- and 800-watt motors and will continue to expand our portfolio.

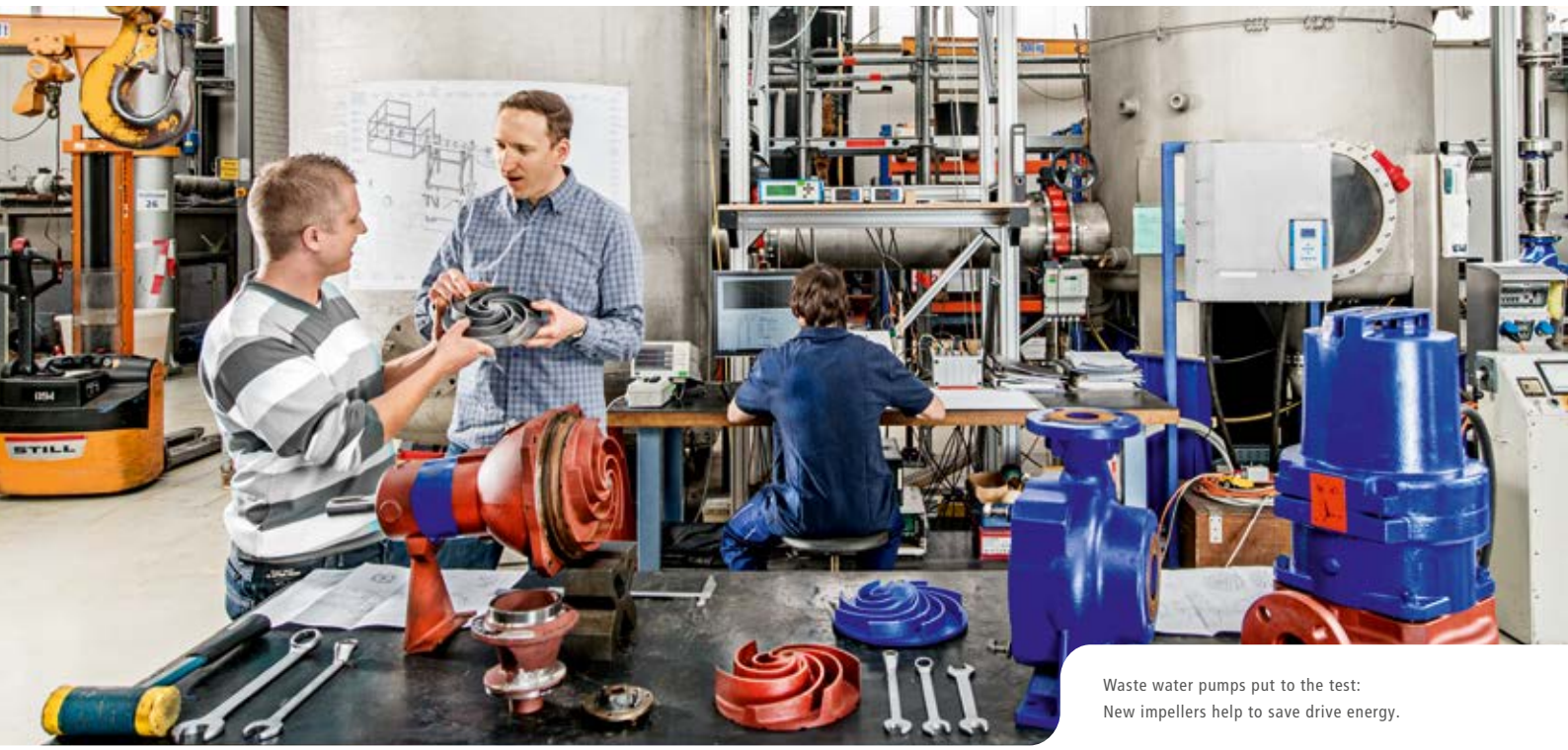
EFFICIENT AND RELIABLE WASTE WATER TRANSPORT

Pump sets from the Amarex KRT and Sewatec type series represent the backbone of our product portfolio for waste water. 2013 and 2014 saw us make technical revisions to these pumps and their electric motors. We designed impellers which allow non-clogging operation while maintaining high levels of hydraulic efficiency. Improvements to the impeller vane profile have increased the pumps' reliability in raw waste water applications, and the new design requires smaller motors than the previous generation.

We manufacture specialised submersible motors for the Amarex KRT range in Halle, Germany. In order to ensure that these pumps fulfil future energy efficiency provisions laid down by the European Union, we have begun the process of adapting our asynchronous motors to meet the requirements of efficiency class IE3.

A BALLAST WATER TREATMENT SYSTEM TO PROTECT MARINE FLORA AND FAUNA

We have worked intensively throughout the year under review on developing a system for cleaning ballast water. Today, ships transport almost 90 % of all globally traded goods, and this proportion is rising. Ballast tanks filled with seawater, fresh water or brackish water keep ships stable and enable them to sail at the right depth for minimised fuel consumption. Every year, ballast water totalling some twelve billion tonnes is taken on board, bringing with it a variety of aquatic organisms. In an effort to prevent the spread of non-local flora and fauna, many countries have passed strict regulations for handling ballast water. For example: in the future, US ports will no longer accept ships that do not use a certified ballast water treatment system. A convention from the International Maritime Organisation (IMO) will soon enforce similar rules internationally. The system we have developed to serve



Waste water pumps put to the test:
New impellers help to save drive energy.

this growth market successfully completed its first land-based test for seawater and brackish water in accordance with the requirements of the US Coast Guard (USCG) at the start of November 2014. Sea-based testing will be performed in 2015. This work has received support from Rhineland-Palatinate's Ministry of Economics as part of its InnoTop programme.

CO_2 AS THE COOLANT OF THE FUTURE

Since 2011, we have been working on a project supported by Germany's Federal Ministry of Education and Research to develop the technical basis for an oil-free compressor for carbon dioxide (CO_2) featuring an integrated, fluid-cooled electric motor. The compressor is intended for use with large heat pumps. As a coolant, carbon dioxide has an advantage over the haloalkanes used today in that it contributes far less significantly to the greenhouse effect. The use of CO_2 as a coolant in large heat pumps has up until now been hampered by the fact that shaft bearings have to be lubricated with oil, dramatically reducing efficiency. Working in collaboration with the Kaiserslautern University, Stuttgart University and the Mannheim University of Applied Sciences, KSB is using prototypes to investigate the effect CO_2 has on the fluid mechanics properties of the rotating bearings. This year will see us continue this research with the support of the Federal Ministry; an oil-free CO_2 compressor should be available by 2017.

SMART PRODUCTS ARE ON THE WAY

A further focus of multiple research projects is the trend dubbed Industry 4.0, and the demands it will place on our products. This vision for the future sees intelligent pumps and valves joining the established world of automation to become interconnected via internet-based communication technologies. These pumps and valves and their data will thus be able to assist customers with installation, commissioning, operation and maintenance. The technology promises to be especially beneficial to operators of complex machinery, assisting them in identifying error patterns and avoiding technical problems.

In a first for KSB, the year under review saw us fit one of Europe's largest and most state-of-the-art computer centres with interfaces designed such that the customer can monitor the operating status of its pumps – and thus the essential cooling of the servers – via a so-called cloud application.

Laser melting in production: The new LaserCUSING® system allows manufacturing highly complex components.

MODEL-BASED DEVELOPMENT PROCESS

The ongoing automation of technical systems seeks to reduce life cycle costs. This involves sensors and actuators handling more and more application-specific functions at the interface between technical processes and system control. In performing these functions, they operate in a decentralised fashion as networked intelligent field devices. As part of the ELSY project supported by Germany's Federal Ministry of Education and Research, we are working to establish a model-based development process for our hydromechatronic products and create the tools such a process will require. This entails developing an online diagnosis system through which potential damage to a pump's mechanical seal or bearings can be identified at an early stage. KSB produced a functional requirements brief with a set of specifications and interface definitions for the project partners in 2014.

LASER MELTING PROCESS BROADENS TECHNICAL HORIZONS

The year under review saw KSB invest in a system which will allow the company to develop its knowledge of selective laser melting. In essence, this technology can print out complex components in three dimensions. As opposed to conventional methods such as casting and forging, the laser melting process eliminates the need for tools such as moulds or dies. It affords design engineers a substantial degree of creative freedom when producing components with internal geometric forms, hollow spaces and open porous structures. This means that lightweight parts can be created without compromising strength.

During the selective laser melting processes, the metallic material to be processed is sprayed onto a base plate as a thin layer in powder form before a laser melts it layer by layer according to the component geometry required. In order to prevent the material becoming contaminated with oxygen, the process takes place in a controlled inert gas atmosphere composed of argon or nitrogen. This ensures that the mechanical properties of the component generated largely correspond with those of the base material. The substances used in laser melting are generally series materials which do not contain binders. An important future application could be the high-speed production of spare parts on site during servicing.

We wish to continue actively shaping the pump and valve technology of the future with trend-setting innovations. To this end, 2014 saw us invest € 49 million (€ 47 million in the previous year) in research and development. This equates to an unchanged 2 % of our sales revenue and continues to represent a substantial commitment to research and development in comparisons across the sector.

ECONOMIC REVIEW

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

In the year under review, the global economy was slightly weaker than expected. While the International Monetary Fund initially forecast real growth of 3.7 % for 2014, during the year it had to revise this figure downwards. Ultimately, the global economy expanded by 3.3 %. The willingness of many companies to invest was also dampened by the political and military conflicts in Eastern Europe and the Arab world. Our economic expectations for 2014 were therefore not fully met.

In particular, the pace of economic growth remained weak in what continues to be our main market, Europe. The EU member states displayed a mixed picture: While Spain after successful reforms once again managed to grow moderately, the French economy stagnated. Italy remained in recession. In Germany the economy performed relatively better, growing by 1.6 %.

In recent years, the BRIC States and various Asian and South American emerging markets have become increasingly important for our business. Since 2014, however, growth in these markets has been less dynamic, with our business opportunities impaired accordingly.

The Brazilian and Russian economies both more or less stagnated. While the budget deficit in Brazil worsened the investment climate, in Russia the political confrontation with Western countries, the decline in oil prices and the depreciation of the rouble all contributed to market weakness. Market conditions in these two countries also affected the demand for our pumps and valves.

China's economy grew by 7.4 %. This was, however, lower than the growth rates in previous years. But the country remained an important and promising market for our products. In India, where five plants primarily manufacture for the domestic market, the new government announced plans to reform tax and subsidy policies, which has improved the investment climate, but has not yet had an impact on our business.

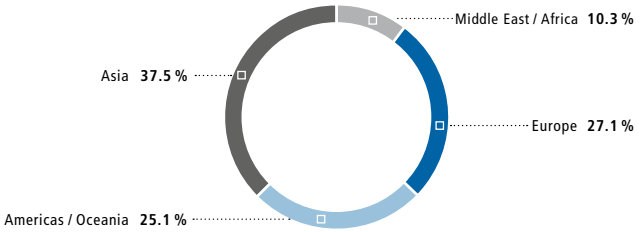
In the Middle East and North Africa, the political crises including military conflicts slowed down economic growth. Thanks to the growth impetus from Saudi Arabia and the United Arab Emirates, however, the Region's gross domestic product increased by 2.8 %. The countries in sub-Saharan Africa kept up the expansion pace of the previous year, growing by 4.8 % overall. The Republic of South Africa, however, could only partly keep pace with this development due to long-term work stoppages and sustained infrastructure problems. The gross domestic product rose by only 1.4 %. Our plant in Johannesburg was directly affected by the strike of the metal workers, as well as by reduced domestic demand.

SALES REVENUE IN MECHANICAL ENGINEERING INCREASES BY 5 PERCENT WORLDWIDE

According to the German Engineering Federation (VDMA), global sales of mechanical engineering products, including our products, grew by 5 % in real terms in the reporting year. The sector thus developed in accordance with the forecast presented in the 2013 Annual Report. However, growth was very heterogeneous in the five mechanical engineering markets with the highest sales revenue – China, the USA, Germany, Japan and Italy.

Despite the slightly lower economic expansion in China, mechanical engineering companies there once again achieved an above-average increase in their sales revenue, which was up 9 %. Japanese manufacturers, which in the previous year had suffered a decline in sales revenue, saw an even bigger increase of 10 %. Machinery sales revenue in the USA also grew significantly by 6 %. In contrast, sales revenue in the German mechanical engineering market was a meagre 1 %. The country with the second-largest mechanical engineering sector in Europe, Italy, once again in 2014 recorded no industry growth due to the ongoing recession in the economy.

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: KSB estimate, European Investment Fund (February 2015)

MODEST GROWTH IN THE PUMPS AND VALVES INDUSTRY

Global sales of pumps and valves grew by less than the mechanical engineering sector overall. However, in some regions there was positive momentum from the revival in project activity among energy suppliers and water and waste water management companies, which also boosted our business in some sectors. The equipment needs of the liquefied gas industry and of the tankers needed to transport liquefied gas resulted in an increased demand for special valves, which favoured the suppliers of corresponding equipment, including KSB.

The development in the market for power plant pumps and valves in particular was highly differentiated. While new coal-fired power plants were built in Asia, electricity suppliers in Europe increasingly closed down such facilities, switching to gas-fired combined cycle power plants or renewable energies instead. Suppliers to coal-fired plants, including KSB, therefore focused primarily on China and India. In the two target markets, Asian plant engineering contractors exerted strong price pressure on power plant component suppliers, which in turn affected the margins of the pump and valve industry.

Orders for high-quality technical goods, such as those required for fitting out nuclear power plants were still attractive, but were limited by the low number of new projects. As a result, the order prospects for KSB, too, were limited.

In mining, the market development was negative. Weaker demand for raw materials meant that there was no revival yet in this sector. The order situation for manufacturers of pumps for hydraulic solids transport, which include our US subsidiary GIW Industries, Inc., was therefore more difficult than in the previous year. Modernisation projects, however, did offer opportunities.

The successes and failures of pumps and valves manufacturers were heavily dependent on sector orientation. Prospects were much brighter for suppliers of products for the oil and gas industry, particularly in North America and the Middle East. One exception, however, was the Canadian oil sands industry. Project delays meant that manufacturers of slurry pumps did not benefit from the generally strong demand.

Overall, pump manufacturers reported higher order intake in 2014 than in the previous year. Business for valve suppliers, however, did not yet pick up. Here, orders for new projects usually take longer to come through than is the case with pumps. In Europe, the order situation for suppliers of pump- and valve-related technical services remained heavily influenced by the structural problems of the energy sector. The KSB Service companies in this Region also felt the adverse impact of the latter.

Most pumps and valves producers experienced declining sales revenues compared with the previous year. According to VDMA, the sales revenue volumes of liquid pump manufacturers in Germany decreased by 4 % in real terms. The sales revenue volumes of producers of industrial valves in Germany fell by a similar amount according to the association, being 3.4 % lower in the reporting year than in 2013.

STRONGER COMPETITION FROM ASIAN MANUFACTURERS

Competition from Asian suppliers has risen. This is felt primarily in projects in key industries such as energy, mining and the oil and gas industry. More and more contracts are being awarded to local manufacturers, with China being a prominent example. Chinese pump manufacturers are focusing their efforts on securing a larger share of their domestic market and are striving to improve their quality level.

Strong demand: Customers need special cryogenic valves for their liquefied gas tankers and terminals.

South Korean plant engineering contractors are increasingly participating in international projects, for example in the Arab world, allowing South Korean pump manufacturers to expand their reach. Thus, they are becoming increasingly interesting for engineering contractors outside Asia, thereby increasing the global competition for companies from other regions.

In mining, our competitors are continuing to pursue the strategy of expanding their product portfolio along the value creation chain. In addition, suppliers of mining pumps, such as KSB, are strengthening their service presence in key mining regions in the world.

Overall in the year under review, there were only a few major acquisitions by pump and valve manufacturers. Instead, individual competitors were much more concerned with trying to sell unprofitable business segments in order to focus on their core business and acquire financial resources for strategic acquisitions. This trend was mainly observed among valve manufacturers. Towards the end of the year, a US pump manufacturer prepared a takeover bid for a Dutch producer of vacuum and liquid pumps primarily operational in Germany. This may aggravate the competitive situation for some industrial and power plant pumps and our service offering. Despite, or perhaps because of the low mergers and acquisitions activity, some competitors improved their sales and service structures. They achieved this by establishing new regional offices and service centres, especially in the Middle East and Africa.

BUSINESS DEVELOPMENT

For KSB, 2014 was associated with organisational changes. The main alteration was the realignment of our sales teams so that they now focus on three separate sales channels. We now serve our project business and general business customers as well as the end users of our products through these channels. Our sales staff advise and serve customers via these sales channels according to their technical expertise needs, standardised ordering processes and after-sales services.

In supplying these customer groups with products and services, the order situation differed significantly according to industry and region. Positive factors in our business included the slightly improving power plant business in the wake of several large contracts for projects in Asia, the Middle East and South America, as well as the valves business for tankers. The pressure on prices continued, especially with regard to the awarding of major contracts in the energy industry. Order volumes for water and waste water products as well as for pumps and valves for use in mining were similarly positive. In view of the lower number of new mining projects we took advantage of the opportunities arising from the modernisation and replacement needs of existing mines. Industrial product business suffered from a slightly negative development, while orders for building services equipment fell markedly short of prior-year figures.

GROWTH WITH PUMPS AND VALVES

Overall, the **Group's** consolidated order intake improved by € 80.0 million to € 2,321.2 million. This corresponds to a growth rate of 3.6 %, which was our forecast in the previous annual report. Without the impact of the depreciation of several South American currencies, the Russian rouble and the South African rand against the euro, this increase would have been around € 53 million higher.

The increase was mainly driven by the pump business. Order intake for valves also grew encouragingly, and only the volume of service orders was lower than in the previous year.

We achieved the greatest increase, in absolute terms, in the **Pump** segment, with an increase of € 70.9 million to € 1,524.1 million. In percentage terms, the value of orders received for pumps increased by 4.9 % compared with 2013, in line with our forecast. The reasons for this improvement were on the one hand large projects such as the construction of new power plant units in Brazil, Finland and Saudi Arabia, and on the other, the expansion of our general business with standard pumps. In addition, we increased the competitiveness of our standardised and close-coupled pumps by using more local manufacturing sites. In addition, we launched standard variants of technically revised heat transfer pumps onto the market.

In 2014, **Valves** order intake rose by € 20.4 million to € 407.4 million. This represents an increase of 5.3 % – the forecast increase for this segment. Business with butterfly valves for liquefied gas tankers and associated onshore plants contributed significantly to this success, with our French company KSB S.A.S. and our South Korean company KSB Seil Co., Ltd. benefiting in particular. Our triple-offset butterfly valves introduced to the market at the end of 2012 and our systems for the remote control of valves found increasing use in cryogenic applications like gas liquefaction and regasification. Orders for power station valves grew positively thanks to purchase orders for plants in Brazil and China. There was a decrease in demand, however, for industrial valves, including from the chemical and petrochemical industries.

In the **Service** segment, we recorded a 2.8 % reduction in orders for services and service-related products in 2014. The volume of incoming orders fell by € 11.2 million to € 389.7 million, whereas we had expected significant growth. The main reason for this development was the unexpectedly sharp decline in demand from energy suppliers in Europe, particularly in Germany. In addition, several service customers in France closed production facilities.

EUROPEAN COMPANIES INCREASE ORDER INTAKE

The Group companies in **Europe** increased order intake by 6.6 %. The main contributors to the order volume of € 1,427.0 million were the energy industry and the merchant navy. KSB AG's order intake also developed positively, thanks to several export orders for power plant equipment. It grew by 5.1 % to € 848.7 million.

In the previous crisis countries of Portugal and Spain, companies reported double-digit growth rates. Several Eastern European subsidiaries, too, reported significant to strong growth. Because of the above-mentioned difficulties in Russia, however, OOO "KSB" in Moscow went against this trend.

The order intake of the companies consolidated in the Region **Middle East / Africa** totalled € 122.5 million, down 5.5 % from the previous year. However, their sales activities helped KSB companies in other Regions to be included in infrastructure projects for energy and water supply as well as waste water treatment.

At € 357.0 million, the order intake of our companies in **Asia** remained more or less at the previous year's level (+ 0.4 %). Our two South Korean companies each achieved double-digit growth rates. They benefited from the equipment of tankers by the South Korean shipyards and the demand from domestic plant engineering contractors. Order intake in India, in contrast, was below that of 2013; the improved investment climate in the second half of the year did not decisively stimulate the demand for pumps and valves. In China, our valves business declined.

The order intake of companies in the Region **Americas / Oceania** at € 414.7 million (– 0.6 %) was very close to prior-year levels.

In North America, we offset the lower number of new mining projects in Canada and the United States with increased activity in other sectors. This also included our involvement in the energy industry. In addition, we received more orders for service work and spare parts, so that in particular our US subsidiaries in California and Texas, which specialise in service, grew strongly.

Our companies in South America succeeded in expanding the general business with standard pumps. However, the volume of this business was not yet as large as the project business, which is primarily based on orders from the oil and gas, mining and water industries. Due to the largely poor performance of the South American economies, the number of such projects remained limited. Our two Brazilian companies in particular suffered from the weak economy.

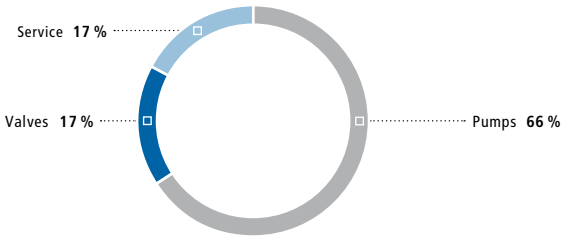
In Australia, our company had to contend with an economy that had slid into recession. The manufacturing sector contracted further due to high wages, while the mining sector suffered from the weaker demand for commodities from Asia. KSB Australia Pty Ltd. consequently recorded a sharp drop in orders received and responded with structural changes and the closure of a production site.

DECLINE IN SALES REVENUE WITHIN THE GROUP

In 2014, consolidated sales revenue was 2.9 % down on the previous year and reached a volume of € 2,181.7 million. The decrease of € 65.6 million is attributable to negative currency effects (approximately € 53 million), but to a lesser extent also to the lower number of project business orders in the preceding years. The "modest increase" in consolidated sales revenue we projected has therefore not been achieved.

Sales revenue in the Pumps segment amounted to € 1,437.9 million, down 5.8 % from 2013; in last year's report, we had projected a "slight increase". Despite the € 88.3 million reduction in volume, business with this product group remained by far the most important. Single- and multistage pumps, submersible pumps and associated actuators and automation devices accounted for approaching two thirds of consolidated sales revenue.

SALES REVENUE BY SEGMENT



In the second largest segment, Valves, growth – as anticipated – was a slight 1.7 %. We generated sales revenue of € 378.8 million with globe, gate and butterfly valves, and associated actuators and control devices, a year-on-year increase of € 6.3 million. A key factor in this improvement was the strong demand for our cryogenic valves.

In the Service segment, sales revenue was € 28.5 million, 7.1 % up from the previous year. We generated sales revenue of € 373.8 million with inspection, maintenance, repair, associated spare parts as well as systems analysis and efficiency advice. Our objective had been to achieve a significant increase.

CONTINUED SALES REVENUE GROWTH IN THE REGION MIDDLE EAST / AFRICA

In the Regions Europe (–2.1 %), Asia (–3.9 %) and Americas (–7.5 %) , sales revenue declined in 2014, partly due to the above-mentioned effects of exchange rate changes. The sales revenue of companies in the Region Middle East / Africa continued to grow (+7.4 %), despite the depreciation of the South African rand and the Turkish lira against the Group currency, the euro.

The **European** companies achieved sales revenue of € 1,329.4 million, € 29.0 million down on the previous year. Here it was primarily KSB AG and KSB's Russian subsidiary, OOO "KSB", that saw downturns in sales revenue. At € 814.9 million, KSB AG's sales revenue (in accordance with the HGB German Commercial Code) was 4.8 % lower than in 2013.

The consolidated companies in the Region **Middle East / Africa** improved their sales revenue by € 8.7 million, generating a total volume of € 126.1 million. The strongest growth momentum came from KSB Middle East FZE, based in Dubai.

In the Region **Asia**, the weaker China business in particular during the preceding two years weighed down on sales revenue performance. This was associated with a lower volume of project business orders. The positive growth in India as well as in a number of smaller East and South-East Asian companies could not fully offset the decline in sales revenue in China. The sales revenue volume therefore, at € 339.0 million, was € 13.7 million lower than in 2013.

In the Region **Americas / Oceania**, exchange rate changes had the most negative effect in 2014. Sales revenue in euro (the Group currency) was € 31.6 million lower year on year. GIW Industries, Inc. in the US and the Brazilian company KSB Bombas Hidráulicas S.A. accounted for by far the largest share of the total sales revenue volume of € 387.2 million, despite downturns.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

We did not fully meet our previous year's expectations due to the economic conditions as well as non-recurring costs and charges arising from the realignment of the KSB Group. As set out in the Business Development section, the consolidated order intake in the Group increased in line with expectations (+3.6 %), despite higher than planned for negative currency effects. The Pumps and Valves segments achieved the forecast increases of 4.9 % and 5.3 % respectively. Contrary to our planning, Service had to contend with a 2.8 % decline. Here, too, we had assumed a significant increase. Sales revenue did not reflect our outlook (moderate growth), it experienced a 2.9 % decline across the Group. Effects from the translation of currency into euro had an unexpectedly strong negative impact. Only Valves managed to achieve their target (slight increase) year on year. Sales revenue for Pumps did not experience the anticipated slight increase, but fell by 5.8 %. The Service segment had to contend with considerable declines (–7.1 %) rather than the planned significant growth. As a result of the unexpectedly difficult market environment combined with the continued pressure on prices in the project business and unplanned non-recurring and restructuring costs, the moderate increase in profits of € 30 million that was expected failed to materialise. Earnings before interest and taxes (EBIT) fell by € 47.6 million to € 88.6 million. The Pumps and Service segments had to contend with very considerable declines. The Valves segment, however, improved substantially, enabling it to achieve what was forecast in last year's report. For Pumps, we had planned only slight declines, and for Service, significant increases. As a consequence, earnings before income taxes (EBT) for the Group was 39.2 % down on the previous year's level; accordingly we failed to meet our target for pre-tax return on sales. Owing to the fall

Dubai: KSB Middle East FZE serves the Region with pumps, valves and service.

in earnings accompanied by a sharply increased investment volume, the development of the net financial position, at € 185.5, was also somewhat weaker than planned twelve months ago (€ 200 million).

RESULTS OF OPERATIONS

The difficult economic environment – in particular for the project business that continues to be affected by high pressure on prices – as well as non-recurring and restructuring costs resulted in a sharp decline in earnings within the Group.

Total output of operations

The above-mentioned decline in sales revenue is also reflected in a lower total output of operations. However, as the change in inventories reversed in comparison with the previous year (2014: € 12.0 million increase in work in progress and inventories of finished goods, 2013: € 24.9 million reduction), the decrease by 1.2 % to € 2,197.7 million (previous year: € 2,223.9 million) was significantly more moderate than it was for the sales revenue.

Income and expenses

Other income declined from € 44.6 million to € 36.3 million, partly due to decreasing income from the reversal of provisions no longer required.

The cost of materials fell by 0.6 %. Due to the more significant decline in total output of operations, the cost of materials (€ 887.4 million) as a percentage of total output of operations rose from 40.1 % in the previous year to 40.4 % in the year under review.

Staff costs fell by 0.3 % to € 785.5 million. In relation to total output of operations, however, this meant an increase of 0.3 percentage points. Key factors were the collectively agreed salary increases and the lower number of employees. Compared with 2013, the number of employees fell by 237, taking the total figure at the end of the reporting year to 16,309. Significant declines were recorded at KSB AG and KSB Service GmbH, Frankenthal, with 176 fewer employees. This reduction is related to measures taken to adapt to new market conditions and to improve KSB's competitiveness. In addition, our Chinese subsidiaries cut their staff numbers by 103 employees in total. In contrast, 49 employees joined the Group in the reporting year through the changes in the consolidated Group. Therefore, the KSB Group employed on average 131 fewer people than in the previous year. Due to the lower total output of operations and simultaneous decrease in the number of employees, the average output per employee remained unchanged at € 134 thousand compared with the previous financial year.

The ratio of other expenses to total output of operations rose from 17.2 % to 17.9 %. In absolute terms, they total € 393.0 million compared with € 383.4 million in 2013. The increase results primarily from higher other staff costs of € 9.0 million that relate to the reduction in our workforce at the Homburg and Pegnitz sites in Germany.

Financial income/expense decreased by € 3.1 million. This is above all attributable to lower income from investments which we accounted for using the equity method (€ – 1.9 million), and increased financial expenses (€ + 0.9 million). The latter are attributable to a € 1.7 million increase in write-downs on immaterial, non-consolidated financial assets as a result of lower earnings prospects.

Earnings

The KSB Group achieved earnings before interest and taxes (EBIT) of € 88.6 million (previous year: € 136.2 million). The Pumps segment reported EBIT of € 55.8 million (previous year: € 105.2 million), the Valves segment € 16.9 million (previous year: € 7.3 million) and the Service segment € 28.8 million (previous year: € 42.7 million). The reconciliation effect from the measurement of construction contracts in accordance with IAS 11 changed by € + 6.2 million year on year.

The earnings before income taxes (EBT) amount to € 72.6 million, following € 119.4 million in 2013. This means we achieved a pre-tax return on sales of 3.3 % (previous year: 5.3 %). The income tax rate increased by 3.3 percentage points. This was primarily due to non-tax-effective impairments on goodwill, up from 33.1 % in 2013 to 36.4 %. As a result, the 42.2 % fall in earnings after income taxes to € 46.2 million (previous year: € 79.9 million) was somewhat more pronounced than the decline in earnings before income taxes (EBT) (– 39.2 %).

Earnings attributable to non-controlling interests fell by a similar percentage from € 14.2 million to € 7.9 million. Consequently, they remained virtually constant relative to earnings after income taxes (17.1 % compared with 17.8 % in the previous year).

The earnings attributable to shareholders of KSB AG (€ 38.3 million) were € 27.4 million lower than in the previous year (€ 65.7 million).

Earnings per ordinary share were € 21.74, compared with € 37.38 in the previous year, and € 22.00 per preference share, compared with € 37.64 in 2013.

FINANCIAL POSITION

The financial position of the KSB Group deteriorated slightly. In particular, the significant growth in the provisions for employee benefits related to the interest rate development and significant opposing effects in the equity resulted in a decrease in the equity ratio of almost 3 percentage points.

Equity

The KSB Group's equity amounts to € 829.2 million (previous year: € 844.5 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 € 585.0 million (previous year: € 618.8 million), including the proportion of earnings after taxes attributable to shareholders of KSB AG of € 38.3 million (previous year: € 65.7 million). € 132.7 million (previous year: € 114.2 million) is attributable to non-controlling interests. Due to the decline in total equity and liabilities and simultaneous increase in total assets (€ + 126.3 million or 5.9 %), the equity ratio has dropped (36.4 %; previous year: 39.3 %).

The non-controlling interests mainly relate to the following companies: KSB Pumps Limited, India, KSB America Corporation, USA, GIW Industries, Inc., USA and KSB Shanghai Pump Co. Ltd., China.

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions. On the basis of the significantly lower capital market interest rates, the provision as at the reporting date was increased by 29.3 % to € 514.7 million. A large number of the pension plans currently in place 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 increasingly introducing defined contribution plans for new staff.

Our obligations for current pensioners and vested benefits of employees who have left the company account for nearly 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 are predominantly current, fell from € 124.1 million to € 113.9 million partially as a result of lower provisions for profit bonus schemes.

The other provisions rose year on year mainly due to the increase in provisions for other obligations. They include non-current components of € 15.1 million (previous year: € 14.4 million) for warranty obligations. The excess relates to provisions for mainly current uncertain liabilities.

Non-current other liabilities fell significantly to € 159.4 million, following € 205.0 million at the end of 2013. They include liabilities of € 140 million from a loan against borrower's note placed in 2012 (previous year: € 175 million). It is divided into repayment tranches of 3 to 10 years. The change can be explained by the fact that the first tranche of € 35 million is being repaid in 2015. There is a corresponding reclassification to the current other liabilities. Furthermore, we repaid a long-term bank loan of € 10 million before maturity in 2014. Current other liabilities increased overall by € 68.0 million (€ 523.3 million compared with € 455.3 million at year end 2013). The financial liabilities these include rose to € 31.8 million primarily due to the above-mentioned reclassification. Other liabilities also grew from € 188.7 million to € 218.0 million. Reasons for this are higher advances received from customers (€ +8.9 million) and a € 11.5 million increase in accrued currency forwards and interest rate swaps. At € 211.7 million (previous year: € 204.8 million), trade payables changed by 3.4 %. Taking into account the increase in total equity and liabilities, the share of current liabilities in total equity is 23.9 % (previous year: 22.3 %).

Investments

The additions to intangible assets amounting to € 7.4 million (previous year: € 4.2 million) primarily concerned advance payments and own work capitalised for a new software to be deployed in Sales (in the previous year purchase of licences).

Investments in property, plant and equipment in the reporting year amounted to € 77.7 million, significantly above the figure of € 52.8 million for the previous year. The highest additions at € 32.2 million (previous year: € 7.6 million) relate to advance payments and assets under construction. They are connected with the construction of a foundry at our US mining company GIW Industries, Inc. A further € 19.2 million are attributable to technical equipment and machinery (previous year: € 21.6 million). As in 2013, the focus of our investment activities was Europe, predominantly Germany and France. Outside Europe, the 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 only changed immaterially, from € 189.6 million to € 185.5 million, despite the greatly increased expenditure on property, plant and equipment.

Liquidity

Cash flows from operating activities amounted to € 88.6 million, a year-on-year decrease of € 46.8 million. As well as the decline in earnings and an increase in receivables, funds tied down in inventories had a negative impact on cash flows. This contrasted with more write-downs as well as increasing amounts of funds tied down in liabilities.

In the year under review, we intensified our investment activities primarily in property, plant and equipment. Moreover, the change in term deposits reduced cash flows, whereas in the previous year, it had resulted in a substantial increase. Accordingly, cash flows from investing activities increased significantly to € –103.9 million (previous year: € –15.7 million).

Cash flows from financing activities changed from € –22.3 million to € –37.5 million. This was in part due to the advance repayment of a long-term bank loan.

Cash and cash equivalents with a maturity of under 3 months from all cash flows declined from € 331.6 million to € 290.5 million. Exchange rate effects amounting to € +10.8 million (previous year: € –5.0 million) played a role in this. The KSB

Group's cash and cash equivalents decreased from € 451.4 million to € 432.7 million (including € 15.3 million [previous year: € 18.0 million] of cash used to secure credit balances for partial retirement obligations and long-term working hours accounts, which is available for immediate use at any time).

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 our liquidity at all times essentially without any 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 € 8.0 million as at the reporting date (previous year: € 11.1 million). These arise mainly from collateral and performance guarantees.

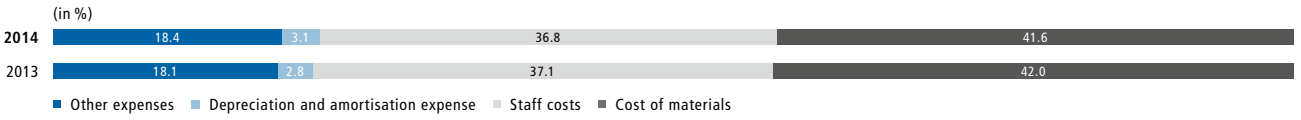
There are no other extraordinary obligations and commitments beyond the reporting date. Other financial obligations arise only within the normal scope from long-term rental, lease and service agreements (in particular IT and telecommunications) necessary for business operations and from purchase commitments amounting to € 17.8 million (previous year: € 12.5 million).

NET ASSETS

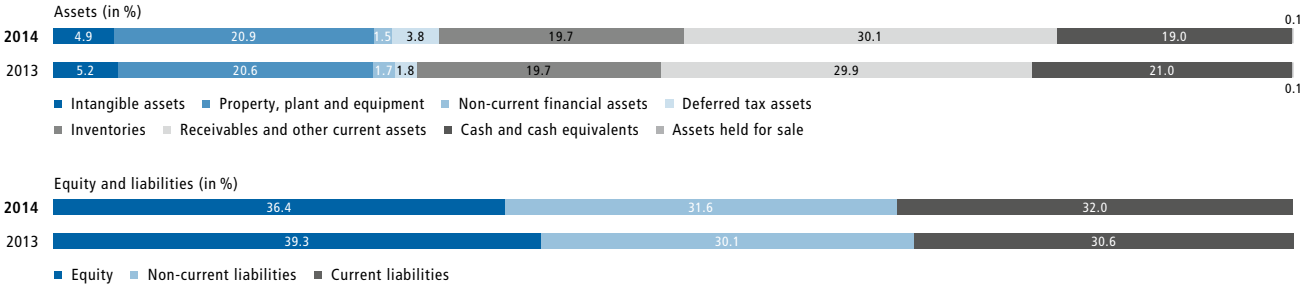
Our total assets increased by 5.9 % to € 2,277.7 million. There were significant increases both in non-current assets (in particular in deferred tax assets and in property, plant and equipment) and in inventories as well as in receivables and current assets. These contrasted with lower cash and cash equivalents.

A good 27 % is attributable to fixed assets (previous year: around 28 %). Intangible assets and property, plant and equipment with a historical cost of € 1,270.4 million (previous year: € 1,168.7 million) have carrying amounts of € 587.2 million (previous year: € 554.2 million). The goodwill impairments recognised in the reporting year and the

EXPENSES IN STATEMENT OF COMPREHENSIVE INCOME



BALANCE SHEET STRUCTURE



decrease in concessions and licences were offset by the increase in the advance payments made on intangible assets, meaning that a change of only € +0.1 million is to be reported. As the investments in property, plant and equipment in the reporting year were above the figure for the previous year as well as the figure for write-downs (€ 55.3 million following € 54.7 million in 2013), this balance sheet item increased by € 32.9 million. Taking into account the decreases attributable to the first-time consolidations as well as the impairments on immaterial – non-consolidated – other investments of about € 2 million in each case, the carrying amount of financial assets and the investments accounted for using the equity method declined overall by € 1.7 million to € 35.3 million. At € 1.4 million, the investments accounted for using the equity method had an opposite effect.

The significant development in the deferred tax assets (€ 86.7 million, following € 39.6 million in the previous year) can predominantly be attributed to the change in the provisions for pensions and similar obligations.

As a result of the increase in order intake, the inventories – in particular the finished goods and goods purchased and held for resale as well as the raw materials, consumables and supplies – rose by 6.1 % to € 449.8 million. They continued to tie up around 20 % of our resources.

Due to an increased delivery volume in the final quarter of 2014, trade receivables were € 35.1 million above the figure at the end of the previous year, despite lower sales revenue year on year in a full-year comparison. The persistently difficult situation in the project business was 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 (€ –7.8 million), the associated value also decreased by € 6.0 million. As in 2013, receivables and other current assets in total made up just about 30 % of total assets, taking into account the change in the total assets.

Cash and cash equivalents account for around 19 % of assets (previous year: approx 21 %). This decrease was caused by lower cash flows from operating activities with simultaneously higher investments.

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 € +38.8 million (previous year: € –53.5 million). This was taken directly to equity.

SUMMARY OF THE BOARD OF MANAGEMENT

The growth targets we set ourselves for the past year have, as shown in the previous part of the report, only partially been achieved.

Weak demand in our home market of Europe as well as in several important sectors held back the growth in our business. At the same time, for various products our price flexibility was insufficient for achieving satisfactory margins in a tougher competitive situation. This was particularly true for large pumps for use in fossil-fuelled power station as well as for submersible borehole pumps, both of which are manufactured in Germany.

In 2014, we therefore once again focused on creating the conditions that will allow our business to flourish again. This included redistributing tasks within the global manufacturing network, reorganising our sales structure and introducing new measures to reduce our costs, including gradually reducing staff numbers in several companies, most notably KSB AG. We took the decision to increasingly run our power plant engineering business in Asia, using mostly locally manufactured products. We will soon manufacture submersible borehole pumps in Frankenthal rather than Homburg, thereby making substantial cost savings. Similarly, we plan to supply standard castings to our German production plants from our new foundry in India as well as from external suppliers in future, and at the same time to cease manufacturing standard castings in Pegnitz. In Australia and China, too, we have improved our structures in order to reduce costs.

The weaker financial year not only gave us an impetus to implement a number of radical structural changes, it also prompted us to launch a global initiative to improve our performance. The aim is to improve cross-departmental and transnational processes, and to encourage our employees to intensify their focus on achieving our corporate goals. In addition, we have invested in new buildings and equipment to further expand our technical capabilities in the areas of liquefied gas transport and mining.

Order intake developed positively for the entire Group and for the Pumps and Valves segments, in line with the forecasts made in the prior-year report. The Service segment, however, failed to achieve the targeted growth rate and even contracted slightly.

With regard to consolidated sales revenue, our expectations of moderate growth were not fulfilled, and, as stated, it declined by 2.9 %. The situation was similar in our Pumps and Service segments, where we had expected moderate and substantial increases. Here we suffered, as stated, declines of 5.8 % and 7.1 % respectively. Only in the Valves segment were we able to realise the projected slight increases.

This sales revenue trend is one of the main reasons for us failing to achieve our earnings forecasts. In addition, non-recurring and restructuring costs of about € 30 million, which were not included in prior-year planning, also had a negative impact on earnings. Accordingly, we were unable to realise the moderate improvements in Group earnings before income taxes (EBT) and the return on sales before income taxes we had anticipated at the start of the year. Both indicators fell significantly below the previous year's figures. This is also reflected in the earnings of the segments, which we measure as values before interest and taxes (EBIT). The Pumps and Service segments had to contend with significant declines. For Pumps, we had forecast a moderate decline only, and for Service had expected a significant increase. In the Valves segment, however, the planned strong earnings growth was achieved.

At the end of 2014, the net financial position at € 185.5 million was somewhat below the previous year's forecast value of around € 200 million.

Overall business performance in the reporting year was therefore less favourable than expected. Despite these negative influences, the KSB Group continues to have a sound financial footing for the future. The measures taken to permanently improve our cost structures will additionally strengthen this basis.

EVENTS AFTER THE REPORTING PERIOD

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

REPORT ON EXPECTED DEVELOPMENTS

The world economy is expected to grow only slightly faster in the current year than in 2014. This is the opinion of the International Monetary Fund (IMF) in its outlook for 2015 published in October. We are basing our macroeconomic expectations on this forecast, as well as on the estimates of the German Engineering Federation (VDMA).

According to the IMF forecast, the global economy will grow by 3.5 % in real terms. The development of individual national economies, however, will vary greatly; also, according to the IMF, the risks too have increased, which we will discuss in the next section of the report.

For the common currency zone within the EU, which we consider our home market, the expected growth rate is just 1.3 %. In contrast to previous years, it will not just be the peripheral countries holding back growth. The economic heavyweights, Italy and France, too display weakness, which is likely to affect the demand for pumps, valves and service. According to the European Commission, the German economy, particularly important for our business, is expected to expand by 1.5 % this year. However, no significant growth contribution to our business can be expected from equipment investment.

The USA, which continues to be the world's largest economy, is expected to grow by 3.6 %, thanks to the availability of inexpensive energy sources, which in turn favours the domestic industry. A higher demand for equipment goods can thus be expected.

Once again, a large percentage of global growth will be accounted for by the so-called emerging countries. For these emerging economies, in which we have been increasing our involvement for years, the IMF expects real growth of 4.3 %. This takes into account the continuing slowdown in economic expansion in China and the ongoing difficult conditions in Brazil and particularly Russia. In India, good growth can be expected due to the expected investment backlog. In Brazil, China and India, we can largely meet the demand using our local plants, and we are strengthening their performance in the global manufacturing network.

However, the IMF also warns of the risks to the global economy, including geopolitical crises, a possible overheating of the financial markets and the threat of stagnation in the euro zone. In this respect, the prognosis underlying our business expectations is fraught with many uncertainties.

If the world economy recovers as predicted, there will be wide-ranging opportunities for internationally oriented mechanical and plant engineering companies to expand their business. The German Engineering Federation (VDMA), for example, forecasts that global sales revenue for machinery will increase by 5 % in real terms. VDMA economists expect production growth of 2 % for German mechanical and plant engineering companies.

As in 2014, however, the VDMA has lower expectations for the pumps business than for mechanical engineering products in general. Thus, the Engineering Federation expects the sales revenue of German manufacturers of liquid pumps to stagnate. Sales revenue for industrial valves, however, which recently has been declining, is expected to increase by 2 %.

ORDER AND SALES GROWTH PLANNED

Based on the general economic forecast, the expectations of the industry and our own assessment of the market, which overall is positive, we plan to increase the Group's order intake significantly. We expect not only economic impetus to contribute to this, but also the introduction of technically improved products, our sales initiatives and the use of new service locations.

Fitting out a large power plant in China with newly developed pumps should contribute significantly to the planned increase in order intake. In 2015, we expect growth in all three segments: Pumps, Valves and Service.

Our consolidated sales revenue is planned to improve and more than compensate for the decline in 2014. In this context, we expect Pumps and Valves to grow markedly, and Service business to increase slightly.

Pumps

In the current year, we aim to expand the Pumps business. We believe that we can achieve a significantly higher order intake and sales revenue for Pumps than in 2014.

To this end, we can draw on a modernised range of standardised and close-coupled pumps whose regional manufacture meets the procurement needs of many customers. We now also offer purchasers of our products a wider range of high-pressure ring-section pumps, hygienic and sterile process pumps, as well as circulators.

We expect growth impetus from the general and chemical industries as well as from the food and beverage industry. At the same time, our process pumps, which have been adapted to the API standard, improve our prospects of winning offshore plant equipment orders. As a full-liner for pumps in building services, we aim to broaden our customer base of dealers, distributors and installation contractors.

The legal requirements for the use of efficient drives in Europe, China and the United States also suggest to us that customers in those countries will demand more energy-efficient IE3 and IE4 class motors. We are responding to this foreseeable development by increasingly offering high-efficiency drives instead of asynchronous motors for pumps used in industry, water engineering and building services. We offer our magnetless synchronous reluctance motors, independently of the pump business, for other rotating machinery as well.

In line with the needs of China's power industry, which has 60 new nuclear power plants planned or already under construction, we will offer an advanced reactor coolant pump, which we are testing in Shanghai.

Valves

With our range of globe, gate and butterfly valves, we want to take advantage of the business opportunities offered by the valve market for growth. It has a larger overall demand

Valves from Jundiaí: Employees of Brazilian KSB Válvulas Ltda. assemble ball valves.

volume than the pump market, but is more differentiated in terms of competition. This financial year, too, we will focus less on the mass market and more on those applications that require sophisticated technology. We are aiming to significantly increase our order intake and our sales revenue with this product group in comparison with 2014.

We remain well prepared with our range of valves, which are used in the manufacture and transport of liquefied gas. Around 60 % of all LNG tankers used in the world are fitted with KSB valves; we accordingly expect to benefit from an increasing demand for them.

In water transport, many pipelines are already equipped with up to 4-m-large butterfly valves manufactured at our production facility in Burgos (Spain). For water pipes with smaller diameters of up to 1.4 m, we have now supplemented our range with a butterfly valve that also serves as a check valve. This dual function suggests that the product will be popular with many customers.

We expect improved business also resulting from the new ANSI-standard power station valves required by customers primarily for plants in China, India and the United States. Our expanded range is a response to the decreased demand in Europe for power engineering valves that meet the DIN standard. In addition, we are adapting our product range to suit plant-specific alterations, and now offer a power station gate valve for high pressures and temperatures. This is designed for a new type of power station that works more efficiently than previous coal-fired plants and issues fewer CO_2 emissions.

Service

We intend to moderately expand our service business in terms of order intake and sales revenue. In this context, we are making the most of the opportunities opened up to us in major retrofit projects. In France, such projects also cover several nuclear power plants. To compensate for the decline in orders in the German market, we have expanded our range of services for these plants.

We want the sites where we set up new service centres in 2014 to generate additional business for us in 2015. This applies in particular to the support centres opened in the mining regions, which are intended to offer services and spare parts to mine operators. In Asia, we see a slight increase in demand for professional service for systems incorporating pumps and valves, which we will also take advantage of.

The order situation in the German energy sector will remain difficult, as it continues to be in a state of transformation. The volume of modernisation and maintenance projects will also be much lower in 2015 than before the turnaround in German energy policy (“*Energiewende*”).

After the construction of a new spare parts logistics centre, planned for the current year, we will be able to accelerate the supply of replacement components from European manufacture to our customers. This is expected to have a positive impact on our business. The same applies to the facility completed in 2014 in Pegnitz for the environmentally safe dismantling of chemically contaminated pumps in Germany.

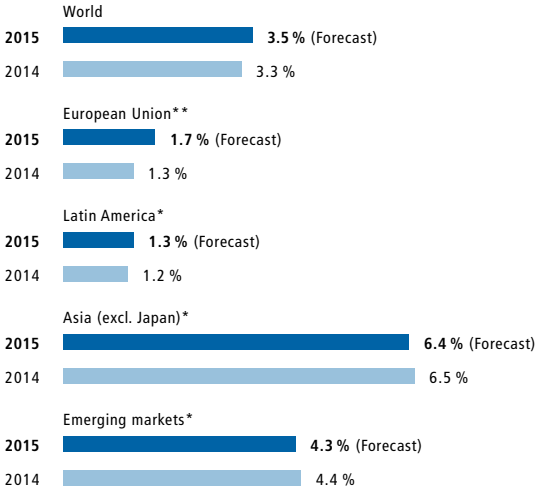
OUTLOOK FOR THE GROUP AND FOR THE REGIONS

In the Regions Middle East/Africa, Asia and Americas/Oceania we expect our local companies to record a moderate to significant increase in order intake. We also expect a slight improvement in the number of orders received by our European companies. Here, our plans include the above-mentioned major power plant engineering contract.

We aim to increase our sales revenue in all Regions, although the growth rates are set to vary widely. Some of the growth will draw on project business orders received in 2014 or earlier.

However, the eventualities and contingencies outlined in the subsequent opportunities and risks report must be taken into account, especially for order intake.

GROSS DOMESTIC PRODUCT GROWTH



* Source: International Monetary Fund (January 2015)
** Source: European Commission (February 2015);
additional information: euro zone + 0.8 % (2014), + 1.3 % (2015)

Europe

Growth in the key sectors for our business will remain low in Europe, which in turn limits the demand for pumps and valves for new installations. For this reason, we want to concentrate more on the needs of operators who already use our products, supplying them with services, spare parts and new products. We are also using our business options in the general and project business. Overall, it can be expected that the volume of orders received by our European Group companies and their sales revenue will noticeably increase this year.

At KSB AG, we aim to take advantage of the potential of the overall slightly growing market with increased sales efforts and technically revised products. A strong presence at trade shows for industrial applications, building services and water engineering will help with this. We have also started to partly realign our production and thus improve our cost position. This applies in particular to coolant and boiler feed pumps, submersible borehole pumps and cast components from our own plants.

KSB S.A.S. sees the market remaining difficult in France during the current year, but still believes there are good export opportunities for its cryogenic valves. As it expects increasing demand for such special valves for extremely low or very high temperatures, it is building a new production facility in the west of France.

Middle East / Africa

The projected growth in the Region Middle East / Africa will have a positive impact in the current year on the business of our local subsidiaries, with both their order intake and sales revenue expected to increase significantly. In principle, the chemical and petrochemical industries, construction / building services and transportation sectors all offer good growth prospects. However, a permanently lower crude oil price in the producing countries may lead to planned projects being postponed.

Individual KSB companies in other Regions which also export to this market with the support of our local staff can also benefit from positive investment decisions. The economic outlook remains uncertain in the Region due to the numerous political and military crises. Our business in the Region can be affected by all these problems, depending on how they develop. First and foremost, therefore, we are focusing our activities on those markets in which no critical developments are forecast.

Asia

The markets in Asia continue to offer good business opportunities, which we plan to exploit with our own sales and manufacturing companies in China, India, South Korea, Taiwan and a number of South-East Asian countries. We expect the order intake and sales revenue of these companies to increase significantly in 2015.

In 2015, we will implement measures to increase the amount of locally produced products supplied to planned power plants in China and India. Other important areas of application for our pumps and valves in Asia are industry, water and waste water management, and marine applications.

Global power plant equipment: In future, KSB will manufacture boiler feed pumps not only in Germany but also in China and India.

To make more of the market opportunities in China, we have started to restructure our activities there. We want to implement our new sales system in the country, make more efficient use of local manufacturing facilities and promote customer loyalty through improved services.

In the region's second major market, India, public infrastructure projects and private projects may stimulate the demand for our products. We expect our customers to start ordering components for new coal-fired power plants again in the second half of the year. Industrial companies, after a long period of modest investment, are also expected to place more orders.

In South-East Asia, where we have subsidiaries in Indonesia, Singapore, Thailand and Vietnam, orders for capital goods will continue to pick up. In this area, we see a positive trend towards more environmental protection and lower resource consumption. This should lead to public and private companies increasingly ordering products that will make business more sustainable.

Americas / Oceania

Our aim for our companies in the Americas and Australia in 2015 is to achieve marked growth in order intake and sales revenue.

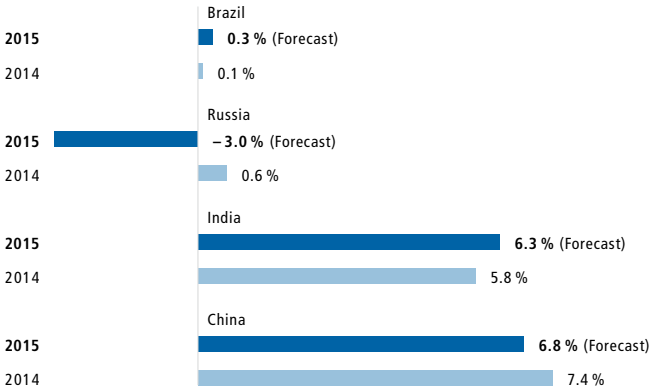
According to current projections, our subsidiary with the largest sales revenue in North America, GIW Industries, Inc., with its range of slurry pumps, will not see a revival in mining until at least the end of the year. In Canada, the US and Mexico, we are also focusing our sales activities on industry, including petrochemicals, as well as on the energy, water and waste

water industries. In these sectors, we offer not only pumps and valves but also engineering services. We plan to expand our service business in North America, which up until now has not been universally available.

In South America, projects that have long been postponed in the water, waste water and energy sectors could be awarded, resulting in corresponding order opportunities for our companies there. In addition, a KSB company in Colombia will commence operating and open up this market for us. However, the poor economic development expected in Brazil will limit the potential for growth in this country.

This also applies to Australia, where the continuing weakness of the economy is complicating the planned recovery of our business. We have focused our efforts on the mining, energy, water and waste water industries, as the country's industrial sector continues to shrink.

GROSS DOMESTIC PRODUCT GROWTH IN THE BRIC COUNTRIES



Source: International Monetary Fund (January 2015)

BOARD OF MANAGEMENT'S SUMMARY OF EXPECTED DEVELOPMENT

Despite the economic uncertainties, we see good prospects for improving our business volumes and earnings in all three segments in this period. We will make intensive use of the current year to realise the described increases in order intake and sales revenue, as well as to increase our consolidated earnings before income taxes (EBT). We have also begun to review our strategic priorities and to adjust them as part of a strategy update in response to altered market conditions.

The fact that we will focus a significant portion of our sales and marketing activities on defined areas will contribute to the desired growth. We see the new sales structure as being appropriate for serving customers worldwide quickly and individually. At the same time, we aim to increase the attractiveness of our portfolio for customers with products that we will present at the major trade shows of the year.

One important task in 2015 is to increase our global competitiveness by improving our cost base. We hope to achieve this by implementing the restructuring measures adopted and introduced in 2014. In addition, we will take steps in the current year to reduce the complexity of our product range, to restructure production areas, and to review the profitability and strategic relevance of our companies.

For the Pump segment, we expect both order intake and sales revenue to tangibly increase compared with 2014. It is anticipated that earnings before interest and taxes (EBIT) will be significantly above the prior-year figures, despite the difficult sales revenue situation that still prevails in project business. In the Valves segment, we are striving to achieve marked growth in order intake and EBIT, as well as a significant increase in sales revenue compared with 2014. In Service, we aim to see each volume indicator grow moderately, and to significantly increase EBIT in this segment.

For the Group as a whole, we expect order intake and sales revenue to increase significantly compared with 2014. Consolidated earnings before income taxes (EBT), too, are to improve significantly, and to once again approach a three-digit million euro amount. Accordingly, the return on sales before income tax is expected to increase to a value in the medium single-digit percentage range. We expect the net financial position to remain almost unchanged at € 180 to 190 million.

The forecast period for the above figures and information, which we have drawn up taking into account the opportunities and risks presented below, covers the 2015 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.

Retrofitting instead of new products: Tailored components are created using CAD tools in order to modernise pumps.

OPPORTUNITIES AND RISKS REPORT

As an organisation that operates throughout the world, the KSB Group is exposed to macroeconomic, sector-typical, financial and company-specific 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 is also improved by the expansion of our worldwide sales and manufacturing network. We always review opportunities to expand our global presence and are able to achieve this through start-ups and acquisition projects.

We see opportunities and risks as possible future developments or events that may lead to forecast or target deviation. The deviation can be both positive and negative. 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.

RISK MANAGEMENT SYSTEM

KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks and reporting these to Group headquarters. The risk management process of the KSB Group consists of the successive phases of identification, assessment, management, control, documentation and communication of risks. The six phases form a continuous and IT-based closed-loop system. This is documented in our risk management manual as well as the management responsibility and the description of all relevant tasks.

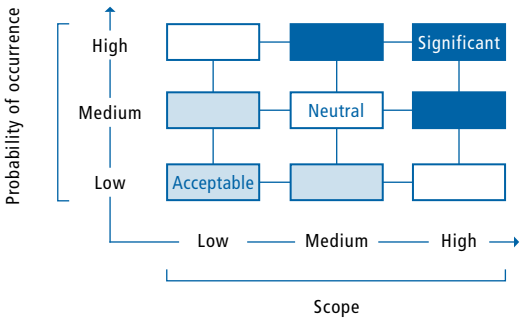
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central functions and Group companies, including Group companies that are not consolidated, are included in the risk management 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 twice a year report the recognised risks for the next 24 months from the reporting date for the categories of market and competitive risks, technological risks, project- and product-related risks, financial risks and procurement risks. Other business risks (environmental, human resources, etc.) are also reported in this cycle to the Risk Managers at the Group headquarters. We classify risks as qualitative and quantitative risks:

Qualitative risks are long-term developments that could have a negative impact on the KSB Group and which cannot or cannot yet be thoroughly quantified due to a lack of precise information. In order to still be able to evaluate them, however, we make estimates of the probability of occurrence and scope. With respect to probability of occurrence, the extent to which the information indicating the potential risk is detailed must be determined. The scope describes the potential influence of the individual risk on the EBIT of the KSB Group or the respective Group company.

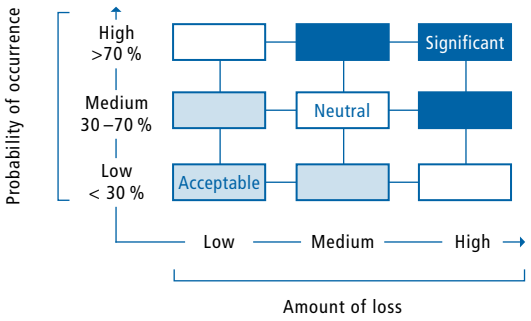
Quantitative risks are those risks with possible monetary impact on the EBIT of the KSB Group or the respective Group company. They are evaluated taking into account the probability of occurrence in combination with the potential amount of loss.

In order to assess whether qualitative and quantitative individual risks are significant for us, we classify them as acceptable, neutral or significant risks. We consider as material for the KSB Group all individual risks categorised as neutral or significant that are detailed in the “Individually assessed opportunities and risks” section. The relevant classification can be determined from the matrices below:

QUALITATIVE RISKS



QUANTITATIVE RISKS

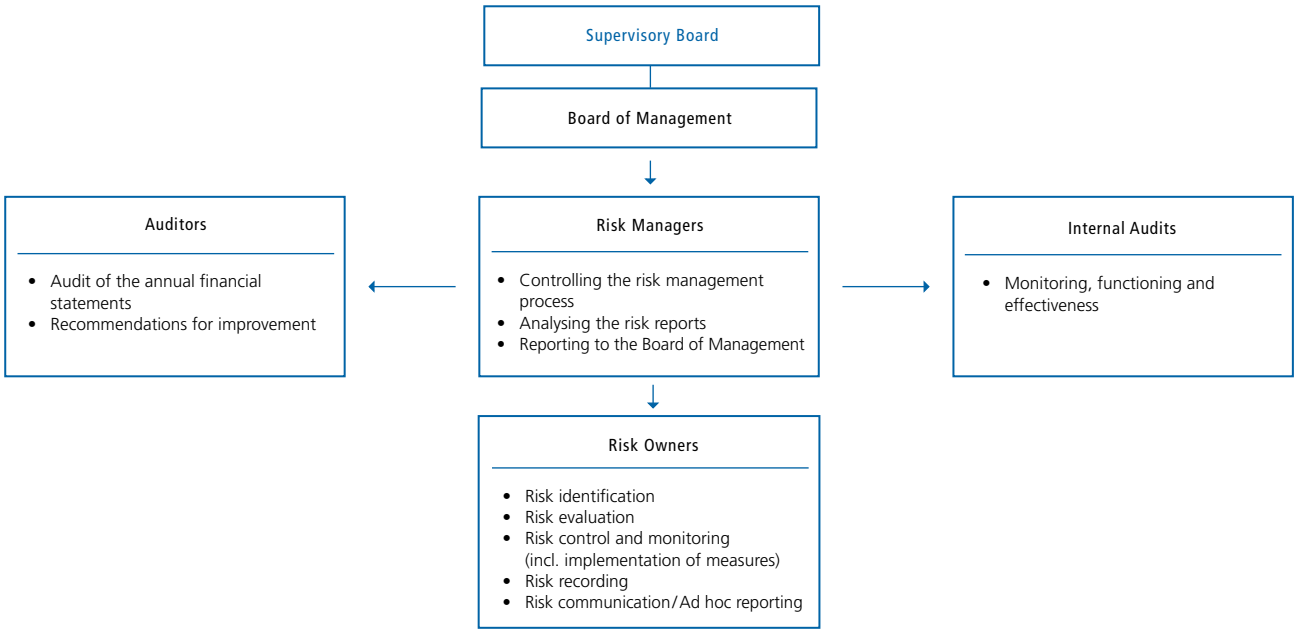


This approach gives us the necessary transparency to identify risks in their entirety and to manage them effectively, professionally and in an economically responsible manner.

The bodies to which specific responsibilities and competencies have been assigned in KSB's risk management system are shown and explained in the figure below:

The overall responsibility for risk management lies with the Board of Management of KSB AG. It reports to the Supervisory Board during regular Audit Committee meetings and is monitored by the latter. The Board of Management is supported by the Chief Compliance Officer and the Group Finance and Accounting department. The latter coordinates the risk management process at Group level and investigates

RISK MANAGEMENT AT KSB



all reported risks to determine whether they are relevant for the financial statements. It ensures that there is 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 per financial year. These reports include all the risks that are categorised as significant or neutral 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 segment 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, Patents and Trademarks 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. In addition, our auditor examines within the scope of the annual audit the early risk detection system, establishing that it is present and checking that it is fit for purpose.

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 and measurement 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.

In addition, the Accounting department carries out regular analytical plausibility checks using 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 then 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 the correct processing of data at all times.

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.

INDIVIDUALLY ASSESSED OPPORTUNITIES AND RISKS

The categories presented below include the gross risks classified as significant or neutral and the main opportunities for our business development. The main influencing factor remains the economic development. All other opportunities and risks are assessed as secondary.

Markets / Competition

Our business is affected by changes in the economic and political environments. These include the decline in oil prices, which reduces demand in the oil-producing countries. In order to limit the adverse effect on our business, we are addressing this risk by intensifying our customer contacts.

The intensification of the conflict between Russia and Ukraine involves the risk of a further weakening of the local market opportunities, especially for exports to Russia. This requires on our part a close exchange of information with the local KSB company, fast decision-making and increased localisation of our activities.

We continue to take a critical view of the high government deficits in some European countries, including Italy. They harbour the risk of a recession, which would have a negative impact on the demand for our products.

Sectors with long investment cycles impact on the success of our project business. This can cause customers to delay placing orders. The continuing excess capacity on the supply side continues to be reflected in intense competition. The pressure on the selling prices for our products is therefore ongoing. In addition, Asian competitors in particular are increasingly pushing their way into 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 adjust capacities, relocate production facilities and implement cost-cutting measures.

The energy efficiency of our products plays an increasingly important role. If we were not to achieve the newly defined energy standards, this would have permanent negative effects on the success of our business. Accordingly, we have addressed these requirements at an early stage.

Thanks to our tripartite distribution structure and a modernised system for customer management, we are now able to make better use of the opportunities vis-à-vis our customer base. At the same time, we want to tap growth opportunities, including via intensified customer acquisition. There are opportunities not only where KSB already has a strong market position, but also in industries in which individual or a small number of competitors dominate and customers are actively searching for alternatives, such as in building services. The prerequisite in each case is an attractive and diversified product range, complemented by a good service offer. Regional niche business, too, offers sales opportunities that we can take advantage of.

The efforts made by many customers to reduce the operating costs of their systems by using energy-saving components boost the sale of variable speed pumps and controlled valves, energy-efficient motors, and special analysis and consulting services. Several countries have also, as mentioned, prepared new regulations that make the use of energy-efficient plant components mandatory. This may increase the demand for products with high levels of efficiency and thus improve sales prospects for hydraulically optimised pumps, energy-efficient motors and automatic control systems.

In 2015 for the first time, we will offer our high-efficiency synchronous reluctance motors to sectors other than the pump sector. The target group will be users of other rotating machinery that require appropriate drives. If we succeed in expanding our customer base for drive sales, this will open up additional prospects for new and replacement business.

How our general business with standardised pumps and valves develops is very closely tied to the economic situation. Should this prove better than forecast in certain economic countries or regions, demand may recover faster than expected. In this case, we will respond accordingly within the scope of our global manufacturing network.

Globally, our prospects in project business very much depend on the willingness of customers to implement major projects, for example this year in the energy sector. We take advantage of any opportunities with a global project management system, which coordinates the contacts with consultants, plant engineering contractors, end users and other stakeholders. In some countries, such as India, decision-makers have been postponing infrastructure measures for a long time. If there is suddenly unexpectedly strong pent-up demand, this could have a positive impact on our business.

Projects / Products

The markets' requirements for our products are constantly changing. We will only succeed if we meet our delivery deadlines and offer technically advanced products in good quality at affordable prices. To minimise the risk of delivery delays, which can lead to an adverse effect on our reputation with customers and also result in financial penalties, we constantly monitor our sales and manufacturing operations. If we discover that machinery needs to be renewed or capacities expanded, we examine these investment projects as part of a step-by-step approval process. By doing this, we counter the risk of schedule and cost overruns.

Regular market analysis and monitoring minimise the risk that our products will become technically obsolete or that we offer them at prices not acceptable in the market. At the same time, we are exposed to the risk posed by cheap products from Eastern Europe and Asia that compete with KSB's portfolio. This calls for continuous quality management, which we have introduced across the Group.

Instruments for strengthening our product portfolio include the development of new joint ventures and the acquisition of other companies. But there are fundamental risks to this: We need to introduce products into an existing range, harmonise processes, and integrate employees into our organisation. Defined procedures for such projects, opportunity / risk ratings and appropriate analysis methods all help with this.

In our business, there are special requirements when it comes to the processing of large-scale projects with long terms. There are also always associated risks. There may be cost overruns, tighter import regulations, staff shortages, technical difficulties or quality problems – including possible penalties – that reduce our margins. For this reason, we specially train our employees in project management. This enables them to identify the risks associated with longer-term orders at an early stage. Our project managers are provided with appropriate management tools. Decisions are made in conjunction with clearly structured authorisation processes.

There are also technical and financial risks to orders with newly designed products. 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.

We set aside suitable provisions for warranty obligations and contractual penalty risks. These amounted to € 45 million in the annual financial statements for 2014 compared with € 43 million in the previous year; beyond which there is no other major residual risk (net risk).

In the current year, we will offer a range of technically enhanced products to customers, which may lead to partially improved business in building services, industry, water management and energy generation. In particular, the main coolant pump mentioned in the report on expected developments may result in additional orders for planned nuclear power plants in China. This is subject to the successful completion of tests in accordance with high quality and safety requirements and corresponding investment decisions by customers.

Our two expansion projects in Grovetown (USA) and La Roche-Chalais (France) will help improve the manufacturing base. The new specialist foundry of our US subsidiary, GIW Industries, Inc., will immediately allow us to supply large slurry pumps for mining more quickly, while the new production facility for triple-offset butterfly valves in the west of France will help meet the demand for these liquefied gas valves, which started increasing in 2014. We can already take into account the imminent expansion of our manufacturing facilities when agreeing deadlines with our customers. This may under certain circumstances have a positive effect on our order intake, but requires scheduled construction progress.

To date we have obtained components for our standardised and close-coupled pumps from our German foundry in Pegnitz. We have begun to modernise it, and to focus on the production of higher-value components. In the current year, we will start obtaining standard castings for standardised and close-coupled pumps at more favourable prices from our Indian foundry as well as from an external supplier. This will allow us to respond more flexibly to market requirements and to achieve adequate margins.

Finance / Liquidity

As a group with global operations, we are exposed to a wide variety of currency risks. We counter these with foreign exchange hedges. However, our global manufacturing network also offers us the opportunity to benefit from currency effects and to use this where appropriate in competition with other manufacturers. In addition to uncertainties regarding exchange rates, interest rate developments on the capital markets play a role for us. We use bank loans subject to variable interest rates to counter the interest rate risk by hedging our future interest payment flows accordingly.

Alongside the euro, the most important currencies for the KSB Group are the US dollar, the Indian rupee, the Brazilian real and the Chinese yuan. If the exchange rate deviates from our assumptions, this would have positive or negative effects upon our business volumes and our earnings. Political crises such as the situation in Eastern Europe and the search for solutions for highly indebted nations can also bring about significant currency fluctuations, as the year 2014 has demonstrated.

A strict receivables management system and the use of trade credit insurance helps us avoid situations where receivables cannot be collected from customers.

Acquisitions generally increase the intangible assets. However, delays in integration into the Group organisation or negative changes in the market environment may have an adverse impact on the business and financial development of a new entity. This may lead to goodwill declining or to financing for the development of these companies not being repaid in a timely manner. Therefore we monitor very closely the course that the businesses of our acquired companies take (post-merger phase).

Risks regarding margins and liquidity are typical of the project business. 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. As we comply exactly with our

approval processes in the quotation phase and constantly monitor our net financial position, we minimise this risk. At the same time, this enables us to recognise and avoid liquidity shortages. Where necessary, we secure sufficient liquidity by agreeing appropriate credit lines early on.

Persistent recessions or newly emerging crisis may adversely affect 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. We counter this by means of a strict receivables management system and intensive customer contacts.

As regards tax matters, the global orientation of our activities must be taken into consideration. Based on our operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for measuring our tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. These may come to light during audits. By cooperating closely with external local tax specialists, we counteract the risk of having to pay back taxes. As we continually monitor unclear issues, we can generally classify the probability of occurrence. Should a need for subsequent payment arise, we create the corresponding provisions in good time. In the 2014 consolidated financial statements, we set aside about € 3 million for circumstances that are classified as a significant or neutral risk.

Procurement

Commodity prices and procurement times are subject to strong market-related fluctuations. This may adversely affect our earnings situation if we do not manage to make up for cost increases or pass them onto our customers. Delays or bottlenecks in our supply chain for raw materials and components may negatively impact our business operations. If we do not benefit promptly from declining procurement prices, the persistent pressure on the selling price of our products would have a negative effect on our earnings.

In order for our high-quality products to be price-competitive in the long term, we look for suppliers worldwide who will supply us with raw materials and components in the desired quality and quantity, but at advantageous terms. In this context, we focus not only on price and quality, but also consider the materials used from a total cost viewpoint. We maintain a cooperative relationship with the selected suppliers. We are creating a mutually beneficial situation that is underpinned by a high degree of flexibility and reliability. We are therefore in a good position to meet promised delivery times and to comply with defined quality standards and thus maintain and strengthen the bond between us and our customers. However, we are also careful to avoid becoming dependent on individual suppliers. Accordingly, it is important to us to constantly know a sufficient number of alternative procurement sources and be able to use them, if necessary.

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 – especially in promising markets such as China – 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 are not always 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. However, this means we also have to ensure that we safeguard our know-how. We can only succeed in this if we adequately secure our IT systems technically and apply for patents and trademarks early on.

In the current year, we are working on modernising and supplementing our product range using our research and development capabilities. This applies primarily to products that are needed in the chemical and petrochemical industries, as well as to circulators and automation systems. By developing innovative pumps, valves and systems as well as energy-saving special motors, and launching them onto the market, we are improving the chances of getting our range of competitive products to stand out and thus strengthen our image as a technology leader.

Of particular importance for the development of our products is the keyword Industry 4.0, used to describe the networking of manufacturing facilities. By enabling our pumps, valves and automation systems to communicate via the Web, we will establish one of the many conditions for the "networked factory" that partially organises itself. In this way we will position ourselves early on as a company keen to be at the forefront of this development.

Environment

Our business activities, primarily in the area of production, are subject to numerous environmental protection laws and regulations. Environmental damage of any kind (for example, groundwater contamination, renovation needed due to outdated construction materials or unpleasant odours arising from the use of chemicals) may result in losses not covered by an

New dimensions: Slurry pumps are becoming larger, just as mining plants.

insurance policy. 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. If we discover any contamination, we set aside provisions to meet the liabilities for the necessary clean-up work. In the 2014 consolidated financial statements, these amounted to about € 1 million for significant or neutral risks.

As part of acquisition projects, we examine properties for possible contamination before purchase. We take account of critical issues by way of corresponding contractual regulations with the seller and implement appropriate measure in consultation it.

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.

Based on a global environmental management system, we recognise in good time the hazards for humans and nature that may arise from our activities, and where necessary take protective measures. It gives us great opportunities to prevent damage and the financial consequences thereof. By having our production and service plants checked by auditors and certified according to international standards, we and our customers are both assured that KSB companies respect the environment. This is an important prerequisite for many business relations. It offers KSB the opportunity to present itself to the market as an environmentally sound company. Our commitment to the UN Global Compact too allows us to meet the expectations of our customers and thus improve our sales prospects.

Other business-related aspects

To achieve our growth and profitability business objectives, 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. Strong fluctuations in the evaluation of capital market interest rates to be paid may have a considerable impact on the Group's earnings and the equity carried on the balance sheet. To limit this risk, we validate alternative models.

Other potential risks associated with the activities of our employees include dishonest conduct or violations of laws, that 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.

Legal disputes cannot always be avoided within the framework of our business activities. These are usually disputes arising from operations, generally involving unclear warranty issues. If as a result of these issues we expect negative effects on the success of our business, we set aside corresponding provisions, which cover not only the anticipated amount of loss, but also the costs of proceedings. To rule out a net risk, the 2014 consolidated financial statements include about € 4 million for those cases classified as significant or neutral risks. We have also created provisions for litigation with authorities and for staff matters. These total a further € 4 million to cover any cases we classify as significant or neutral within our risk assessment methodology.

The manipulation and loss of electronic data can lead to serious commercial disadvantages. We limit this risk by means of adequate security systems and access procedures. An increased centralisation of the IT systems of our various oper-

ating units assists us in this. In this way, we implement high security standards and thus reduce the risk of data loss or corruption.

Since 2014, we have made more use of online social media as a means of initiating contact with potential employees. These communication channels will increase our chances of finding a suitable selection of candidates and recruiting professionals internationally. At the same time, using these media we can target young people who are interested in apprenticeships, dual work/degree programmes or executive trainee programmes. We give them an insight via online media into the company's activities including social activities at KSB. This can increase the attractiveness of our company as an employer for key target groups, and improve our chances in the battle for the "best brains".

In 2015, we will begin to renew our central infrastructure and standardise and automate our IT services further. This will allow us to provide employees with the required services more cheaply and quickly.

IMPORTANT OPPORTUNITIES AND RISKS BY SEGMENT

As in the previous year, the opportunities and risks for the Pumps, Valves and Service segments are most influenced by economic development. The future development of China, for example, is of importance to us. Particularly in Eastern Europe, uncertainty regarding political risk is of great importance to the Pumps and Valves segments, and to a lesser degree to Service. The unclear oil price trend and worsening payment behaviour harbour risk potential for future business transactions. A quicker-than-expected return to political stability, combined with a calming of the currency turmoil, would probably have positive repercussions. We would always expect benefits from an unexpectedly early recovery of the oil price. On the contrary, a continuation of a politically uncertain situation, combined with persistent depreciation tendencies among some currencies, or a permanently low oil price would have a negative impact on our business. Our risk assessment for our most important influencing factor, the economic situation, remains virtually unchanged from the previous year. We nonetheless hope that our measures, intended to foster growth, will provide us with considerable support in achieving our goals. We see positive signs of this and thus better opportunities for our project business, despite possible currency uncertainties. Furthermore, the political crises and future development of the oil price mean both opportunities and risks for all segments. Our customers are also often affected by recessions and more intense competition, which can decrease their ability to pay in individual cases.

Negative currency changes in growth countries could threaten our exports, in particular those from our European plants. But this would also enable 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 and do not lend ourselves to business of a speculative nature. 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.

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 € 235.0 million (previous year: € 211.9 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 € 60.6 million (previous year: € 70.7 million). Underlyings and hedge transactions share the same variable interest rates and maturities (1 to 3 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.

OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS BY THE BOARD OF MANAGEMENT

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.

The overall risk situation has not changed materially in comparison with the previous year, but there has been a change in the assessment of various individual risks as a result of our measures and, in part, of other internal and external aspects.

Overall, we assume there will be moderate economic recovery over the next year. Our structural measures will afford us additional support in achieving our objectives. However, an economic slowdown in the growth markets as well as negative developments that could stem from the regions in Eastern Europe experiencing unrest, from the future oil price trend or from volatile currencies present risks. 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. For us, a solid financial position and an efficient cost structure are vital in order to maintain our long-term competitiveness. We are convinced that we can continue to successfully overcome the risks arising from the above-mentioned challenges.

The introduced risk management system as well as the related organisational measures allow the Board of Management to identify risks in a timely manner and to take adequate measures. In view of the somewhat uncertain situation, the focus of activities in 2015 will continue to be on the management of market risks. The Board of Management states that, based on the risk management system established by the KSB Group, at present there are no risks that could lead to a lasting and significant impact on the net assets, financial position and results of the KSB Group.

ACQUISITION-RELATED DISCLOSURES

A summary of the aquisition-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. In the first half of the year under review, the Board consisted of three persons, and from 1 July 2014, had two members. 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 OF THE HGB)

The updated Corporate Governance Statement pursuant to section 289a of the *HGB* will be made accessible to the public from 30 March 2015 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. In total, the short-term benefits (total remuneration) paid to the members of the Board of Management for their activities in the 2014 financial year amounted to € 1,427 thousand (previous year: € 1,890 thousand), and the payments for benefits after termination of work € 2,011 thousand (previous year: € 1,566 thousand). € 41,861 thousand (previous year: € 30,103 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 € 2,232 thousand in the year under review (previous year: € 1,699 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 amount to € 944 thousand for the 2014 financial year (previous year: € 1,219 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 30 March 2015 at www.ksb.com > Investor Relations > Corporate Governance/Corporate Governance Statement.

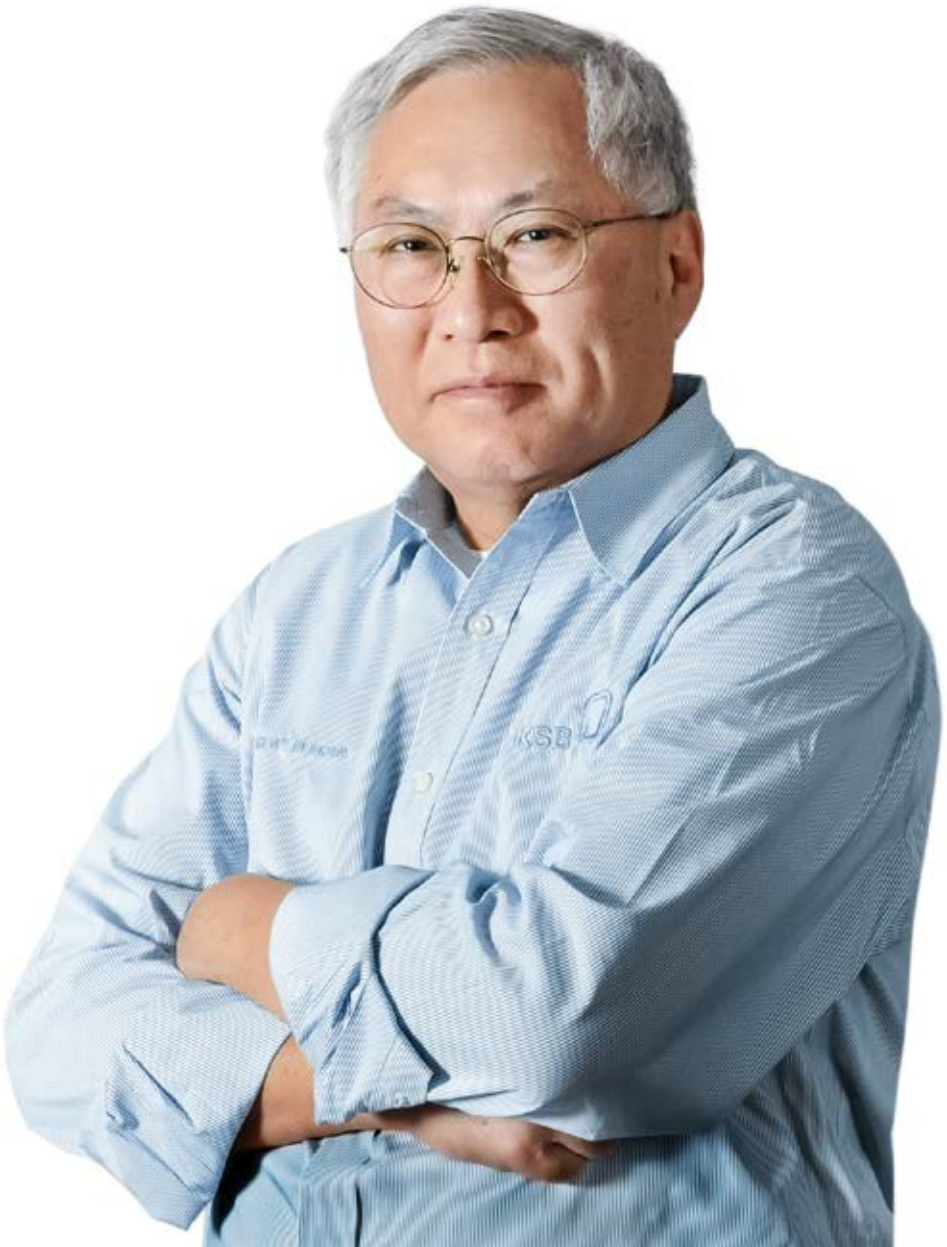
New technology for mineral processing

Hydrocyclone for mining applications

RELIABLE HYDROCYCLONE

Phosphate rock in the USA, oil sands in Canada or copper ores in Chile: slurry pumps for mining applications handle hundreds of different materials under extreme conditions day by day. To complement its range of slurry transport pumps, KSB's US American subsidiary GIW Industries Inc. has designed a hydrocyclone which separates mineral particles in a liquid suspension (slurry) by size and density. Comprising a cylindrical section at the top above a conical base, it allows sand and ore to be separated from water and different ores to be separated from each other. The process involves the solids/liquid mixture entering the cyclone via the inlet and circulating in the cylindrical section. Larger particles are thus forced outwards towards the wall and drop to the bottom. The remaining liquid exits the hydrocyclone via the overflow at the top. This energy-efficient mechanical separation combined with the GIW hydrocyclone's extremely low maintenance requirements offers substantial cost-cutting potential as cyclone outages may cause downtime costs of between 50,000 and 150,000 US dollars. KSB service centres in the world's most important mining regions provide quick service and ensure trouble-free operation for your systems.

"Two bolts is all it takes for our customers to replace the apex, making the new hydrocyclone one of the most service-friendly products available."



Bill Wong

Senior Product Manager
Hydrocyclone

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2014	31 Dec. 2013
Non-current assets			
Intangible assets	1	111,441	111,302
Property, plant and equipment	2	475,808	442,861
Non-current financial assets	3	7,320	10,432
Investments accounted for using the equity method	4	28,001	26,617
Deferred tax assets	17	86,659	39,633
		709,229	**630,845**
Current assets			
Inventories	5	449,826	423,848
Receivables and other current assets	6	683,749	644,144
Cash and cash equivalents	7	432,673	451,438
Assets held for sale	2	2,234	1,185
		1,568,482	**1,520,615**
		2,277,711	**2,151,460**

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2014	31 Dec. 2013
Equity	8		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		585,054	618,819
Equity attributable to shareholders of KSB AG		696,489	730,254
Non-controlling interests		132,719	114,240
		829,208	**844,494**
Non-current liabilities			
Deferred tax liabilities	17	15,058	15,499
Provisions for employee benefits	9	529,526	412,870
Other provisions	9	16,254	15,402
Other liabilities	10	159,427	204,982
		720,265	**648,753**
Current liabilities			
Provisions for employee benefits	9	99,060	109,285
Provisions for taxes	9	4,158	4,799
Other provisions	9	80,688	65,211
Tax liabilities	10	20,837	23,645
Other liabilities	10	523,286	455,273
Liabilities held for sale	2	209	–
		728,238	**658,213**
		2,277,711	**2,151,460**

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	2014	2013
Sales revenue	11	**2,181,739**	**2,247,331**
Changes in inventories		12,012	–24,931
Work performed and capitalised		3,964	1,530
Total output of operations		**2,197,715**	**2,223,930**
Other income	12	36,260	44,568
Cost of materials	13	–887,378	–892,304
Staff costs	14	–785,471	–787,552
Depreciation and amortisation expense	1, 2	–66,204	–60,163
Other expenses	15	–392,964	–383,410
Other taxes		–13,162	–12,573
		88,796	**132,496**
Financial income	16	6,497	6,840
Financial expense	16	–24,281	–23,380
Income / expense from investments accounted for using the equity method	16	1,582	3,459
		–16,202	**–13,081**
Earnings before income taxes		**72,594**	**119,415**
Taxes on income	17	–26,416	–39,550
Earnings after income taxes		**46,178**	**79,865**
Attributable to:			
Non-controlling interests	18	7,874	14,183
Shareholders of KSB AG		**38,304**	**65,682**
Diluted and basic earnings per ordinary share (€)	19	21.74	37.38
Diluted and basic earnings per preference share (€)	19	22.00	37.64

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

(€ thousands)	Notes	2014	2013
Earnings after income taxes		**46,178**	**79,865**
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		**–68,692**	**13,056**
Actuarial gains / losses	9	–98,568	18,991
Taxes on income		29,876	–5,935
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		**31,154**	**–50,596**
Currency translation differences		38,834	–53,452
Measurement of financial instruments		–11,534	4,212
Taxes on income		3,854	–1,356
Other comprehensive income		**–37,538**	**–37,540**
Total comprehensive income		**8,640**	**42,325**
Attributable to:			
Non-controlling interests		19,947	4,889
Shareholders of KSB AG		**–11,307**	**37,436**

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

STATEMENT OF CHANGES IN EQUITY

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

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2014	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid (Notes No. 8)	–	–
Capital increases / decreases (Notes No. 8)	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2014	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
Balance at 1 Jan. 2013	– 35,750	– 20,784	**– 56,534**
Change in 2013	– 43,447	– 10,005	**– 53,452**
Balance at 31 Dec. 2013 / 1 Jan. 2014	**– 79,197**	**– 30,789**	**– 109,986**
Change in 2014	26,211	12,623	**38,834**
Balance at 31 Dec. 2014	**– 52,986**	**– 18,166**	**– 71,152**

	Revenue reserves						
		Other comprehensive income					
	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 interests	Total equity
	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**

	Revenue reserves						
		Other comprehensive income					
	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 interests	Total equity
	771,825	– 79,197	3,461	– 77,270	730,254	114,240	844,494
	–	26,211	– 7,454	– 68,368	– 49,611	12,073	– 37,538
	38,304	–	–	–	38,304	7,874	46,178
	38,304	**26,211**	**– 7,454**	**– 68,368**	**– 11,307**	**19,947**	**8,640**
	– 21,240	–	–	–	– 21,240	– 1,999	– 23,239
	–	–	–	–	–	–	–
	– 1,218	–	–	–	– 1,218	–	– 1,218
	1,041	–	–	– 1,041	–	531	531
	788,712	**– 52,986**	**– 3,993**	**– 146,679**	**696,489**	**132,719**	**829,208**

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

STATEMENT OF CASH FLOWS

(€ thousands)	2014	2013*
Earnings after income taxes	46,178	79,865
Depreciation and amortisation expense / Write-ups	68,357	60,291
Increase in non-current provisions	12,120	7,554
Loss on disposal of fixed assets	– 3,068	– 834
Other non-cash expenses / income	746	– 4,528
Cash flow	**124,333**	**142,348**
Decrease / Increase in inventories	– 11,334	8,168
Decrease / Increase in trade receivables and other assets	– 28,910	30,490
Decrease / Increase in current provisions	2,168	– 11,541
Decrease in advances received from customers	– 2,915	– 40,692
Increase in liabilities (excluding financial liabilities)	5,240	6,575
Other non-cash expenses / income (operating)	–	–
	– 35,751	**– 7,000**
Cash flows from operating activities	**88,582**	**135,348**
Proceeds from disposal of intangible assets	25	25
Payments to acquire intangible assets	– 9,553	– 1,719
Proceeds from disposal of property, plant and equipment	5,877	1,990
Payments to acquire property, plant and equipment	– 76,494	– 53,954
Proceeds from disposal of non-current financial assets	30	80
Payments to acquire non-current financial assets	– 1,518	– 3,972
Net cash flows from the acquisition and sale of consolidated companies and other business units (less acquired cash and cash equivalents)	178	– 3,161
Changes in term deposits (maturity of more than 3 and up to 12 months)	– 22,406	45,003*
Other non-cash expenses / income (investing)	–	–
Cash flows from investing activities	**– 103,861**	**– 15,708***
Proceeds from additions to equity / Payments related to capital decreases (Notes No. 8)	–	–
Dividends paid for prior year (including non-controlling interest) (Notes No. 8)	– 23,239	– 33,975
Net cash flows from financial liabilities	– 13,667	11,359
Payments resulting from financial receivables	– 576	286
Other non-cash expenses / income (financing)	–	–
Cash flows from financing activities	**– 37,482**	**– 22,330**
Net change in cash and cash equivalents	– 52,761	97,310*
Effects of exchange rate changes on cash and cash equivalents	10,787	– 5,039
Effects of changes in consolidated Group	803	3,139
Cash and cash equivalents at beginning of reporting period (1 Jan. 2014 / 1 Jan. 2013)	331,641*	236,231*
Cash and cash equivalents at end of reporting period (31 Dec. 2014 / 31 Dec. 2013)	**290,470**	**331,641***

	31 Dec. 2014	31 Dec. 2013	1 Jan. 2013
Cash and cash equivalents	**290,470**	**331,641**	**236,231**
Term deposits with a maturity of more than 3 and up to 12 months	126,935	101,835	150,000
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	15,268	17,962	14,800
Cash and cash equivalents with a maturity of under 3 months	**432,673**	**451,438**	**401,031**

* Correction under IAS 8.42, see Section I. General Information on the Group

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.

In the previous year, KSB AG and its subsidiaries were included in the consolidated financial statements of Klein Pumpen GmbH, Frankenthal. Klein Pumpen GmbH, Frankenthal, is the parent company which prepares the consolidated financial statements for the largest group of companies. The consolidated financial statements are published in the *Bundesanzeiger* [German Federal Gazette].

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, and all Standards applicable at the reporting date and adopted by the European Commission for use in the EU that are of relevance to the KSB Group, as well as the Interpretations issued by the IFRS Interpretations Committee. 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 as applicable in the EU.

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 joint ventures and associates are measured using the equity method.

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

The income statement as part of the statement of comprehensive income 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 present consolidated financial statements were approved for issue by the Board of Management on 17 March 2015 and are expected to be approved by the Supervisory Board on 25 March 2015.

New accounting principles

a) Accounting principles applied for the first time in financial year 2014

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 2014:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IFRS 10 Consolidated Financial Statements	12 May 2011	29 Dec. 2012	1 Jan. 2014
IFRS 11 Joint Arrangements	12 May 2011	29 Dec. 2012	1 Jan. 2014
IFRS 12 Disclosure of Interests in Other Entities	12 May 2011	29 Dec. 2012	1 Jan. 2014
IAS 27 Separate Financial Statements (revised 2011)	12 May 2011	29 Dec. 2012	1 Jan. 2014
IAS 28 Associates and Joint Ventures (revised 2011)	12 May 2011	29 Dec. 2012	1 Jan. 2014
Transition guidance (Changes to IFRS 10, IFRS 11 and IFRS 12)	28 June 2012	5 April 2013	1 Jan. 2014
Investment companies (Changes to IFRS 10, IFRS 12 and IAS 27)	31 Oct. 2012	21 Nov. 2013	1 Jan. 2014
IAS 32 Financial Instruments: Presentation	16 Dec. 2011	29 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

IFRS 10 Consolidated Financial Statements replaces the guidelines contained in **IAS 27 Consolidated and Separate Financial Statements** on control and consolidation. It also changes the definition of "control" such that the same criteria are applied to all companies for the purposes of determining whether a control relationship exists or not. Control requires power over the investee, exposure or rights to variable returns and the ability to use power to affect the variable returns. As IAS 27 therefore now only contains the rules applicable to separate financial statements, the standard has been renamed **IAS 27 Separate Financial Statements (revised 2011)**. The application of IFRS 10 had no effect on the consolidated financial statements.

IFRS 11 Joint Arrangements affects companies that exercise joint control over a joint venture or joint operations, and supersedes **IAS 31 Interests in Joint Ventures** and SIC 13 Jointly Controlled Entities. 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 in accordance with **IAS 28 Associates and Joint Ventures** (**revised 2011**). IAS 28 previously exclusively dealt with associates. Its scope has now been extended to include joint ventures, and it has been renamed accordingly. The KSB Group has examined the Group's investments and re-evaluated them in compliance with the provisions of IFRS 11. This has shown that the investments in the companies listed below now are to be classified as joint ventures and accounted for using the equity method:

- Nikkiso-KSB GmbH, Bruchköbel, Germany
- KSB Pumps Arabia Ltd., Riyadh, Saudi Arabia
- KSB Service LLC, Abu Dhabi, UAE
- Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China

As these companies up until now have been classified as associates and thus accounted for using the equity method, there is no quantitative impact on the consolidated financial statements from the first-time application of IFRS 11.

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, 31 and SIC 12 have been replaced and additional disclosure requirements added. As a general rule, IFRS 12 has resulted in significantly more detailed disclosures in the Notes to the Consolidated Financial Statements.

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

The amendment to **IAS 36 Impairment of Assets** means that any undesired effects on the disclosure requirements resulting from the introduction of IFRS 13 are eliminated.

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 relating to IAS 32 and 39 are of no relevance to the KSB Group.

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

The following Standards and revised Standards, as well as the new Interpretation issued by the IFRS Interpretations Committee (IFRIC), were not yet mandatory and were not applied in the 2014 financial year:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IAS 19 Employee Benefits	21 Nov. 2013	9 Jan. 2015	1 July 2014
Improvements to the International Financial Reporting Standards (2010 to 2012)	12 Dec. 2013	9 Jan. 2015	1 July 2014
Improvements to the International Financial Reporting Standards (2011 to 2013)	12 Dec. 2013	19 Dec. 2014	1 July 2014
IFRIC 21 Levies	20 May 2013	14 June 2014	17 June 2014
Improvements to the International Financial Reporting Standards (2012 to 2014)	25 Sept. 2014	Estim. Q3/2015	1 Jan. 2016
IAS 1 Presentation of Financial Statements	18 Dec. 2014	Estim. Q4/2015	1 Jan. 2016
IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements	11 Sept. 2014	Estim. Q4/2015	1 Jan. 2016
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures	18 Dec. 2014	Estim. Q4/2015	1 Jan. 2016
IFRS 11 Joint Arrangements	6 May 2014	Estim. Q1/2015	1 Jan. 2016
IFRS 14 Regulatory Deferral Accounts	30 Jan. 2014	Open	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets	12 May 2014	Estim. Q1/2015	1 Jan. 2016
IAS 27 Separate Financial Statements	12 Aug. 2014	Estim. Q3/2015	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture	30 June 2014	Estim. Q1/2015	1 Jan. 2016
IFRS 15 Revenue from Contracts with Customers	28 May 2014	Estim. Q2/2015	1 Jan. 2017
IFRS 9 Financial Instruments	24 July 2014	Estim. Q3 or Q4/2015	1 Jan. 2018

The adjustments to **IAS 19 Employee Benefits** introduce a new option into the standard in relation to the accounting method used for defined benefit pension commitments to which employees (or third parties) contribute via compulsory contributions.

IFRIC 21 Levies provides guidance on the accounting treatment of levies, clarifying in particular when to recognise a liability or provision for such payment obligations.

The aim of the amendment to **IAS 1 Presentation of Financial Statements** is to remove immaterial information from the IFRS financial statements, thereby emphasising the concept of materiality.

The amendments to **IAS 28 Investments in Associates and Joint Ventures** and **IFRS 10 Consolidated Financial Statements** remove an inconsistency between the rules laid down in the standards for dealing with assets being sold to an associate or joint venture and/or the contribution of assets in an associate or joint venture. In future, any gain or loss arising from the loss of control over a subsidiary that is being incorporated into a joint venture or associate must be recognised in the full amount by the investor if the transaction relates to a business as defined in IFRS 3 Business Combinations. If, in contrast, the assets do not form a business, the gain/loss may only be recognised pro rata.

The Investment Entities – Applying the Consolidation Exception standard amending **IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities** and **IAS 28 Interests in Associates and Joint Ventures** clarifies the fact that exemption from the obligation to prepare consolidated financial statements also applies to parent companies that are themselves a subsidiary of an investment entity.

The amendment to **IFRS 11 Joint Arrangements** clarifies that the acquisition of interests and of additional interests in joint operations that represent a business as defined in IFRS 3 are to be accounted for in accordance with the principles for the reporting of business combinations in accordance with IFRS 3 and other applicable IFRS, provided that this does not contradict the provisions of IFRS 11.

The provisions of **IFRS 14 Regulatory Deferral Accounts** will enable entities that are preparing IFRS financial statements for the first time to retain deferred amounts relating to price-regulated activities in their IFRS financial statements.

The aim of the amendments to **IAS 16 Property, Plant and Equipment** and to **IAS 38 Intangible Assets** is to clarify the methods to be used for the depreciation of property, plant and equipment, and amortisation of intangible assets.

As a result of the amendments to **IAS 27 Separate Financial Statements**, investments in subsidiaries, joint ventures and associates may be accounted for using the equity method in future separate financial statements prepared in accordance with IFRS.

The amendments to **IAS 16 Property, Plant and Equipment** and **IAS 41 Agriculture** change the reporting for what are referred to as bearer plants.

The aim of **IFRS 15 Revenue from Contracts with Customers** is to define principles on the basis of which companies should report on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Revenue is no longer realised upon the transfer of the material opportunities and risks but, in future, is realised once the customer has acquired control over the agreed goods and services and can derive benefits from these. The rules and definitions of IFRS 15 will in future replace the content of IAS 18 Revenue and of IAS 11 Construction Contracts.

IFRS 9 Financial Instruments sets out the classification and measurement requirements for financial assets and liabilities. A new impairment model for expected losses is being introduced. Additionally, the classification and measurement model for financial assets for particular debt instruments is being extended to include the category of Fair Value through Other Comprehensive Income (FVTOCI).

As a matter of principle, we have not voluntarily applied the above-mentioned new or revised Standards and the Interpretation prior to their effective dates. Based on our current assessment, we do not anticipate any material impact on our net assets, financial position or results of operations. However, extended disclosures in the Notes will be required as a result of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. This is currently being reviewed within the KSB Group.

Correction under IAS 8

In the statement of cash flows a correction was made in accordance with IAS 8.42, as in the previous year cash and cash equivalents, contrary to IAS 7.7, included term deposits with a maturity of more than 3 and up to 12 months. The amount of these deposits is presented following the statement of cash flows in the reconciliation of the adjusted amount of cash and cash equivalents with a maturity of under 3 months to the "Cash and cash equivalents" balance sheet item. This adjustment has no impact on balance sheet items or statement of comprehensive income items and earnings per share. The adjustment amount in the prior-year cash flows from investing activities is € 45,003 thousand.

In the disclosures in the Notes on provisions for pensions and similar obligations, additional information regarding plan assets has been added and – where necessary – prior-year figures have been adjusted. This adjustment has no impact on balance sheet items or statement of comprehensive income items and earnings per share either.

II. BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 10 German and 86 foreign companies (previous year: 10 German and 83 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 determine their business and financial policies and thus the level of variable returns.

Companies that were not consolidated due to there being no material impact are reported under financial assets.

The following table shows the subsidiaries with non-controlling interests that are material subsidiaries of the KSB Group. "Seat" refers to the country in which the main activity is performed.

MATERIAL SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

Name and seat	Non-controlling interest in capital	Earnings after income taxes attributable to non-controlling interests		Accumulated non-controlling interests	
(€ thousands)	2014/2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
GIW Industries, Inc., USA	49.0 %	1,427	3,463	17,982	13,518
KSB Pumps Limited, India	59.5 %	4,709	4,139	44,101	36,199
KSB America Corporation, USA	49.0 %	42	43	19,705	17,315
KSB Shanghai Pump Co. Ltd., China	20.0 %	–2,218	925	11,645	12,686
Individually immaterial fully consolidated subsidiaries with non-controlling interests		3,914	5,613	39,286	34,522
Total amount of non-controlling interests		**7,874**	**14,183**	**132,719**	**114,240**

The summarised financial information regarding the KSB Group's material subsidiaries with non-controlling interests is provided below. This information corresponds to the amounts given in the subsidiaries' financial statements prepared in accordance with IFRS prior to intercompany eliminations.

SUMMARISED BALANCE SHEET

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands) / 31 Dec.	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Non-current assets	38,888	18,616	29,584	25,079	33,205	30,320	30,467	27,530
Current assets	54,899	54,456	84,859	64,758	42,578	36,098	134,177	130,187
Non-current liabilities	– 4,769	– 4,527	– 431	– 553	–	–	– 518	– 513
Current liabilities	– 32,928	– 21,570	– 41,143	– 29,524	– 25,997	– 25,008	– 108,488	– 96,278
Net assets	**56,090**	**46,975**	**72,869**	**59,760**	**49,786**	**41,410**	**55,638**	**60,926**

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Sales revenue	117,425	147,525	97,271	92,443	–	–	115,588	142,549
Earnings after income taxes	2,912	7,067	8,671	7,870	2,511	6,956	– 10,754	4,278
Other comprehensive income	6,203	– 765	6,371	– 10,432	5,865	– 1,828	5,466	– 717
Total comprehensive income	9,115	6,302	15,042	– 2,562	8,376	5,128	– 5,288	3,561
Other comprehensive income attributable to non-controlling interests	3,039	– 375	3,788	– 6,203	2,874	– 896	1,093	– 143
Total comprehensive income attributable to non-controlling interests	4,466	3,088	8,944	– 1,523	4,104	2,513	– 1,058	712
Dividends paid to non-controlling interests	–	– 2,165	– 1,149	– 1,462	–	–	–	– 162

SUMMARISED STATEMENT OF CASH FLOWS

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Cash flows from operating activities	10,522	8,179	4,341	13,529	2,789	6,703	– 1,709	3,962
Cash flows from investing activities	– 18,131	– 3,690	– 2,114	– 1,422	–	–	– 1,391	– 4,336
Cash flows from financing activities	7,525	– 4,418	78	– 4,967	– 9,895	2,163	2,019	– 172
Changes in cash and cash equivalents	**– 84**	**71**	**2,305**	**7,140**	**– 7,106**	**8,866**	**– 1,081**	**– 546**
Cash and cash equivalents at beginning of period	1,114	1,093	18,750	14,397	32,231	24,765	11,377	12,097
Effects of exchange rate changes	143	– 50	2,244	– 2,787	3,707	– 1,400	1,134	– 174
Cash and cash equivalents at end of period	**1,173**	**1,114**	**23,299**	**18,750**	**28,832**	**32,231**	**11,430**	**11,377**

The following affiliates were fully consolidated in our consolidated financial statements for the first time with effect from 1 January 2014:

- KSB Service Suciba, S.L.U., Loiu-Bizkaia (Spain)
- KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca (Morocco)

These affiliates that were consolidated for the first time were acquired or established in previous years. They contributed around € 0.3 million to earnings after income taxes and had the following impact on the consolidated financial statements:

(€ thousands)	2014
Non-current assets	– 1,971
Current assets	1,751
Assets	**– 220**
Equity	– 1,218
Non-current liabilities	44
Current liabilities	954
Equity and liabilities	**– 220**

On 8 September 2014, KSB increased its investment in WM Teknikk AS, Ski (Norway) from 34 % to 100 %, thereby acquiring control over the company. With effect from this date, the company became a fully consolidated subsidiary, having previously been reported as an associate using the equity method. The remeasurement of legacy shares (34 %) at the time of control being acquired resulted in expenses of € 0.4 million, which were recognised in income/expense from/to investments accounted for using the equity method. The share of equity held immediately prior to the date of acquisition amounted to € 0.1 million. WM Teknikk AS offers services and supplies spare parts for pumps and pump systems on the Norwegian market and is primarily allocated to the Service segment. The Group's newly acquired control will provide it with access to the WM Teknikk AS customer base and thus enable it to operate on the Norwegian market more effectively.

As the carrying amount of the assets acquired was higher than the purchase price paid in cash (1 NOK), this resulted in an excess of our interest in the fair values of net assets acquired over cost in the amount of € 0.1 million. After reassessment this was recognised in profit or loss when incurred, and is reported within other income under miscellaneous other income.

The first-time consolidation took place at the time of control being acquired. The assets and liabilities acquired have been included in the consolidated balance sheet at the following fair values:

(€ thousands)	Fair value at the date of acquisition	Previous carrying amount
Non-current assets		
Intangible assets	22	–
Property, plant and equipment	48	48
Deferred tax assets	23	23
	93	**71**
Current assets		
Inventories	224	224
Receivables and other current assets	623	623
Cash and cash equivalents	178	178
	1,025	**1,025**
	1,118	**1,096**
Equity	**109**	**93**
Non-current liabilities		
Deferred tax liabilities	6	–
Other liabilities	431	431
	437	**431**
Current liabilities		
Other liabilities	572	572
	572	**572**
	1,118	**1,096**

The fair value of the intangible assets includes € 22 thousand for concessions and licences. The fair value of property, plant and equipment in the amount of € 48 thousand is entirely attributable to other equipment, operating and office equipment.

It is assumed that the receivables and other assets will be settled in full. The gross amount of trade receivables totals € 555 thousand.

From the date of acquisition in September 2014, WM Teknikk AS contributed € 0.5 million of sales revenue to the Group's consolidated sales revenue. For the full financial year it would have reported € 2.4 million of sales revenue. The contribution to consolidated earnings for the period of consolidation was € –0.1 million; for the full financial year it would have been € –0.2 million.

Business combination costs incurred by the KSB Group amounted to less than € 0.1 million (primarily relating to fees for legal advice). They are reported in the income statement under "Other expenses – Administrative expenses".

The first-time application of IFRS 11 Joint Arrangements has resulted in changes to the classification of investments of the KSB Group previously classified as associates. Four companies are now classified as investments in joint ventures and continue to be accounted for using the equity method; thus there is no quantitative impact on the consolidated financial statements. A joint venture is a joint agreement whereby the parties that have joint control of the arrangement have rights to the net assets or the arrangement. Joint control is the contractually agreed sharing of control of an arrangement. This is only given when decisions about the relevant activities require the unanimous consent of the parties sharing control. Companies are classified 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.

In addition to the above-mentioned change regarding the Norwegian company WM Teknikk AS, Ski, we deconsolidated KSB Atlantic Pump & Valve Service S.L., Las Palmas de Gran Canaria (Spain) due to the company ceasing its active operations with effect from 1 January 2014. The resulting effect on earnings amounts to € –0.1 million. This is reported in the income statement under miscellaneous other expenses within other expenses.

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

In February 2015, we acquired all shares in the Finnish company NINOMIT VPH-Tekniikka Oy based in Oulu at the price of € 0.5 million. This strengthens our presence in Finland and improves our prospects, particularly in the general business with pumps. We also expect positive growth momentum for our spare parts and service business. The company currently has an annual sales revenue of more than € 2 million and earnings before income taxes of around € 0.2 million. Thus, it is not material for the Group's net assets, financial position, and results of operations.

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 pursuant to IFRS 3. This means that the acquisition cost of the parent's shares in the subsidiaries is eliminated against the remeasured equity attributable to the parent at the date of acquisition.

Any goodwill created from the application of the purchase method denominated in a currency other than the functional currency of the KSB Group is measured at the relevant current closing rate. Goodwill is reported under intangible assets and tested for impairment at least once a year. If an impairment is identified, an impairment loss is recognised. Any excess of our interest in the fair values of net assets acquired over cost remaining after reassessment is recognised in profit or loss in the year it occurred.

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

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. Measurement effects are recognised in the income statement.

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 (modified closing rate method). 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 in other comprehensive income and reported under currency translation differences. They amount to € –71,152 thousand (previous year: € –109,986 thousand). The effect of currency translation adjustments taken directly to equity on intangible

assets, property, plant and equipment, and financial assets was a gain of € 19,639 thousand (previous year: loss of € 23,795 thousand).

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

	Closing rate		Average rate	
	31 Dec. 2014	31 Dec. 2013	2014	2013
US dollar	1.2141	1.3791	1.3289	1.3281
Brazilian real	3.2207	3.2576	3.1235	2.8670
Indian rupee	76.7190	85.3660	81.0825	77.8711
Chinese yuan	7.5358	8.3491	8.1890	8.1655

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. Borrowing costs as defined in IAS 23 that can be directly allocated to the acquisition or production of qualifying assets are capitalised from 2009. 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. 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 fair value, we make use wherever possible of estimates from market participants or estimates derived from these. 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 the market-based approach (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or the income-based approach (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 material for 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 subsidiaries 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 in other comprehensive income and reported under measurement of financial instruments. They are recognised in profit or loss when the assets are sold or deemed to be other-than-temporarily impaired. If no asset is derecognised, the accumulated other comprehensive income is reclassified to the income statement.

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 (Other currency forwards)
- Financial liabilities held for trading (FLHfT) – Financial liabilities held for trading and measured at fair value through profit or loss (Other currency forwards)

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 transactions in US dollars (USD). Interest rate risks are minimised for 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 the effective portions of the currency derivatives are recognised under other comprehensive income and reported under measurement of financial instruments in equity for as long as the underlying transaction is not cash-effective.

Changes in the market value of interest rate derivatives used to hedge against interest rate risks in liabilities are recognised under other comprehensive income and reported under measurement of financial instruments 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 forecast transactions are expected to occur. In the year under review, almost all hedged forecasted transactions occurred as expected.

Intangible assets

Intangible assets are carried at (acquisition or production) cost and reduced by straight-line amortisation. Depreciation/amortisation is reported under "Depreciation and amortisation expense" in the income statement. The underlying useful lives are two to five years.

An impairment loss is recognised for a cash-generating unit (CGU) 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 the market-based approach (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or the income-based approach (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. Impairment testing relates to cash-generating units (CGU), which at KSB are generally 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, then goodwill – and, if required, further assets – 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 where the criteria described in IAS 38 are met and reduced by straight-line amortisation at the time of their capitalisation. 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 over its useful life. If an asset's recoverable amount is lower than its carrying amount, an impairment loss is recognised. If the reasons for an impairment loss recognised 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. Financial instruments are carried at their fair values at the reporting date.

Investments accounted for using the equity method
Investments accounted for using the equity method are companies in which the parties exercise joint control (joint venture) or have the power to exercise significant influence over the companies' operating and financial policies (associate); this is usually the case where an entity holds between 20 % and 50 % of the voting power. These assets are recognised at cost at the date of acquisition. If the costs of acquisition exceed the share of the net assets, adjustments are made on the basis of the fair value (pro rata hidden reserves and liabilities). The remaining amount is recognised as goodwill. It forms part of the carrying amount of the joint venture or 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 joint venture or 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 as at the reporting date. 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

In the case of construction contracts covered by IAS 11, we apply the percentage of completion (PoC) method. 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 percentage 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 (for further explanations, refer to 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.

Cash and cash equivalents
Cash and cash equivalents include cash (cash and demand deposits) and cash equivalents (short-term, highly liquid financial investments that are readily convertible to defined amounts of cash at all times and are subject to only immaterial fluctuations in value) with a maturity of under 3 months and time deposits with a maturity of more than 3 and up to 12 months. They are recognised at amortised cost.

Assets held for sale
Pursuant to IFRS 5, non-current assets or disposal groups are classified as held for sale if it is highly likely that the carrying amount will be realised primarily by a sales transaction and not through continued use of that asset. It must be assumed that the sale will be completed within one year. If the Group is committed to a sale that involves loss of control of a subsidiary, all assets and liabilities of that subsidiary will be classified as held for sale, provided the above conditions are met. The intangible assets and property, plant and equipment of the held-for-sale assets are no longer amortised/depreciated, but instead are recognised at the lower of the carrying amount and fair value less costs to sell.

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 other comprehensive income in equity, the change in deferred taxes is also taken directly to 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. They are measured using the projected unit credit method.

Actuarial gains and losses are recognised directly in other comprehensive income and reported in equity in "Actuarial gains/losses under IAS 19". The actuarial demographic assumptions and the setting of the discount rate (based on senior, fixed-income corporate bonds) and other measurement parameters (for example income and pension trends) are based on best estimates.

Net interest is calculated by multiplying the discount rate with the net liability (pension obligation minus plan assets) or the net asset value that results if the plan assets exceed the pension obligation.

The defined benefit costs include the service cost, which is included in staff costs under pension costs, and the net interest income or expense on the net liability or net realisable value, which is recognised in financial income/expense under interest and similar expenses or under interest and similar income.

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 more or less secure recourse or reimbursement claims are recognised as separate assets.

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. This relates to revenue from the sale of goods and goods purchased and held for resale from the production, sale and trade of machinery, systems and other industrial products, particularly pumps and valves. In addition, sales revenue from services and licence income is reported under sales revenue for the period concerned in accordance with the economic content of the underlying contract. Sales revenue is recognised pursuant to IAS 18 when the deliveries have been effected or the services have been rendered and the significant risks and rewards associated with ownership have thus been transferred to the customer. At the time of revenue recognition, receipt of the consideration must be probable and the amount of sales revenue must be reliably measurable. A reliable estimation of the associated costs and potential return of the goods must also be possible. We essentially recognise sales revenue from the delivery of standard products upon handover to the carrier. For some international deliveries, the contractual risk transfer takes place when the goods are loaded onto a cargo ship in the port or delivered to the customer in the destination country. In these cases, sales revenue is recognised on the basis of the contractually agreed INCOTERMS. For certain deliveries and services, a declaration of acceptance by the customer is required for the recognition of sales revenue.

In individual cases and under strict conditions, sales revenue is recognised prior to delivery of the goods (so-called bill and hold arrangements).

Sales revenue for customer-specific construction contracts is reported using the percentage of completion method. We use the so-called cost-to-cost method, according to which the proceeds determined at the beginning of the sales order are compared with the estimated costs, and the sales revenue of a period is determined according to the percentage of completion measured on the basis of the costs incurred; see the explanations on "Construction contracts pursuant to IAS 11".

Sales allowances reduce sales revenue.

Interest income and expense are recognised in the period in which they occur.

Dividend income from investments is collected when the legal entitlement to payment is created.

Operating expenses are recognised when they are incurred or when the services are utilised.

Income taxes are calculated in accordance with the statutory tax rules in the countries in which the Group operates. Deferred taxes are accounted for on the basis of the enacted or substantively enacted income tax rates.

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 (CGU). 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. 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 those 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. Material factors are the reported market discount rates and 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, differ 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 Intangible 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	
Historical cost	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance at 1 January	56,046	58,658	99,785	89,287	2,733	1,187	**158,564**	**149,132**
Changes in consolidated Group	2	19	524	12,677	–	–	**526**	**12,696**
Currency translation adjustments	1,047	–1,938	2,710	–1,645	–	–	**3,757**	**–3,583**
Other	–15	47	–	–	–	–	**–15**	**47**
Additions	1,583	1,583	–	13	5,812	2,636	**7,395**	**4,232**
Addition from business combination	22	–	–	–	–	–	**22**	**–**
Disposals	248	3,467	–	547	2	–	**250**	**4,014**
Reclassifications	7	1,144	–	–	–	–1,090	**7**	**54**
Reclassification as assets held for sale	–165	–	–	–	–	–	**–165**	**–**
Balance at 31 December	58,279	56,046	103,019	99,785	8,543	2,733	**169,841**	**158,564**
Accumulated depreciation and amortisation	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance at 1 January	43,789	42,635	3,473	3,873	–	–	**47,262**	**46,508**
Currency translation adjustments	580	–727	12	–7	–	–	**592**	**–734**
Other	–15	23	–	–	–	–	**–15**	**23**
Additions	4,197	5,300	6,754	154	–	–	**10,951**	**5,454**
Disposal	225	3,442	–	547	–	–	**225**	**3,989**
Reclassifications	–	–	–	–	–	–	**–**	**–**
Reclassification as assets held for sale	–165	–	–	–	–	–	**–165**	**–**
Balance at 31 December	48,161	43,789	10,239	3,473	–	–	**58,400**	**47,262**
Carrying amount at 31 December	**10,118**	**12,257**	**92,780**	**96,312**	**8,543**	**2,733**	**111,441**	**111,302**

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 "Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets" item includes € 8.6 million (previous year: € 10.3 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.

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. As in the previous year, we applied growth rates of between 0.50 % and 1.25 % (previous year: 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 taking account of the peer group. The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 2.1 % in the year under review (previous year: 2.8 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 1.06 (previous year: 1.00). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU).

DISCOUNT RATES

Before taxes in % (value in use)	2014	2013
Companies in Germany	10.7 – 11.0	10.6 – 10.9
Companies in the Netherlands	10.2	10.3
Companies in Italy	14.8 – 15.7	14.4 – 15.5
Companies in the USA	11.8	11.6
Companies in South Africa	14.2	14.0
Companies in the rest of Europe	9.8 – 15.2	9.9 – 15.4

After taxes in % (fair value less costs to sell)	2014	2013
Companies in South Korea	9.1	9.0

GOODWILL

Name of CGU (€ thousands)	31 Dec. 2014	31 Dec. 2013
KSB Seil Co., Ltd., South Korea	26,285	24,001
DP industries B.V., The Netherlands	18,285	18,285
REEL s.r.l., Italy	9,681	9,681
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	5,689
KSB SERVICE MEDIATEC S.A.S., France	3,179	3,179
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	2,120	2,043
KSB Finland Oy, Finland	1,764	1,764
KSB SERVICE ETC S.A.S., France	1,412	1,412
	77,154	**74,793**
Company consolidated for the first time in 2014:		
KSB Service Suciba, S.L.U., Spain	524	–
	524	**–**
Other 20 (previous year: 23) companies	15,102	21,519
Total	**92,780**	**96,312**

The impairment test performed annually resulted in goodwill impairments for the cash-generating units listed below:

IMPAIRMENT LOSS ON GOODWILL

Name of CGU	Segment	Discount factor	Recoverable amount (€ thousands)	Impairment loss 2014 (€ thousands)
KSB Service Est S.A.S., France	Service	13.2 %	4,410	647
KSB Italia S.p.A., Italy	Pumps	15.7 %	23,452	3,710
KSB Service EITB-SITELEC S.A.S., France	Service	10.5 %	2,566	1,944
Metis Levage S.A.S., France	Service	13.3 %	488	453
Total				**6,754**

The previously recognised impairments were due to ongoing economic difficulties.

The 2013 impairment test for the cash-generating unit KSB Singapore (Asia Pacific) Pte Ltd resulted in an impairment loss of € 154 thousand due to the ongoing economic difficulties facing a business line of the Business Unit Pumps in Malaysia.

The impairment loss is recognised in the income statement under "Depreciation and amortisation expense".

A 5 % increase in the relevant discount rate as a possible and realistic change in a key underlying assumption, on which we have based determination of the recoverable amount of the unit, would only require further write-downs of approximately € 0.2 million at KSB Service Est S.A.S., France. Write-downs of around € 1.9 million would have been recorded in the previous year (of which € 1.0 million at KSB Italia S.p.A., Pumps segment, and € 0.8 million at KSB ITUR Spain, Pumps segment).

DETAILED INFORMATION ON KEY GOODWILL ITEMS

Cash-generating unit	Method	Carrying amount of goodwill (€ million)	Percentage of total goodwill	Discount rate	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 %)	26.3	28 %	9.1 % after taxes	▪ Improved business cycle expectations in shipbuilding (liquefied gas tankers) resulting in improved market growth rates ▪ Little change in exchange rates	Consideration of macroeconomic key data and external market research
DP industries B.V.	Value in use	18.3	20 %	10.2 % before taxes	▪ Greater customer focus ▪ Moderate market growth rates	Consideration of macroeconomic key data and internal estimates of the relevant purchasing and sales departments
REEL s.r.l.	Value in use	9.7	10 %	14.8 % before taxes	▪ Greater customer focus ▪ Improved energy efficiency, resulting in more attractive market growth rates	Consideration of external market data and macroeconomic 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 3 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.

2 Property, plant and equipment

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	
Historical cost	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance at 1 January	313,360	312,089	494,511	483,766	193,236	191,201	8,992	19,337	**1,010,099**	**1,006,393**
Changes in consolidated Group	–	5,181	67	729	146	412	2	–	**215**	**6,322**
Currency translation adjustments	8,384	–11,153	13,582	–14,963	4,645	–7,853	1,620	–1,082	**28,231**	**–35,051**
Other	–826	16	–6	191	149	50	–33	–	**–716**	**257**
Additions	9,436	5,091	19,196	21,611	16,880	18,515	32,157	7,631	**77,669**	**52,848**
Addition from business combination	–	–	–	–	48	–	–	–	**48**	**–**
Disposals	348	1,052	3,943	7,868	9,515	10,260	1,079	121	**14,885**	**19,301**
Reclassifications	2,525	4,503	4,607	11,045	161	1,171	–7,300	–16,773	**–7**	**–54**
Reclassification as assets held for sale	–	–1,315	–	–	–69	–	–	–	**–69**	**–1,315**
Balance at 31 December	332,531	313,360	528,014	494,511	205,681	193,236	34,359	8,992	**1,100,585**	**1,010,099**
Accumulated depreciation and amortisation	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance at 1 January	125,694	121,355	311,939	299,512	129,605	124,931	–	–	**567,238**	**545,798**
Currency translation adjustments	3,112	–2,200	8,064	–7,919	3,116	–5,150	–	–	**14,292**	**–15,269**
Other	–18	16	–81	213	202	46	–	–	**103**	**275**
Additions	7,797	7,660	28,389	27,610	19,067	19,439	–	–	**55,253**	**54,709**
Disposals	43	1,018	3,430	7,470	8,603	9,657	–	–	**12,076**	**18,145**
Reclassifications	–	11	320	–7	–320	–4	–	–	**–**	**–**
Reclassification as assets held for sale	–	–130	–	–	–33	–	–	–	**–33**	**–130**
Balance at 31 December	136,542	125,694	345,201	311,939	143,034	129,605	–	–	**624,777**	**567,238**
Carrying amount at 31 December	**195,989**	**187,666**	**182,813**	**182,572**	**62,647**	**63,631**	**34,359**	**8,992**	**475,808**	**442,861**

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 € 2,644 thousand (previous year: € 3,016 thousand), of which € 1,347 thousand (previous year: € 1,437 thousand) relate to land and buildings, € 133 thousand (previous year: € 319 thousand) to plant and machinery and € 1,164 thousand (previous year: € 1,260 thousand) to other equipment, operating and office equipment.

In 2013 it was decided to close down a relatively small production site forming part of the Valves segment in Germany. The real estate there was planned to be sold off in 2014 and, for this reason, it was reported pursuant to IFRS 5 in a separate balance sheet item within current assets (assets held for sale). Due to insufficient market liquidity, a sale has not yet been possible despite various sales activities. It remains our intention to sell. The carrying amount remains unchanged at € 1,185 thousand.

Furthermore, the KSB Group gave up control of a German subsidiary (Service segment) in February 2015 through the sale of shares. Accordingly, the assets and liabilities of this subsidiary are presented as a disposal group held for sale. No write-down needed to be carried out on the disposal group as the fair value less costs to sell was not below the carrying amount. Also, no accumulated income and expenses arising in connection with the disposal group are included in other comprehensive income. The held-for-sale assets and liabilities are classified as follows:

(€ thousands)	31 Dec. 2014
Intangible assets	–
Property, plant and equipment	36
Inventories	429
Receivables and other current assets	420
Cash	164
Assets held for sale	**1,049**

(€ thousands)	31 Dec. 2014
Provisions	63
Liabilities	146
Liabilities held for sale	**209**

No property, plant and equipment (previous year: € 5,491 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 € 3,646 thousand (previous year: € 1,487 thousand) and book losses of € 578 thousand (previous year: € 653 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.

3 Non-current financial assets

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Other investments	3,941	7,154
Non-current financial instruments	661	650
Loans	2,718	2,628
	7,320	**10,432**

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

4 Investments accounted for using the equity method

The first-time application of IFRS 11 Joint Arrangements has resulted in changes to the classification of four of a total of five investments of the KSB Group previously classified as associates. These are now classified as investments in joint ventures and continue to be accounted for using the equity method. There is thus no quantitative impact on the consolidated financial statements.

The following table lists the KSB Group's material joint ventures. "Seat" refers to the country in which the main activity is performed. All joint ventures and associates are accounted for using the equity method and can also be found in the list of shareholdings in these Notes to the Consolidated Financial Statements. The share of capital corresponds to the share of voting rights.

MATERIAL JOINT VENTURES

Name and seat	Capital share	Nature of the entity's relationship
KSB Pumps Arabia Ltd., Saudi Arabia	50.00 %	KSB Pumps Arabia Ltd. in Riyadh, Saudi Arabia, offers a wide range of services and activities for the energy market as well as in water, waste water and building services applications. The portfolio includes business development and marketing, supply chain, production of pressure booster systems and pump sets, sale of pumps, valves and systems and technical service activities. KSB Pumps Arabia Ltd. is important for the growth of the Group in the Saudi Arabian market.
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., China	45.00 %	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. in Shanghai, China, produces suitable auxiliary pumps for the secondary coolant circuits and modern reactor coolant pumps for the primary cooling circuits of nuclear power stations. Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. is a strategic partnership on the part of the Group, through which KSB is participating in the expansion of energy capacity in China and other Asian markets.

Neither of the above two joint ventures is listed on a stock market and there is therefore no available active market value.

Summarised financial information on these material joint ventures of the KSB Group is provided below.

SUMMARISED BALANCE SHEET

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
(€ thousands)	**31 Dec. 2014**	**31 Dec. 2013**	**31 Dec. 2014**	**31 Dec. 2013**
Non-current assets	2,824	737	92,273	75,368
Current assets	31,805	20,418	50,354	28,503
of which cash and cash equivalents	353	364	3,065	5,162
Non-current liabilities	– 736	– 525	– 45,013	– 49,786
of which non-current financial liabilities (excluding trade payables and provisions)	–	–	– 40,693	– 44,457
Current liabilities	–20,278	–10,493	– 60,583	–20,775
of which current financial liabilities (excluding trade payables and provisions)	–5,905	–2,478	– 7,914	–3,488
Net assets	**13,615**	**10,137**	**37,031**	**33,310**

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
(€ thousands)	**2014**	**2013**	**2014**	**2013**
Sales revenue	39,460	34,143	33,998	19,712
Depreciation / amortisation	127	92	9,519	7,182
Interest income	3	6	12	9
Interest expense	– 80	– 43	– 1,722	– 886
Earnings from continuing operations	4,378	5,495	186	121
Taxes on income	– 1,998	– 1,099	– 70	– 30
Earnings after taxes from continuing operations	**2,380**	**4,396**	**116**	**91**
Earnings after taxes from discontinued operations	–	–	–	–
Other comprehensive income	1,611	– 459	3,605	– 521
Total comprehensive income	**3,991**	**3,937**	**3,721**	**– 430**
Dividends received from joint ventures	**257**	**1,305**	**–**	**–**

RECONCILIATION TO CARRYING AMOUNT OF GROUP SHARE IN JOINT VENTURES

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
(€ thousands)	**2014**	**2013**	**2014**	**2013**
Net carrying amount at 1 January	10,137	8,811	33,310	33,740
Earnings after income taxes	2,380	4,396	116	91
Distribution of dividends	– 513	– 2,611	–	–
Other comprehensive income	1,611	– 459	3,605	– 521
Net carrying amount at 31 December	**13,615**	**10,137**	**37,031**	**33,310**
Investment in joint venture (50 % / 45 %)	6,807	5,069	16,664	14,990
Elimination of intercompany profit and loss	–	–	– 1,891	–
Goodwill	–	–	–	–
Carrying amount at 31 December	**6,807**	**5,069**	**14,773**	**14,990**

SUMMARISED INFORMATION ON JOINT VENTURES THAT ARE IMMATERIAL INDIVIDUALLY

(€ thousands)	**Joint ventures 2014**	**Associates 2014**	**Total 2014**	**Joint ventures 2013**	**Associates 2013**	**Total 2013**
Group share of earnings from continuing operations	132	547	**679**	834	387	**1,221**
Group share of other comprehensive income	290	–	**290**	– 77	– 61	**– 138**
Group share of total comprehensive income	422	547	**969**	757	326	**1,083**
Total carrying amounts of Group shares in these companies	**5,087**	**1,334**	**6,421**	**4,760**	**1,798**	**6,558**

On 8 September 2014 the KSB Group acquired 66 % of the shares and voting rights in the Norwegian company WM Teknikk AS, Ski. This meant that the Group's share of equity rose from 34 % to 100 %, as a result of which the Group gained control of the company. As of this date, WM Teknikk AS has been a fully consolidated subsidiary. Correspondingly, the above table only shows the figures for the period from 1 January to 7 September 2014.

There are no pro rata losses that have not been recognised from the consolidation at equity. The cumulative share of the loss of associates in the previous year was € 0.1 million. As part of the deconsolidation of KSB Atlantic Pump & Valve Service S.L., Las Palmas de Gran Canaria, Spain, this was realised in the reporting year.

5 Inventories

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Raw materials, consumables and supplies	161,789	153,715
Work in progress	149,056	147,009
Finished goods and goods purchased and held for resale	115,961	105,152
Advance payments	23,020	17,972
	449,826	**423,848**

€ 67,990 thousand (previous year: € 70,785 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the reporting period amount to € 2,601 thousand (previous year: € 6,667 thousand). Due to new estimates, we reversed write-downs totalling € 4,295 thousand (previous year: € 696 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 875,366 thousand (previous year: € 917,235 thousand) were recognised as an expense in the reporting period.

6 Receivables and other current assets

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Trade receivables	496,018	474,717
Receivables from other investments, associates and joint ventures	33,001	18,489
Receivables recognised by PoC	87,724	85,934
Receivables recognised by PoC (excl. advances received from customers PoC)	166,527	172,574
Advances received from customers (PoC)	– 78,803	– 86,640
Other receivables and other current assets	67,006	65,004
	683,749	**644,144**

Receivables from other investments include loans at the usual interest amounting to € 2,542 thousand (previous year: € 1,791 thousand). Impairment losses on receivables from other investments amount to € 3,181 thousand (previous year: € 3,052 thousand) and on receivables from associates to € 341 thousand (previous year: € 345 thousand). Like in the previous year, no impairment losses on receivables from joint ventures were identified.

Construction contracts under IAS 11 include recognised earnings of € 38,253 thousand (previous year: € 34,041 thousand) and costs of € 128,274 thousand (previous year: € 138,533 thousand). Sales revenue in accordance with IAS 11 amounted to € 561,940 thousand (previous year: € 523,638 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 € 27,013 thousand (previous year: € 25,037 thousand) and financial assets from currency forwards in accordance with IAS 39 in the amount of € 2,369 thousand (previous year: € 6,557 thousand). There were no receivables relating to interest rate derivatives (previous year: € 115 thousand).

€ 38,592 thousand (previous year: € 39,861 thousand) of all receivables and other assets is due after more than one year.

7 Cash and cash equivalents

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Cash and cash equivalents with a maturity of under 3 months	290,470	331,641
Term deposits with a maturity of more than 3 and up to 12 months	126,935	101,835
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	15,268	17,962
	432,673	**451,438**

Cash and cash equivalents include cash and cash equivalents with a maturity under 3 months, as well as term deposits with short maturities and call deposits, and also current account balances. German Group companies use € 15,268 thousand of this item (previous year: € 17,962 thousand) to hedge credit balances for partial retirement arrangements and long-term working hours accounts as required by law. They are available to us at any time due to the underlying contractual structure.

8 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 € 65,339 thousand (previous year: € 32,367 thousand) and deferred tax liabilities in the amount of € 448 thousand (previous year: € 1,630 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 resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 14 May 2014.

Non-controlling interests relate 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 interests are presented 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 earnings before income taxes (EBT), 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.

		2014	2013
Order intake	€ million	2,321.2	2,241.2
Sales revenue	€ million	2,181.7	2,247.3
Earnings before income taxes (EBT)	€ million	72.6	119.4
Return on sales before taxes on income	%	3.3	5.3
Net financial position	€ million	185.5	189.6

9 Provisions

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

	31 Dec. 2014			31 Dec. 2013		
Changes (€ thousands)	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Employee benefits	628,586	529,526	99,060	522,155	412,870	109,285
Pensions and similar obligations	514,657	514,657	–	398,056	398,056	–
Other employee benefits	113,929	14,869	99,060	124,099	14,814	109,285
Taxes	4,158	–	4,158	4,799	–	4,799
Income tax liabilities	3,304	–	3,304	3,352	–	3,352
Other tax liabilities	854	–	854	1,447	–	1,447
Other provisions	96,942	16,254	80,688	80,613	15,402	65,211
Warranty obligations and contractual penalties	45,360	15,121	30,239	43,169	14,390	28,779
Provisions for restructuring	7,893	–	7,893	100	–	100
Miscellaneous other provisions	43,689	1,133	42,556	37,344	1,012	36,332
	729,686	**545,780**	**183,906**	**607,567**	**428,272**	**179,295**

Individual categories of provisions developed as follows in the 2014 financial year:

Changes (€ thousands)	1 Jan. 2014	Changes in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2014
Employee benefits	522,155	1,939	– 98,324	– 6,871	209,687	628,586
Pensions and similar obligations	398,056	748	– 12,740	– 4,167	132,760	514,657
Other employee benefits	124,099	1,191	– 85,584	– 2,704	76,927	113,929
Taxes	4,799	47	– 7,596	– 253	7,161	4,158
Income tax liabilities	3,352	110	– 6,493	– 14	6,349	3,304
Other tax liabilities	1,447	– 63	– 1,103	– 239	812	854
Other provisions	80,613	2,062	– 43,167	– 6,123	63,557	96,942
Warranty obligations and contractual penalties	43,169	968	– 21,316	– 4,254	26,793	45,360
Provisions for restructuring	100	–	– 100	–	7,893	7,893
Miscellaneous other provisions	37,344	1,094	– 21,751	– 1,869	28,871	43,689
	607,567	**4,048**	**– 149,087**	**– 13,247**	**280,405**	**729,686**

* CTA = currency translation adjustments

Provisions for pensions and similar obligations

The pension obligations in the KSB Group include defined contribution and defined benefit plans and contain both obligations from current pensions and future pension benefit entitlements.

For employees of Group companies in Germany there is a defined contribution plan under the German statutory pension insurance scheme into which the employer must pay the currently valid pension contribution rate. Contributions to state pension insurance funds recognised in the income statement totalled € 26,383 thousand (previous year: € 26,388 thousand). € 4,450 thousand (previous year: € 4,531 thousand) was spent on defined contribution schemes for employees in other countries in the year under review.

The obligations for defined benefit pension plans for employees of the Group are mainly due to pension obligations in Germany, as well as in Austria, the United States and Switzerland.

More than 90 % of the defined benefit pension plans are attributable to 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).

In Austria, an employee provision fund is in place that is classified as a pension obligation. Employers must contribute to the independent pension fund, with the amount paid being based on the employee's monthly salary. The employer can choose which employee provision fund to use.

The defined benefit pension plans in the United States are closed to new entrants. The pension benefit amount is derived from the average salary and years of service before closure of the plan. The retirement age is 65 years. The pension benefits are financed by external funds.

Pension obligations in Switzerland are predominantly based on statutory obligations. The retirement benefits are financed through pension funds or insurance companies. As well as pension benefits, the plans encompass other benefits such as disability or survivors' benefits. Both employer and employee contributions are paid to the pension fund, with the company having to make contributions that at least match the employee contributions specified in the terms and conditions of the plan.

In addition, employees in other countries are also entitled to a limited extent to retirement and partly to medical care benefits, depending mainly on the length of service and salary.

These defined benefit plans impose actuarial risks on the Group, such as the longevity risk and interest rate risk. The payments linked to pension obligations are paid largely from our liquid assets. Plan assets are also partially available for financing these obligations.

The actuarial valuations of the plan assets and the present value of the defined benefit obligation (and the related current service cost and the past service cost) are measured and calculated annually on the basis of actuarial reports using the projected unit credit method (IAS 19).

The amounts disclosed in the balance sheet for defined benefit plans are as follows:

(€ thousands)	Defined benefit obligations (DBOs) 31 Dec. 2014	Fair value of plan assets 31 Dec. 2014	Net liability from defined benefit plans 31 Dec. 2014	Defined benefit obligations (DBOs) 31 Dec. 2013	Fair value of plan assets 31 Dec. 2013	Net liability from defined benefit plans 31 Dec. 2013
Germany	503,349	–	503,349	384,945	–	384,945
Austria	3,057	–	3,057	2,529	–	2,529
USA	13,633	10,582	3,051	11,653	9,150	2,503
Switzerland	14,776	12,792	1,984	13,873	12,480	1,393
Other countries	27,309	24,093	3,216	28,224	21,538	6,686
Balance sheet values	**562,124**	**47,467**	**514,657**	**441,224**	**43,168**	**398,056**

The changes in the present value of the defined benefit obligations are as follows:

(€ thousands)	2014	2013
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	**441,224**	**440,879**
Current service cost	12,552	13,982
Interest cost	15,562	14,503
Employee contributions	5,421	5,881
Remeasurements		
–/+ Gain/loss from the change in demographic assumptions	405	2,097
–/+ Gain/loss from the change in financial assumptions	106,145	–14,829
–/+ Experience-based gain/loss	–6,825	–3,905
Benefit payments	–15,954	–15,704
Past service cost (incl. effects of settlements and curtailments)	–42	101
Transfer of assets	–	–
Currency translation adjustments	3,654	–2,850
Changes in consolidated Group/ Other	–18	1,069
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	**562,124**	**441,224**

The current and past service cost is recognised in staff costs under pension costs, and the interest cost is recognised in financial income/expense under interest and similar expenses.

The expected contributions in the following year are anticipated to amount to € 18,386 thousand.

The changes in the fair values of the plan assets are as follows:

(€ thousands)	2014	2013
Opening balance of the plan assets measured at fair value – 1 Jan.	**43,168**	**40,393**
Interest income	1,861	1,282
Remeasurements		
Income from plan assets excluding amounts already recognised in interest income	1,168	2,325
Contributions by the employer	1,776	3,007
Contributions by the beneficiary employees	405	315
Currency translation adjustments	2,918	–2,071
Changes in consolidated Group	–	–
Paid benefits	–3,331	–3,309
Other	–498	1,226
Closing balance of the plan assets measured at fair value – 31 Dec.	**47,467**	**43,168**

Interest income is recognised in financial income net of the DBO interest expense under interest and similar expenses.

Composition of plan assets:

(€ thousands)	Quoted market price in an active market 31 Dec. 2014	No quoted market price in an active market 31 Dec. 2014	Total 31 Dec. 2014	Quoted market price in an active market 31 Dec. 2013	No quoted market price in an active market 31 Dec. 2013	Total 31 Dec. 2013
Equity instruments (shares)	16,199	–	16,199	18,504	–	18,504
Debt instruments (pensions, loans)	7,687	–	7,687	7,467	–	7,467
Government bonds	4,353	–	4,353	3,077	–	3,077
Corporate bonds	3,334	–	3,334	4,390	–	4,390
Money market investments	7,526	–	7,526	520	–	520
Real estate	383	–	383	247	–	247
Insurance contracts	10,412	2,993	13,405	10,347	2,820	13,167
Bank credit balances	1,796	–	1,796	2,912	–	2,912
Other investments	150	321	471	36	315	351
Total	**44,153**	**3,314**	**47,467**	**40,033**	**3,135**	**43,168**

We allocate to the pension funds the amount of money needed to meet statutory minimum requirements.

The actual income from plan assets amounted to € 3,029 thousand (previous year: € 3,607 thousand).

To calculate the pension obligation and the related plan assets, the following key actuarial assumptions were made:

	Discount rate	
in %	**31 Dec. 2014**	**31 Dec. 2013**
Germany	2.2	3.5
Austria	2.0	3.5
USA	3.6	4.3
Switzerland	0.9	2.2
Other countries	1.3 – 9.0	2.2 – 9.4

A mean fluctuation rate (2.0 %) continues to be applied to staff turnover for the German plans. The biometric assumptions continue to be based on the 2005G mortality tables 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.

The discount rate and future mortality were identified as key actuarial assumptions. Were the discount factor to increase by 100 basis points, the DBO would fall by € 93 million (previous year: € 58 million). A 100 basis point reduction in the discount factor would increase the DBO by € 125 million (previous year: € 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 € 23 million (previous year: € 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 2014 the weighted average term of the DBO was 20 years (previous year: 20 years). The following table shows the pension benefit payments expected over the coming years.

€ millions at 31 Dec. 2014	**2015**	**2016**	**2017**	**2018**	**2019**
Expected payments	14,442	15,516	16,546	17,836	18,765

€ millions at 31 Dec. 2013	**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 provisons 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 and are based on estimates prepared using historical data for similar products and services. The KSB Group expects to pay most of the provisions in the coming financial year.

The provisions for restructuring relate to measures designed to improve earnings in Germany. They include costs for the closure of a production site in Saarland and the reduction of our foundry activities at the Pegnitz site.

Miscellaneous other provisions also cover risks of litigation and legal proceedings if the recognition criteria for a provision are met (€ 6.7 million; previous year: € 8.3 million). These are usually disputes arising from operations, generally involving unclear warranty issues or, in rare cases, disputes with government agencies or personnel matters. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, the results of comparable proceedings and independent legal opinions are considered in individual cases along with assumptions regarding the probability of occurrence and the range of potential claims. In addition, there are contingent liabilities resulting from legal disputes in the amount of € 42.9 million (previous year: € 44.2 million). Appropriate insurance policies in the amount of € 13.4 million (previous year: € 16.4 million) are in place to cover claims.

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 € 1,179 thousand for 2014 and € 2,939 thousand for 2013), customer bonuses, accruing expenses (outstanding invoices) and environmental protection measures.

10 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Financial liabilities		
Loan against borrower's note	139,766	174,682
Bank loans and overdrafts	18,203	28,507
Finance lease liabilities	1,185	1,374
Other	273	419
	159,427	**204,982**
Total non-current liabilities	**159,427**	**204,982**

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Financial liabilities		
Loan against borrower's note	35,000	6,000
Bank loans and overdrafts	56,774	54,325
Finance lease liabilities	525	533
Liabilities to other investments, associates and joint ventures	1,215	903
Other	10	12
	93,524	**61,773**
Trade payables		
Trade payables to third parties	209,808	198,693
Trade payables to other investments, associates and joint ventures	1,915	6,073
	211,723	**204,766**
Tax liabilities	**20,837**	**23,645**
Other liabilities		
Advances received from customers	73,902	69,625
Advances received from customers (PoC)	46,980	42,321
Social security and liabilities towards employees	28,706	27,074
Miscellaneous other liabilities	68,451	49,714
	218,039	**188,734**
Total current liabilities	**544,123**	**478,918**

TOTAL NON-CURRENT AND CURRENT LIABILITIES

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Total liabilities	**703,550**	**683,900**

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. € 37.5 million was repaid in 2011, € 56.5 million in 2012 and € 6.0 million in 2014. As a result there was no residual obligation arising from this borrower's note at the 2014 year end.

In 2012, we decided to place another loan against borrower's note with a total volume of € 175 million. This loan is divided into repayment tranches of 3, 5, 7 and 10 years. As the different repayment tranches have different terms, different rates of interest apply, some of which are fixed and some variable. The residual obligation of this loan against borrower's note was € 175 million at year end 2014.

€ 155 million (previous year: € 161 million) of the liabilities arising from the loan against borrower's note are classified as bank loans and overdrafts, and € 20 million as other financial liabilities (unchanged).

Assets amounting to € 7,804 thousand (previous year: € 8,642 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, none (previous year: € 5,491 thousand) relate to property, plant and equipment, € 3,178 thousand (previous year: € 371 thousand) to inventories, none (previous year: € 981 thousand) to receivables and € 4,626 thousand (previous year: € 1,799 thousand) to other securities.

€ 2,117 thousand (previous year: € 9,287 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 2.84 % (previous year: 2.78 %). 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 € 12,376 thousand (previous year: € 897 thousand). € 888 thousand (previous year: € 92 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 12,732 thousand (previous year: € 2,843 thousand). This also includes investment grants and subsidies totalling € 5,558 thousand (previous year: € 4,666 thousand) received primarily for new buildings in Germany.

V. INCOME STATEMENT DISCLOSURES

11 Sales revenue

(€ thousands)	2014	2013
Revenue from the sale of goods and goods purchased and held for resale	1,957,445	2,005,969
Services sales revenue	224,294	241,362
	2,181,739	**2,247,331**

The impact of the percentage of completion method pursuant to IAS 11 and the breakdown of sales revenue by segment (Pumps, Valves and Service) is presented in the segment reporting.

The first-time consolidation of WM Teknikk in the reporting year had an impact of € 218 thousand. The other companies that were fully consolidated for the first time accounted for € 2,897 thousand of the sales revenue. The sales revenue from smaller affiliates that have not yet been consolidated is not material.

12 Other income

(€ thousands)	2014	2013
Gains from asset disposals and reversals of impairment losses (write-ups)	3,646	1,487
Income from current assets (primarily measurement effects concerning receivables)	4,327	3,822
Currency translation gains	2,354	2,125
Income from the reversal of provisions	9,095	13,412
Miscellaneous other income	16,838	23,722
	36,260	**44,568**

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 € 3,675 thousand (previous year: € 3,230 thousand).

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

13 Cost of materials

(€ thousands)	2014	2013
Cost of raw materials, production supplies and of goods purchased and held for resale	816,936	832,465
Cost of purchased services	70,442	59,839
	887,378	**892,304**

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

14 Staff costs

(€ thousands)	2014	2013
Wages and salaries	634,774	635,641
Social security contributions and employee assistance costs	122,695	123,742
Pension costs	28,002	28,169
	785,471	**787,552**

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.

The first-time consolidation of WM Teknikk in the reporting year had an impact of € 168 thousand. The other companies that were fully consolidated for the first time accounted for € 1,195 thousand.

EMPLOYEES

	Average for the year		At reporting date	
	2014	2013	31.12.2014	31.12.2013
Wage earners	7,634	7,510	7,536	7,461
Salaried employees	8,329	8,556	8,284	8,557
	15,963	**16,066**	**15,820**	**16,018**
Apprentices	489	517	489	528
	16,452	**16,583**	**16,309**	**16,546**

The changes in the consolidated Group in the year under review led to an increase of 49 in the average number of employees and in the total number at the reporting date.

15 Other expenses

(€ thousands)	2014	2013
Losses from asset disposals	578	653
Losses from current assets (primarily measurement effects concerning receivables)	10,784	5,668
Currency translation losses	4,292	3,177
Other staff costs	36,584	27,586
Repairs, maintenance, third-party services	85,451	88,474
Selling expenses	84,840	91,282
Administrative expenses	94,048	92,243
Rents and leases	27,858	27,821
Miscellaneous other expenses	48,529	46,506
	392,964	**383,410**

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

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

16 Financial income / expense

(€ thousands)	2014	2013
Financial income	**6,497**	**6,840**
Income from equity investments	14	286
thereof from other investments	(14)	(286)
Interest and similar income	6,434	6,387
thereof from other investments	(60)	(58)
thereof from investments accounted for using the equity method	(15)	(23)
Write-ups of financial assets	–	–
Income from the remeasurement of financial instruments	–	–
Other financial income	49	167
Financial expense	**– 24,281**	**– 23,380**
Interest and similar expenses	– 22,479	– 23,169
thereof to other investments	(–)	(–)
Write-downs of financial assets	– 1,758	– 110
Other financial expenses	– 44	– 101
Income / expense from / to investments accounted for using the equity method	**1,582**	**3,459**
Financial income / expense	**– 16,202**	**– 13,081**

Interest and similar expenses include the interest cost on pension provisions amounting to € 13,701 thousand (previous year: € 13,221 thousand). The change in financial income/expense is mainly due to lower income from investments accounted for using the equity method and increased amortisation of financial assets. The latter concerned smaller companies in Europe and the Middle East with continued economic difficulties; these companies are not material for the Group.

The first-time inclusion of fully consolidated companies did not have any material impact on the financial income/expense.

17 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)	2014	2013
Effective taxes	39,279	45,187
Deferred taxes	– 12,863	– 5,637
	26,416	**39,550**

€ 1,556 thousand (previous year: € 719 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 2,104 thousand (previous year: € 5,741 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2014	2013
Change in deferred tax assets	– 47,026	117
Change in deferred tax liabilities	– 441	1,858
Change in deferred taxes recognised in balance sheet	**– 47,467**	**1,975**
Change in deferred taxes taken directly to equity	33,730	– 7,295
Changes in consolidated Group / Currency translation adjustments / Other	874	– 317
Deferred taxes recognised in income statement	**– 12,863**	**– 5,637**

ALLOCATION OF DEFERRED TAXES

	Deferred tax assets		Deferred tax liabilities	
(€ thousands)	**2014**	**2013**	**2014**	**2013**
Non-current assets	2,913	2,564	34,532	34,974
Current assets	54,330	50,328	50,848	53,298
Non-current liabilities	83,623	50,244	182	156
Current liabilities	20,337	14,686	8,623	9,534
Tax loss carryforwards	4,583	4,274	–	–
Gross deferred taxes – before offsetting	**165,786**	**122,096**	**94,185**	**97,962**
Offset under IAS 12.74	– 79,127	– 82,463	– 79,127	– 82,463
Net deferred taxes – after offsetting	**86,659**	**39,633**	**15,058**	**15,499**

At the reporting date, deferred tax assets (after offsetting) amounting to € 11.281 thousand (previous year: € 7,960 thousand) 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)	**2014**	**2013**
Actuarial gains / losses under IAS 19	– 98,568	18,991
Taxes on income	29,876	– 5,935
Currency translation differences	38,834	– 53,452
Taxes on income	–	–
Measurement of financial instruments	– 11,534	4,212
Taxes on income	3,854	– 1,356
Other comprehensive income	**– 37,538**	**– 37,540**

As in the previous year, the introduction of new local taxes had no effects in the year under review. Changes in foreign tax rates did not have any material impact on the total tax expense either, as was the case in the previous year.

As far as net income from affiliates and other equity investments is concerned, 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 € 43,452 thousand (previous year: € 39,216 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. They are largely available for an indefinite period.

There were no deductible temporary differences for which no deferred tax assets would have to be set up.

RECONCILIATION OF INCOME TAXES

(€ thousands)	2014	2013
Earnings before income taxes (EBT)	72,594	119,415
Calculated income taxes on the basis of the applicable tax rate (30 % as in the previous year)	21,778	35,825
Differences in tax rates	2,267	1,128
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	882	701
Tax-exempt income / non-deductible expenses	– 879	– 1,791
Prior-period taxes	548	5,022
Non-deductible foreign income tax	2,438	2,161
Investments accounted for using the equity method	371	– 1,354
Other	– 989	– 2,142
Current taxes on income	**26,416**	**39,550**
Current tax rate	36 %	33 %

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 did not have any material impact on the taxes on income.

18 Earnings after income taxes – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 10,592 thousand (previous year: € 14,501 thousand) and the net loss attributable to non-controlling interests amounts to € 2,718 thousand (previous year: € 318 thousand). They relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

The first-time inclusion of fully consolidated companies did not have any impact on earnings after income taxes attributable to non-controlling interests.

19 Earnings per share

		2014	2013
Earnings after income taxes attributable to KSB AG shareholders	€ thousands	38,304	65,682
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	**38,079**	**65,457**
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	**€**	**21.74**	**37.38**
Diluted and basic earnings per preference share	**€**	**22.00**	**37.64**

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. 2014	Fair value 31 Dec. 2014	Carrying amount 31 Dec. 2013	Fair value 31 Dec. 2013
Non-current assets						
Other investments	AfS	Fair value	3,941	3,941	7,154	7,154
Non-current financial instruments	AfS	Fair value	661	661	650	650
Loans	LaR	Fair value / Amortised cost	2,718	2,718	2,628	2,628
Current assets						
Trade receivables	LaR	Fair value / Amortised cost	496,018	496,018	474,717	474,717
Receivables from other investments, associates and joint ventures	LaR	Fair value / Amortised cost	33,001	33,001	18,489	18,489
Receivables recognised by PoC, net	LaR	Fair value / Amortised cost	87,724	87,724	85,934	85,934
Other receivables and other current assets	LaR	Fair value / Amortised cost	31,128	31,128	27,138	27,138
Interest rate swaps used as hedges	n / a	Fair value	–	–	115	115
Currency forwards used as hedges	n / a	Fair value	963	963	3,921	3,921
Other currency forwards	FAHfT	Fair value	1,406	1,406	2,636	2,636
Current financial instruments	AfS	Fair value	–	–	–	–
Cash and cash equivalents	LaR	Fair value / Amortised cost	432,673	432,673	451,438	451,438

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Measure-ment category	Initial / subsequent measurement	Carrying amount 31 Dec. 2014	Fair value 31 Dec. 2014	Carrying amount 31 Dec. 2013	Fair value 31 Dec. 2013
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	158,242	152,460	203,608	191,462
Finance lease liabilities	n / a	In accordance with IAS 17	1,185	1,185	1,374	1,374
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	92,999	92,999	61,240	61,240
Finance lease liabilities	n / a	In accordance with IAS 17	525	525	533	533
Trade payables	FLAC	Fair value / Amortised cost	211,723	211,723	204,766	204,766
Advances received from customers (PoC)	LaR	Fair value / Amortised cost	46,980	46,980	42,321	42,321
Other liabilities – Miscellaneous	FLAC	Fair value / Amortised cost	37,785	37,785	41,308	41,308
Interest rate swaps used as hedges	n / a	Fair value	888	888	92	92
Currency forwards used as hedges	n / a	Fair value	8,179	8,179	499	499
Other currency forwards	FLHfT	Fair value	3,309	3,309	306	306
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	1,036,282	1,036,282	1,018,023	1,018,023
Available-for-sale financial instruments	AfS	Fair value	4,602	4,602	7,804	7,804
Financial assets held for trading	FAHfT	Fair value	1,406	1,406	2,636	2,636
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	500,749	494,967	510,922	498,776
Financial liabilities held for trading	FLHfT	Fair value	3,309	3,309	306	306

The fair value of the "Loans and receivables" measurement category changed by € 18,259 thousand in the reporting period (previous year: € 15,659 thousand), with the "Financial liabilities" category changing by € – 3,809 thousand (previous year: € 2,388 thousand).

The carrying amounts and fair values of all financial assets measured at amortised cost are identical. The same 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 currency forwards and interest rate swaps are determined on the basis of input factors observable either directly (i.e. as a price, level 1) or indirectly (i.e. 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 2014

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Other investments	–	–	3,941	3,941
Current financial instruments	661	–	–	661
Currency forwards	–	2,369	–	2,369
Interest rate swaps	–	–	–	–
Financial liabilities recognised at fair value				
Currency forwards	–	11,488	–	11,488
Interest rate swaps	–	888	–	888

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
Currency forwards	–	6,557	–	6,557
Interest rate swaps	–	115	–	115
Financial liabilities recognised at fair value				
Currency forwards	–	805	–	805
Interest rate swaps	–	92	–	92

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)	2014	2013
Balance at 1 January	7,154	37,968
Disposal due to new materiality estimates of equity investments	–2,797	–33,018
Changes resulting from capitalisation measures and incorporation processes	1,442	578
Write-down due to impairment (financial expenses)	–1,758	–90
Currency translation differences (loss in other comprehensive income)	–100	–77
Change in fair value (measurement of financial instruments in other comprehensive income)	–	1,793
Balance at 31 December	**3,941**	**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 of 8.0 %) 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 gains and losses from financial instruments, after taking into account the relevant tax effect, are presented in the following table:

NET RESULTS BY MEASUREMENT CATEGORY IN 2014

		From subsequent measurement				
(€ thousands)	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	6,434	–	2,334	– 4,901	–	3,867
AfS	33	15	–	– 1,758	–	– 1,710
FAHfT / FLHfT	–	– 4,349	–	–	–	– 4,349
FLAC	– 8,150	–	– 161	–	–	– 8,311
	– 1,683	**– 4,334**	**2,173**	**– 6,659**	**–**	**– 10,503**

NET RESULTS BY MEASUREMENT CATEGORY IN 2013

		From subsequent measurement				
(€ thousands)	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
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**

The interest presented is a component of financial income / expense; the values for interest income and interest expenses from the application of the effective interest method are immaterial. The other gains and losses are partly reported in other income and other expenses.

The AfS measurement category resulted in a remeasurement gain of € 15 thousand (previous year: loss of € 18 thousand), which was recognised directly in other comprehensive income and reported under “Measurement of financial instruments” in equity. In the year under review, € 0 thousand (previous year: € – 5 thousand) 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 the prices of financial instruments are not material for us.

We limit all of these risks through an appropriate risk management system, and 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)	2014	2013
Opening balance at 1 January	**30,337**	**32,232**
Additions	8,560	6,305
Utilised	–1,821	–4,344
Reversals	–3,512	–2,645
Changes in consolidated Group / CTA / Other	2,341	–1,211
Closing balance at 31 December	**35,905**	**30,337**

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2014	31 Dec. 2013
Receivables that are neither past due nor individually impaired	384,417	372,433
Receivables that are past due but not individually impaired		
1 to 30 days	48,025	43,360
31 to 90 days	32,596	28,999
91 to 180 days	11,297	12,419
>180 days	11,438	8,276
Total	103,356	93,054
Receivables individually determined to be impaired	8,245	9,230
Receivables individually determined to be impaired at their principal amount	44,150	39,567
Specific write-downs	35,905	30,337
Carrying amount (net)	**496,018**	**474,717**

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 € 958 million (previous year: approx. € 979 million), of which € 627.8 million has not yet been utilised (previous year: € 671.2 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 differ significantly.

CASH FLOWS OF FINANCIAL LIABILITIES 2014

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	272,124	99,497	146,580	26,047
Trade payables	211,723	211,559	164	–
Other liabilities	37,785	37,169	616	–
Derivative financial instruments	10,065	8,622	1,397	– 46
	531,697	356,847	148,757	26,093

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
	531,358	311,846	149,265	70,247

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 currency risks from the translation of foreign operations into the Group currency (€).

At the reporting date, the notional volume of all currency forwards was € 234,998 thousand (previous year: € 211,920 thousand), and the notional volume of all interest rate derivatives was € 60,579 thousand (previous year: € 70,740 thousand). The contractual maturities of payments for currency forwards and interest rate derivatives are as follows:

NOTIONAL VOLUMES 2014

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards	234,998	214,798	19,864	336
Interest rate derivatives	60,579	21,000	39,579	–
	295,577	235,798	59,443	336

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	–

Equity also includes changes in the fair value of derivatives used to hedge future cash flows amounting to € – 8,104 thousand (previous year: € 3,446 thousand). They changed as follows:

(€ thousands)	2014	2013
Opening balance at 1 January	3,446	1,008
Changes in consolidated Group / CTA / Other	– 4	– 29
Disposals	– 2,079	– 1,611
Additions	– 9,467	4,078
Closing balance at 31 December	**– 8,104**	**3,446**

One of the most significant foreign currencies in the KSB Group is the USD. The volume of trade receivables denominated in USD is around € 47 million (previous year: approx. € 41 million). Trade payables denominated in USD total around € 18 million (previous year: € 15 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 € 13.2 million lower (higher) in this scenario, with € 10.6 million resulting from USD and € 2.6 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 11.0 million lower (higher), with € 9.3 million resulting from USD and € 1.7 million from the other currencies.

The hypothetical impact on earnings in the year under review would have been a decrease (an increase) of € 3.6 million. € 1.0 million would have been attributable to USD and € 2.6 million to the other currencies. The hypothetical impact on earnings in the previous year 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.

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 2014, the net interest balance would have been € 3.7 million (previous year: € 3.8 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 1.1 (1.1) million (previous year: € 1.8 (1.6) million).

VII. STATEMENT OF CASH FLOWS

In the statement of cash flows, 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, non-current financial assets, and changes in term deposits with a maturity of more than 3 months.

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.

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 € 6,434 thousand (previous year: € 6,387 thousand) and cash flows from income taxes totalling € –39,423 thousand (previous year € –51,689 thousand). Cash flows from investing activities include cash flows from dividends received of € 14 thousand (previous year: € 286 thousand). Cash flows from financing activities include cash flows from interest expense of € –8,180 thousand (previous year: € –9,130 thousand).

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 interest and taxes (EBIT) – determined for the Pumps, Valves and Service segments. Reporting the relevant assets, number of employees and inter-segment sales revenue for these segments is not part of our internal reporting. The managers in charge of the segments, 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 en-gineering, 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** by segment presents order intake generated with third parties and non-consolidated Group companies. The order intake (unaudited) is reported on a voluntary basis.

The **external sales revenue** 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 table shows **earnings before interest and taxes** (**EBIT**) for the segments and **consolidated earnings before taxes** (**EBT**) including non-controlling interests. The effects from measuring construction contracts in accordance with IAS 11 are presented separately as reconciliation effects.

	Order intake*		External sales revenue		EBIT	
(€ thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Pumps segment	1,524,126	1,453,275	1,437,920	1,526,192	55,785	105,220
Valves segment	407,394	386,976	378,839	372,507	16,947	7,301
Service segment	389,702	400,941	373,824	402,270	28,757	42,708
Reconciliation	–	–	– 8,844	– 53,638	– 12,850	– 19,032
Total	**2,321,222**	**2,241,192**	**2,181,739**	**2,247,331**	**88,639**	**136,197**
				Other financial income / expense	– 16,045	– 16,782
				Earnings before income taxes (EBT)	**72,594**	**119,415**

* Unaudited

The EBIT of the Pumps segment includes impairments of € 44.7 million (previous year: € 39.0 million), the EBIT of the Valves segment includes impairments of € 11.5 million (previous year: € 10.5 million) and the EBIT of the Service segment includes impairments of € 11.7 million (previous year: € 10.8 million).

€ 604,449 thousand (previous year: € 599,895 thousand) of the sales revenue presented was generated by the companies based in Germany, € 251,267 thousand (previous year: € 250,122 thousand) was generated by the companies based in France, € 164,744 thousand (previous year: € 192,469 thousand) by the companies based in the USA, and € 1,161,279 thousand (previous year: € 1,204,845 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 € 494,469 thousand (previous year: € 457,851 thousand), with € 182,151 thousand (previous year: € 181,386 thousand) being attributable to the companies based in Germany and € 312,318 thousand (previous year: € 276,465 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)	2014	2013
Liabilities from guarantees	2,545	3,451
Liabilities from warranties	1,250	3,998
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	4,230	3,652
	8,025	**11,101**

Other contingent liabilities include € 607 thousand for tax items (previous year: € 740 thousand). At present, there are no indications that any claims will be asserted under these obligations.

The Group has contingent liabilities as a result of its investment in associates and joint ventures of € 5,697 thousand (previous year: € 3,236 thousand). The reported amount is the Group's share of contingent liabilities from joint ventures. The extent to which these will result in a cash outflow depends on the future business performance of the respective company.

OPERATING LEASES

	Minimum lease payments	
(€ thousands)	2014	2013
Due within 1 year	16,283	14,955
Due between 1 and 5 years	30,045	24,648
Due after more than 5 years	9,005	8,597
	55,333	**48,200**

In the year under review, € 14,955 thousand (previous year: € 14,984 thousand) was spent.

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

	Minimum lease payments		Present values	
(€ thousands)	2014	2013	2014	2013
Due within 1 year	538	567	526	533
Due between 1 and 5 years	1,028	1,273	1,015	1,222
Due after more than 5 years	173	165	169	152
	1,739	2,005	1,710	1,907

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 € 22,956 thousand (previous year: € 32,911 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 € 17,809 thousand (previous year: € 12,462 thousand). Almost all of the corresponding payments are due in 2015.

Research and development costs
Research and development costs in the year under review amounted to € 48,650 thousand (previous year: € 47,400 thousand).

The first-time inclusion of fully consolidated companies did not have any impact on research and development costs.

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

Balances and transactions between KSB AG and its subsidiaries in the form of related parties have been eliminated during the consolidation process and are not explained in further detail. Details regarding transactions between the KSB Group and other related parties are provided below.

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.

The related parties also include the non-consolidated subsidiaries and joint ventures of Klein Pumpen GmbH, Frankenthal.

The following table shows services provided and used, as well as pending receivables and liabilities owed from and to related parties:

	Sales of goods and services		Purchases of goods and services		Receivables		Liabilities	
(€ thousands)	2014	2013	2014	2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Parent company Klein Pumpen GmbH	11	13	24	24	–	–	–	18
Subsidiaries of Klein Pumpen GmbH	3	3	2,374	2,448	130	–	128	164
Joint ventures of Klein Pumpen GmbH	19	–	90	–	–	57	3	20

The transactions in relation to the parent company Klein Pumpen GmbH are based on a rental and services agreement between KSB AG and Klein Pumpen GmbH.

The transactions with subsidiaries of Klein Pumpen GmbH basically comprise transactions with Abacus Personaldienstleistungen GmbH, which has entered into a contract for work with KSB AG, and with PALATINA Versicherungsvermittlungsgesellschaft mbH, which provides services in the area of private and corporate insurance cover. A rental and services agreement is in place between PALATINA and KSB AG.

A service agreement has also been agreed between KSB AG and Abacus alpha GmbH, a Klein Pumpen GmbH joint venture.

All transactions are entered into on an arm's length basis. Pending balances at the year end are unsecured, do not accrue interest and are settled by means of payments. No guarantees were given or received. The receivables presented here, as in the previous year, are not subject to write-downs and no provisions have been created for this purpose.

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. 2014	31 Dec. 2013
Short-term benefits (total remuneration)	1,427	1,890
Post-employment benefits	2,011	1,566
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	**3,438**	**3,456**

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.

€ 41,861 thousand (previous year: € 30,103 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 € 2,232 thousand in the year under review (previous year: € 1,699 thousand).

The short-term benefits (total remuneration) paid to members of the Supervisory Board amount to € 944 thousand for the 2014 financial year (previous year: € 1,219 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 14 May 2014, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, was appointed as auditors and group auditors for the financial year 2014 by the Annual General Meeting of KSB AG. The following fees (including expenses) were recognised as expenses.

(€ thousands)	2014	2013
Audit fees	412	413
Other certification services	2	–
Tax advisory services	–	–
Other services	36	50
Total fees	**450**	**463**

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.

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 Elektromechanik GmbH, Friedrichsthal	Germany	100.00	
	International			
11	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	100.00	29
12	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	100.00	
13	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	100.00	29
14	DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	28
15	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa	100.00	47
16	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	18
17	Hydroskepi GmbH, Amaroussion (Athens)	Greece	100.00	
18	KSB America Corporation, Richmond / Virginia	USA	100.00	7
19	KSB AMRI, Inc., Houston / Texas	USA	10.03	54
			89.97	18
20	KSB AMVI, S.A., Madrid	Spain	100.00	29
21	KSB Australia Pty Ltd, Bundamba QLD	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	18
32	KSB Italia S.p.A., Milan	Italy	100.00	29
33	KSB ITUR Spain S.A., Zarautz	Spain	100.00	20
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	67
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 POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	54
46	KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	100.00	
47	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	52
48	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
49	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
50	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	29
51	KSB Pumps Limited, Pimpri (Pune)	India	40.54	12
52	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	29
53	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	100.00	
54	KSB S.A.S., Gennevilliers (Paris)	France	100.00	29
55	KSB Seil Co., Ltd., Busan	South Korea	100.00	
56	KSB Service Belgium S.A./N.V., Wavre	Belgium	100.00	22
57	KSB Service Centre-Est S.A.S., Villefranche sur Saône	France	100.00	54
58	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	54
59	KSB Service Est S.A.S., Algrange	France	100.00	54
60	KSB SERVICE ETC S.A.S., Chalon-sur-Saône	France	100.00	63
61	KSB Service Italia S.r.l., Scorzè	Italy	100.00	32
62	KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône	France	100.00	63
63	KSB Service Robinetterie S.A.S., Rambervillers	France	100.00	54
64	KSB Service Suciba, S.L.U., Loiu-Bizkaia	Spain	100.00	20
65	KSB SERVICE VRS SA, Feluy	Belgium	100.00	22
66	KSB Shanghai Pump Co. Ltd., Shanghai	China	80.00	29
67	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
68	KSB Szivattyú és Armatura Kft., Budapest	Hungary	100.00	
69	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
70	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
71	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
72	KSB Valves (Shanghai) Co. Ltd., Shanghai	China	100.00	
73	KSB Válvulas Ltda., Jundiaí	Brazil	100.00	23
74	KSB VIET NAM CO., LTD., Long Thanh District	Vietnam	100.00	67
75	KSB Zürich AG, Zurich	Switzerland	100.00	
76	Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula	Finland	100.00	30
77	MD Invest, Déville lès Rouen	France	100.00	63
78	Metis Levage S.A.S., Villefranche sur Saône	France	100.00	54
79	MIL Controls Limited, Annamanada	India	49.00	51
			51.00	

No.	Name and seat of company	Country	Capital share in %	Held by No.
80	Nederlandse Pompservice (N.P.S.) B.V., Velsen-Noord	The Netherlands	100.00	40
81	OOO "KSB", Moscow	Russia	100.00	4
82	Precision Pump and Machine – KSB, Inc., Bakersfield / California	USA	100.00	18
83	PT. KSB Indonesia, Cibitung, Jawa Barat	Indonesia	100.00	29
84	PUMPHUSET Sverige AB, Sollentuna	Sweden	100.00	39
85	REEL s.r.l., Ponte di Nanto	Italy	100.00	
86	Rotary Equipment Services Limited, Loughborough	United Kingdom	100.00	36
87	SISTO Armaturen S.A., Echternach	Luxembourg	52.85	29
88	SMEDEGAARD AG Pumpen und Motorenbau, Beinwil am See	Switzerland	100.00	93
89	Smedegaard Pumps Limited, Bridgwater	United Kingdom	100.00	93
90	Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen	France	100.00	77
91	SPI Energie S.A.S., La Ravoire	France	100.00	54
92	Standard Alloys Incorporated, Port Arthur / Texas	USA	100.00	18
93	T. Smedegaard A/S, Glostrup	Denmark	80.00	
94	VM Pumpar AB, Gothenburg	Sweden	100.00	93
95	VRS Valve Reconditioning Services B.V., Vierpolders	The Netherlands	100.00	40
96	WM Teknikk AS, Ski	Norway	100.00	42

JOINT VENTURES (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					
97	Nikkiso-KSB GmbH, Bruchköbel	Germany	50.00		5,092	118
	International					
98	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	29	13,615	4,751
99	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		5,185	961
100	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		37,031	130

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
	International					
101	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		5,335	1,902

* Data according to latest financial statements available

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						
102	gear-tec GmbH, Eggebek	Germany	51.00		489	– 661	■
	International						
103	IOOO "KSB BEL", Minsk	Belarus	98.10 1.90	81 4	462	178	
104	KSB Algérie Eurl, Dar El-Beïda (Algiers)	Algeria	100.00	29	503	– 59	■
105	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		283	27	■
106	KSB črpalke in armature d.o.o., Ljubljana	Slovenia	100.00		– 78	53	■
107	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	29	442	21	
108	KSB Ltd., Tokyo	Japan	100.00		– 974	161	
109	KSB Perú S.A., Lurín	Peru	100.00		670	138	■
110	KSB PHILIPPINES, INC., Makati City / Metro Manila	Philippines	100.00	67	60	– 86	
111	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	100.00	106	179	– 119	■
112	KSB pumpe i armature d.o.o., Zagreb	Croatia	100.00	106	– 14	97	■
113	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	35	951	388	
114	KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	70.00		85	– 155	■
115	KSB TESMA AG, Amaroussion (Athens)	Greece	59.74	17	1,418	– 74	■
116	KSB Viosen AG, Patras	Greece	60.28	17	282	– 12	■
117	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	45	– 407	– 203	■
118	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	81	59	31	
119	TOV "KSB Ukraine", Kiev	Ukraine	100.00	81	135	57	

* Data according to latest financial statements available

■ 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)

Alois Lautner, Lathe Operator, Kirchenthumbach [1)]
Deputy Chairman of the Pegnitz Works Council
(Deputy Chairman of the Supervisory Board)

Dr. Martin Auer, Mannheim [2)]
Head of Corporate Legal, Compliance, Procurement and Logistic Services
MVV Energie AG

Dr.-Ing. Stephan Bross, Freinsheim [3)]
Head of Pumps Segment, KSB AG

Dr. Jörg Matthias Großmann, Dipl.-Kfm., Großhesselohe [4)]
Management / CFO
Freudenberg Chemical Specialities SE & Co. KG

Prof. Dr. Michael Hoffmann-Becking, Lawyer, Düsseldorf [5)]
Hengeler Mueller Partnerschaft von Rechtsanwälten

René Klotz, NC Programmer, Frankenthal
Chairman of the General Works Council

Wolfgang Kormann, Hand Moulder, Pegnitz
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
(on the Supervisory Board until 31 Dec. 2014)
Trade Union Secretary of IG Metall
Ludwigshafen-Frankenthal

Birgit Mohme, Industrial Business Management Assistant, Frankenthal [6)]
(on the Supervisory Board since 1 Jan. 2015)
Trade Union Secretary of IG Metall
Ludwigshafen-Frankenthal

Dr.-Ing. Hermann Nestler, Regensburg
(on the Supervisory Board until 14 May 2014)
Former Managing Director of BSH Bosch und Siemens
Hausgeräte GmbH

Dr. Thomas Seeberg, Dipl.-Kfm., Icking [7)]
Former Managing Director of OSRAM GmbH

Volker Seidel, Electrical and Electronics Installer, Münchberg
1. Delegate of IG Metall Ostoberfranken

Dr. Jost Wiechmann, Auditor, Tax Accountant, Lawyer, Hamburg [8)]
(on the Supervisory Board since 14 May 2014)
Partner at RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft

Mandates of KSB Supervisory Board members in the Supervisory Board / Board of Directors of other companies

1) BKK advita, Alzey, Germany

2) PALATINA Versicherungsvermittlungsgesellschaft mbH, Frankenthal, Germany
MVV Energie CZ a.s., Prague, Czech Republic
Stadtwerke Ingolstadt Beteiligungs GmbH, Ingolstadt, Germany

3) Burckhardt Compression AG, Winterthur, Switzerland

4) 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

5) Rheinbahn AG, Düsseldorf (until 30 Sep. 2014), Germany
Hella KGaA Hueck & Co., Lippstadt, Germany
Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main, Germany
Rheinisch-Bergische Verlagsgesellschaft mbH, Düsseldorf, Germany
Stihl Holding AG & Co.KG, Waiblingen, Germany

6) Deutsche Rentenversicherung Rheinland-Pfalz, Speyer, Germany

7) Alte Leipziger Lebensversicherung a.G., Oberursel, Germany
Hallesche Krankenversicherung a.G., Oberursel, Germany
Alte Leipziger Holding AG, Oberursel, Germany
Member of the Board of Trustees of WTS-Stiftung für Altersversorgung, Munich, Germany

8) KVG Binnenalster AG, Hamburg, Germany

BOARD OF MANAGEMENT

Board of Management collectively:
Strategy and Regions

Dr.-Ing. Peter Buthmann, Frankenthal[1)]
Human Resources Director
Responsibilities: Technology, Production, Sales, Purchasing, Human Resources and the Pumps and Valves Segments

Werner Stegmüller, Mannheim[2)]
(on the Board of Management since 1 Jan. 2014)
Responsibilities: Finance and Accounting, Controlling, Communications, Investor Relations, IT, Patents & Trademarks, Legal & Compliance, Internal Audits and the Service Segment

Dr. rer. pol. Wolfgang Schmitt, Bad Dürkheim[3)]
(on the Board of Management until 30 June 2014)
Chairman
Responsibilities: Finance and Accounting, Investor Relations and Communications

Mandates of the KSB Board of Management members in the Board of Directors of KSB companies

1) SISTO Armaturen S.A., Echternach, Luxembourg
KSB FINANZ S.A., Echternach, Luxembourg
KSB Shanghai Pump Co. Ltd., Shanghai, China
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa

2) KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, The Netherlands
Canadian Kay Pump Limited, Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri (Pune), India
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

3) KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, The Netherlands
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa
Canadian Kay Pump Ltd., 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

PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 6 May 2015 that the net retained earnings of € 17,126,086.06 of KSB AG, containing retained earnings brought forward of € 102,220.43, be appropriated as follows:

Distribution of a dividend of € 8.50 per ordinary no-par-value share	7,536,227.50 €
and, in accordance with the Articles of Association, € 8.76 per preference no-par-value share	7,574,877.12 €
Appropriation to revenue reserves	2,000,000.00 €
Total	17,111,104.62 €
Carried forward to new account	14,981.44 €
	17,126,086.06 €

Frankenthal, 17 March 2015
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.

New technology for CO_2 reduction

“Next-generation fossil-fuelled power plants place much more exacting demands on valves. We intend to provide the technology required in good time.”

Dr. Christopher Lange

Head of Globe, Gate and Control Valves

High-performance gate valve for new power plants

ULTIMATE PERFORMANCE FOR ENERGY AND THE ENVIRONMENT

By 2020, the amount of greenhouse gases emitted into the atmosphere must have been reduced by at least 20 percent compared with 1990 – this is the target the European Union has set itself. Fossil-fuelled power plants must contribute significantly to this goal. As a result, energy providers and the industry sector have been discussing how to generate more power with lower CO_2 emissions under the banner "Power Plants 2020+". A key part of this endeavour is increasing efficiency by raising boiler pressure and temperatures from the max. 600 °C present in highly efficient power plants today to over 700 °C. This places extreme demands on durability and thus requires innovative technologies and the use of specialised materials. As part of the scope of the "725 HWT GKM" joint research project, KSB successfully tested newly developed high-performance valves in a major power plant in Mannheim, Germany. Two prototypes of the ZTS high-pressure gate valve were operated at temperatures of up to 725 °C for almost two years; high-pressure globe valves had previously demonstrated their suitability.

The basic design of these valves developed at KSB's Pegnitz factory has proven its worth in power plants for decades. With an eye on the challenges of the future, KSB has now optimised the product. The valves are manufactured from a nickel base alloy resistant to high temperatures; a spherical body reduces thermal stresses and elongated yoke arms protect the actuators from the potentially negative effects of the hot steam. The goal of the long-term tests: to establish the permissible operating limits of the valves under these extreme conditions. The findings offer a basis for designing components to be used in future power plants with steam temperatures of over 700 °C – ensuring that technology from KSB makes its contribution to achieving our climate goals.

GENERAL INFORMATION

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, 17 March 2015

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 2014 to 31 December 2014. 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) of the *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 2015

BDO AG
Wirtschaftsprüfungsgesellschaft

Dyckerhoff
Wirtschaftsprüfer

Dr. Rosien
Wirtschaftsprüfer

GLOSSARY

ABBREVIATIONS

ANSI
American National Standards Institute

API
American Petroleum Institute

BRIC
Collective abbreviation for the emerging markets of Brazil, Russia, India and China

DIN
Deutsches Institut für Normung e.V. [German Institute for Standardisation]

ELSY
Intelligent electronic systems for use in device and plant engineering and in medical engineering

IE3 + IE4
International efficiency classes for motors

IMO
International Maritime Organisation

LNG
Liquefied natural gas

USCG
United States Coast Guard

VDMA
Verband Deutscher Maschinen- und Anlagenbau e.V.
[German Engineering Federation]

KEY CORPORATE AND TECHNICAL TERMS

725 HWT GKM
Joint project involving partners from science and industry. Power plant components are tested at steam temperatures of up to 725 °C in a high-temperature materials testing facility at the German "Großkraftwerk Mannheim" power plant.

Cloud application
Storage of data and programs in a remote data centre

Industry 4.0
A visionary project from the German government's future technologies strategy

InnoTop
A programme led by the government of Rhineland-Palatinate to promote research and development projects of companies based in the federal state

Retrofit
Modernisation of installed systems or components, often aimed at extending their service life, increasing efficiency or complying with new legislation

Synchronous reluctance motor
Highly energy-efficient motors whose specially designed rotor laminations guide the lines of magnetic flux. Rare earths are not required to manufacture these motors.

Triple-offset butterfly valve
Butterfly valve design suitable for use in applications with extremely high and low temperatures. The triple-offset design ensures that the butterfly valve opens and closes smoothly.

UN Global Compact
A global initiative for businesses and organisations launched by the United Nations with the aim of shaping social and ecological globalisation

CONTACTS

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CONCEPT AND DESIGN
KSB Communications (CC), Frankenthal
3st kommunikation, Mainz

PHOTOGRAPHY
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plainpicture (p. 24)
GIW Industries, Inc. (p. 61)
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Brian Stewart (p. 71)
shutterstock (p. 15 + 158)

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THE GLOBAL COMPACT
WE SUPPORT

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

EUROPE

Austria
Belarus
Belgium
Croatia
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Italy
Luxembourg
Netherlands
Norway
Poland
Portugal
Russia
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
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
Colombia
Mexico
New Zealand
Peru
USA

FINANCIAL CALENDAR

30 MARCH 2015
Financial press conference
10:00, Frankenthal

30 MARCH 2015
Invitation to Annual General Meeting

29 APRIL 2015
Interim report
January – March 2015

6 MAY 2015
Annual General Meeting
15:00, Frankenthal

13 AUGUST 2015
Half-year financial report
January – June 2015

12 NOVEMBER 2015
Interim report
January – September 2015

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