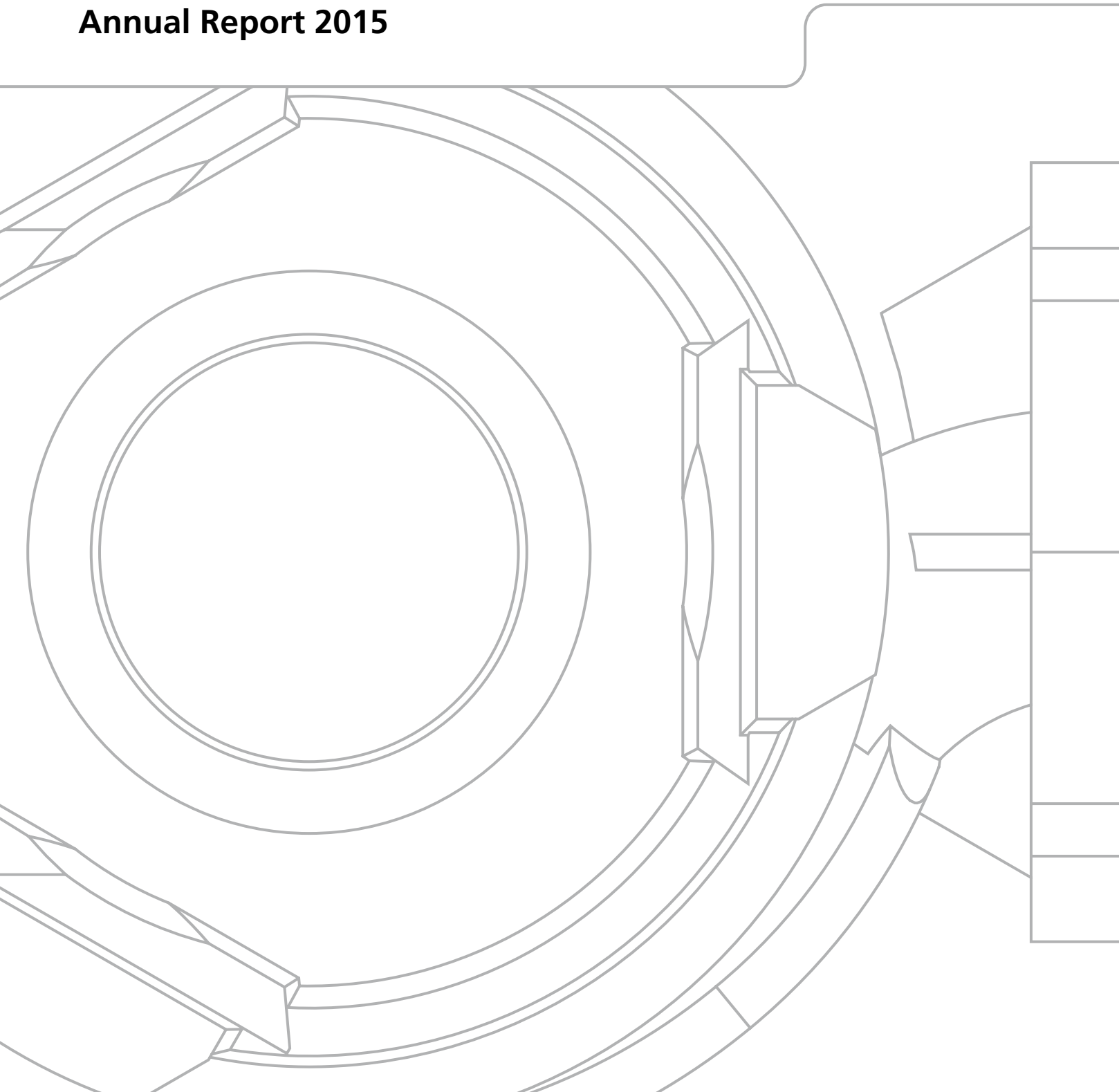
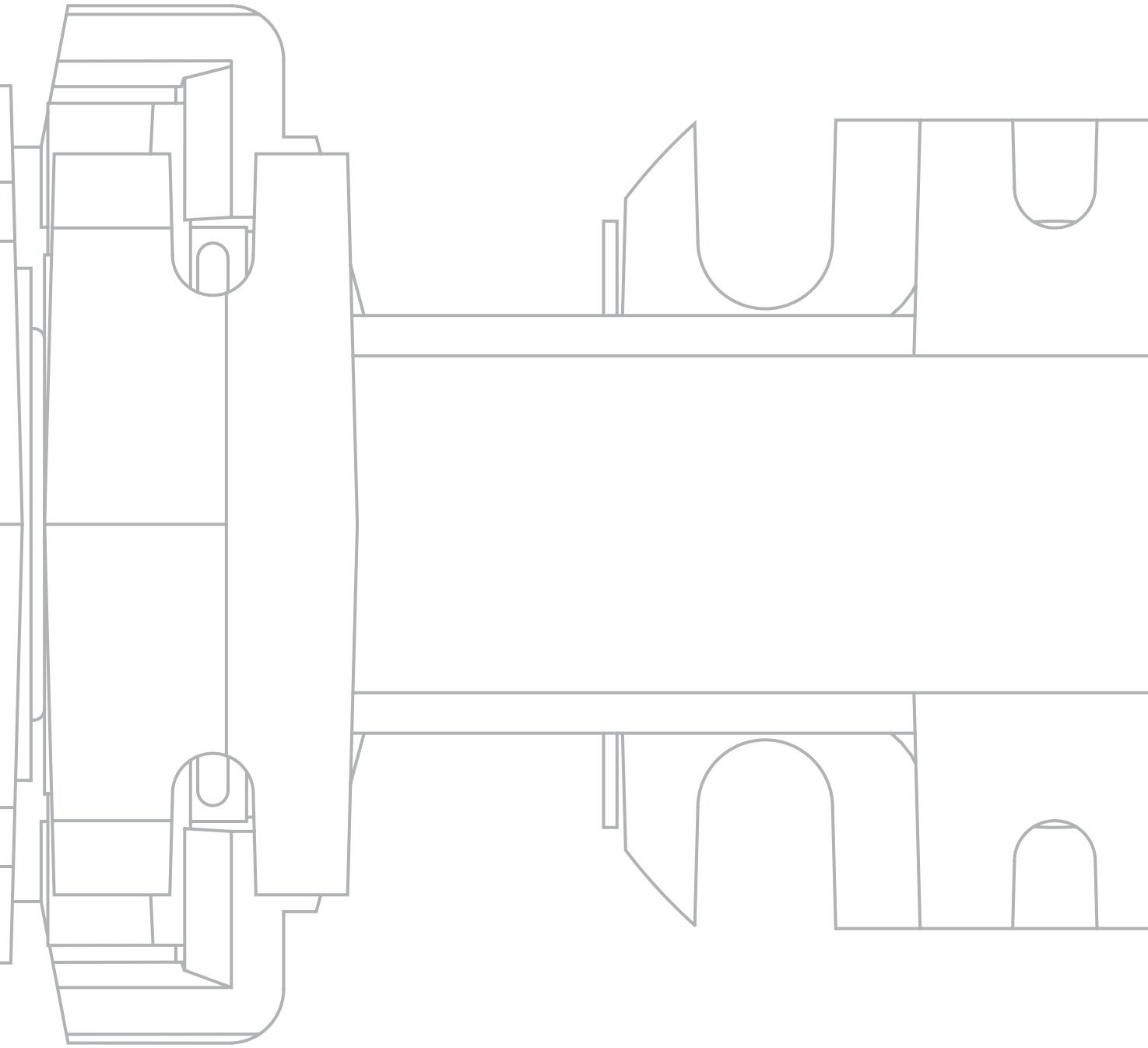
KSB Group

Annual Report 2015



Cover:
Amarex N – Submersible motor pump for handling waste water



GROUP FINANCIAL HIGHLIGHTS

BUSINESS DEVELOPMENT AND EARNINGS

		2015	2014	2013	2012	2011
Order intake	€ m	2,261.2	2,321.2	2,241.2	2,257.4	2,132.3
Sales revenue	€ m	2,334.8	2,181.7	2,247.3	2,268.2	2,091.0
Earnings before interest and taxes (EBIT)	€ m	105.2	89.2*	136.2	150.4**	133.4
Earnings before income taxes (EBT)	€ m	93.4	72.8*	119.4	132.8**	120.5
Earnings after income taxes	€ m	52.2	46.3*	79.9	90.3**	83.3
Cash flow	€ m	137.5	124.4*	142.3	156.9**	137.0

BALANCE SHEET

		2015	2014	2013	2012	2011
Balance sheet total	€ m	2,291.1	2,277.9*	2,151.5	2,188.0**	1,974.1
Fixed assets	€ m	633.1	622.6	591.2	602.0	560.5
Capital expenditure	€ m	82.8	85.1	57.1	91.4	93.5
Depreciation and amortisation expense	€ m	72.8	66.2	60.2	58.6	51.0
Current assets	€ m	1,573.6	1,568.5	1,520.6	1,546.2	1,389.2
Equity (incl. non-controlling interests)	€ m	870.2	819.7*	844.5	832.2**	869.1
Equity ratio (incl. non-controlling interests)	%	38.0	36.0*	39.3	38.0**	44.0

PROFITABILITY

		2015	2014	2013	2012	2011
Return on sales	%	4.0	3.3	5.3	5.9**	5.8
Return on equity	%	11.1	8.8*	14.2	15.6**	14.2
Return on capital employed	%	4.9	4.3	6.6	7.5**	7.4

EMPLOYEES

		2015	2014	2013	2012	2011
Number of employees at 31 Dec.		16,196	16,309	16,546	16,207	15,674
Staff costs	€ m	819.3	784.8*	787.6	758.3**	698.0

SHARES

		2015	2014	2013	2012	2011
Market capitalisation at 31 Dec.	€ m	659.2	735.7	804.3	769.4	741.0
Earnings per ordinary share (EPS)	€	22.30	21.97*	37.38	42.48**	40.95
Earnings per preference share (EPS)	€	22.56	22.23*	37.64	42.74**	41.21
Dividend per ordinary share	€	5.50	8.50	12.00	12.00	12.00
Dividend per preference share	€	5.76	8.76	12.26	12.26	12.26

* Adjustment under IAS 8

** Adjustment to reflect the retroactive amendment to IAS 19

PRODUCTS AND SERVICES

KSB pumps and valves are primarily used to transport or shut off all kinds of fluids. Their efficient and reliable operation is taken care of by specialists in 170 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

OUTLOOK 2018

KSB's high-efficiency pumps and reliable valves are used worldwide in applications where fluids need to be transported or shut off. Combined with KSB's rapid service, they guarantee our customers' technical and commercial success.

By gearing its activities towards five focus markets, KSB has opened up new prospects for success in 2015. Complementary strategic measures will steer us along a path towards long-term profitable growth by 2018.

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1

MANAGEMENT AND ISSUES 2015

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,

The sales revenue and earnings figures for 2015 show an upward trend. Last year we worked intensively on improving our economic situation. We increased consolidated sales revenue by 7.0 % to € 2,334.8 million, while earnings before taxes rose 28.2 % to € 93.4 million, albeit with exchange rate changes also playing a part.

But let us not be deceived by rising figures. Looking to the immediate future, we see some hurdles ahead: The markets in our sector have undergone profound changes and competition has become tougher. Furthermore, several of our customer segments are in a weak state, which resulted in a slight decline in our order intake by 2.6 % to € 2,261.2 million in 2015. The effects will be felt in our sales revenue in the current year. This means that it is even more important that we improve our competitiveness and profitability.

To this end, we adapt our development, production, sales and administration structures to new market conditions without delay and increase our presence in growth markets. We also need to create a cost base that will give us greater leeway in decision-making, something that is of the utmost importance in economically challenging phases.

We will focus our attention on resolving these issues this year and next. In this context, we have already engaged in conceptual and structural preparatory work:

1. WE HAVE UPDAPTED OUR GROUP STRATEGY AND IDENTIFIED FOCUS MARKETS

As part of our strategy review, we defined three global and two regional focus markets in 2015. In the coming years we will align our resources in development, production and sales with the needs of these markets wherever possible. On a global level, we will serve industry, the water and waste water management sector and the energy industry. The regional focuses of our business are construction/building services in Europe and the Middle East and mining in the Americas.

Our focus takes full account of the current difficulties in the energy and mining sectors:

- We are therefore gradually relocating our power plant pump activities to China and India, where the market is still highly dynamic. In Europe we are concentrating on projects to modernise and increase the efficiency of power plants.

- To counter the current decline in demand for mining, we entered into a German-Finnish partnership in 2015. The agreement links us with a global provider of mining machinery and systems, which already offers our slurry pumps via its industry-specific sales network. This significantly increases the sales opportunities for our slurry pumps.

2. WE ARE REDUCING THE COMPLEXITY OF THE PRODUCT PORTFOLIO AND THE NUMBER OF COMPANIES

Compared with a simple structure, complexity entails extra costs. This is true both for a product portfolio with a very wide range of products and for a Group structure that currently encompasses over 90 companies.

- As previously announced, we further reduced the complexity of our product programme in 2015 and will continue the process of streamlining our type series over the current year. This will enable us to better target our activities in research, development and product management on high-volume, high-margin products.

- We have also begun to reduce the number of companies. This includes the merger of KSB companies in Finland, Norway and Spain, and the sale of two operating companies in Greece. Further measures of this kind are planned, both within and outside of Europe, which will allow us to save on management capacities and cut costs.

3. WE HAVE INITIATED A PACKAGE OF MEASURES THAT IMPROVE OUR COST STRUCTURES

In Germany in particular, we took wide-ranging steps in 2015 to cut costs. Measures included the closure of the plant in Homburg and the realignment of our Pegnitz foundry to produce high-quality components.

In 2016 and 2017 we will extend our efforts to achieve greater competitiveness to a global level. To this end, we have initiated a programme to enhance efficiency, with the aim of reducing our material costs, our staff costs and our overheads by 10 %. The positive effects of this programme will be felt in full in our 2018 earnings.

In addition, we also have many things planned for this year and next in order to successfully realign KSB. In doing so, we will be very responsible in our use of the capital that you, as a shareholder of the company, have entrusted us with. Following the rather disappointing development of our shares on the stock exchange in 2015, we are confident that our efforts will soon be reflected in rising share prices. Our aim is to be an attractive company not only for our customers and employees, but also for investors.

We thank you for the trust you have placed in us and look forward to being able to inform you soon of further progress and successes.

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 reporting period, 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 revision of strategic objectives, and the continued development of the corporate organisation and international production concept. The analysis of business development in the segments and Regions represented an additional focus, as did major investment projects at various sites. We dealt on an ongoing basis with the company's economic position and the prospects facing selected markets. Based on a recommendation contained in the German Corporate Governance Code, we also looked at the efficiency of our own activity.

Four regular Supervisory Board meetings were held in financial year 2015. 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 continued expansion. In a few cases of obvious structural difficulties, we decided to approve the Board of Management's proposals to sell off 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. Required investments were subjected to critical analysis before being approved and their implementation was subsequently monitored by us. In this context, the Supervisory Board approved significant financial resources to maintain the high technical level of the plants on a Group-wide basis. For the purposes of enabling production as close to customers as possible, we approved the Board of Management's proposal that we expand our Indian production capacities. On several occasions, we reviewed the status of our expansion work at our US subsidiary GIW Industries, Inc., which is progressing well. Following the completion of initial steps in the modernisation of our foundry in Pegnitz, Germany, the new systems came on line, on schedule, in autumn of last year. In order to obtain a major Chinese order for the supply of pumps, we had to expand our local manufacturing facilities, as already reported. Since the completion of this work, we have been receiving ongoing updates from the Board of Management on the progress made with the contract. We expect the successful implementation of this demanding project to 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. The main focus was on the optimisation of manufacturing capacities within our international production network. The deliberations presented by the Board of Management were critically reviewed, with regard to both conceptual aspects and the initial implementation stages.

Repeatedly on the agenda was the development of the corporate organisation. We devoted particular attention to the topics of cutting internal administrative expenses, by creating central services units, for example, and reducing the number of Group companies. These activities were rounded off with an exchange on the work that has now been completed to ensure the highly automated generation of key performance indicators in Controlling and Finance. Another central focus of our work was the progress made towards strengthening our value-based corporate culture, with the Board of Management providing regular updates. Based on an initial trial, the staff evaluation and employee development system presented by the Board of Management last year has proven to be a suitable tool for the continuous improvement of performance, at both employee and company level.

During the September meeting, the Supervisory Board dealt in detail with solutions, in terms of production technology, logistics and sales, for boosting the company's sales outside Europe. Digital solutions in the context of Industry 4.0 were presented using specific examples. We expect these solutions, which are geared towards the latest market developments and narrowly

focused on customer benefits, to provide significant impetus for the achievement of our strategic objectives. By visiting the state-of-the-art technical facilities at our Frankenthal site, we were able to gain a picture of how the approaches that had been presented to us are being implemented in practice. We also set our target with regard to the proportion of women on our Board of Management between now and 20 June 2017. This will remain at zero percent, as we do not see any realistic way of making female appointments during this period. We also informed ourselves about selected products and functions of the Group. At the December meeting, a major focus was the programme presented by the Board of Management to increase efficiency in all of the Group's corporate units. The aim of this demanding project is to make tangible improvements to processes and cost structures over the next two years, in parallel to the customer-oriented strategic activities. We also looked at business performance during the financial year and planning for 2016.

In order to perform its duties efficiently, the Supervisory Board worked with five committees in 2015. 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 of Supervisory Board members at the Annual General Meeting, on 6 May 2015, the **Nomination Committee** prepared the Supervisory Board's nominations, convening once during the reporting year 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 **Corporate Development Committee** deals with the company's strategic development, as well as with annual planning and finance, and technology issues. At 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 India. The development of particular product areas also figured on the agenda, as did tie-in measures during acquisitions and selected projects. The strategic expansion of valves business, for example, took up a great deal of discussion time. Despite unmistakeable successes over the last few years, the Committee still sees considerable potential to be exploited. The heads of the relevant specialist departments 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

COMMITTEES OF THE SUPERVISORY BOARD

and their chairs, as well as number of meetings in the year under review

CORPORATE DEVELOPMENT COMMITTEE

Dr. Martin Auer, Chairman
No. of meetings: 4

NOMINATION COMMITTEE

Klaus Kühborth
Dr. Thomas Seeberg
No. of meetings: 1

PERSONNEL COMMITTEE

Dr. Thomas Seeberg, Chairman
No. of meetings: 4

AUDIT COMMITTEE

Dr. Jörg Matthias Großmann, Chairman
No. of meetings: 4

MEDIATION COMMITTEE

Dr. Thomas Seeberg, Chairman
No. of meetings: 0

preparatory capacity. In the year under review, the Committee also discussed staff development issues with the aim of ensuring that any need for action in terms of filling Board of Management positions and positions at the management level directly below the Board is identified at an early stage and followed up. As proposed by the Committee, on 27 October 2015 the Supervisory Board extended the appointment of the long-standing member of the Board of Management and Human Resources Director, Dr. Peter Buthmann, by a further year, taking his term of office until 30 June 2017. The Supervisory Board approved that the age limit applicable to members of the Board of Management will be exceeded by a few months. The Committee also submitted proposals for the resolution on the new legal requirements regarding the inclusion of women in managerial positions. In 2015, the Committee members again participated in events with staff from various management levels in an effort to foster a direct exchange of ideas.

The four meetings of the **Audit Committee** were always attended by a Member of the Board of Management and, on several occasions, by the auditors and the heads of the relevant departments. The Committee primarily discussed the 2014 annual and consolidated financial statements, as well as the corresponding audit reports prepared by the auditors. The Audit Committee also 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. It also defined key audit areas for the external auditing of the 2015 financial statements. In addition, the 2015 half-year financial report was discussed with the Board of Management. During the auditor selection process, the Committee reviewed the offers submitted and made its recommendation to the Supervisory Board for the election of the auditors at last year's Annual General Meeting. It then commissioned the auditors to carry out the audit of the annual and consolidated financial statements for the 2015 financial year. The declaration of independence by the auditors was obtained in accordance with the recommendations

of the German Corporate Governance Code (section 7.2.1) and the auditors' continued independence was monitored. The Committee was also involved in the monitoring of the accounting process, the risk management system – taking account of relevant reports by Internal Audits – and the effectiveness of the internal control and auditing system, including compliance.

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

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored developments in corporate governance standards throughout the 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 *HGB* [*Handelsgesetzbuch* – German Commercial Code]. On 2 December 2015 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 2015 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 2016 as well as by the Supervisory Board plenary session on 23 March 2016 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 2015, 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 2015, 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 Mannheim office of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2015, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2015, and issued an unqualified opinion. The key audit areas defined for the auditors by the Audit Committee for the year under review were the validity of the measurement assumptions for selected goodwill, the completeness of the disclosures in the notes (particularly in relation to pensions, financial instruments and related party disclosures), as well as the proper preparation of the dependent company report. The auditors reported on 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 2015 financial year prepared by the Board of Management in accordance with section 312 AktG and issued the following unqualified audit opinion on this report:

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

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

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

CHANGES ON THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The renewed extension of the appointment of Dr. Peter Buthmann as member of the Board of Management and Human Resources Director has already been referred to above. Prof. Dr. Michael Hoffmann-Becking resigned from the Supervisory Board with effect from the close of last year's General Meeting. The Meeting elected Prof. Dr. Dieter H. Hellmann as his successor, and also reappointed Dr. Martin Auer to the Supervisory Board. Prof. Dr. Hellmann and Dr. Jost Wiechmann resigned from the Supervisory Board with effect from the end of August and the end of December 2015 respectively. They were replaced by Günther Koch and Gabriele Sommer, both of whom were appointed to the Supervisory Board by means of an order of the Local Court of Ludwigshafen am Rhein, with effect from 8 September 2015 and 1 January 2016 respectively. Klaus Kühborth resigned as Chairman of the Supervisory Board, while remaining as a member, as of 10 September 2015. Dr. Thomas Seeberg was appointed to succeed him as Chairman. The Supervisory Board would like to thank the members who have left the Board for their many years of close cooperation. It also thanks Mr Kühborth for his prudent leadership over the past few years.

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 during the past financial year.

Frankenthal, 23 March 2016

The Supervisory Board

A LOOK BACK AT 2015

Q1

MILESTONE
The Etanorm pump range is awarded an innovation prize in the "Pumps and Valves" category by the MM Maschinenmarkt trade journal. KSB has set standards internationally with this "mother of all standardised pumps".

LOGISTICS
The new central warehouse for standard products in Worms starts operations. It serves as a facility for handling and storing products that come from several European KSB factories and helps minimising delivery times and logistics costs.

FRANCE
A three-year contract is concluded between KSB and a major French company operating in the water industry. The contract covers the supply of pumps and mixers, as well as an agreement between the customer and the 29 KSB Service workshops in France.

AWARD
KSB receives an environment prize awarded by the Pump Industry Awards and the British Pump Manufacturers' Association in 2015 for its "Pump as Turbine in Place of Pressure-Reducing Valve" solution. Pumps running in reverse can use hydropower to generate electricity while pressures are reduced.

TURKEY
Staff and management celebrate the start of construction of the new mechatronics competence centre in Ankara. The centre will unite the production of circulators and state-of-the-art electrical and automation equipment. Production of pumps from the Smedegaard product range will commence in 2016 at the Turkish factory.

LUXEMBOURG
The last boxes for a major valve order leave the factory of SISTO Armaturen S.A. in Echternach, Luxembourg. The valves are destined for use in the Taishan nuclear power station in China. The customer had placed an order for a total of almost 5,800 globe and butterfly valves which were supplied by SISTO within five years.

Q2

A WORLD FIRST
By using ultrasonic sensors, the new BOA-Control IMS offer shut-off, balancing and measuring functions in a single valve. A mobile or permanently installed computer can be used for storing and transmitting the recorded values.

INNOVATION
ACHEMA 2015 in Frankfurt sees KSB showcase the KSB Sonolyzer for the first time. Sonolyzer is a smartphone and tablet app used for analysing the energy efficiency of pumps on the go. In under 20 seconds, the application filters the motor's exact speed from the noise spectrum, determines the torque, and analyses whether the pump is operated under low-flow conditions and thus running inefficiently.

Q3

KSB SHARES

2015 marks the 120th anniversary of the listing of KSB AG shares on the Frankfurt Stock Exchange. To celebrate the occasion, KSB's two Board of Management members, Dr. Peter Buthmann and Werner Stegmüller, ring the bell on 30 July to signal the start of trading.

ENERGY PUMPS

KSB wins a multi-million euro order for the supply of boiler feed and booster pumps for the new Tanda coal-fired power station located in the Indian state of Uttar Pradesh. These pumps will be manufactured by staff at our Indian factory in Pune.

ANNIVERSARY

KAGEMA Industrieausrüstungen GmbH celebrates its 25th anniversary. 70 members of staff manufacture pumps with diesel engines and electric motors as well as fire-fighting and control systems at the company's Pattensen location.

SERVICE

The KSB Service subsidiary Standard Alloys Inc. opens a new 1,400-square-metre factory in Deer Park, in the south-east of Texas. It is the company's fourth repair centre and one of eleven service centres set up from scratch by KSB in 2015.

MAJOR ORDER

KSB books an order for a total of 200 pumps worth an eight-figure sum. The pumps to be manufactured at KSB's Bremen, Frankenthal, Pegnitz and Pune factories will be installed in three new combined cycle power stations in Egypt.

MINING

GIW Industries, Inc. enters into a sales and service partnership with the Finnish company Outotec Oyj. As a cooperation partner, Outotec will be globally selling and servicing KSB pumps for hardrock mining in the future.

INAUGURATION

The new foundry of GIW Industries, Inc. is officially opened. White cast iron will primarily be produced by foundry staff in the new 4,650-square-metre building. The new foundry is part of a modernisation project at the Grovetown location into which KSB invests a total of 66 million euros.

Q4

BALLAST WATER SYSTEM

After successful completion of the tests on land KSB's innovative ballast water management system is installed on a container ship. This marks the start of the prescribed tests to be conducted at sea.

COOPERATION

KSB AG and China-based Shanghai Electric Group Co., Ltd. sign an agreement for strategic collaboration in the conventional energy market. The two companies intend to cooperate in international projects and to set up a new business model focussing on the retrofitting of power stations.

TRIODIS

The first butterfly valves from the TRIODIS range leave the newly constructed production site located in La Roche-Chalais, France. They have been designed to cope with high pressures and extremely low temperatures.

EMPLOYEES

Corporate economic success is, to a large extent, based on the abilities of employees. Their commitment, efficiency, knowledge and skills form the basis of all commercial processes. At KSB around 16,000 employees are committed to providing innovative products and outstanding services to customers from across the globe. To ensure that we always attract, nurture and retain the best people, we aim to be an attractive employer that supports a climate of learning, innovation and change.

IDENTIFYING TALENT

As an employer, when selecting new employees we ensure that their professional and social skills fit in with our corporate culture centred on the values of trust, responsibility, professionalism, appreciation and honesty.

In addition to the classic communication channels, we use the job pages of the social media channels LinkedIn and Xing. This enables us to establish contact with job candidates, build networks and fill vacant positions quickly.

FOSTERING YOUNG TALENT

Forward-looking companies understand the importance of attracting promising young people at an early stage. We initiated two new programmes in the year under review to ensure that we are able to attract young talent: The first is aimed at university graduates from all over the world, who gain international professional experience as trainees at different locations within the Group over a period of 18 months. In addition they complete individual training and attend seminars in order to prepare themselves for their later target positions within the company. The trainees are helped to achieve this by senior management. The second programme is aimed at young professionals who already have some experience as project managers, managers or experts. They take on challenging tasks in a cross-functional or cross-border project at KSB.

In addition, 45 young people completed a dual work/degree programme to obtain a Bachelor of Arts (business administration) or Bachelor of Engineering (mechanical engineering).

It is also important for a mechanical engineering company to train young skilled workers and industrial business management assistants, with a focus on practical learning. In the year under review, we imparted expertise to 189 young people in 18 vocational professions at the Frankenthal, Halle and Pegnitz locations and helped them to successfully qualify.

The success of this is borne out by the performances of the young employees before the CCI boards of examiners and in the distinctions awarded to KSB as an exemplary training company.

Just as important as professional expertise are personal development and a clear sense of responsibility. Our trainees again provided evidence of the latter in the social sphere in 2015 through their involvement at animal sanctuaries, in sponsored runs and by assisting refugees.

In the year under review, we spent € 7.24 million on vocational training in Germany, including the equipping of three mechanical engineering training workshops.

DEVELOPING COMPETENCIES

We invest in the development of our employees in order to maintain and increase their knowledge, skills and innovative drive in the long run. We conducted seminars around the world to enhance our employees' expertise and promote their personal development. Many such measures are followed by an individual action plan that aims to implement the knowledge imparted more quickly.

We put particular emphasis on the further education of our sales staff in 2015, focusing on training programmes devoted to the requirements of a new sales channel aimed at the users of our products. In Russia we also trained experts in special applications for our products, such as power plants and the petrochemical industries. The participants were then able to use their new knowledge to train their colleagues at their respective workplaces.

Life-long learning: Our wide range of training courses increases our employees' knowledge and enables them to tackle new tasks.

Our managers also continuously examine their roles and the performance of their employees. We support this through individual development measures and topic-specific training programmes that enable them to reflect on and change their management style. In our biggest US company, GIW Industries, Inc., around 70 managers completed such a training programme in 2015.

Leadership always involves a duty of care to the employees. To reduce the physical harm caused by stress, we introduced a new e-learning programme in German and English in the year under review. The programme provides users with information on how they can support the mental health of their employees as well as their own.

IMPROVING PERFORMANCE

Inspiring clients requires outstanding performance. The assumption underpinning this is that all employees know what is expected of them, which necessitates a clear communication and feedback culture.

Under the motto "Courage to talk means a chance to improve", around 1,200 staff members around the world had taken part in a competence-based performance evaluation by the end of June 2015. The objective was to give the employees structured, open feedback about performance and conduct as well as to agree development objectives and measures together. Due to the positive experiences and outcomes of the evaluation, we will include further groups of employees in the process in 2016.

STAFF NUMBERS DOWN

At the end of 2015, 16,196 people were employed in the Group, 113 fewer than at the same time the previous year. The number of employees at our German companies declined by 169 as a result of measures introduced above all by KSB AG to adapt to new market conditions. Meanwhile, the size of the French workforce increased by 126 employees, mainly due to the integration of a service unit.

SCORING WITH PROFESSIONALISM

Everything we do is designed to offer customers attractive products and services, in addition to expert advice. Managers and employees strive to achieve that objective each and every day. Thanks to them, we promote customer loyalty and attract new customers to our company.

The Board of Management thanks the staff for this achievement and their commitment during the implementation of the new initiatives that strengthen our competitiveness. Special thanks are also due to the Works Council members, executives' representatives and youth representatives for their critical and constructive collaboration.

CORPORATE SOCIAL RESPONSIBILITY

Companies that want to be successful in the long term need to act responsibly towards future generations. At KSB, we always abide by this principle in our business activities. As a manufacturing company, we attach particular importance to protecting people and the environment. We are also committed to social issues.

In our business activities, we are guided not just by economic but also by ecological and social criteria. In 2010, for instance, we signed the United Nations Global Compact, committing ourselves to align our business practices with ten universal principles in the areas of human rights, labour, the environment and combating corruption.

More than 13,000 companies and organisations have now joined this UN initiative, including many of our customers and business partners. We expect our suppliers to commit to the ten principles of the Global Compact and comply with its rules, just as we do.

In our business relationships, we consider proper conduct on the part of our employees to be very important. We regularly hold trainings to support them in performing their duties in compliance with regulations and the law. In 2015, we complemented our guidelines and directives with a business partner risk analysis valid throughout the Group. It applies to any services provided by a third party for or on behalf of KSB, such as sales representatives, consultants, suppliers and subcontractors. The analysis allows identifying certain risks before business relationships are initiated.

KSB has traditionally linked economic success with working for the common good, which also encompasses providing financial assistance to socially motivated organisations. In order to bundle our activities and achieve high transparency, we overhauled our Donations Directive in the year under review. This directive sets out binding rules on the purposes and conditions of our financial and non-financial commitments.

EDUCATION FOR A BETTER FUTURE

We aim to contribute to positive social development through our philanthropic involvement. A key focus of our social activities is education.

To remain competitive, innovative companies need highly qualified specialist staff both now and in the future. That is why we are particularly keen to promote the scientific and technological education of young people. For example, KSB is involved in an educational initiative as a founding member of *"Wissensfabrik – Unternehmen für Deutschland e.V."* [Knowledge Factory – Companies for Germany]. Since 2005, we have agreed 22 educational partnerships with kindergartens and schools. The aim is to enthuse children for science and technology at an early age. We provide learning materials for experiments and practical work, and train teachers in how to use them. Moreover, we support a story-telling project to foster early language development.

KSB also has intensive contact to universities. Young scientists visit our site to gain an insight into what it is like to work in a mechanical engineering company. Students can do their final-year theses at our company or work as interns or student trainees.

For the third time, KSB organised the regional section of the *"Schüler experimentieren – Jugend forscht"* [Pupils do experiments – young people do research] contest, the largest European event of this kind, at the Group headquarters in Frankenthal. In the region of Upper Franconia, we once again backed this competition as a cooperation partner.

In India, we have equipped a school with a science laboratory. We are also supporting a further education project for women from rural areas, so that they are better equipped to earn a living.

The arrival of around a million migrants in 2015 has created great challenges for Germany. These people can only be integrated if they learn the language of their host country quickly. Good German skills help even the youngest of migrants to settle into their new environment. This key topic was thus at

the focus of our Christmas charity campaign. At our three largest production sites, we donated € 40,000 to various organisations and projects that aid refugee children. The donations support language courses and sports sponsorship, so that young people can quickly fit into German society.

We are particularly proud of our trainees' contribution. At our site in Halle, KSB's youngest generation put together welcome parcels to meet the basic needs of refugees on their arrival in the country.

STRENGTHENING SOCIETY'S FABRIC

In India, we are supporting ten projects close to our sites. We donated vehicles to a charity that offers medical care, education and rehabilitation to maltreated women and their children. These will facilitate transport to hospitals, for example. We equipped a centre for handicapped children with a classroom that meets their needs. In a rural village, we built toilet facilities to improve the hygiene conditions. Every year, we pay for the upkeep of children in several welfare institutions.

Our employees are involved in social welfare projects worldwide. For example, staff in Malaysia collected clothes, games, toys and books for needy inhabitants of a remote village. KSB employees in Singapore were joined by a number of disabled children to spend a public holiday together. In the UK, KSB donated the proceeds from the recycling of IT equipment and mobile telephones to a children's charity.

Our staff in Australia are involved in a very special project. They regularly prepare free meals on a voluntary basis for the "brekkie van" to deliver to homeless and socially underprivileged people. Several local companies contribute to this charitable project.

HEALTH AND SAFETY AT WORK

As a socially responsible company, we attach importance to our staff's health and safety. Hence, we take measures to prevent accidents and health problems. To minimise risks, we systematically focus on prevention. In 2015, we introduced an e-learning course in Germany about occupational health and safety in the office. More than 1,700 participants learned about the potential risks and what to do in an emergency. They were also informed about protective and preventive measures, for example, to prevent fires.

To guarantee the safety of our industrial employees, we regularly hold training courses. Our aim is to prevent accidents related to work processes. In manufacturing companies, potentially hazardous chemicals are used from time to time. In such cases, our goal is to avoid any accidents before they happen. In Brazil, we put together a team of experts to reduce the dangers of dealing with flammable products and materials in the manufacturing process.

KSB attaches great importance to effective health management, as only physically and mentally fit staff can do their best for our customers. In addition to measures for the prevention of occupational injuries and diseases, we organised information events again in 2015 as part of our company health management, for example on early detection of diabetes, as well as preventive check-ups in Germany. Employees over the age of 50 had the option of a thorough medical examination. For instance, the physician assessed their risk of developing cardiovascular diseases and advised them on how to reduce this risk. To detect skin cancer in good time, a specialist carried out 240 dermatological checks at three sites. We aim to repeat this skin screening programme in 2016 due to the high demand. Additionally, some 400 employees took advantage of the offer of flu immunisation. Around 150 KSB computer users are taking part in a computer-based health programme for office workplaces. Participants briefly interrupt their work several times a day to do various exercises for their backs and eyes.

In Austria, staff are regularly surveyed. The standardised questionnaires used make it possible to detect risks to physical and mental health. Measures are then adopted to prevent long-term illnesses such as burnout syndrome.

One of our US companies carried out an ergonomic analysis of all workplaces in 2015. The aim was to identify and prevent injuries due to poor posture.

ENERGY SAVINGS POTENTIAL ASSESSED

All our production processes are designed to be as environmentally friendly as possible. Thus, we are continually cutting back on our use of raw materials and energy. In the year under review, we carried out energy audits at all larger European sites in order to identify energy savings potential even better than before. The findings of these analyses showed how our energy consumption could be reduced by means of appropriate modernisation measures and a change in user behaviour.

At our site in Pegnitz, we modernised the heating station in 2015 and, at the same time, installed a combined heat and power unit. As a result, we can save some of the energy previously used for heating and produce some of the electricity needed in our plant ourselves. We can thus reduce our electricity purchases by around 2.4 million kilowatt hours every year.

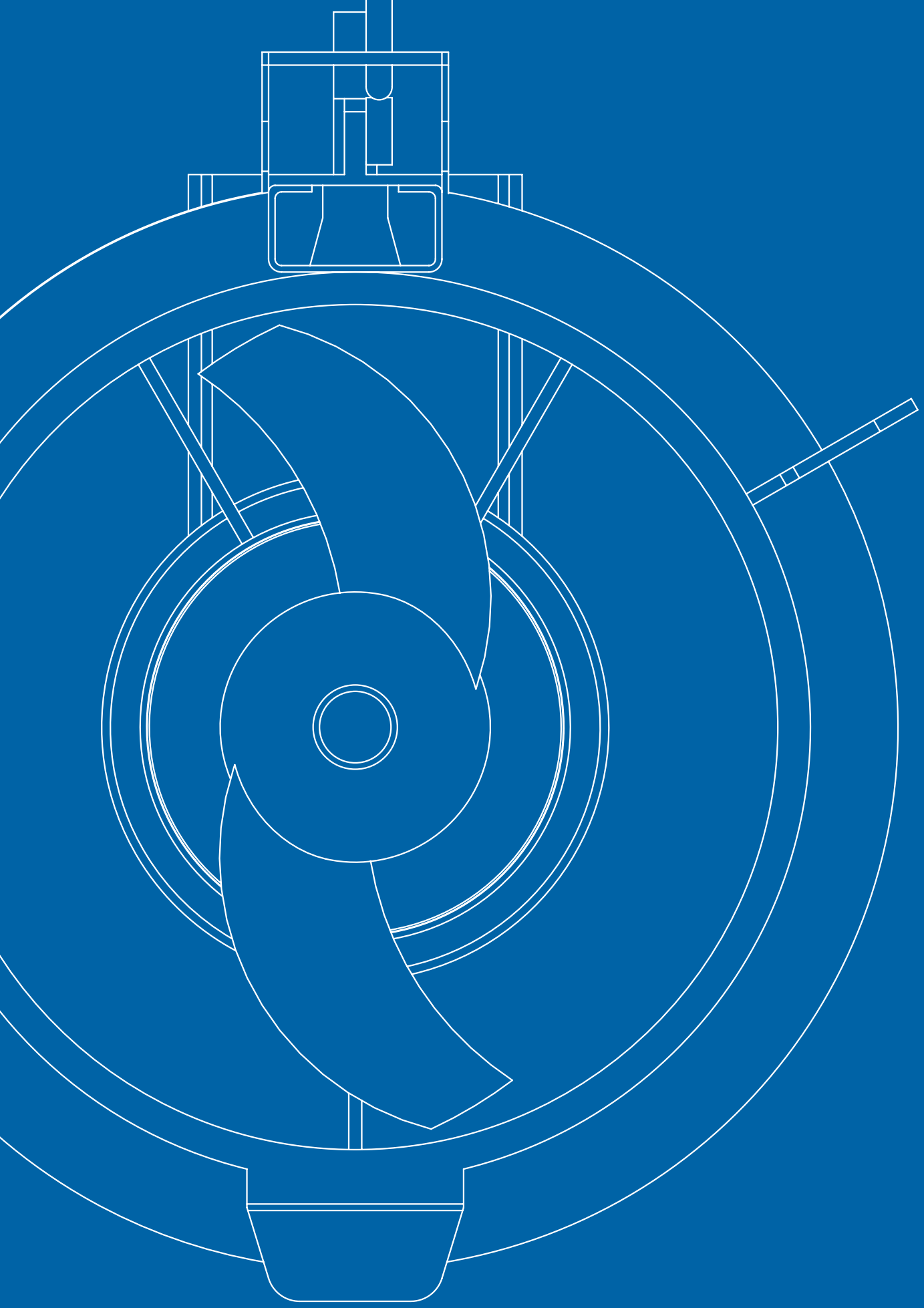
To lower the energy consumed by our sites worldwide we are relying on high-efficiency lighting. For example, in the year under review, we replaced conventional lights in Argentina, India, South Korea and the United States with more energy-efficient models. Additionally, we installed sensor-controlled lighting.

Our employees work together closely across the company and therefore frequently have to discuss matters in meetings. Wherever possible, we avoid business trips and use our international video conferencing network instead. We are continually developing this network so that we can communicate in an environmentally friendly manner. In 2015, we set up seven new video conferencing rooms, which means that we now have 67 facilities of this kind in 23 countries. In addition, 140 employees use an individual video system on their computers. Around 15,000 on-screen conferences were held at KSB in the reporting year.

Globally, we are counting on binding certification to create uniform environmental standards. In 2015, we obtained accreditation in accordance with the internationally recognised ISO 14001 standard at our sites in Germany, Spain and the United Arab Emirates.

Manufacturing companies create waste. In order to minimise the resulting impact on the environment, we try to keep our use of hazardous substances as low as possible. Moreover, we are working towards recycling all materials we use and producing little or even no waste at all. In Spain, we started a project in 2015 to reduce the use of solvents by 15 percent per year by 2018.

When modernising plants, we ensure that we use state-of-the-art environmental technologies. The same applies when we replace machinery and equipment: we opt for more energy-efficient substitutes.



AMALINE
Submersible motor propeller pump for waste water treatment

2

OUTLOOK 2018

OUTLOOK

KSB's aim is to generate long-term profitable growth. Based on this goal, we have realigned our Group strategy, defining our focus markets and measures that will promote dynamic growth. We want to secure a leading position (Top 3) for KSB as a pumps supplier in five selected markets now or by 2018. At the same time, we are continuing to expand our valves and service business.

3+2

KSB has focused its business activities on three global markets (industry, energy supply, water and waste water), and on two regional markets (mining and construction / building services).

20

18

360°

High performance from every angle. As a fluid handling partner, we support our customers with products and services across all phases of planning, building, operating and servicing a plant. Our 360-degree expertise is based on a holistic approach to everything we do.

6–8 %

Within this target corridor for return on sales at KSB, we will achieve long-term profitable growth.

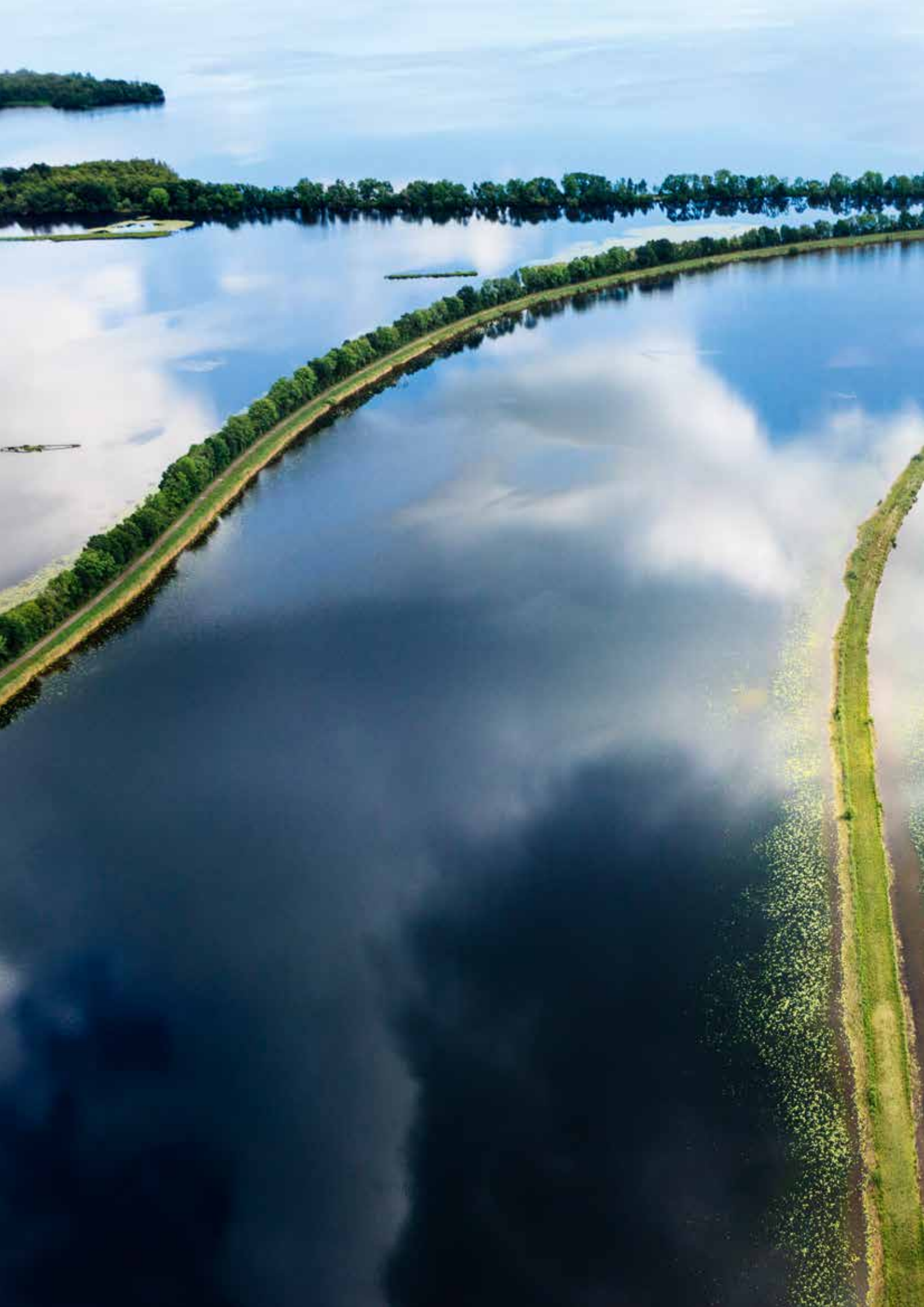
10/10/10

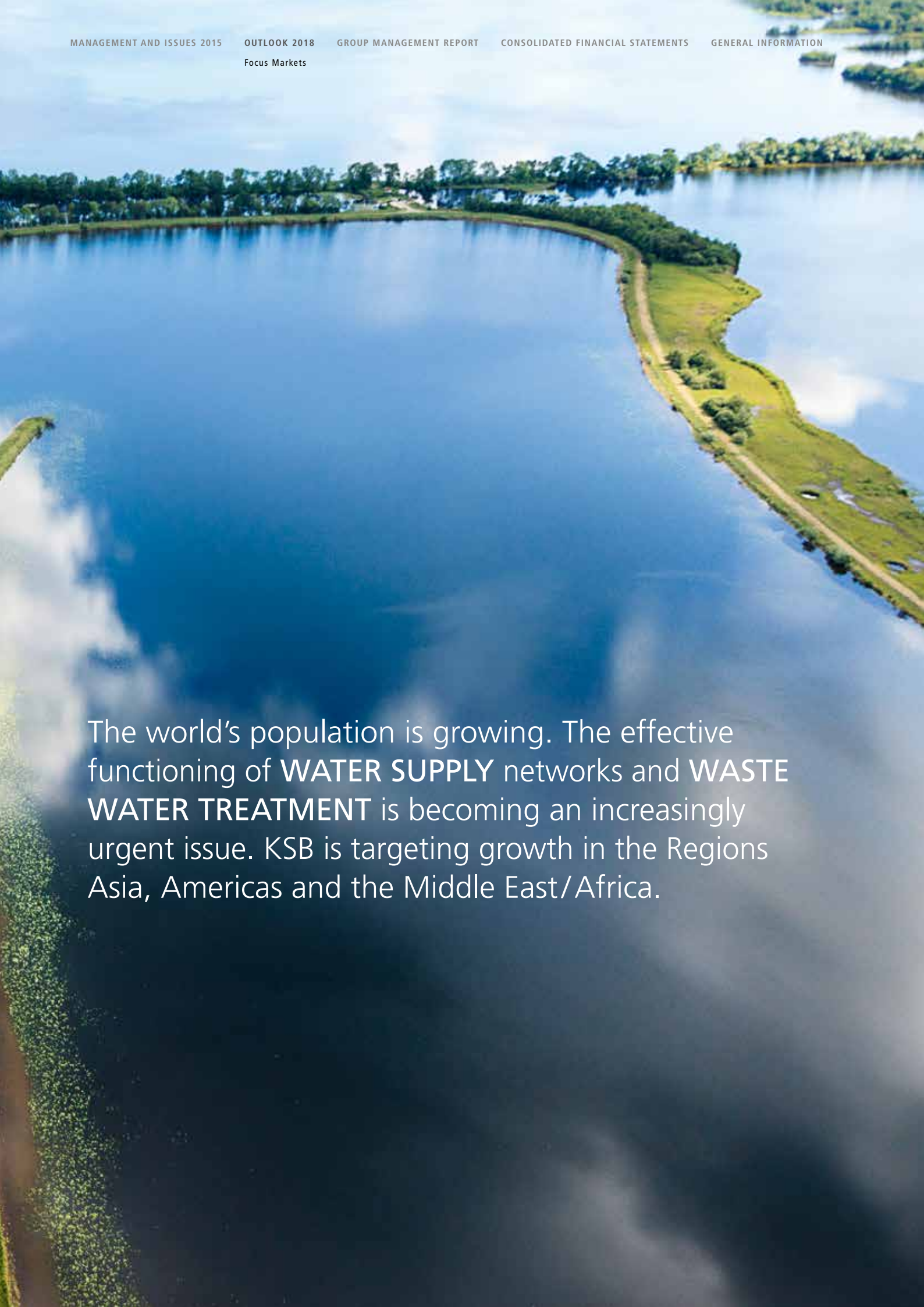
In order to improve our return on sales, we are cutting our material costs, our staff costs and our overheads by 10 % worldwide. This will reduce our spending by € 200 million by 2018.

32 %

This is the share of aftermarket business in our total order intake and sales revenue volume that we are targeting by 2018.

The transformation of the **ENERGY SUPPLY** sector has brought with it new challenges. As well as equipping power plants in Asia, KSB's business in this market is largely focused on modernisation work and providing services across the globe.

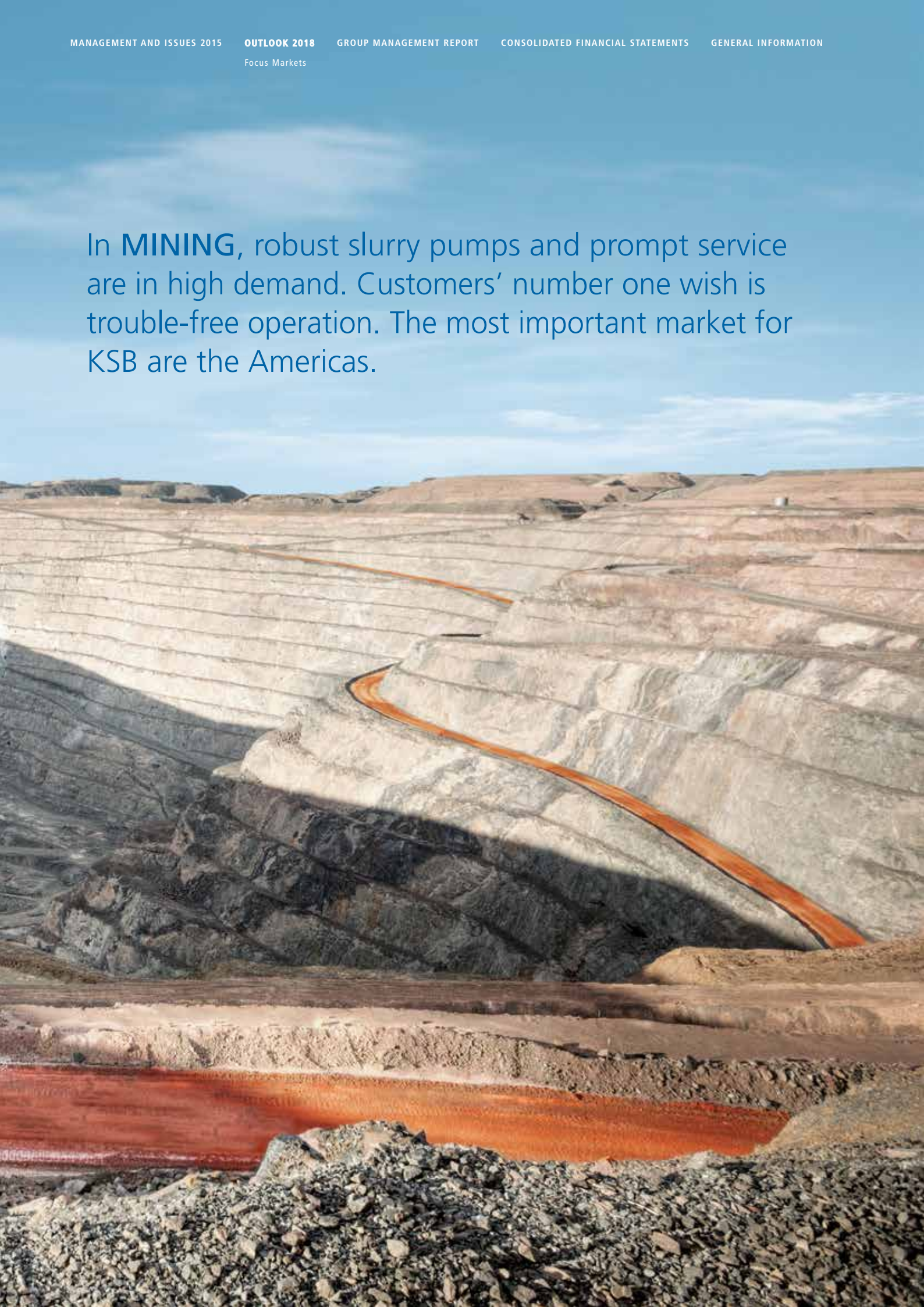




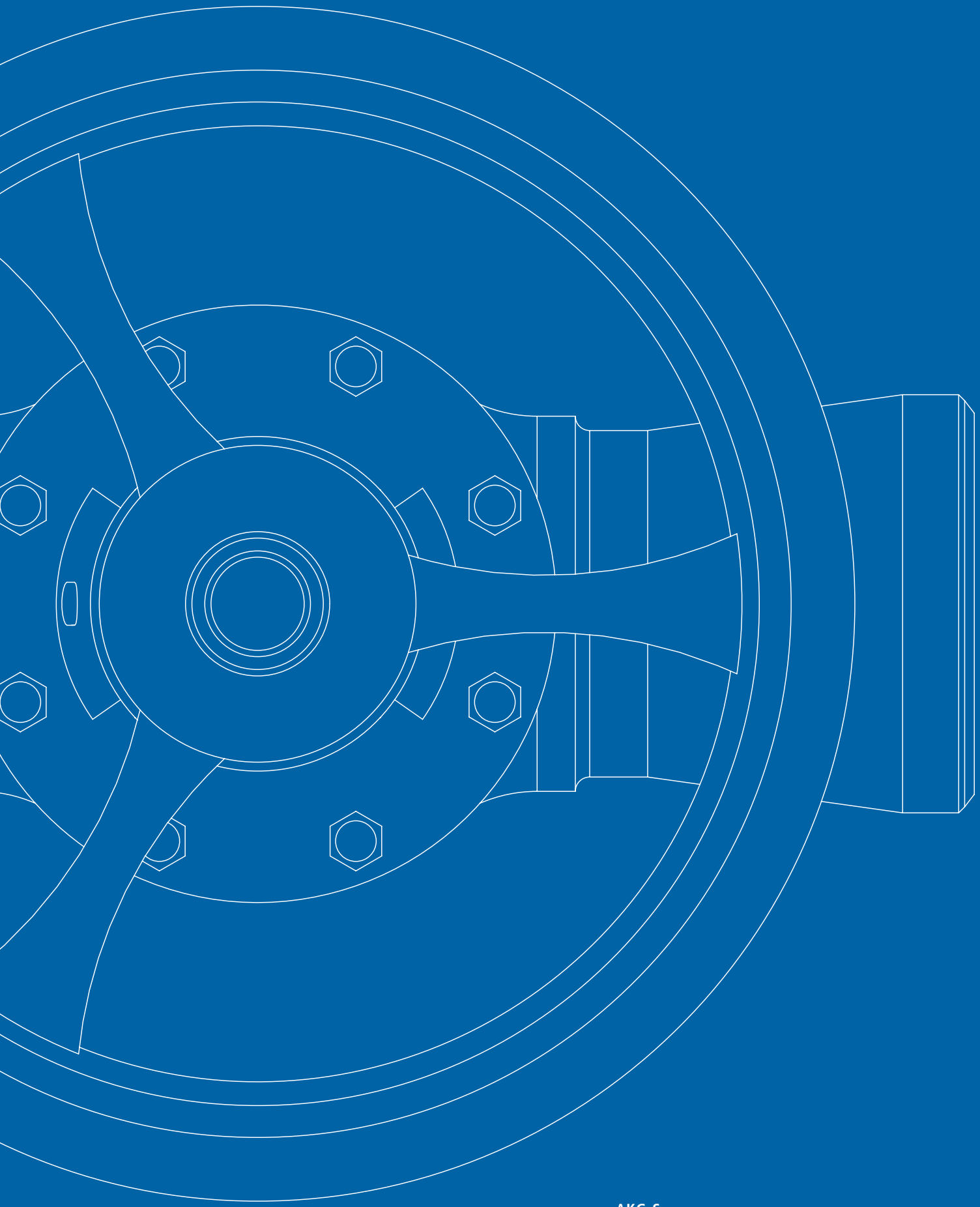
The world's population is growing. The effective functioning of **WATER SUPPLY** networks and **WASTE WATER TREATMENT** is becoming an increasingly urgent issue. KSB is targeting growth in the Regions Asia, Americas and the Middle East/Africa.

INDUSTRY remains KSB's most important global market. Here, customers require products which deliver consistently high levels of performance and are energy-efficient. Integration in automated processes extending all the way to Industry 4.0 models is likewise expected.

In **MINING**, robust slurry pumps and prompt service are in high demand. Customers' number one wish is trouble-free operation. The most important market for KSB are the Americas.



In **BUILDING SERVICES**, intelligent products from KSB find use most of all in Europe and in the Middle East. Our range of automated pumps and valves for construction facilitates the development of networked systems.



AKG-S

High-pressure shut-off valve for non-aggressive fluids

3

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, 9 domestic and 80 foreign companies are fully consolidated; 6 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
- GIW Industries, Inc., Grovetown/Georgia, USA
- KSB Shanghai Pump Co. Ltd., Shanghai, China
- KSB Pumps Limited, Pimpri (Pune), India
- KSB Service GmbH, Frankenthal, Germany
- KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil

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, 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 the production sites 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 16 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 2015, 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:

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 the operating result (i.e. earnings before interest and taxes (EBIT) excluding the effects from measuring construction contracts in accordance with IAS 11). 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 the earnings before income taxes (EBT) and the 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. Further information on the subject areas of employees, environmental protection and corporate social responsibility can be found in the Management and Issues 2015 section.

RESEARCH AND DEVELOPMENT

The goals of our research and development activities focus on making fluid transport more efficient, more reliable and more cost-effective. Across the globe, our development specialists work in international teams often supported by renowned universities and institutes. Our expenses in this area totalled € 58 million for the year under review (previous year: € 49 million). This equates to an unchanged 2 % of our sales revenue. At 600 (previous year: 588), the number of staff working in research and development has remained almost constant.

€58 million

Research and development expenses in 2015

One focus of our work was on exploring the potential that a future-oriented field such as Industry 4.0 offers for our business. The development of our KSB Sonolyzer app represents the first step towards utilising the possibilities of cyber-physical systems for industrial centrifugal pumps. The application is suitable for smartphones or tablets and helps operators boost the productivity of their systems. The app enables a user to determine the efficiency of a fixed-speed pump in just 20 seconds. This product won KSB the Process Innovation Award in the Pumps and Compressors category at Achema 2015.

Aiming to position ourselves as a full-range supplier for circulators, we expanded our Calio series in 2015. This involved developing additional hydraulic sizes, designing a twin pump variant and extending the performance range by means of a new motor concept. We also integrated the technology acquired via our subsidiary Smedegaard into KSB's existing platforms. Calio's success in 2015 suggests that this work will pay off in the short and medium term.

(Top) Full-range supplier for circulators: The twin pump variant of the Calio series extends our building services product portfolio. (Left) Pump used as turbine: With the KSB PowerHouse, we offer our customers turnkey power generation systems. (Right) Industry 4.0: The KSB Sonolyzer mobile app allows users to analyse the efficiency of fixed-speed pumps in just 20 seconds.

ECONOMIC REVIEW

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

Our planning for the 2015 financial year was based on slightly stronger economic growth than in 2014. However, this increase in growth, as forecast by the International Monetary Fund (IMF) and other institutions failed to materialise. Rather, as the economy became less dynamic over the course of the year, several corrections to our forecast values were required. Ultimately, the increase in the global gross domestic product, at 3.1 %, was down on the previous year.

A key factor in this regard was the economic situation in several of the major emerging markets. Growth in China dipped slightly in the financial year, which also dampened demand for industrial goods on one of KSB's key sales markets. The economies of Brazil and Russia actually experienced a decline in their gross domestic product. As well as other factors, the situation on the oil and commodities markets played a key role. The collapse in prices for industrial raw materials and fuels also impacted on other countries that export these goods, detracting from their economic strength and reducing the willingness to invest, among both private and government investors.

Indirectly, these developments also had an effect on the industrialised nations, although the economic recovery was maintained overall in the industrialised world. Export-oriented countries in the euro zone, primarily Germany, benefited from the weakness of their common currency. Nevertheless, the economy of the euro zone states lagged a long way behind the US economy.

WEAK GROWTH IN MECHANICAL ENGINEERING

Businesses like KSB that operate in the mechanical engineering sector had limited opportunities for expansion, given the weak state of the economy. The extent of these constraints varied, however, according to production segment and regional market focuses.

While sales of machinery and systems in the EU and in China grew slightly by 2 %, other markets experienced a decline, particularly in South America, where sales figures fell by as much as 12 % compared with the previous year. From a global perspective, mechanical and plant engineering sales only rose by 1 % as a result, a lower level of growth than in 2014.

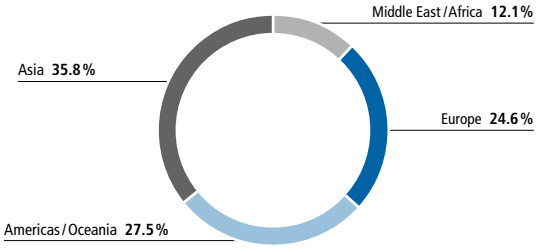
SALES MARKETS RECORD MIXED PERFORMANCES

The main sales markets for pumps and valves developed unevenly again in 2015 across the different sectors. The trend in manufacturing as well as in the chemical industry was positive, which boosted sales of standard pumps. Chemical companies focused on major projects in the Middle East and the USA in particular, looking to exploit the cost benefits during production. Meanwhile, in the water and waste water sectors, demand for pumps for wells and water pipelines, as well as for waste water pumping stations and sewage treatment processes increased. This is a sector that needs to adapt to supplying a growing population in many countries while also complying with stricter environmental protection regulations. The market for shut-off valves used in the water industry was also healthy. The construction sector developed positively in some regions, primarily the Middle East and Asia.

In contrast, a dramatic slump in demand was recorded in the oil and gas industry, as well as in petrochemicals. Hardest hit by the falling levels of demand were the producers of pumps to API standards. They responded to the changing market by restructuring and introducing cost-cutting measures, depending on their main commercial focus.

Mining companies, which as in the previous year suffered from lower demand for raw materials and low prices for their products, were reluctant to invest. Instead, they focused on improving plant efficiency and cutting operating costs. This is reflected in a lower number of new purchase orders, coupled with an increase in service orders. The lack of investment was felt particularly strongly by manufacturers of slurry pumps, among them KSB subsidiary GIW Industries, Inc.

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: KSB estimate, European Industrial Forecasting (February 2016)

In the shipping sector, too, the lower level of demand for goods, including industrial commodities, was tangible. Particularly companies that transport oil and gas by sea slashed their investment levels, limiting the number of contracts that shipyards placed with the supply industry. From KSB's perspective, the marine sector is most relevant as a sales market for cryogenic valves. These are ordered by equipment suppliers and operators of liquefied gas tankers.

Demand from the energy industry for pumps and valves was also down on the previous year, not least due to structural refocussing in the electricity supply market, with the clear trend towards renewable energies. Fossil-fuelled and nuclear power station projects have only accounted for a handful of projects in Europe for many years now. In several emerging markets, however, contracts for fossil-fuelled plants were awarded in 2015. Opportunities also arose in connection with the building of new power stations with combined gas and steam turbines in the USA.

Against this wider economic background, sales by German manufacturers of liquid pumps fell by 4 % in real terms year on year, according to the German Engineering Federation (VDMA) figures. The VDMA had anticipated a stagnating market at the beginning of 2015. Sales by German producers of industrial valves declined by 2 % in real terms, whereas initially 2 % growth had been forecast

COMPETITORS MAKE ADJUSTMENTS

It has mainly been Anglo-Saxon pump and valve companies that have benefited from the boom in the oil and gas sector and in the petrochemical industry over the past few years. In 2015, these companies attempted to compensate for the specific fall in orders by introducing commercial initiatives in other sectors, or by looking to after-sales business. This resulted in greater price pressure, particularly in relation to industrial plant and power station projects.

Several pump and valve producers launched cost-cutting programmes in response to the changes on the market. The measures introduced included long-term capacity reduction also involving the closure of some plants. Sites were closed down in the Americas, Africa and Australia, as well as in Europe.

At the same time, some pump and valve manufacturers turned to acquisitions, mergers and cooperation projects to strengthen their market position. One of the more significant mergers involved two US companies from the oil and gas sector. Current KSB business with its low level of activities in this branch of industry is, however, barely affected by this transaction.

The different fields of application for pumps require specific technical expertise on the part of the manufacturers, as well as a perfectly tailored product and service range. In areas where this has been lacking, or where operations have not developed profitably, some pump suppliers began withdrawing from certain fields of application again in 2015. This improved the sales prospects for their competitors who chose to remain in the market.

BUSINESS DEVELOPMENT AND RESULTS OF OPERATIONS

We focused our business activities on three global and two regional focus markets in 2015. We consider the industrial sector, the water and waste water industry and energy supply to be the key global sales markets. Our regional focus markets are mining in the Americas and construction/building services in Europe.

To serve these markets quickly and cost-effectively, we have embarked on the task of making our global production structures more efficient. This involves closing some of the smaller plants in Europe. At the same time, however, we have invested in a mechatronics centre in Turkey. By setting up a new central spare parts warehouse for standard products in Europe, and by creating eleven additional service centres, we have also extended our logistics base, enabling us to support our customers across the world even more effectively as they make long-term use of our products and service. With this in mind, we contact users of our pumps and valves via our Installed Base sales channel.

At the same time, we used new sales activities and logistics structures to boost sales of our standard products. In this way we were able to offset some of the decline in orders resulting from the fierce competition in the project business against the background of the market situation described above.

It should be borne in mind in the following explanations that the prior-year figures presented include the effects resulting from the adjustment under IAS 8. For more information, see the Notes to the Consolidated Financial Statements.

ORDER INTAKE

Orders received by the KSB Group totalled € 2,261.2 million, which was € 60.0 million or 2.6 % down on the previous year. Large orders from Asia expected during the final months of 2015 were delayed, and a pump order placed for three Egyptian power stations in November was not able to make up the difference. Consequently, the planned "significant increase" in order intake did not materialise. In addition to projects being postponed by customers, the intense price competition was a contributory factor in this regard. The latter made some contracts, which were only awarded by potential customers after protracted negotiations with several providers, unattractive to KSB from a profitability perspective.

Clear regional differences emerged in relation to new orders in 2015. Companies in Asia (+ 9.6 %) and the Middle East/Africa (+ 22.3 %) recorded increases in purchase order levels. Alongside a strong increase in orders from the water and waste water sectors, orders placed by the petrochemical industry in the Middle East and the Asian energy sector contributed to this improvement.

In contrast, order intake of our companies in Europe decreased (– 7.0 %), with a major factor being the poor business situation of energy utility companies. One of the companies hit by the fall in demand was KSB AG, whose order intake fell by 8.0 % to € 780.6 million. New orders also dipped in the Americas and Oceania (– 5.8 %), with a reluctance to invest in the mining sector proving particularly crucial.

Pumps

A 4.7 % decline in orders received for pumps, totalling € 1,452.4 million, can be attributed to the lull experienced in the mining sector, the demand situation in the petrochemicals sector and the change in the basic parameters of European energy supply. We had expected to see a significant increase in order intake.

In light of the situation on the commodity markets, mine operators frequently backed away from ordering new plant components, a reticence that was also felt by GIW Industries, Inc., which predominantly produces and sells pumps for transporting solids. In both Asia and South America, reduced demand for pumps for use in petrochemical plants had an adverse effect on order levels. In Brazil, the lower volume of incoming orders was attributable to the difficulties faced by the country's major oil company, among other factors. The

decrease in orders for power plant pumps can be explained by the situation on the European market, with some energy utilities withdrawing from the fossil-fuelled power plant business.

We recorded strong order intake growth for our pumps in the water and waste water sector. The companies in the Regions Asia and Middle East/Africa in particular expanded their business substantially. Based on orders received to date, they are set to be involved in both new projects and infrastructure modernisation measures. Business with industrial customers also progressed well, with not least the KSB companies in Europe benefiting from this positive development.

Valves

The order intake for valves was € 368.0 million, down 9.7 % on the previous year. In the report on expected developments we had assumed that there would be significant growth in orders. The lack of growth is mainly due to the reduced requirements of energy suppliers in Europe and also to the fact that suppliers of equipment for transport ships in East Asia needed fewer butterfly valves than in earlier years. As with pumps, business with valves used in the petrochemicals sector was adversely affected by our large Brazilian customer halting any investment.

Good success was achieved selling valves to industry in general, particularly in Europe and the United Arab Emirates. This and other increases in order intake in individual sales markets were too low overall, however, to completely offset the decline recorded in relation to power plant and ship valves.

Service

Our Service segment enjoyed very strong growth in 2015. Orders worth € 440.8 million, a year-on-year increase of 13.1 %, came in for our range of services, including retrofit measures. This improvement exceeded our expectation of just moderate growth in this segment. Service orders were placed for pumps and other rotating equipment, as well as for valves, and we also accepted orders for products from other manufacturers.

We recorded considerable increases across nearly all markets. Customers from industry and the energy sector in particular made greater use of our service offering than in 2014, with considerably more orders also being received for work on transport equipment and on water and waste water systems. Not least the setting-up of new service centres in ten countries was a contributory factor.

Our sales channel used to target existing customers, which was expanded further in 2015, also had a positive impact on the sale of services and the related spare parts in many areas. Service orders rose strongly in all four Regions – Europe, Middle East/Africa, Asia and Americas/Oceania. Our efficiency analysis service also played a key role in this regard, enabling us to show customers ways of making savings in their plants, as well as offering possible ways of cutting electricity costs.

SALES REVENUE

Consolidated sales revenue rose as expected during the reporting year, up by € 153.1 million to € 2,334.8 million, which equates to an increase of 7.0 %. This positive divergence from the development in order intake can be attributed to large-scale orders placed in earlier years that we completed on schedule in 2015. This resulted in sales revenue growth in the Pumps and Valves segments, just as the orders received during the year under review had a similar effect in the Service segment.

Sales revenue growth was strongest in the Regions Asia (+ 16.9 %) and Middle East/Africa (+ 12.0 %), but the companies in Americas/Oceania (+ 8.7 %) and Europe (+ 3.4 %) also improved. Performance in our home market of Europe was slightly impeded by the 0.7 % fall in sales revenue recorded by KSB AG (in accordance with the *HGB* German Commercial Code), down to € 809.5 million.

Pumps

In our strongest segment, Pumps, sales revenue grew in line with our forecast, increasing by 5.3 % to € 1,514.0 million. It was mainly performance outside of our home market of Europe that contributed to this growth. Our companies in East and South-East Asia in particular boosted pump sales.

This similarly applies to the companies in North America, with GIW Industries, Inc. fulfilling major contracts placed by customers in Canada for the supply of slurry pumps.

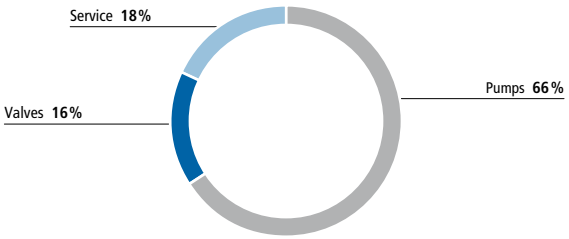
Valves

In the Valves segment, we improved sales revenue by 1.5 % to € 384.6 million. This moderate growth was driven by the development of sales in Asia, where above all our companies in China, India and South Korea invoiced valve orders on a large scale. In the Regions Europe, Americas/Oceania and Middle East/Africa, the sales revenue volume was, however, lower than in 2014. Overall, in our forecast, we predicted that this product group would see a significant increase in sales revenue.

Service

Our strongest sales revenue growth in percentage terms came from the Service segment, in which we initially only anticipated a moderate rise. In fact, we were able to boost sales revenue by 10.6 % to € 413.6 million. Above all, the expansion of our service business in Europe had a very positive impact on volume. However, it was our companies in Asia and the Americas that recorded the strongest growth rates in percentage terms. The companies in North America in particular were able to record far more service contracts than in the previous year.

SALES REVENUE BY SEGMENT



7.0%

Growth in sales revenue in 2015

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

The KSB Group achieved earnings before interest and taxes (EBIT), excluding the effects from measuring construction contracts in accordance with IAS 11, of € 101.9 million (previous year: € 102.0 million). The Pumps segment contributed an EBIT figure of € 55.4 million (previous year: € 56.3 million). We were therefore unable to realise our forecast in the previous year's report (considerable increase) and instead had to accept a slight decline. EBIT fell strongly in the Valves segment, reaching € 10.3 million (previous year: € 16.9 million). We therefore did not achieve the marked increase that was forecast. EBIT for the Service segment rose considerably, as planned, reaching € 36.2 million (previous year: € 28.8 million). The reconciliation effect from the measurement of construction contracts under IAS 11 to EBIT changed by +€ 16.1 million year on year.

TOTAL OUTPUT OF OPERATIONS

The above-mentioned increase in sales revenue is also reflected in a higher total output of operations, totalling € 2,350.3 million compared with € 2,197.7 million in the previous year. Work in progress and inventories of finished goods increased by € 10.7 million, and was thus € 1.3 million lower than in the previous year. In contrast, other work performed and capitalised rose slightly.

INCOME AND EXPENSES

Other income grew from € 36.3 million to € 50.0 million, partly due to higher income from the reversal of provisions no longer required and also from the reversal of impairment losses on receivables.

The cost of materials rose by 10.4 % and thus at a higher rate than total output of operations. In percentage terms, the cost of materials (€ 979.5 million) increased from 40.4 % in the previous year to 41.7 % in the year under review. As a result of the continued pressure on prices in our pumps and valves business, we were not able to pass on material price effects to our customers in full.

Staff costs increased by 4.4 % to € 819.3 million. In relation to total output of operations, however, this represented a decrease of 0.8 percentage points. Key factors were the collectively agreed salary increases on the one hand and a lower number of employees on the other. Compared with 2014, the number of employees fell by 113, taking the total figure at the end of the reporting year to 16,196. The German companies KSB AG and KSB Service GmbH, Frankenthal, recorded a significant decrease in staff numbers, down by 172 as a result of measures that we have introduced to adapt to new market conditions. In contrast, the size of the French workforce increased, mainly due to the integration of a service unit (126 employees). Consequently, the KSB Group employed on average 138 fewer people than in the previous year. Based on the higher total output of operations and simultaneous decrease in the number of employees, the average output per employee improved from € 134 thousand in the previous financial year to € 144 thousand.

The ratio of other expenses to total output of operations fell from 17.9 % to 17.5 %. In absolute terms, they rose from € 393.0 million to € 411.5 million, however. Higher sales expenses and more third-party services accounted for this change.

The financial income/expense increased by € 6.3 million. This is above all attributable to higher income from investments which we accounted for using the equity method (+ € 2.8 million), and to a reduction of € 2.3 million in financial expenses.

EARNINGS

The KSB Group generated earnings before income taxes (EBT) of € 93.4 million, compared with € 72.8 million in 2014. This meant that we lived up to our prior-year forecast, according to which we were targeting a significant improvement in EBT and a value approaching the three-digit million mark. Correspondingly, the return on sales before tax increased from 3.3 % in the previous year to 4.0 % and is therefore at the lower end of the forecast range. The income tax rate rose, primarily due to prior-period taxes, but also due to more frequent non-tax-effective impairments on goodwill. The rate was 44.1 %, compared with 36.4 % in 2014. As a result, earnings after income taxes, which totalled € 52.2 million (previous year: € 46.3 million) and thus grew by 12.7 %, rose less markedly than earnings before income taxes (EBT) (28.2 %).

€93.4 million

Consolidated earnings (EBT) in 2015

Earnings attributable to non-controlling interests were up from € 7.6 million to € 12.9 million. This can be attributed to improved contributions to earnings from our Asian companies. Relative to earnings after income taxes, there was therefore a change from 16.4 % to 24.7 %.

The earnings attributable to shareholders of KSB AG (€ 39.3 million) were € 0.6 million higher than in the previous year (€ 38.7 million).

Earnings per ordinary share were € 22.30, compared with € 21.97 in the previous year, and € 22.56 per preference share, compared with € 22.23 in 2014.

FINANCIAL POSITION AND NET ASSETS

FINANCIAL POSITION

The financial position of KSB Group improved, as expressed in an increase in the equity ratio of 2 percentage points.

Equity

The KSB Group's equity amounts to € 870.2 million (previous year: € 819.7 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 € 609.1 million (previous year: € 578.5 million), including the proportion of earnings after taxes attributable to shareholders of KSB AG of € 39.3 million (previous year: € 38.7 million). € 149.6 million (previous year: € 129.7 million) is attributable to non-controlling interests. Due to the significant increase in equity, which coincided with only a slight rise in total equity and liabilities (+ € 13.1 million or 0.6 %), the equity ratio has also increased (38.0 %; previous year: 36.0 %).

The non-controlling interests mainly relate to the following companies: KSB Pumps Limited, India; GIW Industries, Inc., USA; KSB America Corporation, 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, which were up by € 1.4 million to € 526.0 million as at the reporting date. 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.

Other provisions for employee benefits, which are predominantly current, also only changed slightly and total € 88.8 million (previous year: € 90.3 million).

38.0%

Equity ratio in 2015

The picture with regard to other provisions, which we created almost exclusively for current uncertain liabilities, is more or less stable (€ 99.5 million compared with € 96.7 million in 2014). An increase in warranty obligations and contractual penalties following the growth in sales revenue volume partly offset the decline in miscellaneous other provisions.

Non-current financial liabilities fell significantly, totalling € 133.5 million compared with € 159.4 million at the end of 2014. They include liabilities of € 122 million (previous year: € 140 million) from a loan against borrower's note placed in 2012. It is divided into repayment tranches of 3 to 10 years. The change can be explained by the early repayment of one of these tranches. Furthermore, bank loans and overdrafts decreased by more than € 8 million.

We reduced current liabilities overall by € 15.5 million (€ 558.6 million compared with € 574.1 million at year end 2014). Current financial liabilities fell by as much as € 49.2 million. In addition to the scheduled repayment of a tranche of the loan against borrower's note in the amount of € 35 million, we also reduced bank loans and overdrafts by around € 14 million year on year. In contrast, trade payables rose by € 27.1 million and current income tax liabilities by € 6.8 million. The increase in other non-financial liabilities of € 14.2 million, following a rise in advances received from customers, was offset by the decrease in other financial liabilities (–€ 14.5 million primarily due to lower miscellaneous other financial obligations). Taking into account the increase in total equity and liabilities, the share of current liabilities in total equity is 24.2 % (previous year: 25.1 %).

Investments

The additions to intangible assets amounting to € 8.3 million (previous year: € 7.4 million) primarily concerned advance payments and own work capitalised for a new software to be deployed in Sales, as in the previous year.

Investments in property, plant and equipment in the reporting year amounted to € 74.5 million, slightly down on the figure of € 77.7 million for the previous year. The highest additions at € 27.7 million (previous year: € 32.2 million) relate to advance payments and assets under construction, as in the previous year. They are associated with the construction of a foundry at our US mining company GIW Industries, Inc. A further € 19.9 million are attributable to technical equipment and machinery (previous year: € 19.2 million). As in 2014, the focus of our investment activities was Europe, predominantly Germany and France. Outside Europe, the highest additions were again recorded at our plants in the USA as well as Brazil, China and India. We maintained our policies for measuring depreciation and amortisation in the year under review.

Net financial position

The net financial position, at € 211.3 million compared with € 185.5 million in the previous year, developed more favourably than forecast twelve months earlier (€ 180 to 190 million) due to the slightly better earnings and increase in advances received.

€211.3 million

Net financial position in 2015

Liquidity

Cash flows from operating activities amounted to € 116.6 million, a year-on-year increase of € 28.1 million. The key contributory factors, in addition to the improvement in earnings and more write-downs, were an increase in advances received from customers and a higher amount of funds tied down in liabilities. This contrasted with a rise in receivables.

Our investing activities generated virtually unchanged cash flows compared with 2014. The change in term deposits did, however, increase cash flows whereas in the previous year it had resulted in a reduction. Accordingly, cash flows from investing activities declined significantly to € –34.5 million (previous year, adjusted: € –97.9 million).

Cash flows from financing activities changed significantly, primarily due to the repayment of tranches of our loan against borrower's note, but also as a result of our bank loans and overdrafts being reduced, from € –36.9 million (adjusted) to € –87.4 million.

Cash and cash equivalents from all cash flows declined from € 278.6 million to € 273.1 million. Exchange rate effects amounting to € –0.1 million (previous year: € +10.8 million) played a role in this.

We assume that, in future, we will continue to be able to meet our outgoing payments largely from operating cash flow. From the current perspective our financial management is meeting the goal of ensuring 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 € 13.4 million as at the reporting date (previous year: € 8.0 million). These arise mainly from collateral and performance guarantees.

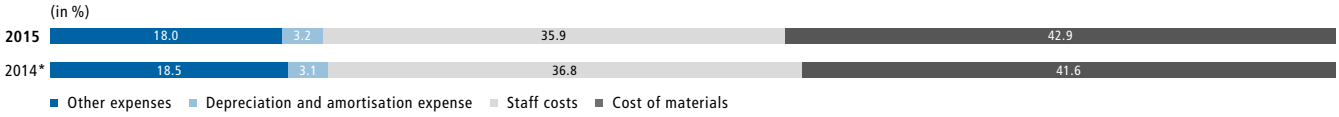
There are no other extraordinary obligations and commitments beyond the reporting date. Other financial obligations arise only within the normal scope from long-term rental, lease and service agreements (in particular IT and telecommunications) necessary for business operations and from purchase commitments amounting to € 20.0 million (previous year: € 17.8 million).

NET ASSETS

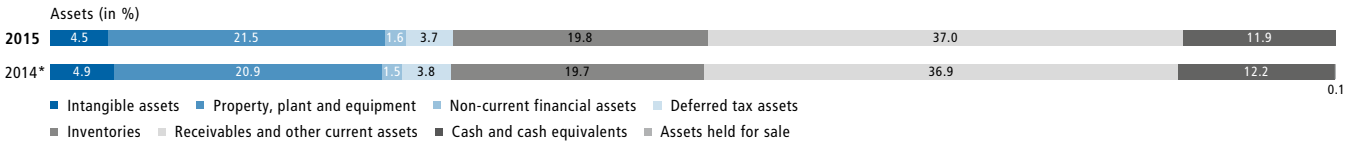
Our total assets increased slightly, rising by 0.6 % to € 2,291.1 million. Considerable increases were recorded for both non-current assets (particularly property, plant and equipment) and trade receivables and PoC. This contrasted with lower other financial assets.

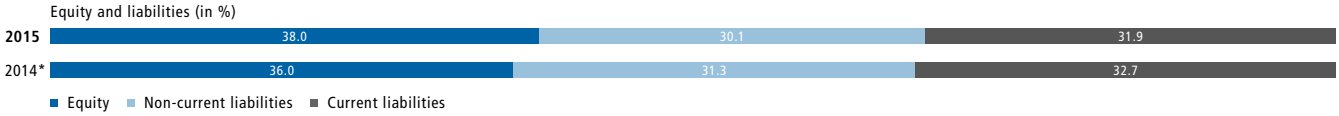
Just under 28 % is attributable to fixed assets (compared with a good 27 % in 2014). Intangible assets and property, plant and equipment with a historical cost of € 1,336.4 million (previous year: € 1,270.4 million) have carrying amounts of € 595.9 million (previous year: € 587.2 million). The goodwill

EXPENSES IN STATEMENT OF COMPREHENSIVE INCOME



BALANCE SHEET STRUCTURE





* Adjustment under IAS 8

impairments recognised in the reporting year resulted in a change of –€ 9.4 million with regard to intangible assets. With investments in property, plant and equipment (€ 74.5 million) once again exceeding write-downs (€ 58.2 million), this balance sheet item increased by € 18.0 million. The carrying amount of financial assets and investments accounted for using the equity method increased by a total of € 1.9 million to € 37.2 million. The investments accounted for using the equity method accounted for € 1.2 million.

Inventories totalled € 454.4 million, up € 4.6 million on the 2014 year end. We recorded a rise in work in progress in particular, while advance payments were down on the previous year. Inventories continued to tie up around 20 % of our resources.

As a result of an increased delivery volume, trade receivables and PoC were € 49.5 million up on the 2014 year-end figure. Overall, taking into account the change in total assets, this balance sheet item accounts for approximately 29 % (previous year: 27 %) of total assets.

Other financial assets were down from € 190.2 million to € 156.2 million as term deposits with a maturity of more than 3 months and up to 12 months decreased by around € 44 million.

As in the previous year, cash and cash equivalents account for around 12 % of assets, totalling € 273.1 million (previous year: € 278.6 million).

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 € + 1.2 million (previous year: € + 38.8 million). This was taken directly to equity.

SUMMARY OF THE BOARD OF MANAGEMENT

The forecasts made in the previous year's report have not been fully realised due to the circumstances outlined. The unexpectedly weak state of the economy had a major impact on our core markets in some areas, and thus also on the achievement of our order intake targets.

Weak demand across the world 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. The resulting impact differed across the various segments.

Overall, we achieved the expected significant sales revenue growth in the Group and, consequently, also the considerable improvement in our relevant performance indicators for the Group. Earnings before taxes, at just under € 94 million, approached the three-digit million mark again, and our return on sales, at 4.0 %, was within the lower range of our expectations. Order intake, however, dipped by 2.6 %. We had forecast a significant increase.

Although the Pumps segment lived up to the sales revenue forecast (significant increase), the operating result recorded was slightly down on the 2014 figure due to the basic economic environment parameters, particularly in the power plant sector, and not considerably higher, as had been anticipated. Order intake was expected to rise significantly, but actually fell by 4.7 %.

In the Valves segment too, the difficult market situation clearly affected our energy customers. While we were still able to moderately grow sales revenue by 1.5 %, the planned significant increase was not achieved. One reason for this is the considerable decline in order intake by almost 10 %. A year ago we were still expecting marked improvements. Our operating result was also down on the prior-year figure, as we did not achieve the marked improvement that we had been targeting.

In our Service segment, we posted substantial increases in both order intake and sales revenue, exceeding our target of moderate growth. In terms of the operating result, we recorded considerable increases, as planned.

The net financial position, at € 211.3 million compared with € 185.5 million in the previous year, developed more favourably than forecast twelve months earlier (€ 180 to 190 million).

Overall, therefore, business developed somewhat less favourably than expected in the reporting year due to order intake levels.

On this basis, in 2015 we continued to work on improving the conditions for a return to prosperous business operations. This involves driving forward with the programme underway to redistribute tasks within our global manufacturing network and introducing measures to cut our costs even further. These measures include a gradual reduction in the headcount. We are also reducing the number of KSB companies worldwide and streamlining our product range.

KSB continues to have a healthy financial basis for the future. The measures introduced back in 2014 to make lasting improvements to our cost structures, which we are working to intensify further, will strengthen this basis over the long term.

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.

DEPENDENT COMPANY REPORT

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: "In accordance with section 312(3) of the *AktG* [*Aktiengesetz* – German Public Companies Act], we declare that our company – on the basis of the circumstances known to us at the time when the transactions were made – received adequate compensation for all transactions listed in the dependent company report. No measures required to be reported were taken or not taken at the instigation or in the interest of the controlling enterprise or a company affiliated to it."

REPORT ON EXPECTED DEVELOPMENTS

The International Monetary Fund (IMF) is forecasting that the global economy will expand by 3.4 % in real terms during the current year. The predicted increase in the industrialised nations is 2.1 %, with weaker growth of only 1.7 % expected in the euro zone. Economic development in Germany will be crucial, accompanied by continued recovery in France, Italy and Spain. In the emerging markets, the IMF expects real economic growth of 4.3 %, which will also improve KSB's sales prospects in these countries.

However, the VDMA expects the mechanical engineering and plant engineering sector to struggle to benefit from this growth, forecasting that the industry will grow by a mere 1 % in real terms. Sales in pumps and systems, and in industrial valves, are actually expected to dip by 1 % in real terms in 2016.

SIGNIFICANT ORDER GROWTH WITH SIGNIFICANTLY WEAKER SALES REVENUE

In this environment, which remains difficult, we expect the Group's order intake in 2016 to be significantly higher than during the reporting year, buoyed by several large-scale contracts.

In terms of consolidated sales revenue, however, we expect to see a significant decrease compared with 2015, based on the lower value of the project contracts in place and scheduled for delivery in 2016.

Pumps

In light of the strong price competition in the project business, combined with a decline in the number of contracts being awarded compared with previous years, we will be focusing during the current business period on promoting sales of our standard pumps. The main areas of growth appear to be industrial standardised and close-coupled pumps, among others. We offer these in combination with our energy-efficient synchronous reluctance motors and our improved variable speed systems, which help our customers to realise energy-saving potential. We also see good sales prospects for our modernised high-pressure and standardised chemical pumps, and for our updated range of pumps for use in heating and air-conditioning systems

We do not expect the market environment for the project business to start improving until 2017. However, the energy sector might prove to be a source of growth momentum during the current year. This particularly applies to China and India, where various contracts are about to be awarded. This could have a key impact on our order intake.

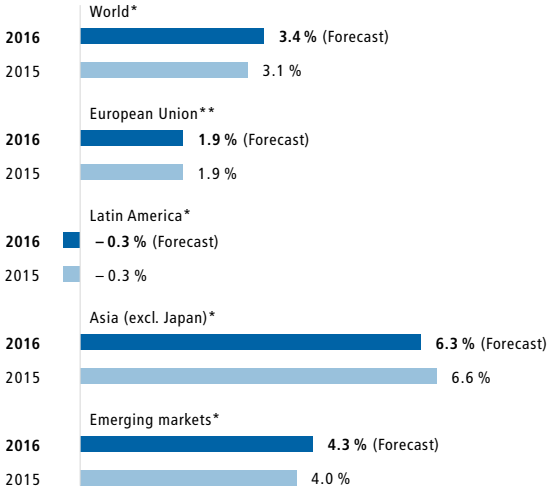
Against this background, we expect the segment to experience significant order growth, while sales revenue from pumps will be significantly down based on weaker order intake in 2015.

Valves

We are forecasting significantly lower growth in orders for our industrial valves. In countries such as Brazil and China, the market environment will be more difficult than in 2015. Specifically, demand from the petrochemicals industry and the oil and gas sector is likely to slow down further, with a corresponding impact on our order levels.

In contrast, we expect to see sales in large-scale butterfly valves pick up, these being the type of valve used in water pipelines for example. There are also signs of tangible growth in valves used in power plants, provided that our customers go ahead as planned with their announced large-scale projects, particularly in China and India. Any recovery on the market for liquefied gas transport is likely to be slow in 2016. However, our triple-offset butterfly valves for tankers are growing in popularity, pointing to the possibility of business growth. In addition, construction projects in the Middle East and Eastern Europe could result in moderate order growth for our valves used in building services.

GROSS DOMESTIC PRODUCT GROWTH



* Source: International Monetary Fund (January 2016)
** Source: European Commission (February 2016);
additional information: euro zone +1.6 % (2015), +1.7 % (2016)

Overall, therefore, we expect order intake for our valve business to be stable compared with 2015, while anticipating a substantial decline in sales revenue.

Service

From today's perspective, demand for our service business will remain stable or expand slightly. To achieve our growth targets we will be making greater use of our sales channel aimed specifically at existing customers to offer our service range and related spare parts. As part of this process, we can also base our operations on the additional eleven service centres set up in ten countries in 2015, as well as on the new central spare parts warehouse in Europe.

To grow our business we will be continuing the planned expansion of our service centres, particularly in East and South-East Asia as well as in Eastern Europe.

However, a further considerable decline in the energy sector is to be expected in Germany and other European countries, as capacity in nuclear and fossil-fuelled power stations continues to be reduced. In mining, a second important pillar of our service business, there are not yet any signs of activity picking up again this year.

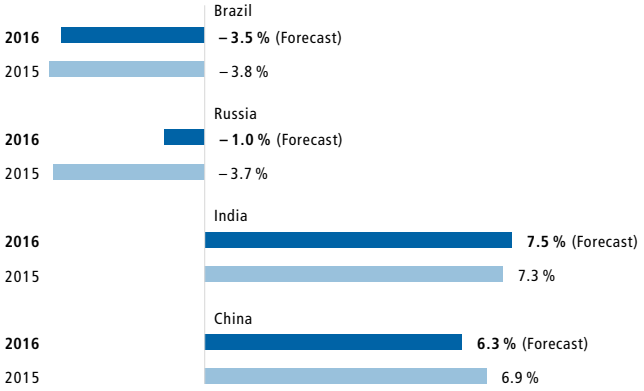
With regard to order intake, we expect the volume of new service orders in 2015 to moderately exceed the previous year's figure. Based on the current situation, sales revenue is expected to grow just slightly.

BOARD OF MANAGEMENT'S SUMMARY OF EXPECTED DEVELOPMENT

For the current business period we anticipate, as detailed above, a significant improvement in order intake, driven primarily by major power plant projects in China and India. In contrast to the positive contributions from the Pumps and Service segments, orders received for valves will remain at prior-year levels. Sales revenue will, from today's perspective, be significantly down on the previous year, as we expect the declines for pumps and valves referred to above and a slight improvement in the Service segment.

We will be significantly stepping up our measures for long-term improvements in our profit situation. These aim to reduce material, staff and other costs. This will also include continuing with our programme to redistribute tasks within our global manufacturing network. We are also creating the framework within which we can increasingly run our power plant engineering business in Asia, using mostly locally manufactured products. In addition, we are reducing the number of KSB companies and streamlining our product range. This means that one-off costs will considerably impact on our performance indicators. The precise amount of these one-off costs is difficult to forecast from today's perspective as some measures are still in the evaluation or discussion phase. The operating result, in other words earnings before interest and taxes (EBIT) excluding the effects from measuring con-

GROSS DOMESTIC PRODUCT GROWTH IN THE BRIC COUNTRIES



Source: International Monetary Fund (January 2016)

struction contracts under IAS 11 will be substantially down on the previous year depending on the level of one-off costs for efficiency enhancement measures. This applies to both the Pumps and Valves segments, while we are expecting to see but a moderate decline in the Service segment. Consequently, earnings before taxes (EBT) will be substantially down on the 2015 figure. This also means that our return on sales will be substantially lower.

With regard to the net financial position, we anticipate only a slight decrease compared with the € 211 million achieved in 2015. This is based on the expectation that the adverse impact on liquidity of the one-off costs to be borne in 2016 will not be felt until 2017 onwards.

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 2016 financial year. Material special factors beyond this period may result from our measures geared towards the long-term improvement of our profit situation, which will involve a reduction of material, staff and other costs.

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.

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 being strengthened by optimising our global sales and production 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

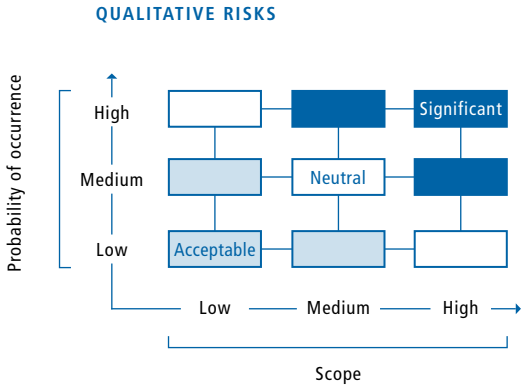
KSB has implemented a Group-wide risk management system for identifying and assessing relevant risks and reporting these to Group headquarters. The risk management process of the KSB Group consists of the successive phases of identification, assessment, management, control, documentation and communication 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.

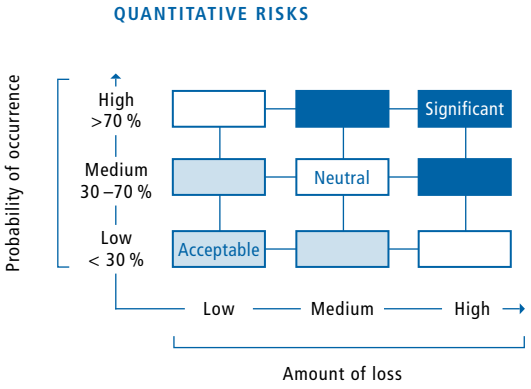
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central functions and Group companies, including Group companies that are not consolidated, are included in the risk management 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 earnings before interest and taxes (EBIT) of the KSB Group or the respective Group company.

Quantitative risks are those risks with possible monetary impact on the earnings 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:





Evaluation of the amount of loss is based on just three possible classifications: low, medium and high. The following applies:

		Amount of loss in € thousands		
Magnitude	**Sales revenue**	**Low**	**Medium**	**High**
Small companies	Up to € 20 million	50 – 125	125 – 250	> 250
Medium-sized companies	€ 20 to € 80 million	75 – 250	250 – 500	> 500
Large companies, holding companies, organisational units	From € 80 million	100 – 500	500 – 1,000	> 1,000

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.

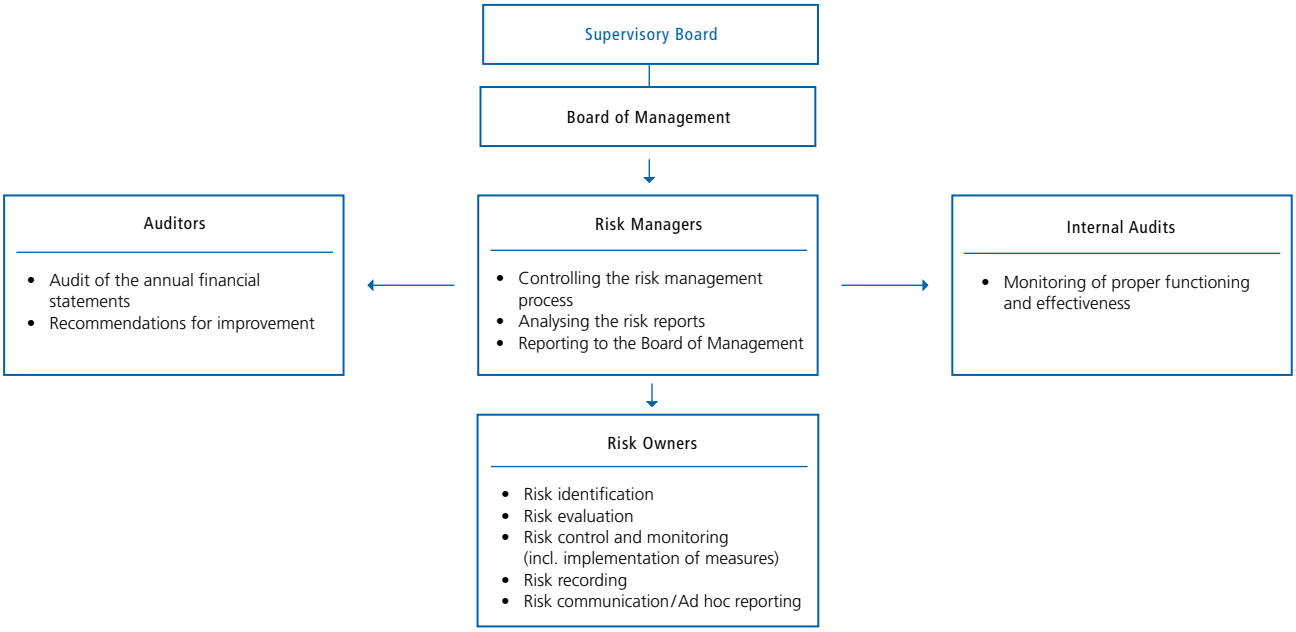
The bodies to which specific responsibilities and competencies have been assigned in KSB's risk management system are shown and explained in the figure below (page 58).

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 all reported risks to determine whether they are relevant for the financial statements. This 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 & Compliance, Patents & Trademarks staff function. The Chief Compliance Officer is supported by the members of the Compliance Committee and the Compliance Managers of the individual companies.

RISK MANAGEMENT AT KSB



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 internal 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 auditors examine 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 regularly and analytically validates the plausibility of time series 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. 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.

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 – unless stipulated otherwise – include the qualitative and quantitative 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

- **Risks**

Our business and the opportunities available to us are affected by changes in the economic and political environments. One of the influencing factors during the current year, from an economic perspective, is the low price of oil. This has a negative impact on the financial strength of the oil-producing countries, limiting their ability to invest. We counter this risk, which is classed as “significant” by intensifying our contacts with companies and institutions that are making purchases within the means available to them. In this way we aim to limit the negative impact on our business.

There is the risk of falling demand in the petrochemical industry in China, which would negatively impact on order intake for our pumps and valves. We are responding to this risk by monitoring our orders on hand and by offering the available products for other fields of application.

Import duties in Malaysia are pushing up the sale price of products from the Eta type series. We are offsetting this risk by optimising our procurement costs there.

The political situation in the Middle East and in North Africa remains critical. The destabilisation of Syria, Libya, Yemen and Iraq following internal and external conflicts is also affecting these countries' neighbours. Both private companies and government institutions are understandably reticent with regard to investment in new plant. It is possible that the conflicts could spread further, which would place additional constraints on our business opportunities in this region.

Given the political differences between Russia and the USA, and between Russia and most European countries, we have seen a clear deterioration in East/West relations. This is also evident in economic life, with Russian companies increasingly ordering products that have been made in Russia or involve a high proportion of local value added. Our KSB company in Moscow has reacted to this development, setting up a local assembly site in leased premises for industrial and water engineering pumps. Additionally, we are also planning to establish our own production site.

In South Africa, political tensions in conjunction with economic shortcomings are hampering progress. This is affecting the business prospects of our local production and sales company. Consequently, it is intensifying its sales activities in other countries in southern Africa, primarily Angola and Zambia.

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.

Asia remains our most important sales market for power plant equipment, including pumps and valves. Competition in China has, however, continued to intensify, creating greater price pressure for the KSB Group and representing a "significant" risk. In order to tap into the Asian market more widely, we have agreed a strategic alliance with our long-term partner, the Chinese SEC Group, in late 2015. This aims at closer cooperation so that KSB can achieve success in Asian power plant projects outside of China. A first contract, awarded at the end of 2015 to fit out an Indian power plant, will serve as a test case for further joint projects in the future.

▪ Opportunities

Specific opportunities will arise in relation to our valves if large-scale projects for the supply of water are realised in the Middle East, Africa and Asia. These generally relate to the construction or renewal of pipelines that are fitted with butterfly valves with very large diameters.

With regard to sales of slurry pumps to the mining sector, we still see opportunities to acquire market share despite the current difficulties in the sector. Our partnership with a global provider of machinery and systems for the mining industry, agreed during the reporting year, will be beneficial in this area. Furthermore, following the commissioning of a new specialist foundry in the USA, we can now supply large high-quality pumps more quickly than in the past.

The trend towards a greater focus on energy efficiency can result in customers increasingly requesting services for the analysis of existing systems and retrofit measures.

The lifting of the embargo on Iran opens up new sales prospects. Until the political decision to exclude Iran as a trading partner, we primarily supplied customers in the petrochemical and other industrial sectors with pumps and valves, and we were also well represented with our products in water supply

facilities. Currently, opportunities are emerging as we increase the size of our team at our Tehran office, and from contacts with Iranian companies that are turning to German products again after their experience with some Chinese producers.

Unexpected sales opportunities may also arise if India accelerates the expansion of its water and waste water infrastructure as a result of improved financing options.

Projects / Products

▪ Risks

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.

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 € 52 million in the consolidated financial statements for 2015 compared with € 45 million in the previous year; beyond this there is no other major residual risk (net risk).

▪ Opportunities

In mid-June 2015 we began work on the construction of a new competence centre for mechatronics in Ankara, where we will in future be manufacturing all variable speed glandless pumps used in building services and also system components. The manufacturing programme will include the Calio series, which is still being produced in Switzerland at present. The cost benefits that this relocation will generate can help to improve our competitive position on the heating and air-conditioning market from as early as the second half of 2016. In addition, the expansion of the Calio series, as detailed in the Research and Development section, extends our opportunities for providing customers with state-of-the-art products from our own production.

We also believe that our high-pressure pumps offer additional market opportunities. We now offer these in an extended range of sizes. In 2015 many customers were already ordering this pump set, which offers greater value for money than its predecessors, for use in water engineering or industrial plants.

The world's first measurement and balancing valve using ultrasound technology, which we launched in 2015, is also generating keen interest. It simplifies the task of measuring flow, especially in heating and air-conditioning systems.

The KSB Sonolyzer app, introduced in 2015, is also opening up new opportunities to win contracts. The app helps customers to review the efficiency of their pump system quickly and easily. If a plant frequently operates under low-flow conditions, and thus uneconomically, the link to KSB contact persons provides analysis, consultancy and system optimisation options.

Finance / Liquidity

- **Risks**

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

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. Our Italian company, whose product range includes high-efficiency motors, experienced a deterioration in its financial situation during the reporting year. Some service companies in France also suffered as a result of the persistently difficult economic situation in the country, with an impact on business development and thus on economic and financial solvency, as well as medium-term business prospects. We are therefore reviewing the strategic direction and organisational structures of our service activities there.

Changing market circumstances mean that our existing business models need to be fundamentally reviewed. During the past financial year we therefore carried out a reassessment of the prospects for canned motor pumps and re-assessed our activities. Our findings were that the current market opportunities are poor, with the result that we will be adjusting our product range accordingly.

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 2015 consolidated financial statements, we set aside € 1.3 million for circumstances that are classified as a significant or neutral risk.

▪ Opportunities

Every time the US dollar gains in value over our Group currency, the euro, our imported European products become cheaper for our customers in the USA. At the same time, there is the possibility that contracts that we post in US dollars, after conversion to our Group currency, result in higher amounts than if exchange rates had remained unchanged.

Procurement

▪ Risks

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.

Our suppliers are also further developing their product ranges. In some cases, this results in changes to the specifications for the materials that we require. We consistently monitor any potential impact on the quality of our products. Should risks emerge, we reserve higher volumes based on the original material structure, where possible, and assess alternative procurement sources.

▪ Opportunities

To reduce procurement costs, we continue to look for quality suppliers in Eastern Europe and Asia as part of a targeted process. Where we are able to source products more favourably than in the past, this helps to strengthen our competitive position in sales markets exposed to high levels of price pressure. In cross-functional teams, we look for ways of cutting our material costs, also pursuing technical approaches.

Since 2015 we have been using a supplier portal, which was tried and tested in Germany, to simplify the order process between KSB and its suppliers in Brazil, China, France, South Africa and the USA. We will also be integrating our Indian suppliers into this portal during the current year. By successively expanding our use of this platform, we can reduce the activities in our Group that do not create any value added.

Technology / Research and Development

▪ Risks

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 required for adjustments consumes significant financial and human resources, with no guarantee of success in either the medium or the long term.

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.

▪ Opportunities

By permanently observing the market and technology, and keenly exchanging ideas and information in our international network with technology partners, customers and suppliers, we identify principles and approaches that enable us to offer new or extended services. In this way, KSB is able to ensure that its products are distinctive in a positive way and to improve market prospects.

In a continuation of our drive system and motor campaign, we are developing appropriate technologies for different individual cases. These can take the form of elementary components that improve the energy efficiency of our customers' systems and lead to us being awarded new contracts.

We are also working on Industry 4.0 projects with our customers and partners. These provide a foundation on which new business models can be developed. By harnessing modern production technologies, and making use of the digital value creation chain in particular, it will be easier for us to provide our customers with the right product at the right time. With this in mind, we are working to devise new logistics concepts and production technologies.

Other business-specific risks – Environment

▪ Risks

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 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 2015 consolidated financial statements, these amounted to just under € 1 million for significant or neutral risks, which was unchanged on the previous year.

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.

▪ Opportunities

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.

In 2015 we conducted energy audits at all of our major sites in Europe, complying with the implementation, at national level, of an EU regulation. Ultimately, this analysis revealed new potential for additional energy savings by renovating our production halls, through smart management of our production facilities and through instructions to the operators of the machine tools.

The newly revised ISO 14001 international environmental management standard has been in force since November 2015 subject to a three-year transitional period. As we have already started early in 2016 to have our production facilities certified in line with the new requirements, we have the opportunity to take account of new environmental protection aspects from an early stage and to present us to the public as a company that takes its responsibility for the environment and for society very seriously.

The trend towards greater environmental protection and higher energy efficiency will continue to have a positive influence on demand for our products and services. Customers can use our FluidFuture concept to reduce their electricity consumption. A system analysis is used to ensure that pumps and valves are properly designed and to provide information on the benefits of using high-efficiency pumps, valves and drives.

Other business-specific risks – Human resources and legal aspects

- **Risks**

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 2015 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 € 1 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 operating units assists us in this. In this way, we implement high security standards and thus reduce the risk of data loss or corruption.

- **Opportunities**

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 continued to renew our central infrastructure, as well as further standardising and automating our IT services. 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 important to KSB. Uncertainty regarding political risk is of great significance to the Pumps and Valves segments, and to a lesser degree to Service. The lack of certainty surrounding future oil prices and worsening payment morale 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. Conversely, a continuation of the political uncertainty, combined with persistent depreciation tendencies among some currencies or a permanently low oil price, would have a sustained negative impact on our business. As regards our main influencing factor, the economic situation, we estimate the risk to be slightly higher compared with 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. 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 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 € 254.0 million (previous year: € 235.0 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 € 39.5 million (previous year: € 60.6 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, the Middle East or parts of Africa experiencing political unrest present risks. This similarly applies to future changes in the price of oil, as well as to volatile currencies. Such circumstances would have a negative effect on our business volumes as well as our 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 risk management system in place 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 2016 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 acquisition-related disclosures required by section 315(4) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] is given below and explanatory information is provided pursuant to sections 175(2) and 176(1) of the *AktG* [*Aktiengesetz* – German Public Companies Act]. Information is disclosed only to the extent that it applies to KSB AG.

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

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

The company is authorised by a resolution passed at the Annual General Meeting on 6 May 2015 to purchase, until 5 May 2020, company shares of any type totalling up to 10 % of the current share capital or, if lower, of the share capital at the time of this authorisation being exercised. 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, for example by means of an offer to all of the company's shareholders; (2) Sell the acquired shares of the company 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 that 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 exercised. The 10 % limit shall be reduced by the proportional amount of share capital for shares (i) issued within the scope of a capital increase during the term of the authorisation excluding subscription rights pursuant to section 186(3) sentence 4 of the *AktG* or (ii) to be issued at maximum for the purpose of servicing warrants and convertible bonds, provided that the bonds were issued during the term of the authorisation excluding subscription rights pursuant to section 186(3) sentence 4 of the *AktG*; (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 acquired shares without any further resolution of the Annual General Meeting in full or in part, including in several partial steps. The redemption may also take place without a capital reduction by adjusting the proportional amount of the other no-par-value shares in the company's share capital. In such cases, the Board of Management shall be authorised by the Articles of Association to adjust the number of no-par-value shares. KSB AG has not yet made use of this authorisation to purchase treasury shares.

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

In accordance with its Articles of Association, KSB AG is managed by two Board of Management 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 Corporate Governance Statement pursuant to section 289a of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] dated 30 March 2015 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance/ Corporate Governance Statement. The updated Statement will be made accessible to the public in the same way from 30 March 2016.

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. For the first time, the updated Statement will also include the following information on the gender-specific staffing of executive positions:

The aim of the Act for the Equal Participation of Women and Men in Executive Positions in Private Industry and Public Service, which entered into force in 2015, is to create more equal opportunities in the world of work and to significantly improve the proportion of women in management positions. For KSB AG, in its capacity as a listed company pursuant to section 3(2) of the *AktG* [*Aktiengesetz* – German Public Companies Act] and a company that has co-determination based on parity in accordance with the *Mitbestimmungsgesetz* [German Co-determination Act], fixed gender quotas of 30 % in each case apply to the inclusion of women and men in the Supervisory Board pursuant to section 96(2) *AktG*. To date, two women are on our Supervisory Board, one as a shareholder representative and one representing the employees. This means that the proportion of women on the Supervisory Board is just below 17 % and therefore not yet in line with the quota.

At its meeting on 11 September 2015, the Supervisory Board set its target quota of women for the Board of Management at zero percent by 30 June 2017, which corresponds to the current situation. On 22 September 2015, the Board of Management stipulated the targets for the proportion of women in the two management levels below it, with these also to be achieved by 30 June 2017. Based on these targets, at least the current proportions are to be retained, i.e. zero percent with regard to the top level and 10.4 % in the management level below that.

In order to improve the situation in the interests of promoting women, and to make it easier for employees to reconcile working and family life, KSB has developed various offers. For many years now, KSB AG has provided support in relation to child care for different ages of children. Advisory services are also provided with regard to looking after relatives who are in need of care. Both of these offers are complemented by flexible working time models for men and women.

As part of measures to secure the supply of young talent for executive positions, we make a targeted effort to fill attractive vacancies with women. As a result of these measures, just under 30 % of the new junior managers appointed were women. Like their male colleagues, they receive targeted mentoring from managers immediately below the Board of Management level. Global human resources controlling is used to monitor the development of the proportion of women employed in the different countries.

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 AG. 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 success 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 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

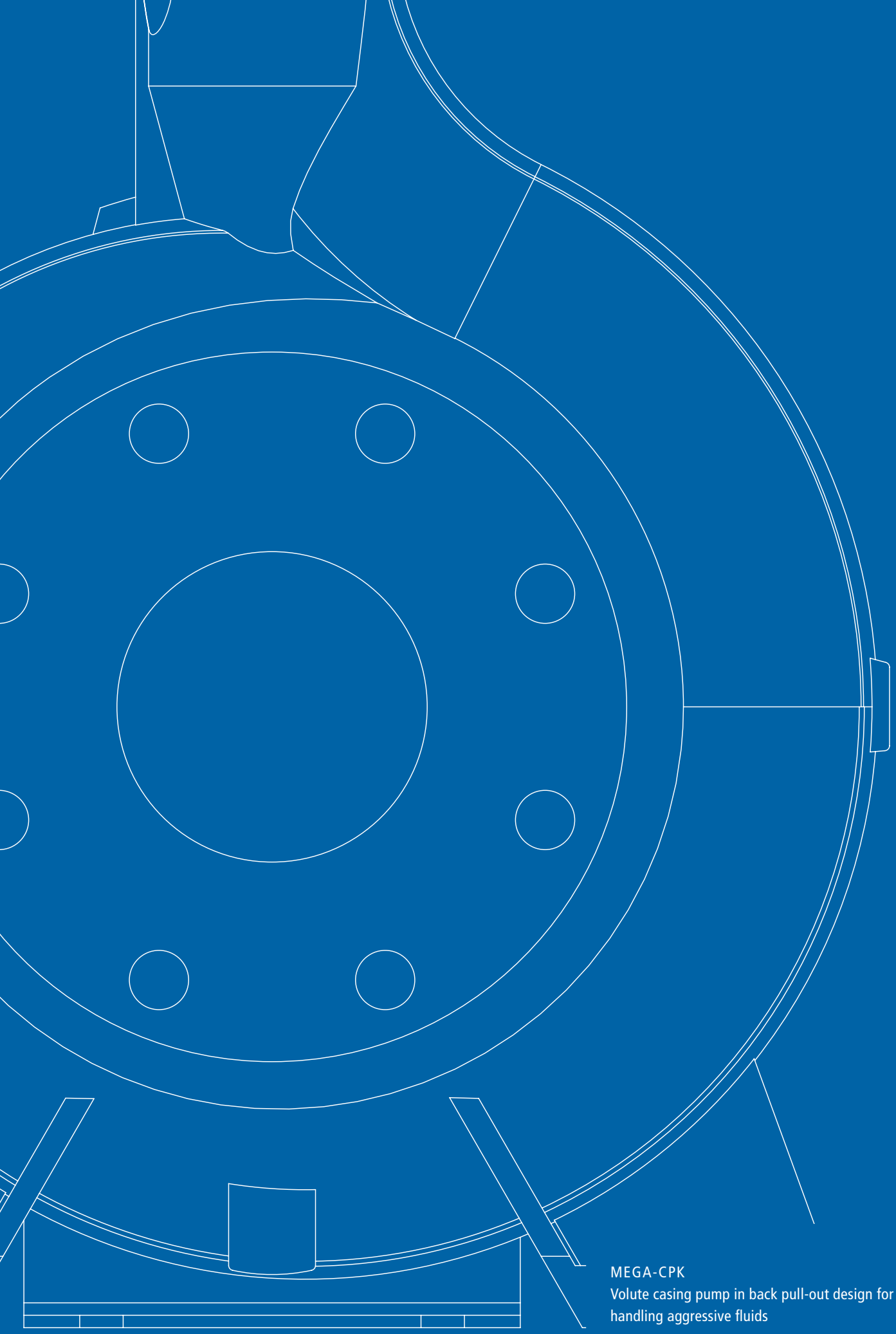
no compensation will be paid in the event of a takeover offer. If the contract of service of a Board of Management member is terminated for cause, the company shall not make any severance payments.

On 6 May 2015 – 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 2015 financial year amounted to € 1,289 thousand (previous year: € 1,427 thousand), and the payments for benefits after termination of work € 1,429 thousand (previous year: € 2,011 thousand). € 4,518 thousand (previous year: € 4,386 thousand) has been provided for pension obligations to current members of the Board of Management, and € 39,387 (previous year: € 41,861 thousand) to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,246 thousand in the year under review (previous year: € 2,232 thousand). No stock options or other share-based payment arrangements are granted to members of the Board of Management.

The short-term benefits (total remuneration) paid to members of the Supervisory Board amounted to € 833 thousand for the 2015 financial year (previous year: € 944 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*.

Frankenthal, 17 March 2016

The Board of Management



MEGA-CPK
Volute casing pump in back pull-out design for handling aggressive fluids

4

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2015	31 Dec. 2014*	1 Jan. 2014*
Non-current assets				
Intangible assets	1	102,075	111,441	111,302
Property, plant and equipment	2	493,831	475,808	442,861
Non-current financial assets	3	7,961	7,320	10,432
Investments accounted for using the equity method	4	29,235	28,001	26,617
Deferred tax assets	17	84,360	86,853*	39,633
		717,462	**709,423***	**630,845**
Current assets				
Inventories	5	454,411	449,826	423,848
Trade receivables and PoC	6	663,740	614,201	577,349
Other financial assets	6	156,169	190,160*	173,847*
Other non-financial assets	6	25,200	33,509	31,194
Cash and cash equivalents	7	273,136	278,552*	313,192*
Assets held for sale	2	934	2,234	1,185
		1,573,590	**1,568,482**	**1,520,615**
		2,291,052	**2,277,905***	**2,151,460**

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2015	31 Dec. 2014*	1 Jan. 2014*
Equity	8			
Subscribed capital		44,772	44,772	44,772
Capital reserve		66,663	66,663	66,663
Revenue reserves		609,159	578,518*	614,383*
Equity attributable to shareholders of KSB AG		720,594	689,953*	725,818*
Non-controlling interests		149,623	129,751*	111,187*
		870,217	**819,704***	**837,005***
Non-current liabilities				
Deferred tax liabilities	17	13,039	12,024*	13,287*
Provisions for employee benefits	9	541,256	539,438*	419,746*
Other provisions	9	1,379	1,133*	1,012*
Financial liabilities	10	133,504	159,427	204,982
		689,178	**712,022***	**639,027***
Current liabilities				
Provisions for employee benefits	9	73,613	75,391*	86,018*
Other provisions	9	99,450	96,663*	81,048*
Financial liabilities	10	44,316	93,524	61,773
Trade payables	10	238,848	211,723	204,766
Other financial liabilities	10	85,911	100,429*	87,743*
Other non-financial liabilities	10	179,139	164,936*	150,728*
Income tax liabilities	10	10,082	3,304*	3,352*
Liabilities held for sale	2	298	209	–
		731,657	**746,179***	**675,428***
		2,291,052	**2,277,905***	**2,151,460***

* Adjustment under IAS 8

Also see the relevant information in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	2015	2014*
Sales revenue	11	**2,334,831**	**2,181,739**
Changes in inventories		10,714	12,012
Work performed and capitalised		4,790	3,964
Total output of operations		**2,350,335**	**2,197,715**
Other income	12	49,952	36,260
Cost of materials	13	–979,531	–887,378
Staff costs	14	–819,250	–784,842*
Depreciation and amortisation expense	1, 2	–72,845	–66,204
Other expenses	15	–411,467	–392,964
Other taxes		–13,497	–13,162
		103,697	**89,425***
Financial income	16	7,682	6,497
Financial expense	16	–22,360	–24,668*
Income / expense from investments accounted for using the equity method	16	4,373	1,582
		–10,305	**–16,589***
Earnings before income taxes		**93,392**	**72,836***
Taxes on income	17	–41,222	–26,527*
Earnings after income taxes		**52,170**	**46,309***
Attributable to:			
Non-controlling interests	18	12,885	7,604*
Shareholders of KSB AG		**39,285**	**38,705***
Diluted and basic earnings per ordinary share (€)	19	22.30	21.97*
Diluted and basic earnings per preference share (€)	19	22.56	22.23*

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

(€ thousands)	Notes	2015	2014*
Earnings after income taxes		**52,170**	**46,309***
Remeasurement of defined benefit plans	9	18,087	–101,841*
Taxes on income		–5,454	31,003*
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		**12,633**	**–70,838***
Currency translation differences		1,158	38,834
Attributable to: Expense and income recognised directly in equity attributable to investments accounted for using the equity method		2,208	2,529
Changes in the fair value of financial instruments		3,077	–11,534
Taxes on income		–529	3,854
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		**3,706**	**31,154**
Other comprehensive income		**16,339**	**–39,684***
Total comprehensive income		**68,509**	**6,625***
Attributable to:			
Non-controlling interests		22,318	19,637*
Shareholders of KSB AG		**46,191**	**–13,012***

* Adjustment under IAS 8
Also see the relevant information in the Notes.

STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2014 (published)	44,772	66,663
Prior-year correction with retrospective adjustment of equity	–	–
1 Jan. 2014 (adjusted)	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 (adjusted)	**44,772**	**66,663**

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2015	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. 2015	**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. 2014	–79,220	–30,766	**–109,986**
Change in 2014	26,074	12,760	**38,834**
Balance at 31 Dec. 2014 / 1 Jan. 2015 (adjusted)	**–53,146**	**–18,006**	**–71,152**
Change in 2015	–8,352	9,510	**1,158**
Balance at 31 Dec. 2015	**–61,498**	**–8,496**	**–69,994**

	Revenue reserves						
		Other comprehensive income					
	Other revenue reserves	Currency translation differences	Changes in the fair value of financial instruments	Remeasurement of defined benefit plans	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
	–862	–23	–	–3,551	–4,436	–3,053	–7,489
	770,963	–79,220	3,461	–80,821	725,818	111,187	837,005
	–	26,074	–7,454	–70,337	–51,717	12,033	–39,684
	38,705	–	–	–	38,705	7,604	46,309
	38,705	**26,074**	**–7,454**	**–70,337**	**–13,012**	**19,637**	**6,625**
	–21,240	–	–	–	–21,240	–1,604	–22,844
	–	–	–	–	–	–	–
	–1,218	–	–	–	–1,218	–	–1,218
	646	–	–	–1,041	–395	531	136
	787,856	**–53,146**	**–3,993**	**–152,199**	**689,953**	**129,751**	**819,704**

	Revenue reserves						
		Other comprehensive income					
	Other revenue reserves	Currency translation differences	Changes in the fair value of financial instruments	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
	787,856	–53,146	–3,993	–152,199	689,953	129,751	819,704
	–	–8,292	2,444	12,754	6,906	9,433	16,339
	39,285	–	–	–	39,285	12,885	52,170
	39,285	**–8,292**	**2,444**	**12,754**	**46,191**	**22,318**	**68,509**
	–15,111	–	–	–	–15,111	–2,349	–17,460
	–	–	–	–	–	–	–
	–42	–60	–	–70	–172	–97	–269
	1,783	–	–1,793	–257	–267	–	–267
	813,771	**–61,498**	**–3,342**	**–139,772**	**720,594**	**149,623**	**870,217**

Also see the relevant information in the Notes.

STATEMENT OF CASH FLOWS

(€ thousands)	2015	2014
Earnings after income taxes	52,170	46,309[1]
Depreciation and amortisation expense / Write-ups	75,547	68,357
Increase in non-current provisions	11,027	12,040[1]
Gain / loss on disposal of fixed assets	489	– 3,068
Other non-cash expenses / income	– 1,728	746
Cash flow	**137,505**	**124,384[1]**
Increase in inventories	– 4,192	– 11,334
Increase in trade receivables and other assets	– 60,271	– 28,996[1]
Increase in current provisions	3,503	2,092[1]
Increase / decrease in advances received from customers	20,237	– 2,915
Increase in liabilities (excluding financial liabilities)	21,115	5,351[1]
Other non-cash expenses (operating)	– 1,260	–
	– 20,868	**– 35,802[1]**
Cash flows from operating activities	**116,637**	**88,582**
Proceeds from disposal of intangible assets	772	25
Payments to acquire intangible assets	– 6,755	– 9,553
Proceeds from disposal of property, plant and equipment	4,533	5,877
Payments to acquire property, plant and equipment	– 75,833	– 76,494
Proceeds from disposal of non-current financial assets	257	30
Payments to acquire non-current financial assets	– 1,213	– 1,518
Proceeds from the sale of consolidated companies and other business operations (less acquired cash and cash equivalents)	700	–[2]
Payments to acquire consolidated companies and other business operations (less acquired cash and cash equivalents)	– 352	178[2]
Payments for investments in Group companies that are not fully consolidated	– 730	– 576[2]
Proceeds from term deposits (maturity of more than 3 and up to 12 months)	154,121	138,246[1, 2]
Payments for term deposits (maturity of more than 3 and up to 12 months)	– 110,027	– 154,121[1, 2]
Cash flows from investing activities	**– 34,527**	**– 97,906[1, 2]**
Dividends paid for prior year – Shareholders of KSB AG (Notes No. 8)	– 15,111	– 21,240[2]
Dividends paid for prior year – Non-controlling interests (Notes No. 8)	– 2,349	– 1,604[1, 2]
Proceeds from / payments for financial liabilities	– 68,740	– 14,062[1]
Payments to acquire non-controlling interests	– 1,200	–
Cash flows from financing activities	**– 87,400**	**– 36,906[2]**
Changes in cash and cash equivalents	– 5,290	– 46,230[1]
Effects of exchange rate changes on cash and cash equivalents	– 50	10,787
Effects of changes in consolidated Group	– 76	803
Cash and cash equivalents at beginning of period	278,552	313,192[1]
Cash and cash equivalents at end of period	**273,136**	**278,552[1]**

[1] Adjustment under IAS 8

[2] Change in presentation or separate presentation of prior-year items

Cash flows from operating activities include cash flows from interest received amounting to € 7,635 thousand (previous year: € 6,434 thousand) and cash flows from (income) taxes totalling € –36,760 thousand (previous year: € –39,423 thousand). Cash flows from investing activities for the year 2015 do not include any cash flows from dividends received (previous year: € 14 thousand). Cash flows from financing activities include cash flows from interest expense of € – 7,340 thousand (previous year: € – 8,180 thousand).

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 capital market-oriented 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 2016 and are expected to be approved by the Supervisory Board on 23 March 2016.

New accounting principles

a) Accounting principles applied for the first time in financial year 2015

The following new and revised Standards issued by the International Accounting Standards Board (IASB) and the new Interpretation issued by the IFRS Interpretations Committee (IFRIC) were required to be applied for the first time in financial year 2015:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IFRIC 21 Levies	13 June 2014	14 June 2014	17 June 2014
Improvements to the International Financial Reporting Standards (2011 to 2013)	18 Dec. 2014	19 Dec. 2014	1 Jan. 2015

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.

There was no impact on the consolidated financial statements from the application of this Interpretation and the annual improvements to IFRS (2011 to 2013).

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

The following Standards and revised Standards were not yet mandatory and were not applied in the 2015 financial year:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IAS 19 Employee Benefits	17 Dec. 2014	9 Jan. 2015	1 Feb. 2015
Improvements to the International Financial Reporting Standards (2010 to 2012)	17 Dec. 2014	9 Jan. 2015	1 Feb. 2015
Improvements to the International Financial Reporting Standards (2012 to 2014)	15 Dec. 2015	16 Dec. 2015	1 Jan. 2016
IAS 1 Presentation of Financial Statements	18 Dec. 2014	19 Dec. 2015	1 Jan. 2016
IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements	11 Sept. 2014	Open	Open
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	exp. in Q2 / 2016	1 Jan. 2016
IFRS 11 Joint Arrangements	24 Nov. 2015	25 Nov. 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	2 Dec. 2015	3 Dec. 2015	1 Jan. 2016
IAS 27 Separate Financial Statements	18 Dec. 2015	23 Dec. 2015	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture	23 Nov. 2015	24 Nov. 2015	1 Jan. 2016
IAS 12 Income Taxes	19 Jan. 2016	exp. in Q4 / 2016	1 Jan. 2017
IAS 7 Statement of Cash Flows	29 Jan. 2016	exp. in Q4 / 2016	1 Jan. 2017
IFRS 15 Revenue from Contracts with Customers	11 Sept. 2015	exp. in Q2 / 2016	1 Jan. 2018
IFRS 9 Financial Instruments	24 July 2014	exp. in H2 / 2016	1 Jan. 2018
IFRS 16 Leases	13 Jan. 2016	Open	1 Jan. 2019

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.

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 provide further guidelines for defining an acceptable method for the depreciation of property, plant and equipment. Under the standards, revenue-based depreciation methods are not permitted for property, plant and equipment at all and for intangible assets only in certain exceptional cases.

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 amendment to **IAS 12 Income Taxes** clarifies that write-downs to a lower market value of debt instruments measured at fair value arising from a change in market interest rates can give rise to deductible temporary differences. For clarification, rules and examples were added to indicate how future taxable income needs to be calculated in order to capitalise deferred tax assets.

The goal of the amendment to **IAS 7 Statement of Cash Flows** is to improve the information on the changes in the entity's debt.

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 contracts with customers. 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 contains revised guidelines on classifying and measuring financial instruments. Depending on their cash flow characteristics and the business model used to manage them, financial assets are measured either at amortised cost, or at fair value directly in equity or at fair value through profit or loss. When recognising impairments, IFRS 9 considers expected losses, and not, as under the previous rules, incurred losses, in order to ensure adequate risk provisioning. There are also new rules on the presentation of capitalised hedges to improve the presentation of an entity's risk management activities.

IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases in the financial statements of IFRS reporters.

As a matter of principle, we have not voluntarily applied the above-mentioned new or revised Standards prior to their effective dates. The effects of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases on the net assets, financial position and results of operations, as well as on the disclosures in the Notes, are currently being reviewed within the KSB Group.

Adjustment under IAS 8

Adjustments (recognised directly in equity)

As a result of written put options, shareholders of KSB Mörck AB, Gothenburg (Sweden) have the right to tender their non-controlling interests to KSB AG, i.e. KSB AG is under the contractual obligation to buy own equity instruments for cash in the event of this right being exercised. Pursuant to IAS 32.23, a financial (synthetic) liability must be recognised. This has not been reported in the balance sheet previously. At the time of the put option being written, and also currently, the IFRSs do not clearly stipulate which part of equity capital is to be taken into consideration at the time the liability from written put options is recognised. Irrespective of the specific arrangement of the options, one approach is to present them under the assumption of a completed (fictitious) acquisition of the non-controlling interests by the holder of the controlling interest (anticipated acquisition method). No non-controlling interests are reported for the equity components covered by the option. KSB AG uses the anticipated acquisition method.

In the course of financial year 2015 the KSB Group carried out a review of the provisions for employee benefits, which led to material adjustments for two companies. The first-time application of the revised IAS 19 in financial year 2013 led to a retroactive recognition of actuarial gains/losses directly in equity. In accordance with local legislation, our Indian company KSB Pumps Limited continued to recognise these in the income statement without an adjustment under IAS 19 (revised). This led to a retroactive reclassification in equity between “Remeasurement of defined benefit pension plans” and “Other revenue reserves”, as well as a correction of the income statement. The detailed audit of the pension plan of our French company KSB S.A.S. revealed that it is to be categorised as a defined benefit plan under IAS 19. The accounting option applicable in France for provisions for employee benefits is not permissible under the revised IAS 19. While the calculation parameters selected under local law resulted in a congruence between plan assets and obligations, a recalculation with the parameters pursuant to the revised IAS 19 revealed excess liability. This was recognised retroactively in the provisions for pensions and similar obligations and, in addition, a reclassification was made in equity, for the first-time recognition of the cumulated actuarial gains/losses under “Remeasurement of defined benefit plans”.

Reclassifications

In this context, we have voluntarily implemented some reclassifications in the presentation of the balance sheet, primarily to improve the transparency of our financial statements. They are discussed in detail below. The previous years' figures have been adjusted accordingly to ensure comparability.

In these consolidated financial statements, the "Receivables and other current assets" balance sheet item and the associated disclosures in the Notes were classified for the first time into trade receivables and PoC, other financial assets and other non-financial assets. In addition, the liabilities shown in the balance sheet and the associated disclosures in the Notes were classified for the first time into financial liabilities, trade payables, other financial liabilities, other non-financial liabilities and income tax liabilities. These adjustments did not impact the balance sheet total.

In the overview of the composition of provisions (Notes No. 9), the following adjustments were made as at 31 December 2014:

- Warranty obligations and contractual penalties totalling € 15,121 thousand, previously reported as non-current provisions, were reclassified as current provisions.

- Accumulated compensated absence and holiday pay entitlements of € 23,201 thousand were reclassified from current "Other employee benefits" to current "Social security and liabilities to employees" (Other non-financial liabilities).

- Due to the first-time separate presentation of income tax liabilities, current income tax provisions were reclassified to current income tax liabilities in the amount of € 3,304 thousand. The other tax provisions of € 854 thousand were incorporated under other provisions.

Some of the cash and cash equivalents previously reported under "Cash and cash equivalents" exceeded a maturity of three months. They (€ 154,121 thousand) were reclassified as "Other financial assets".

The following table shows all the adjustments described above. Furthermore, they are identified by footnotes in the remainder of the text:

ASSETS	Published 1 Jan. 2014	Pensions	Purchase price liability	Reclassifications	Adjusted 1 Jan. 2014
Non-current assets	**630,845**	**–**	**–**	**–**	**630,845**
Intangible assets	111,302	–	–	–	111,302
Property, plant and equipment	442,861	–	–	–	442,861
Non-current financial assets	10,432	–	–	–	10,432
Investments accounted for using the equity method	26,617	–	–	–	26,617
Deferred tax assets	39,633	–	–	–	39,633
Current assets	**1,520,615**	**–**	**–**	**–**	**1,520,615**
Inventories	423,848	–	–	–	423,848
Trade receivables and PoC	577,349	–	–	–	577,349
Other financial assets	35,601	–	–	138,246	173,847
Other non-financial assets	31,194	–	–	–	31,194
Cash and cash equivalents	451,438	–	–	–138,246	313,192
Assets held for sale	1,185	–	–	–	1,185

EQUITY AND LIABILITIES	Published 1 Jan. 2014	Pensions	Purchase price liability	Reclassifications	Adjusted 1 Jan. 2014
Equity	**844,494**	**–4,232**	**–3,257**	**–**	**837,005**
Equity attributable to shareholders of KSB AG	730,254	–3,647	–789	–	725,818
Non-controlling interests	114,240	–585	–2,468	–	111,187
Non-current liabilities	**648,753**	**4,664**	**–**	**–14,390**	**639,027**
Deferred tax liabilities	15,499	–2,212	–	–	13,287
Provisions for employee benefits	412,870	6,876	–	–	419,746
Other provisions	15,402	–	–	–14,390	1,012
Financial liabilities	204,982	–	–	–	204,982
Current liabilities	**658,213**	**–432**	**3,257**	**14,390**	**675,428**
Provisions for employee benefits	109,285	–392	–	–22,875	86,018
Other provisions	70,010	–	–	11,038	81,048
Financial liabilities	61,773	–	–	–	61,773
Trade payables	204,766	–	–	–	204,766
Other financial liabilities	84,526	–40	3,257	–	87,743
Other non-financial liabilities	127,853	–	–	22,875	150,728
Income tax liabilities	–	–	–	3,352	3,352
Liabilities held for sale	–	–	–	–	–

ASSETS	Published 31 Dec. 2014	Pensions	Purchase price liability	Reclassifications	Adjusted 31 Dec. 2014
Non-current assets	**709,229**	**194**	**–**	**–**	**709,423**
Intangible assets	111,441	–	–	–	111,441
Property, plant and equipment	475,808	–	–	–	475,808
Non-current financial assets	7,320	–	–	–	7,320
Investments accounted for using the equity method	28,001	–	–	–	28,001
Deferred tax assets	86,659	194	–	–	86,853
Current assets	**1,568,482**	**–**	**–**	**–**	**1,568,482**
Inventories	449,826	–	–	–	449,826
Trade receivables and PoC	614,201	–	–	–	614,201
Other financial assets	36,039	–	–	154,121	190,160
Other non-financial assets	33,509	–	–	–	33,509
Cash and cash equivalents	432,673	–	–	–154,121	278,552
Assets held for sale	2,234	–	–	–	2,234

EQUITY AND LIABILITIES	Published 31 Dec. 2014	Pensions	Purchase price liability	Reclassifications	Adjusted 31 Dec. 2014
Equity	**829,208**	**–6,176**	**–3,328**	**–**	**819,704**
Equity attributable to shareholders of KSB AG	696,489	–5,412	–1,124	–	689,953
Non-controlling interests	132,719	–764	–2,204	–	129,751
Non-current liabilities	**720,265**	**6,878**	**–**	**–15,121**	**712,022**
Deferred tax liabilities	15,058	–3,034	–	–	12,024
Provisions for employee benefits	529,526	9,912	–	–	539,438
Other provisions	16,254	–	–	–15,121	1,133
Financial liabilities	159,427	–	–	–	159,427
Current liabilities	**728,238**	**–508**	**3,328**	**15,121**	**746,179**
Provisions for employee benefits	99,060	–468	–	–23,201	75,391
Other provisions	84,846	–	–	11,817	96,663
Financial liabilities	93,524	–	–	–	93,524
Trade payables	211,723	–	–	–	211,723
Other financial liabilities	97,141	–40	3,328	–	100,429
Other non-financial liabilities	141,735	–	–	23,201	164,936
Income tax liabilities	–	–	–	3,304	3,304
Liabilities held for sale	209	–	–	–	209

As at 1 January 2014, adjustments were recognised in other comprehensive income in equity, amounting to € –3,551 thousand in relation to the remeasurement of defined benefit plans and € –23 thousand in relation to currency translation differences. Other revenue reserves accounted for € –862 thousand. The change in other comprehensive income attributable to non-controlling interests as at 1 January 2014 amounted to € –3,053 thousand.

As at 31 December 2014, the effects of these adjustments on earnings after taxes totalled € +131 thousand (of which staff costs € +629 thousand, financial expenses € –387 thousand, and income taxes € –111 thousand). The effect on earnings after taxes attributable to non-controlling interests totalled € –270 thousand, with an effect of € +401 thousand attributable to KSB AG shareholders.

Diluted and basic earnings per ordinary share were adjusted to € 21.97 (published figure: € 21.74), and the diluted and basic earnings per preference share to € 22.23 (published figure: € 22.00).

Within the statement of comprehensive income, retroactive adjustments were made for 2014 in other comprehensive income. These amounted to € –3,273 thousand in relation to the remeasurement of defined benefit plans and to € 1,127 thousand in relation to the corresponding income taxes. The resulting effect on comprehensive income is € –2,015 thousand. The effect on comprehensive income attributable to non-controlling interests totalled € –310 thousand, with an effect of € –1,705 thousand attributable to KSB AG shareholders.

II. BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 9 German and 80 foreign companies (previous year: 10 German and 86 foreign companies) were fully consolidated. We hold a majority interest, either directly or indirectly, in the voting power of these subsidiaries which the KSB Group has the option to control under IFRS 10.

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 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 – other investments.

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)	2015 / 2014	31 Dec. 2015	31 Dec. 2014*	31 Dec. 2015	31 Dec. 2014*
GIW Industries, Inc., USA	49.0 %	2,780	1,427	23,738	17,982
KSB Pumps Limited, India	59.5 %	4,939	4,707*	49,856	43,337*
KSB America Corporation, USA	49.0 %	175	42	22,348	19,705
KSB Shanghai Pump Co. Ltd., China	20.0 %	–347	–2,218	12,085	11,645
Individually immaterial fully consolidated subsidiaries with non-controlling interests		5,338	3,646*	41,596	37,082*
Total amount of non-controlling interests		**12,885**	**7,604***	**149,623**	**129,751***

* Adjustment under IAS 8

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.	**2015**	**2014**	**2015**	**2014***	**2015**	**2014**	**2015**	**2014**
Non-current assets	55,351	38,888	33,981	29,778*	35,652	33,205	33,719	30,467
Current assets	79,303	54,899	93,248	84,859	55,279	42,578	133,166	134,177
Non-current liabilities	– 6,812	– 4,769	– 2,473	– 2,417*	–	–	–	– 518
Current liabilities	– 60,001	– 32,928	– 42,092	– 40,635*	– 32,378	– 25,997	– 108,966	– 108,488
Net assets	**67,841**	**56,090**	**82,664**	**71,585***	**58,553**	**49,786**	**57,919**	**55,638**

* Adjustment under IAS 8

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands)	**2015**	**2014**	**2015**	**2014***	**2015**	**2014**	**2015**	**2014**
Sales revenue	139,127	117,425	113,399	97,271	–	–	134,734	115,588
Earnings after income taxes	5,673	2,912	9,391	8,668*	2,975	2,511	– 1,399	– 10,754
Other comprehensive income	6,079	6,203	4,377	6,074*	5,792	5,865	3,680	5,466
Comprehensive income	11,752	9,115	13,768	14,742*	8,767	8,376	2,281	– 5,288
Other comprehensive income attributable to non-controlling interests	2,979	3,039	2,603	3,612*	2,838	2,874	736	1,093
Comprehensive income attributable to non-controlling interests	5,758	4,466	8,186	8,766*	4,296	4,104	456	– 1,058
Dividends paid to non-controlling interests	–	–	– 1,599	– 1,149	–	–	–	–

* Adjustment under IAS 8

CONDENSED STATEMENT OF CASH FLOWS

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Cash flows from operating activities	– 3,562	10,522	15,749	4,341	3,534	2,789	5,005	– 1,709
Cash flows from investing activities	– 14,594	– 18,131	– 2,082	– 2,114	–	–	– 3,375	– 1,391
Cash flows from financing activities	18,020	7,525	– 6,698	78	– 12,556	– 9,895	– 8,619	2,019
Changes in cash and cash equivalents	**– 136**	**– 84**	**6,969**	**2,305**	**– 9,022**	**– 7,106**	**– 6,989**	**– 1,081**
Cash and cash equivalents at beginning of period	1,173	1,114	23,299	18,750	28,832	32,231	11,430	11,377
Effects of exchange rate changes	132	143	1,439	2,244	3,146	3,707	860	1,134
Cash and cash equivalents at end of period	**1,169**	**1,173**	**31,707**	**23,299**	**22,956**	**28,832**	**5,301**	**11,430**

As at 1 January 2015 Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula, was merged with KSB Finland Oy, Kerava. Both Finnish companies were already fully consolidated. As at 1 January 2015 a merger also took place in Norway between WM Teknikk AS, Ski, and KSB Norge AS, Ski. The Belgian company KSB SERVICE VRS SA, Feluy, and the Dutch company Nederlandse Pompservice (N.P.S.) B.V., Velsen-Noord, were deconsolidated due to operations being closed down. The resulting impact on these consolidated financial statements was not material.

Also on 1 January 2015, KSB increased its share in T. Smedegaard A/S, Glostrup (Denmark), from 80 % to 100 % at a purchase price of a good € 1 million. The corresponding purchase price liability was offset accordingly.

The KSB Group relinquished control of B & C Pumpenvertrieb Köln GmbH, Cologne, in February 2015 through the sale of shares. The resulting effects are shown in the changes to "Assets held for sale" and "Liabilities held for sale" in the balance sheet. The impact on the results of operations, expenses and earnings is not material.

With effect from 1 January 2015, formerly fully consolidated KSB AMVI, S.A., Madrid, and KSB Service Suciba, S.L.U., Loiu-Bizkaia, were merged with KSB ITUR Spain S.A., which has its head office in Zarautz, Spain, and is also fully consolidated.

Our French subsidiary KSB SERVICE COTUMER, which has its head office in Déville lès Rouen, acquired a business in the Service segment in February 2015. 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
Non-current assets	**751**
Intangible assets	539
Property, plant and equipment	212
Current assets	**250**
Inventories	250
	1,001
Current liabilities	**1,001**
Trade payables	502
Other non-financial liabilities	499
	1,001

The purchase price amounts to € 0.4 million. The fair value of the intangible assets includes € 40 thousand for concessions and licences. The fair value of property, plant and equipment includes € 134 thousand for land and buildings and € 78 thousand for plant and machinery. The goodwill arising from the transaction amounts to € 499 thousand.

From the date of acquisition, KSB SERVICE COTUMER contributed about € 12 million of sales revenue to the Group's consolidated sales revenue. For the full financial year it would have reported some € 13 million of sales revenue. The contribution to consolidated earnings for the period of consolidation was € –0.4 million; for the full financial year it would also have been some € –0.4 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".

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

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 € –69,994 thousand (previous year: € –71,152 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 € 4,935 thousand (previous year: gain of € 19,639 thousand).

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

	Closing rate		Average rate	
	31 Dec. 2015	31 Dec. 2014	2015	2014
US dollar	1.0887	1.2141	1.1099	1.3289
Brazilian real	4.3117	3.2207	3.6934	3.1235
Indian rupee	72.0215	76.7190	71.1886	81.0825
Chinese yuan	7.0608	7.5358	6.9748	8.1890

III. ACCOUNTING POLICIES

Acquisition and production costs

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.

In addition to direct material and labour costs, production cost includes production-related administrative expenses. General administrative expenses and selling expenses are not capitalised.

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 such borrowing costs were incurred.

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.

The KSB Group defined a monitoring framework concept for determining fair value. This includes a measurement team with general responsibility for monitoring all key measurements at fair value and notifying management and, if necessary, the Audit Committee of any major issues. 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 regularly 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 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 carried at fair value on initial recognition, while LaR and FLAC take into account the transaction costs. Subsequent measurement is based on fair value for category AfS and on amortised cost for categories LaR and FLAC. 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.

Primary financial instruments classified as "available-for-sale financial instruments" are recognised directly in equity in other comprehensive income and reported under "Changes in the fair value of financial instruments". They are recognised in profit or loss when the assets are sold or deemed to be other-than-temporarily impaired. If an 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

We only use derivatives for hedging purposes. We hedge both future cash flows and existing recognised underlyings against foreign currency and interest rate risks (cash flow hedges). The hedging instruments used are exclusively 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 "Changes in the fair value of financial instruments" in equity for as long as the underlying transaction is not recognised in the income statement.

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 "Changes in the fair value 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.

Currency forwards and interest rate swaps are reported under other receivables and other current assets, and under miscellaneous other liabilities.

The maturities of the currency derivatives used are, as in the previous year, mostly between one and two years, and those of interest rate derivatives are two 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 forecast 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 of intangible assets (excluding goodwill) is between two and five years. 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.

We test goodwill for impairment once a year. This 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. The goodwill (and, if necessary, other assets) is reduced by the difference in value 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 of the CGU. Reversal of an impairment loss from an earlier period is not possible. In addition, a review of impairment is always carried out when events or circumstances ("trigger events") suggest that the value could be impaired.

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.

If the recoverable amount is calculated as the fair value less costs to sell, the costs to sell are, based on past experience, 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).

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. Interest-bearing loans and investments in non-consolidated subsidiaries are measured 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 time 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 recorded as goodwill. It forms part of the carrying amount of the joint venture or 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. If local accounting principles differ from the accounting

methods used in the Group, we make the necessary adjustments. The share of earnings is reported in the consolidated income statement in a separate line (earnings from investments accounted for using the equity method), and changes such as currency translation effects are taken directly to Group equity. If the losses attributable to the KSB Group correspond to the carrying amount of the company or exceed this, they are not recognised unless KSB has entered into obligations or has made payments for the company. 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 financial income/expense.

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 incurred for work performed up to the reporting date bear to the estimated total contract 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 trade receivables and PoC or within other financial liabilities. Effects in the period are recognised in the income statement as part of sales revenue.

Trade receivables and other current assets

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

Assets held for sale

Pursuant to IFRS 5, 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 taken directly to other comprehensive income and reported in equity under “Remeasurement of defined benefit plans”. 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.

Financial liabilities

Financial liabilities are recognised with their amortised costs using the effective interest rate 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 under 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. When determining the recoverable amount of property, plant and equipment, the estimation of the relevant useful life is subject to uncertainty. 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. Uncertain tax assets and liabilities are recognised if their probability of occurrence exceeds 50 %. For the reporting, the best estimate is based on the expected tax payment. 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 within a planning horizon of normally five years 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. An operating cycle of more than 12 months typically applies to made-to-order production (construction contracts).

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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at 1 January	58,279	56,046	103,019	99,785	8,543	2,733	**169,841**	**158,564**
Changes in consolidated Group	–	2	–122	524	–	–	**–122**	**526**
Currency translation adjustments	–717	1,047	525	2,710	–	–	**–192**	**3,757**
Other	–15	–15	–11	–	–	–	**–26**	**–15**
Additions	2,785	1,583	–	–	5,527	5,812	**8,312**	**7,395**
Addition from business combination	40	22	499	–	–	–	**539**	**22**
Disposals	584	248	–	–	3,600	2	**4,184**	**250**
Reclassifications	1,920	7	–	–	–1,920	–	**–**	**7**
Reclassification to assets held for sale	–	–165	–	–	–	–	**–**	**–165**
Balance at 31 December	61,708	58,279	103,910	103,019	8,550	8,543	**174,168**	**169,841**
Accumulated depreciation and amortisation	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at 1 January	48,161	43,789	10,239	3,473	–	–	**58,400**	**47,262**
Currency translation adjustments	–438	580	–14	12	–	–	**–452**	**592**
Other	–8	–15	–10	–	–	–	**–18**	**–15**
Additions	3,838	4,197	10,846	6,754	–	–	**14,684**	**10,951**
Disposals	521	225	–	–	–	–	**521**	**225**
Reclassifications	–	–	–	–	–	–	**–**	**–**
Reclassification to assets held for sale	–	–165	–	–	–	–	**–**	**–165**
Balance at 31 December	51,032	48,161	21,061	10,239	–	–	**72,093**	**58,400**
Carrying amount at 31 December	**10,676**	**10,118**	**82,849**	**92,780**	**8,550**	**8,543**	**102,075**	**111,441**

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 € 9.3 million (previous year: € 8.6 million) of software including software licences valid for a limited period. There are no restrictions on ownership or use.

The carrying amounts of the cash-generating units in connection with the impairment testing of goodwill do not contain any items relating 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 1.5 % in the year under review (previous year: 2.1 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 1.03 (previous year: 1.06). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU). We applied growth rates of between 0.75 % and 1.25 % (previous year: between 0.50 % and 1.25 %).

DISCOUNT RATES

Before taxes in % (value in use)	2015	2014
Companies in Germany	9.6 – 9.8	10.7 – 11.0
Companies in the Netherlands	9.3	10.2
Companies in Italy	13.7 – 14.3	14.8 – 15.7
Companies in the USA	10.4	11.8
Companies in South Africa	13.8	14.2
Companies in the rest of Europe	8.9 – 15.4	9.8 – 15.2

After taxes in % (fair value less costs to sell)	2015	2014
Companies in South Korea	8.3	9.1

GOODWILL

Name of CGU / (€ thousands)	31 Dec. 2015	31 Dec. 2014
KSB Seil Co., Ltd., South Korea	27,188	26,285
DP industries B.V., the Netherlands	18,285	18,285
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	5,689
REEL s.r.l., Italy	5,526	9,681
KSB SERVICE MEDIATEC S.A.S., France	–	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
KSB Finland Oy, Finland	2,468	1,764
KSB Pumps (S.A.) (Pty) Ltd., South Africa	1,755	2,120
KSB SERVICE ETC S.A.S., France	1,412	1,412
	68,453	**77,154**
Other 17 (previous year: 21) companies	14,396	15,626
Total	**82,849**	**92,780**

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 (€ thousands)
REEL s.r.l., Italy	Pumps	13.9 %	8,367	4,155
KSB SERVICE MEDIATEC S.A.S., France	Service	13.4 %	1,058	3,179
KSB Service Centre-Est S.A.S., France	Service	11.7 %	1,425	2,609
KSB Service Est S.A.S., France	Service	12.1 %	2,546	903
Total 31 Dec. 2015				**10,846**
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 31 Dec. 2014				**6,754**

The recognised impairments were due to continuing economic difficulties and were reported in the income statement under the “Impairment losses on intangible assets and property, plant and equipment” item.

DETAILED INFORMATION ON KEY GOODWILL ITEMS

Cash-generating unit	Method	Carrying amount of goodwill (€ million)	Percentage of total goodwill	Discount rate	Growth 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 of € 250 thousand)	27.2	33 %	8.3 % after taxes	1.00	▪ 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	22 %	9.3 % before taxes	1.25	▪ Greater customer focus ▪ Moderate to significant 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	5.5	7 %	13.9 % before taxes	0.75	▪ Greater customer focus ▪ Improved energy efficiency, resulting in more attractive market growth rates	Consideration of external market data and macroeconomic environment

For the annual impairment test, the following assumptions on order intake figures, sales revenue and operating result are made for goodwill considered material:

Cash-generating unit	Order intake	Sales revenue	EBIT	Planning time horizon
KSB Seil Co., Ltd.	Strong growth, on average	Strong growth, on average	Strong growth, on average, as a result of sales revenue and cost planning	7 years
DP industries B.V.	Significant growth, on average	Significant growth, on average	Moderate growth, on average, as a result of sales revenue and cost planning	5 years
REEL s.r.l.	Strong growth, on average	Strong growth, on average	Strong growth, on average, as a result of sales revenue and cost planning	5 years

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 of the South Korean KSB Seil Co., Ltd., 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 well as impairment testing, sensitivity analyses are conducted for each cash-generating unit. A 5 % increase in the relevant discount rate or a 0.25 percentage point lower growth rate would require further write-downs of € 0.5 million or € 0.1 million respectively at REEL s.r.l. (Italy). Moreover, the sensitivity analysis regarding the impact of a 10 % fall in sales revenue, with a corresponding reduction in EBIT, would have shown the need for a further write-down of € 3.8 million at REEL s.r.l., Italy.

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

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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at 1 January	332,531	313,360	528,014	494,511	205,681	193,236	34,359	8,992	**1,100,585**	**1,010,099**
Changes in consolidated Group	–104	–	–70	67	–35	146	–	2	**–209**	**215**
Currency translation adjustments	815	8,384	3,601	13,582	–163	4,645	2,523	1,620	**6,776**	**28,231**
Other	–	–826	60	–6	–20	149	–	–33	**40**	**–716**
Additions	7,717	9,436	19,939	19,196	19,170	16,880	27,669	32,157	**74,495**	**77,669**
Addition from business combination	134	–	78	–	–	48	–	–	**212**	**48**
Disposals	12	348	5,242	3,943	13,519	9,515	41	1,079	**18,814**	**14,885**
Reclassifications	3,514	2,525	5,496	4,607	1,709	161	–10,719	–7,300	**–**	**–7**
Reclassification to assets held for sale	–122	–	–668	–	–73	–69	–	–	**–863**	**–69**
Balance at 31 December	344,473	332,531	551,208	528,014	212,750	205,681	53,791	34,359	**1,162,222**	**1,100,585**
Accumulated depreciation and amortisation	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at 1 January	136,542	125,694	345,201	311,939	143,034	129,605	–	–	**624,777**	**567,238**
Currency translation adjustments	1,571	3,112	2,876	8,064	–454	3,116	–	–	**3,993**	**14,292**
Other	–	–18	20	–81	–13	202	–	–	**7**	**103**
Additions	8,542	7,797	30,298	28,389	19,321	19,067	–	–	**58,161**	**55,253**
Disposals	–	43	4,831	3,430	13,035	8,603	–	–	**17,866**	**12,076**
Reclassifications	–	–	–479	320	479	–320	–	–	**–**	**–**
Reclassification to assets held for sale	–89	–	–531	–	–61	–33	–	–	**–681**	**–33**
Balance at 31 December	146,566	136,542	372,554	345,201	149,271	143,034	–	–	**668,391**	**624,777**
Carrying amount at 31 December	**197,907**	**195,989**	**178,654**	**182,813**	**63,479**	**62,647**	**53,791**	**34,359**	**493,831**	**475,808**

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 € 2,277 thousand (previous year: € 2,644 thousand), of which € 1,260 thousand (previous year: € 1,347 thousand) relate to land and buildings, € 113 thousand (previous year: € 133 thousand) to plant and machinery and € 904 thousand (previous year: € 1,164 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 was not possible until September 2015 despite various sales activities. The carrying amount was € 1,185 thousand.

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 were presented as a disposal group held for sale as at 31 December 2014. 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 were included in other comprehensive income.

Within the scope of our "Streamlining the Group structure" project, we identified a subsidiary in the Service segment whose business operations we sold in February 2016. In accordance with IFRS 5, we therefore treat the relevant assets and liabilities as a disposal group held for sale as at 31 December 2015. 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. 2015	31 Dec. 2014
Property, plant and equipment	182	36
Inventories	199	429
Receivables and other current assets	423	420
Cash and cash equivalents	130	164
Assets held for sale	**934**	**1,049**

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Provisions	105	63
Liabilities	193	146
Liabilities held for sale	**298**	**209**

As in the previous year, no property, plant and equipment 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 intangible assets and items of property, plant and equipment resulted in book gains of € 2,769 thousand (previous year: € 3,646 thousand) and book losses of € 3,258 thousand (previous year: € 578 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. 2015	31 Dec. 2014
Other investments	5,074	3,941
Non-current financial instruments	668	661
Loans	2,219	2,718
	7,961	**7,320**

Other investments are investments in non-consolidated affiliates that were not consolidated due to there being no material impact.

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

4 Investments accounted for using the equity method

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 management, 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. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Non-current assets	3,687	2,824	96,312	92,273
Current assets	38,835	31,805	74,975	50,354
of which cash and cash equivalents	1,149	353	6,771	3,065
Non-current liabilities	– 1,976	– 736	– 11,451	– 45,013
of which non-current financial liabilities (excluding trade payables and provisions)	– 942	–	–	– 40,693
Current liabilities	– 20,185	– 20,278	– 121,574	– 60,583
of which current financial liabilities (excluding trade payables and provisions)	– 4,439	– 5,905	– 18,867	– 7,914
Net assets	**20,361**	**13,615**	**38,262**	**37,031**

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
(€ thousands)	**2015**	**2014**	**2015**	**2014**
Sales revenue	45,896	39,460	51,856	33,998
Depreciation / amortisation	299	127	3,145	9,519
Interest income	1	3	15	12
Interest expense	– 159	– 80	– 3,084	– 1,722
Earnings from continuing operations	7,967	4,378	238	186
Taxes on income	– 575	– 1,998	– 1,513	– 70
Earnings after taxes from continuing operations	**7,392**	**2,380**	**– 1,276**	**116**
Earnings after taxes from discontinued operations	–	–	–	–
Other comprehensive income	1,760	1,611	2,507	3,605
Comprehensive income	**9,152**	**3,991**	**1,231**	**3,721**
Dividends received from joint ventures	**1,203**	**257**	**–**	**–**

RECONCILIATION TO CARRYING AMOUNT OF GROUP SHARE IN JOINT VENTURES

	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
(€ thousands)	**2015**	**2014**	**2015**	**2014**
Net carrying amount at 1 January	13,615	10,137	37,031	33,310
Earnings after income taxes	7,392	2,380	– 1,276	116
Distribution of dividends	– 2,406	– 513	–	–
Other comprehensive income	1,760	1,611	2,507	3,605
Net carrying amount at 31 December	**20,361**	**13,615**	**38,262**	**37,031**
Investment in joint venture (50 % / 45 %)	10,181	6,807	17,218	16,664
Elimination of intercompany profit and loss	–	–	– 2,420	– 1,891
Goodwill	–	–	–	–
Carrying amount at 31 December	**10,181**	**6,807**	**14,798**	**14,773**

SUMMARISED INFORMATION ON JOINT VENTURES THAT ARE IMMATERIAL INDIVIDUALLY

(€ thousands)	Joint ventures 2015	Associates 2015	Total 2015	Joint ventures 2014	Associates 2014	Total 2014
Group share of earnings from continuing operations	679	525	**1,204**	132	547	**679**
Group share of other comprehensive income	305	–	**305**	290	–	**290**
Group share of comprehensive income	984	525	**1,509**	422	547	**969**
Total carrying amounts of Group shares in these companies	**3,148**	**1,108**	**4,256**	**5,087**	**1,334**	**6,421**

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.

As in the previous year, there are no pro rata losses that have not been recognised from the consolidation at equity.

5 Inventories

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Raw materials, consumables and supplies	163,123	161,789
Work in progress	163,716	149,056
Finished goods and goods purchased and held for resale	115,027	115,961
Advance payments	12,545	23,020
	454,411	**449,826**

€ 61,508 thousand (previous year: € 67,990 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the reporting period amount to € 7,125 thousand (previous year: € 2,601 thousand). Due to new estimates, we reversed write-downs totalling € 1,905 thousand (previous year: € 4,295 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 968,817 thousand (previous year: € 875,366 thousand) were recognised as an expense in the reporting period.

6 Trade receivables and PoC as well as other financial and non-financial assets

(€ thousands)	31 Dec. 2015	31 Dec. 2014*
Trade receivables and PoC	**663,740**	**614,201**
Trade receivables	524,610	496,018
Trade receivables from other investments, associates and joint ventures	36,193	30,459
thereof from other investments	8,316	6,820
thereof from associates	330	272
thereof from joint ventures	27,547	23,367
Receivables recognised by PoC	102,937	87,724
Receivables recognised by PoC (excl. advances received from customers PoC)	185,605	166,527
Advances received from customers (PoC)	– 82,668	– 78,803
Other financial assets	**156,169**	**190,160***
Receivables from loans to other investments, associates and joint ventures	3,189	2,542
Currency forwards	1,978	2,369
Other receivables and other current assets	151,002	185,249*
Other non-financial assets	**25,200**	**33,509**
Other tax assets	18,210	27,013
Deferred income	6,990	6,496

* Adjustment due to the reclassification of cash and cash equivalents with a maturity of more than three months to other financial assets in the amount of € 154,121 thousand

Impairment losses on trade receivables amount to € 35,560 thousand (previous year: € 35,905 thousand) and on trade receivables from other investments to € 3,644 thousand (previous year: € 3,181 thousand). No impairment losses were recognised on receivables from joint ventures, like in the previous year, and on receivables from associates (previous year: € 341 thousand).

Construction contracts under IAS 11 include recognised earnings of € 44,920 thousand (previous year: € 38,253 thousand) and costs of € 140,685 thousand (previous year: € 128,274 thousand). Sales revenue in accordance with IAS 11 amounts to € 498,435 thousand (previous year: € 561,940 thousand).

Other receivables and other current assets include hedges of credit balances prescribed by law for partial retirement arrangements and long-term working time accounts of the German Group companies in the amount of € 15,501 thousand (previous year: € 15,268 thousand).

€ 31,950 thousand (previous year: € 38,592 thousand) of all receivables and other assets is due after more than one year.

7 Cash and cash equivalents

Cash and cash equivalents are term deposits with short maturities and call deposits, and also current account balances. With regard to the adjustment of the previous year's figures, reference is made to the previous explanations on "Adjustments under IAS 8".

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 include currency translation adjustments, consolidation effects, remeasurements of defined benefit plans under IAS 19 and changes in the market value of interest rate derivatives taken directly to equity. These effects resulted in deferred tax assets in the amount of € 61,762 thousand (previous year, adjusted: € 68,238 thousand) and no deferred tax liabilities (previous year: € 448 thousand).

A total of € 15,111 thousand (dividend of € 8.50 per ordinary share and € 8.76 per preference share) was paid from equity by resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 6 May 2015.

Non-controlling interests relate primarily to the interests held by PAB GmbH, Frankenthal, 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

Sufficient financial independence is a key requirement for safeguarding KSB's continued existence in the long term. Obtaining the necessary funds for ongoing business operations is also extremely important for us. A key management parameter for us is the net financial position, which is the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash and cash equivalents, and receivables from cash deposits). Our long-term objective is to avoid net debt. We regularly monitor

the development of this key performance indicator and manage it through active working capital management and by constantly optimising our financial structure, among other things. In the financial year we exceeded our original target of € 180–190 million and achieved € 211.3 million, based on successes in working capital management and a focused investment policy. In the previous year, owing to the fall in earnings accompanied by a sharp increase in investment volume, the development of the net financial position, at € 185.5 million, was somewhat weaker than planned twelve months earlier (€ 200 million).

9 Provisions

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

	31 Dec. 2015			31 Dec. 2014		
Changes (€ thousands)	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Employee benefits	**614,869**	541,256	73,613	**614,829**[1, 2]	539,438[1]	75,391[2]
Pensions and similar obligations	526,033	526,033	–	524,569[1]	524,569[1]	–
Other employee benefits	88,836	15,223	73,613	90,260[2]	14,869	75,391[2]
Other provisions	100,829	1,379	99,450	97,796[3]	1,133[4]	96,663[3, 4]
Warranty obligations and contractual penalties	52,234	–	52,234	45,360	–[4]	45,360[4]
Provisions for restructuring	3,372	–	3,372	7,893	–	7,893
Miscellaneous other provisions	45,223	1,379	43,844	44,543[3]	1,133	43,410[3]
	715,698	**542,635**	**173,063**	**712,625**[1, 2, 3]	**540,571**[1, 4]	**172,054**[2, 3, 4]

[1] Correction under IAS 8: Measurement of the pension obligations in France and India in the amount of € 9,912 thousand

[2] Adjustment due to the reclassification of accumulated compensated absence and holiday pay entitlements of € 23,201 thousand to other non-financial liabilities (liabilities relating to social security and liabilities to employees) and correction of the measurement of the pension obligations in India in the amount of € 468 thousand

[3] Adjustment due to the reclassification of income tax liabilities to current income tax liabilities in the amount of € 3,304 thousand and the reclassification of other tax liabilities to miscellaneous other provisions in the amount of € 854 thousand

[4] Adjustment due to the reclassification of warranty obligations and contractual penalties from non-current to current provisions in the amount of € 15,121 thousand

Individual categories of provisions developed as follows in the 2015 financial year:

Changes (€ thousands)	1 Jan. 2015	Changes in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2015
Employee benefits	614,829[1, 2]	545	– 81,992	– 22,560	104,047	614,869
Pensions and similar obligations	524,569[1]	3,540	– 17,036	– 20,073	35,033	526,033
Other employee benefits	90,260[2]	– 2,995	– 64,956	– 2,487	69,014	88,836
Other provisions	97,796[3]	381	– 53,719	– 10,283	66,654	100,829
Warranty obligations and contractual penalties	45,360	666	– 24,946	– 3,692	34,846	52,234
Provisions for restructuring	7,893	125	– 1,415	– 3,311	80	3,372
Miscellaneous other provisions	44,543[3]	– 410	– 27,358	– 3,280	31,728	45,223
	712,625[1, 2, 3]	**926**	**– 135,711**	**– 32,843**	**170,701**	**715,698**

[1] Correction under IAS 8: Measurement of the pension obligations in France and India in the amount of € 9,912 thousand
[2] Adjustment due to the reclassification of accumulated compensated absence and holiday pay entitlements of € 23,201 thousand to other non-financial liabilities (liabilities relating to social security and liabilities to employees) and correction of the measurement of the pension obligations in India in the amount of € 468 thousand
[3] Adjustment due to the reclassification of income tax liabilities to current income tax liabilities in the amount of € 3,304 thousand and the reclassification of other tax liabilities to miscellaneous other provisions in the amount of € 854 thousand
[4] Adjustment due to the reclassification of warranty obligations and contractual penalties from non-current to current provisions in the amount of € 15,121 thousand
* 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 € 25,866 thousand (previous year: € 26,383 thousand). € 8,546 thousand (previous year: € 7,512 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 France, India, 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). Pension benefits are paid in annual instalments of one tenth of the amount. However, under certain conditions it is also possible to make a capital payment or pay a monthly pension instead.

Pension schemes in France are governed by the provisions of the respective collective agreements. The obligations are basically covered by assets that have been paid in to an external fund. At the beginning of the final quarter of each year, an actuarial report is prepared to calculate the current obligation. If there is a shortfall, a compensation payment is made to the fund. Differences in the calculation parameters under local and international law ultimately result in a surplus of obligations in the Group. Upon retirement, the employees concerned receive a one-off payment from the fund.

The defined benefit plans in the Indian companies of the KSB Group encompass benefits for pensions and for severance payments. The obligations from pension plans are limited to heads of department and higher-level employees. A further prerequisite for participation in the scheme is that employees must have been with the company for at least ten years. A stipulated monthly payment is made during retirement based on the level of seniority reached and the number of years served with the company. The severance payment plans are statutory in character and cover all employees. Entitlement to payment is based on employees having been with the company for at least five years. Upon leaving the company, employees receive a one-off payment comprising a certain number of days' salary per year of employment, depending on the level of seniority and length of service.

In Austria pension commitments to employees are paid on the basis of statutory regulations. The benefits granted are paid on a monthly basis.

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; from this point a monthly payment is made to the beneficiaries. The pension benefits are financed by external funds.

Pension obligations in Switzerland are predominantly based on statutory obligations. This also includes details on a minimum pension which all employees with uninterrupted contributions are entitled to by law. The employer is therefore required to pay in contributions which are

high enough for the respective pension fund or insurance company to pay out these minimum amounts. 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. The retirement benefits are paid out in monthly instalments, but all employees have the option to receive a (partial) capital payment.

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 2014 figures presented in this section have been adjusted in line with the correction to the obligations in France and India, where relevant.

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

(€ thousands)	Defined benefit obligations (DBOs) 31 Dec. 2015	Fair value of plan assets 31 Dec. 2015	Net liability from defined benefit plans 31 Dec. 2015	Defined benefit obligations (DBOs) 31 Dec. 2014	Fair value of plan assets 31 Dec. 2014	Net liability from defined benefit plans 31 Dec. 2014
Germany	502,739	–	502,739	503,349	–	503,349
France	13,098	6,918	6,180	13,986	6,527	7,459
India	7,979	5,411	2,568	7,063	4,306	2,757
Austria	2,834	–	2,834	3,057	–	3,057
USA	15,168	11,293	3,875	13,633	10,582	3,051
Switzerland	17,439	15,740	1,699	14,776	12,792	1,984
Other countries	30,120	23,982	6,138	26,631	23,719	2,912
Balance sheet values	**589,377**	**63,344**	**526,033**	**582,495**	**57,926**	**524,569**

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

(€ thousands)	2015	2014
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	**582,495**	**457,817**
Current service cost	16,504	13,524
Interest cost	13,874	16,383
Employee contributions	6,574	5,421
Remeasurements		
–/+ Gain/loss from the change in demographic assumptions	587	405
–/+ Gain/loss from the change in financial assumptions	–16,260	109,434
–/+ Experience-based gain/loss	–2,804	–6,934
Benefit payments	–18,231	–17,179
Past service cost (incl. effects of settlements and curtailments)	–1,343	–42
Transfer of assets	397	–
Currency translation adjustments	3,754	3,684
Changes in consolidated Group/ Other	3,830	–18
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	**589,377**	**582,495**

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 € 19,820 thousand (previous year: € 18,386 thousand).

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

(€ thousands)	2015	2014
Opening balance of the plan assets measured at fair value – 1 Jan.	**57,926**	**52,885**
Interest income	2,297	2,375
Remeasurements		
+/– Gain/loss from plan assets excluding amounts already recognised in interest income	–390	1,075
Contributions by the employer	2,485	2,362
Contributions by the beneficiary employees	871	405
Currency translation adjustments	2,945	2,945
Changes in consolidated Group	–	–
Paid benefits	–3,259	–3,623
Other	469	–498
Closing balance of the plan assets measured at fair value – 31 Dec.	**63,344**	**57,926**

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

The changes in the net liability from defined benefit plans are as follows:

(€ thousands)	2015	2014
Opening balance of the net liability from defined benefit plans – 1 Jan.	**524,569**	**404,932**
Current service cost	16,504	13,524
Interest income	–2,297	–2,375
Interest cost	13,874	16,383
Employee contributions	5,703	5,016
Contributions by the employer	–2,485	–2,362
Contributions by the beneficiary employees	–871	–405
Remeasurements		
–/+ Gain/loss from plan assets excluding amounts already recognised in interest income	390	–1,075
–/+ Gain/loss from the change in demographic assumptions	587	405
–/+ Gain/loss from the change in financial assumptions	–16,260	109,434
–/+ Experience-based gain/loss	–2,804	–6,934
Benefit payments	–14,972	–13,556
Past service cost (incl. effects of settlements and curtailments)	–1,343	–42
Transfer of assets	397	–
Currency translation adjustments	809	739
Changes in consolidated Group/ Other	3,361	480
Closing balance of the net liability from defined benefit plans – 31 Dec.	**526,033**	**524,569**

Composition of plan assets:

(€ thousands)	Quoted market price in an active market 31 Dec. 2015	No quoted market price in an active market 31 Dec. 2015	Total 31 Dec. 2015	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
Equity instruments (shares)	20,769	–	20,769	17,043	–	17,043
Debt instruments (loans)	21,825	–	21,825	16,080	–	16,080
Government bonds	8,338	–	8,338	6,259	–	6,259
Corporate bonds	13,487	–	13,487	9,821	–	9,821
Money market investments	338	–	338	7,526	–	7,526
Real estate	843	–	843	670	–	670
Insurance contracts	–	16,409	16,409	–	13,405	13,405
Bank credit balances	2,253	–	2,253	2,731	–	2,731
Other investments	551	356	907	150	321	471
Total	**46,579**	**16,765**	**63,344**	**44,200**	**13,726**	**57,926**

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

The actual income from plan assets amounted to € 1,907 thousand (previous year: € 3,450 thousand).

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

	Discount rate		Assumed rate of salary increase		Assumed rate of pension increase	
in %	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Germany	2.3	2.2	2.7	2.7	1.9	2.0
France	2.0	1.5	3.0	3.0	–	–
India	8.0	8.0	7.5	7.5	1.0	1.0
Austria	2.0	2.0	2.5	2.5	1.0	1.0
USA	4.1	3.6	2.3	2.3	2.3	2.3
Switzerland	0.7	0.9	1.0	1.0	1.0	1.0
Other countries	0.9 – 9.7	1.3 – 9.0	1.0 – 11.0	1.0 – 8.0	1.0 – 3.0	1.0 – 3.0

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. As in the previous year the basis for the calculation of the sensitivities is the same method which was used for the calculation of the provisions for pensions and similar obligations.

Were the discount factor to increase by 100 basis points, the DBO would fall by € 95 million (previous year: € 97 million). A 100 basis point reduction in the discount factor would increase the DBO by € 126 million (previous year: € 130 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 € 22 million (previous year: € 24 million).

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

On 31 December 2015 the weighted average term of the DBO was 22 years (previous year: 20 years). The following table shows the pension benefit payments expected over the coming years.

€ millions at 31 Dec. 2015	2016	2017	2018	2019	2020
Expected payments	20,417	22,284	21,314	21,105	21,151

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

Other employee benefits

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

Other provisions

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 provisions for restructuring recognised in the previous year 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.

The miscellaneous other provisions include provisions for anticipated losses from uncompleted transactions and onerous contracts (€ 1,298 thousand for 2015 and € 1,179 thousand for 2014), customer bonuses and environmental protection measures. They also cover risks of litigation and legal proceedings if the recognition criteria for a provision are met (€ 11.1 million; previous year: € 6.7 million). These are usually risks arising from legal disputes in relation to operations 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 relation to operations in the amount of € 73.6 million (previous year: € 42.9 million). Appropriate insurance policies in the amount of € 11.0 million (previous year: € 13.4 million) are in place to cover claims.

€ 18,790 thousand (previous year: € 16,253 thousand) of the other provisions are expected to become cash-effective after more than one year.

10 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Financial liabilities	**133,504**	**159,427**
Loan against borrower's note	122,371	139,766
Bank loans and overdrafts	10,069	18,203
Finance lease liabilities	954	1,185
Other	110	273

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Financial liabilities	**44,316**	**93,524**
Loan against borrower's note	–	35,000
Bank loans and overdrafts	42,739	56,774
Finance lease liabilities	436	525
Liabilities to other investments, associates and joint ventures	1,131	1,215
Other	10	10
Trade payables	**238,848**	**211,723**
Trade payables to third parties	236,879	209,808
Liabilities to other investments, associates and joint ventures	1,969	1,915
Other financial liabilities	**85,911**	**100,429 [1, 2]**
Advances received from customers (PoC)	49,418	46,980
Currency forwards	6,843	11,488
Interest rate swaps	745	888
Miscellaneous other financial liabilities	28,905	41,073 [1, 2]
Other non-financial liabilities	**179,139**	**164,936 [3]**
Advances received from customers	87,173	73,902
Social security and liabilities to employees	54,080	51,907 [3]
Tax liabilities (excluding income taxes)	19,884	20,837
Prepaid expenses	12,744	12,732
Investment grants and subsidies	5,258	5,558
Income tax liabilities	**10,082**	**3,304 [4]**

[1] Correction under IAS 8: Measurement of the pension obligations in India in the amount of € 40 thousand

[2] Correction under IAS 8: Purchase price liability of € 3,328 thousand in Sweden

[3] Adjustment due to the reclassification of accumulated compensated absence and holiday pay entitlements of € 23,201 thousand to other non-financial liabilities (liabilities relating to social security and liabilities to employees)

[4] Adjustment due to the reclassification of income tax liabilities to current income tax liabilities in the amount of € 3,304 thousand

In 2012, to safeguard liquidity in the medium term, KSB AG took the precaution of placing a 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. In the reporting year € 35.0 million was repaid upon maturity and € 17.5 million before maturity.

€ 102 million (previous year: € 155 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 € 3,778 thousand (previous year: € 7,804 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 (as in the previous year) relate to property, plant and equipment, € 180 thousand (previous year: € 3,178 thousand) to inventories, none (as in the previous year) to receivables and € 3,598 thousand (previous year: € 4,626 thousand) to other securities.

€ 93 thousand (previous year: € 2,117 thousand) of the liabilities were secured by land charges or similar rights in the reporting year under review.

The reported investment grants and subsidies largely comprise funding from the European Union and German entities for new buildings and development aid projects.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 3.03 % (previous year: 2.84 %). 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.

V. INCOME STATEMENT DISCLOSURES

11 Sales revenue

(€ thousands)	2015	2014
Revenue from the sale of goods and goods purchased and held for resale	2,086,660	1,957,445
Services sales revenue	248,171	224,294
	2,334,831	**2,181,739**

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.

12 Other income

(€ thousands)	2015	2014
Income from disposal of assets	2,769	3,646
Reversal of impairment losses on receivables	10,032	4,327
Currency translation gains	2,450	2,354
Income from the reversal of provisions	14,222	9,095
Miscellaneous other income	20,479	16,838
	49,952	**36,260**

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 € 2,846 thousand (previous year: € 3,675 thousand).

13 Cost of materials

(€ thousands)	2015	2014
Cost of raw materials, production supplies and of goods purchased and held for resale	888,152	816,936
Cost of purchased services	91,379	70,442
	979,531	**887,378**

14 Staff costs

(€ thousands)	2015	2014*
Wages and salaries	661,374	634,145*
Social security contributions and employee assistance costs	126,876	122,695
Pension costs	31,000	28,002
	819,250	**784,842***

* Correction under IAS 8: Measurement of the pension obligations in France and India in the amount of € – 629 thousand

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.

EMPLOYEES

	Average for the year		At reporting date	
	2015	2014	31 Dec. 2015	31 Dec. 2014
Wage earners	7,512	7,634	7,351	7,536
Salaried employees	8,364	8,329	8,415	8,284
	15,876	**15,963**	**15,766**	**15,820**
Apprentices	438	489	430	489
	16,314	**16,452**	**16,196**	**16,309**

The acquisition of service operations by KSB SERVICE COTUMER led to an increase of 134 in the average number of employees over the year and of 126 in the total number at the reporting date.

15 Other expenses

(€ thousands)	2015	2014
Losses from asset disposals	3,258	578
Losses from current assets (primarily impairment losses on receivables)	12,798	10,784
Currency translation losses	2,778	4,292
Other staff costs	28,253	36,584
Repairs, maintenance, third-party services	95,546	85,451
Selling expenses	90,658	84,840
Administrative expenses	94,038	94,048
Rents and leases	28,923	27,858
Miscellaneous other expenses	55,215	48,529
	411,467	**392,964**

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

16 Financial income / expense

(€ thousands)	2015	2014
Financial income	**7,682**	**6,497**
Income from equity investments	–	14
thereof from other investments	(–)	(14)
Interest and similar income	7,635	6,434
thereof from other investments	(76)	(60)
thereof from investments accounted for using the equity method	(12)	(15)
Other financial income	47	49
Financial expense	**– 22,360**	**– 24,668 [1, 2]**
Interest and similar expenses	– 19,414	– 22,795 [1]
thereof to other investments	(–)	(–)
Write-downs on other investments	– 2	– 1,758
Write-downs on investments accounted for using the equity method	– 2,700	–
Expenses from the remeasurement of financial instruments	– 178	– 71 [2]
Other financial expense	– 66	– 44
Income / expense from / to investments accounted for using the equity method	**4,373**	**1,582**
Financial income / expense	**– 10,305**	**– 16,589 [1, 2]**

[1] Correction under IAS 8: Measurement of the pension obligations in France and India in the amount of € – 316 thousand

[2] Correction under IAS 8: Purchase price liability of € – 71 thousand in Sweden

Interest and similar expenses include interest cost on pension provisions amounting to € 11,577 thousand (previous year, adjusted: € 14,008 thousand). The change in the financial income/expense is mainly due to higher income from investments accounted for using the equity method. Write-downs on investments accounted for using the equity method were attributable to a German joint venture that faced ongoing economic difficulties.

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)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Effective taxes	43,538	39,279	39,279
Deferred taxes	– 2,316	– 12,752	– 12,863
	41,222	**26,527**	**26,416**

€ 85 thousand (previous year: € 1,556 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 2,912 thousand (previous year: € 2,104 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Change in deferred tax assets	2,493	– 47,220	– 47,026
Change in deferred tax liabilities	1,015	– 1,263	– 441
Change in deferred taxes recognised in balance sheet	**3,508**	**– 48,483**	**– 47,467**
Change in deferred taxes taken directly to equity	– 5,983	34,857	33,730
Changes in consolidated Group / CTA* / Other	159	874	874
Deferred taxes recognised in income statement	**– 2,316**	**– 12,752**	**– 12,863**

* CTA = Currency translation adjustments

ALLOCATION OF DEFERRED TAXES

	Deferred tax assets			Deferred tax liabilities		
(€ thousands)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Non-current assets	**1,619**	**2,913**	**2,913**	**33,543**	**34,532**	**34,532**
Intangible assets	1,019	1,977	1,977	484	725	725
Property, plant and equipment	479	845	845	32,932	32,948	32,948
Non-current financial assets	121	91	91	127	859	859
Current assets	**59,132**	**54,330**	**54,330**	**54,236**	**50,848**	**50,848**
Inventories	52,413	47,840	47,840	94	1,144	1,144
Receivables and other current assets	6,719	6,490	6,490	54,142	49,349	49,349
Assets held for sale	–	–	–	–	355	355
Non-current liabilities	**82,244**	**86,592**	**83,623**	**222**	**182**	**182**
Provisions	82,055	86,259	83,290	183	112	112
Other liabilities	189	333	333	39	70	70
Current liabilities	**17,789**	**20,596**	**20,337**	**8,765**	**8,623**	**8,623**
Provisions	7,929	9,287	11,112	719	782	782
Other liabilities	9,860	11,309	9,225	8,046	7,841	7,841
Tax loss carryforwards	**7,303**	**4,583**	**4,583**	**–**	**–**	**–**
Gross deferred taxes – before offsetting	**168,087**	**169,014**	**165,786**	**96,766**	**94,185**	**94,185**
Offset under IAS 12.74	–83,727	–82,161	–79,127	–83,727	–82,161	–79,127
Net deferred taxes – after offsetting	**84,360**	**86,853**	**86,659**	**13,039**	**12,024**	**15,058**

As at the reporting date, deferred tax assets (after offsetting) of € 66,867 thousand (previous year: € 11,281 thousand) were recognised, arising from companies posting a loss in the financial year or previous year, 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)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Remeasurement of defined benefit plans	18,087	– 101,841	– 98,568
Taxes on income	– 5,454	31,003	29,876
Currency translation differences	1,158	38,834	38,834
Taxes on income	–	–	–
Changes in the fair value of financial instruments	3,077	– 11,534	– 11,534
Taxes on income	– 529	3,854	3,854
Other comprehensive income	**16,339**	**– 39,684**	**– 37,538**

As in the previous year, the introduction of new local taxes had no effects in the year under review. Changes in foreign tax rates led to a reduction in the total tax expense of € 591 thousand; they had no material impact on the total tax expense 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. No deferred tax liabilities were recognised for temporary differences of € 7,205 thousand (previous year: € 7,370 thousand) in relation to affiliates and associates as it is unlikely that these temporary differences will be reversed in the foreseeable future.

We did not recognise deferred tax assets from loss carryforwards amounting to € 49,641 thousand (previous year: € 43,452 thousand) because 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.

Deductible temporary differences for which no deferred tax assets had to be set up amounted to € 9,736 thousand (previous year: none).

RECONCILIATION OF INCOME TAXES

(€ thousands)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Earnings before income taxes (EBT)	93,392	72,836	72,594
Calculated income taxes on the basis of the applicable tax rate (30 % as in the previous year)	28,018	21,851	21,778
Differences in tax rates	– 331	2,284	2,267
Change in write-downs on deferred taxes on loss carry-forwards and unused tax loss carryforwards	2,357	882	882
Tax-exempt income	– 4,071	– 4,930	– 4,930
Non-deductible expenses	2,211	2,025	2,025
Impairment loss on goodwill	3,535	2,026	2,026
Prior-period taxes	2,827	548	548
Non-deductible foreign income tax	2,851	2,438	2,438
Investments accounted for using the equity method	– 306	371	371
Deferred taxes not recognised	2,181	–	–
Other	1,950	– 968	– 989
Current taxes on income	**41,222**	**26,527**	**26,416**
Current tax rate	44 %	36 %	36 %

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

18 **Earnings after income taxes – Non-controlling interests**

The net profit attributable to non-controlling interests amounts to € 13,259 thousand (previous year, adjusted: € 10,322 thousand) and the net loss attributable to non-controlling interests amounts to € 374 thousand (previous year: € 2,718 thousand). They relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India.

19 Earnings per share

		2015	2014*
Earnings after income taxes attributable to KSB AG shareholders	€ thousands	39,285	38,705*
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	**39,060**	**38,480***
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	**€**	**22.30**	**21.97***
Diluted and basic earnings per preference share	**€**	**22.56**	**22.23***

* Adjustment under IAS 8

VI. ADDITIONAL 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. 2015	Fair value 31 Dec. 2015	Carrying amount 31 Dec. 2014	Fair value 31 Dec. 2014
Non-current assets						
Other investments	n / a	Amortised cost	5,074	–	3,941	–
Non-current financial instruments	AfS	Fair value	668	668	661	661
Loans	LaR	Fair value / Amortised cost	2,219	2,219	2,718	2,718
Current assets						
Trade receivables	LaR	Fair value / Amortised cost	524,610	524,610	496,018	496,018
Trade receivables from other investments, associates and joint ventures	LaR	Fair value / Amortised cost	36,193	36,193	30,459	30,459
Receivables from loans to other invest-ments, associates and joint ventures	LaR	Fair value / Amortised cost	3,189	3,189	2,542	2,542
Receivables recognised by PoC, net	LaR	Fair value / Amortised cost	102,937	102,937	87,724	87,724
Currency forwards used as hedges	n / a	Fair value	1,978	1,978	2,369	2,369
Other receivables and other current assets	LaR	Fair value / Amortised cost	151,002	151,002	185,249*	185,249*
Cash and cash equivalents	LaR	Fair value / Amortised cost	273,136	273,136	278,552*	278,552*

* Adjustment due to the reclassification of cash and cash equivalents with a maturity of more than three months to other financial assets in the amount of € 154,121 thousand

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Measure-ment category	Initial / subsequent measurement	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2015	Carrying amount 31 Dec. 2014	Fair value 31 Dec. 2014
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	132,550	130,942	158,242	152,460
Finance lease liabilities	n / a	In accordance with IAS 17	954	982	1,185	1,201
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	43,880	43,880	92,999	92,999
Finance lease liabilities	n.a.	In accordance with IAS 17	436	446	525	538
Trade payables	FLAC	Fair value / Amortised cost	238,848	238,848	211,723	211,723
Advances received from customers (PoC)	FLAC	Fair value / Amortised cost	49,418	49,418	46,980	46,980
Interest rate swaps used as hedges	n / a	Fair value	745	745	888	888
Currency forwards used as hedges	n / a	Fair value	6,843	6,843	11,488	11,488
Miscellaneous other financial liabilities (purchase price liability)	FLAC	Fair value / Amortised cost	3,506	3,506	3,328 [1]	3,328 [1]
Miscellaneous other financial liabilities	FLAC	Fair value / Amortised cost	25,399	25,399	37,745 [2]	37,745 [2]
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	1,093,286	1,093,286	1,083,262	1,083,262
Available-for-sale financial instruments	AfS	Fair value	668	668	661	661
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	493,601	491,993	551,017 [1, 2]	545,235 [1, 2]

[1] Correction under IAS 8: Purchase price liability of € 3,328 thousand in Sweden
[2] Correction under IAS 8: Measurement of the pension obligations in India in the amount of € – 40 thousand

The fair value of the "Loans and receivables" measurement category changed by € 10,024 thousand in the reporting period (previous year: € 18,259 thousand), with the "Financial liabilities" category at amortised cost changing by € – 53,242 thousand (previous year, adjusted: € 3,809 thousand).

The carrying amount of financial assets measured at amortised cost, with the exception of non-current loans, approximates fair value. This is also the case for all financial liabilities shown on the balance sheet, with the exception of non-current financial liabilities. This is mainly due to the short maturities of these financial instruments.

The fair values of non-current financial liabilities 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 (level 1). The fair values of currency forwards and interest rate swaps are determined on the basis of input factors observable 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, as well as loans and receivables, 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 2015

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	668	–	–	668
Currency forwards	–	1,978	–	1,978
Financial liabilities recognised at fair value				
Currency forwards	–	6,843	–	6,843
Interest rate swaps	–	745	–	745
Loans and receivables measured at amortised cost				
Loans	–	2,219	–	2,219
Trade receivables	–	524,610	–	524,610
Receivables from other investments, associates and joint ventures	–	39,382	–	39,382
Receivables recognised by PoC (inc. advances received from customers PoC)	–	102,937	–	102,937
Other receivables and other current assets	–	151,002	–	151,002
Cash and cash equivalents	–	273,136	–	273,136
Financial liabilities measured at amortised cost				
Financial liabilities excluding finance lease liabilities	–	174,822	–	174,822
Trade payables	–	238,848	–	238,848
Advances received from customers (PoC)	–	49,418	–	49,418
Miscellaneous other financial liabilities	–	25,399	3,506	28,905

PRESENTATION OF HIERARCHY LEVELS 2014

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	661	–	–	**661**
Currency forwards	–	2,369	–	**2,369**
Financial liabilities recognised at fair value				
Currency forwards	–	11,488	–	**11,488**
Interest rate swaps	–	888	–	**888**
Loans and receivables measured at amortised cost				
Loans	–	2,718	–	**2,718**
Trade receivables	–	496,018	–	**496,018**
Receivables from other investments, associates and joint ventures	–	33,001	–	**33,001**
Receivables recognised by PoC (inc. advances received from customers PoC)	–	87,724	–	**87,724**
Other receivables and other current assets	–	185,249[1]	–	**185,249[1]**
Cash and cash equivalents	–	278,552[1]	–	**278,552[1]**
Financial liabilities measured at amortised cost				
Financial liabilities excluding finance lease liabilities	–	245,459	–	**245,459**
Trade payables	–	211,723	–	**211,723**
Advances received from customers (PoC)	–	46,980	–	**46,980**
Miscellaneous other financial liabilities	–	37,745[3]	3,328[2]	**41,073[2, 3]**

[1] Adjustment due to the reclassification of cash and cash equivalents with a maturity of more than three months to other financial assets in the amount of € 154,121 thousand

[2] Correction under IAS 8: Purchase price liability of € 3,328 thousand in Sweden

[3] Correction under IAS 8: Measurement of the pension obligations in India in the amount of € – 40 thousand

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. Specific contractual regulations formed the basis for calculating the Level 3 fair values of other financial liabilities measured at amortised cost.

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 2015

		From subsequent measurement				
(€ thousands)	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	7,635	–	–231	–1,658	–107	5,639
AfS	18	–	–	–2	–	16
FLAC	–7,314	–	–2,842	–	–	–10,156
	339	**–**	**–3,073**	**–1,660**	**–107**	**–4,501**

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
FLAC	–8,150	–	–161	–	–	–8,311
	–1,683	**15**	**2,173**	**–6,659**	**–**	**–6,154**

The interest presented is a component of financial income/expense. The effect from the application of the effective interest rate method is immaterial here as the interest expenses are virtually offset by the resulting interest income. The other gains and losses are partly reported in other income and other expenses.

The AfS measurement category resulted in a remeasurement value of € 0 thousand (previous year: gain of € 15 thousand), which was recognised directly in other comprehensive income and reported under "Change in the fair value of financial instruments" in equity. In the year under review, € 0 thousand (previous year: € 0 thousand) was withdrawn from equity or realised.

The amount of financial assets and liabilities subject to offsetting agreements is not material.

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. As in the previous year, these policies account for around 10 % of the Group's trade receivables in total. 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 ex-

amine 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)	2015	2014
Opening balance at 1 January	**35,905**	**30,337**
Additions	10,310	8,560
Utilised	–2,197	–1,821
Reversals	–8,990	–3,512
Changes in consolidated Group / CTA* / Other	532	2,341
Closing balance at 31 December	**35,560**	**35,905**

* CTA = Currency translation adjustments

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Receivables that are neither past due nor individually impaired	398,135	384,417
Receivables that are past due but not individually impaired		
1 to 30 days	44,810	48,025
31 to 90 days	32,146	32,596
91 to 180 days	10,289	11,297
> 180 days	11,622	11,438
Total	98,867	103,356
Receivables individually determined to be impaired	27,608	8,245
Receivables individually determined to be impaired at their principal amount	63,168	44,150
Specific write-downs	35,560	35,905
Carrying amount (net)	**524,610**	**496,018**

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 € 940 million (previous year: approx. € 958 million), of which € 627.7 million has not yet been utilised (previous year: € 627.8 million).

The following tables show the contractually agreed non-discounted future cash flows of the financial liabilities (primary financial instruments) and derivative financial instruments. 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. 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 2015

(€ thousands)	Total	Up to 1 year	1–5 years	>5 years
Financial liabilities	191,227	48,386	118,138	24,703
Trade payables	238,848	238,848	–	–
Miscellaneous other financial liabilities	28,905	26,610	2,295	–
Derivative financial instruments Outgoing payments	–1,877	–1,683	–194	–
Derivative financial instruments Incoming payments	7,487	5,542	1,881	64
	464,590	317,703	122,120	24,767

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	–
Miscellaneous other financial liabilities	41,073*	40,457*	616	–
Derivative financial instruments Outgoing payments	–2,622	–2,303	–319	–
Derivative financial instruments Incoming payments	12,687	10,925	1,716	46
	534,985*	360,135*	148,757	26,093

* Correction under IAS 8: Measurement of the pension obligations in India in the amount of € –40 thousand and purchase price liability of € 3,328 thousand in Sweden

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 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 (hypothetical derivative method). 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 € 253,980 thousand (previous year: € 234,998 thousand), and the notional volume of all interest rate derivatives was € 39,500 thousand (previous year: € 60,579 thousand). The contractual maturities of payments for currency forwards and interest rate derivatives are as follows:

NOTIONAL VOLUMES 2015

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards	253,980	236,311	17,448	221
Interest rate derivatives	39,500	–	39,500	–
	293,480	**236,311**	**56,948**	**221**

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**

Equity includes changes in the fair value of derivatives used to hedge future cash flows amounting to € – 5,026 thousand (previous year: € – 8,104 thousand). They changed as follows:

(€ thousands)	2015	2014
Opening balance at 1 January	– 8,104	3,446
Changes in consolidated Group / CTA* / Other	– 32	– 4
Disposals	5,552	– 2,079
Additions	– 2,442	– 9,467
Closing balance at 31 December	**– 5,026**	**– 8,104**

* CTA = Currency translation adjustments

The main currencies in the KSB Group are the Chinese yuan (CNY) and US dollar (USD). 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. In the reporting year, this would have amounted to approximately € 2.7 million for CNY, as in the previous year, and € 2.2 million (previous year: € 1.2 million) for USD.

	CNY 31 Dec. 2015	CNY 31 Dec. 2014	USD 31 Dec. 2015	USD 31 Dec. 2014
Trade receivables	€ 73.4 million	€ 69.8 million	€ 36.1 million	€ 24.2 million
Trade payables	€ 46.0 million	€ 43.2 million	€ 13.8 million	€ 12.2 million
Balance	**€ 27.4 million**	**€ 26.6 million**	**€ 22.3 million**	**€ 12.0 million**

Based on the measurement of derivatives, at the reporting date, equity and the fair value of the derivatives would have been € 8.5 million lower (higher), with € 6.4 million resulting from USD and € 2.1 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 13.2 million lower (higher), with € 10.6 million resulting from USD and € 2.6 million from 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 50 basis point increase (decrease) in market interest rates and analyse the impact on the floating rate financial instruments. In 2015, the net interest balance would have been € 1.8 million (previous year: € 1.9 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.3 (0.3) million (previous year: € 0.6 (0.6) 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 also cash flows arising from changes in investments in Group companies that are not fully consolidated and in financial liabilities.

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

VIII. SEGMENT REPORTING

Segment reporting is prepared in accordance with IFRS 8 based on the management approach and corresponds to our internal organisational and management structure as well as the reporting lines to the Board of Management as the chief operating decision maker. 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, excluding the effects from measuring construction contracts under IAS 11. 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** segment includes 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** segment covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. Applications primarily include process engineering, building services, energy conversion and solids transport.

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

Our companies can be allocated to one or more segments based on their business activities.

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 period under review, as in the comparative period of the previous year.

The **order intake** by segment presents order intake generated with third parties and non-consolidated Group companies.

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**) and **consolidated earnings before income 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)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014***
Pumps segment	1,452,431	1,524,126	1,513,977	1,437,920	55,389	56,343*
Valves segment	367,965	407,394	384,570	378,839	10,340	16,947
Service segment	440,783	389,702	413,618	373,824	36,157	28,757
Reconciliation	–	–	22,666	–8,844	3,285	–12,850
Total	**2,261,179**	**2,321,222**	**2,334,831**	**2,181,739**	**105,171**	**89,197***
				Financial income – Interest and similar income	7,635	6,434
				Financial expense – Interest and similar expenses	–19,414	–22,795*
				Earnings before income taxes (EBT)	**93,392**	**72,836***

* Adjustment under IAS 8

The EBIT of the Pumps segment includes depreciation and amortisation expense of € 50.9 million (previous year: € 44.7 million), the EBIT of the Valves segment includes depreciation and amortisation expense of € 12.6 million (previous year: € 11.5 million) and the EBIT of the Service segment includes depreciation and amortisation expense of € 12.0 million (previous year: € 11.7 million).

€ 620,238 thousand (previous year: € 604,449 thousand) of the sales revenue presented was generated by the companies based in Germany, € 261,769 thousand (previous year: € 251,267 thousand) was generated by the companies based in France, € 209,959 thousand (previous year: € 164,744 thousand) by the companies based in the USA, and € 1,242,865 thousand (previous year: € 1,161,279 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 € 513,057 thousand (previous year: € 494,469 thousand), with € 177,596 thousand (previous year: € 182,151 thousand) being attributable to the companies based in Germany and € 335,461 thousand (previous year: € 312,318 thousand) being attributable to the other Group companies. They include intangible assets, property, plant and equipment and investments accounted for using the equity method; non-current financial instruments and deferred tax assets are not included.

IX. OTHER DISCLOSURES

Contingent liabilities (contingencies and commitments)

CONTINGENT LIABILITIES AND COLLATERAL

(€ thousands)	2015	2014
Liabilities from guarantees	2,739	2,545
Liabilities from warranties	1,239	1,250
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	9,444	4,230
	13,422	**8,025**

Other contingent liabilities include € 928 thousand for tax items (previous year: € 607 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 € 5,989 thousand (previous year: € 5,697 thousand). The reported amount is the Group's share of contingent liabilities from joint ventures. Contingent liabilities relating to other investments total € 1,728 thousand (previous year: € 1,758 thousand). 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)	2015	2014
Due within 1 year	17,832	16,283
Due between 1 and 5 years	32,398	30,045
Due after more than 5 years	7,799	9,005
	58,029	**55,333**

In the year under review, € 16,283 thousand (previous year: € 14,955 thousand) was spent.

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

	Minimum lease payments		Present values	
(€ thousands)	2015	2014	2015	2014
Due within 1 year	446	538	436	526
Due between 1 and 5 years	818	1,028	803	1,015
Due after more than 5 years	164	173	151	169
	1,428	**1,739**	**1,390**	**1,710**

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 € 62,276 thousand (previous year: € 22,956 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 € 20,029 thousand (previous year: € 17,809 thousand). Almost all of the corresponding payments are due in 2016.

Research and development costs
Research and development costs in the year under review amounted to € 57,987 thousand (previous year: € 48,650 thousand). Some of these costs are contract costs under IAS 11.

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 attributable 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.

Related parties also include the non-consolidated subsidiary companies and joint ventures of Klein Pumpen GmbH, Frankenthal, and Kühborth Stiftung GmbH, Stuttgart, which holds 1 % of the shares in Klein Pumpen GmbH.

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)	2015	2014	2015	2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Top-level parent company KSB Stiftung [KSB Foundation]	1	–	–	–	–	–	–	–
Subsidiaries / associates / joint ventures of KSB Stiftung	–	–	–	–	–	–	–	–
Parent company Klein Pumpen GmbH	13	11	24	24	–	–	–	–
Subsidiaries of Klein Pumpen GmbH	–	3	520	2,374	–	130	–	128
Associates / joint ventures of Klein Pumpen GmbH	410	19	2,226	90	127	–	213	3
Other related parties	1	–	16	16	–	–	–	–

Further information on joint ventures and associates (related party disclosures) can be found in Section IV. Balance Sheet Disclosures – Notes No. 4 “Investments accounted for under the equity method”, 6 “Trade receivables and PoC as well as other financial and non-financial assets” and 10 “Liabilities”, and in Section IX. Other Disclosures – Contingent Liabilities.

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.

Transactions with subsidiaries of Klein Pumpen GmbH comprise transactions with Palatina Versicherungsservice GmbH, which provides services in the area of insurance. A rental and services agreement is in place between Palatina Versicherungsservice GmbH and KSB AG. The transactions with associates and joint ventures of Klein Pumpen GmbH basically comprise transactions with Abacus Experten GmbH, which has entered into several contracts for work with KSB AG, and with Abacus Resale GmbH, which trades in products. KSB AG has also agreed service agreements with Abacus alpha GmbH and Abacus Resale GmbH.

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. 2015	31 Dec. 2014
Short-term benefits (total remuneration)	1,289	1,427
Post-employment benefits	1,429	2,011
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	**2,718**	**3,438**

Based on the relevant legal provisions, the Annual General Meeting on 6 May 2015 resolved not to disclose the remuneration of the Board of Management separately for each member and classified by components. € 4,518 thousand (previous year: € 4,386 thousand) has been provided for pension obligations to current members of the Board of Management, and € 39,387 (previous year: € 41,861 thousand) to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,246 thousand in the year under review (previous year: € 2,232 thousand).

The short-term benefits (total remuneration) paid to members of the Supervisory Board amount to € 833 thousand for the 2015 financial year (previous year: € 944 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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, were appointed as auditors and group auditors for financial year 2015 at the Annual General Meeting of KSB AG on 6 May 2015; BDO AG Wirtschaftsprüfungsgesellschaft carried out this role in the previous year. The following fees (including expenses) were recognised as expenses.

(€ thousands)	2015	2014
Audit fees	348	412
Other certification services	10	2
Tax advisory services	–	–
Other services	54	36
Total fees	**412**	**450**

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, KSB Service GmbH, Schwedt and Uder Elektromechanik GmbH, Friedrichsthal, have made partial use of the exemption provision under section 264(3) of the *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	Dynamik-Pumpen GmbH, Stuhr	Germany	100.00	
2	KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	100.00	
3	KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	100.00	
4	KSB Service GmbH, Frankenthal	Germany	100.00	
5	KSB Service GmbH, Schwedt	Germany	100.00	
6	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	51.00	
7	PMS-BERCHEM GmbH, Neuss	Germany	100.00	
8	Pumpen-Service Bentz GmbH, Reinbek	Germany	100.00	
9	Uder Elektromechanik GmbH, Friedrichsthal	Germany	100.00	
	International			
10	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	100.00	27
11	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	100.00	
12	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	100.00	27
13	DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	26
14	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa	100.00	45
15	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	17
16	Hydroskepi GmbH, Amaroussion (Athens)	Greece	100.00	
17	KSB America Corporation, Richmond / Virginia	USA	100.00	6
18	KSB AMRI, Inc., Houston / Texas	USA	10.03	52
			89.97	17
19	KSB Australia Pty Ltd, Bundamba QLD	Australia	100.00	27
20	KSB Belgium S.A., Bierges-lez-Wavre	Belgium	100.00	27
21	KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	27
22	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	95.00	
23	KSB Chile S.A., Santiago	Chile	100.00	
24	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	95.00	27
			5.00	
25	KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	
26	KSB Finance Nederland B.V., Zwanenburg	The Netherlands	100.00	27
27	KSB FINANZ S.A., Echternach	Luxembourg	100.00	
28	KSB Finland Oy, Kerava	Finland	100.00	
29	KSB, Inc., Richmond / Virginia	USA	100.00	17
30	KSB Italia S.p.A., Milan	Italy	100.00	27
31	KSB ITUR Spain S.A., Zarautz	Spain	100.00	27
32	KSB Korea Ltd., Seoul	South Korea	100.00	
33	KSB Limited, Hong Kong	China	100.00	
34	KSB Limited, Loughborough	United Kingdom	100.00	27

No.	Name and seat of company	Country	Capital share in %	Held by No.
35	KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya	Malaysia	100.00	63
36	KSB Middle East FZE, Dubai	U.A.E.	100.00	27
37	KSB Mörck AB, Gothenburg	Sweden	55.00	
38	KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	26
39	KSB New Zealand Limited, Albany / Auckland	New Zealand	100.00	19
40	KSB Norge AS, Ski	Norway	100.00	
41	KSB Österreich Gesellschaft mbH, Vienna	Austria	100.00	27
42	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	100.00	27
43	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	52
44	KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	100.00	
45	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	50
46	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
47	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
48	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	27
49	KSB Pumps Limited, Pimpri (Pune)	India	40.54	11
50	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	27
51	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	100.00	
52	KSB S.A.S., Gennevilliers (Paris)	France	100.00	27
53	KSB Seil Co., Ltd., Busan	South Korea	100.00	
54	KSB Service Belgium S.A. / N.V., Bierges-lez-Wavre	Belgium	100.00	20
55	KSB Service Centre-Est S.A.S., Villefranche sur Saône	France	100.00	52
56	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	52
57	KSB Service Est S.A.S., Algrange	France	100.00	52
58	KSB SERVICE ETC S.A.S., Chalon-sur-Saône	France	100.00	61
59	KSB Service Italia S.r.l., Scorzè	Italy	100.00	30
60	KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône	France	100.00	61
61	KSB Service Robinetterie S.A.S., Rambervillers	France	100.00	52
62	KSB Shanghai Pump Co. Ltd., Shanghai	China	80.00	27
63	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
64	KSB Szivattyú és Armatura Kft., Budapest	Hungary	100.00	
65	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
66	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
67	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
68	KSB Valves (Shanghai) Co. Ltd., Shanghai	China	100.00	
69	KSB Válvulas Ltda., Jundiaí	Brazil	100.00	21
70	KSB VIET NAM CO., LTD., Long Thanh District	Vietnam	100.00	63
71	KSB Zürich AG, Zurich	Switzerland	100.00	
72	KSB SERVICE COTUMER, Déville lès Rouen	France	100.00	61
73	Metis Levage S.A.S., Villefranche sur Saône	France	100.00	52
74	MIL Controls Limited, Annamanada	India	49.00	49
			51.00	
75	OOO "KSB", Moscow	Russia	100.00	3
76	Precision Pump and Machine – KSB, Inc., Bakersfield / California	USA	100.00	17

No.	Name and seat of company	Country	Capital share in %	Held by No.
77	PT. KSB Indonesia, Cibitung, Jawa Barat	Indonesia	94.10	27
			5.90	
78	PUMPHUSET Sverige AB, Sollentuna	Sweden	100.00	37
79	REEL s.r.l., Ponte di Nanto	Italy	100.00	
80	Rotary Equipment Services Limited, Loughborough	United Kingdom	100.00	34
81	SISTO Armaturen S.A., Echternach	Luxembourg	52.85	27
82	SMEDEGAARD AG Pumpen und Motorenbau, Beinwil am See	Switzerland	100.00	87
83	Smedegaard Pumps Limited, Bridgwater	United Kingdom	100.00	34
84	Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen	France	100.00	72
85	SPI Energie S.A.S., La Ravoire	France	100.00	52
86	Standard Alloys Incorporated, Port Arthur / Texas	USA	100.00	17
87	T. Smedegaard A / S, Glostrup	Denmark	100.00	
88	VM Pumpar AB, Gothenburg	Sweden	100.00	37
89	VRS Valve Reconditioning Services B.V., Vierpolders	The Netherlands	100.00	38

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					
90	Nikkiso-KSB GmbH, Pegnitz	Germany	50.00		5,400	337
	International					
91	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	55.00	42	189	–
92	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	27	20,361	7,520
93	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		6,374	1,072
94	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		38,262	–1,286

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					
95	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		4,433	2,114

* 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						
96	gear-tec GmbH, Eggebek	Germany	51.00		260	–93	
	International						
97	IOOO "KSB BEL", Minsk	Belarus	98.10	75	513	241	
			1.90	3			
98	KSB Algérie Eurl, Dar El-Beida (Algier)	Algeria	100.00	27	741	229	■
99	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		341	72	■
100	KSB Pumps and valves L.t.d., Domžale	Slovenia	100.00		–69	9	■
101	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	27	12	–405	
102	KSB Ltd., Tokyo	Japan	100.00		–1,330	–242	
103	KSB Perú S.A., Lurin	Peru	100.00		692	–22	■
104	KSB PHILIPPINES, INC., Makati City	Philippines	100.00	63	–3	–78	
105	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	100.00	100	142	170	■
106	KSB pumpe i armature d.o.o., Zagreb	Croatia	100.00	100	–240	–227	■
107	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	33	1,803	187	
108	KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	70.00		85	–155	*
109	NINOMIT VPH-Tekniikka Oy, Oulu	Finland	100.00	28	327	169	
110	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	43	–427	–10	■
111	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	75	13	–65	
112	TOV "KSB Ukraine", Kiev	Ukraine	100.00	75	50	–51	

* 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 until 10 Sept. 2015)

Dr. Thomas Seeberg, Dipl.-Kfm., Icking [1)]
Former Managing Director of OSRAM GmbH
(Chairman of the Supervisory Board since 11 Sept. 2015)

Alois Lautner, Lathe Operator, Kirchenthumbach [2)]
Deputy Chairman of the Pegnitz Works Council
(Deputy Chairman of the Supervisory Board)

Dr. Martin Auer, Mannheim [3)]
Head of Corporate Legal, Compliance, Procurement and Logistic Services
MVV Energie AG

Dr.-Ing. Stephan Bross, Freinsheim [4)]
Head of Pumps Segment

Dr. Jörg Matthias Großmann, Dipl.-Kfm., Großhesselohe [5)]
Management / CFO
Freudenberg Chemical Specialities SE & Co. KG

Prof. Dr. Michael Hoffmann-Becking, Lawyer, Düsseldorf [6)]
(on the Supervisory Board until 6 May 2015)
Hengeler Mueller Partnerschaft von Rechtsanwälten

Prof. Dr. Dieter-Heinz Hellmann, Frankenthal [7)]
(on the Supervisory Board from 6 May 2015 to 31 Aug. 2015)
Chairman of the Board of Management of KSB Stiftung

Günter Koch, Dipl.-Wirtsch.-Ing., Ludwigshafen
Former Member of the Board of Management of Pfalzwerke AG, Ludwigshafen
(on the Supervisory Board since 8 Sept. 2015)

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

Wolfgang Kormann, Hand Moulder, Pegnitz
Member of the European Works Council,
Chairman of the Group Works Council,
Chairman of the Pegnitz Works Council

Birgit Mohme, Industrial Business Management Assistant, Frankenthal [8)]
(on the Supervisory Board since 1 Jan. 2015)
Trade Union Secretary of IG Metall Ludwigshafen-Frankenthal

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

Gabriele Sommer, Dipl.-Geol., Wörthsee [9)]
(on the Supervisory Board since 1 Jan. 2016)
Global Head of Human Resources TÜV SÜD AG

Dr. Jost Wiechmann, Auditor, Tax Accountant, Lawyer, Hamburg [10)]
(on the Supervisory Board until 31 Dec. 2015)
Partner at RBS RoeverBroennerSusat

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

1) Alte Leipziger Lebensversicherung a.G., Oberursel, Germany (until 9 May 2015)
Hallesche Krankenversicherung a.G., Oberursel, Germany (until 9 May 2015)
Alte Leipziger Holding AG, Oberursel, Germany (until 9 May 2015)
Member of the Board of Trustees of WTS-Stiftung für Altersversorgung, Munich, Germany

2) BKK advita, Alzey, Germany

3) Palatina Versicherungsservice GmbH, Frankenthal, Germany
MVV Energie CZ a.s., Prague, Czech Republic
Stadtwerke Ingolstadt Beteiligungs GmbH, Ingolstadt, Germany

4) Burckhardt Compression AG, Winterthur, Switzerland

5) 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

6) 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

7) Ecoliance Rheinland-Pfalz e.V., Germany

8) Deutsche Rentenversicherung Rheinland-Pfalz, Speyer, Germany

9) TÜV SÜD Industrie Service GmbH, Munich, Germany
TÜV SÜD Auto Service GmbH, Stuttgart, Germany

10) KVG Binnenalster AG, Hamburg, Germany

BOARD OF MANAGEMENT

Board of Management jointly:
Strategy and Regions

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

Werner Stegmüller, Mannheim[2)]
Responsibilities: Finance and Accounting, Controlling, Communications, Investor Relations, IT, Patents & Trademarks, Legal & Compliance, Internal Audits and the Service segment

Mandates of KSB AG's 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 Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps & 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

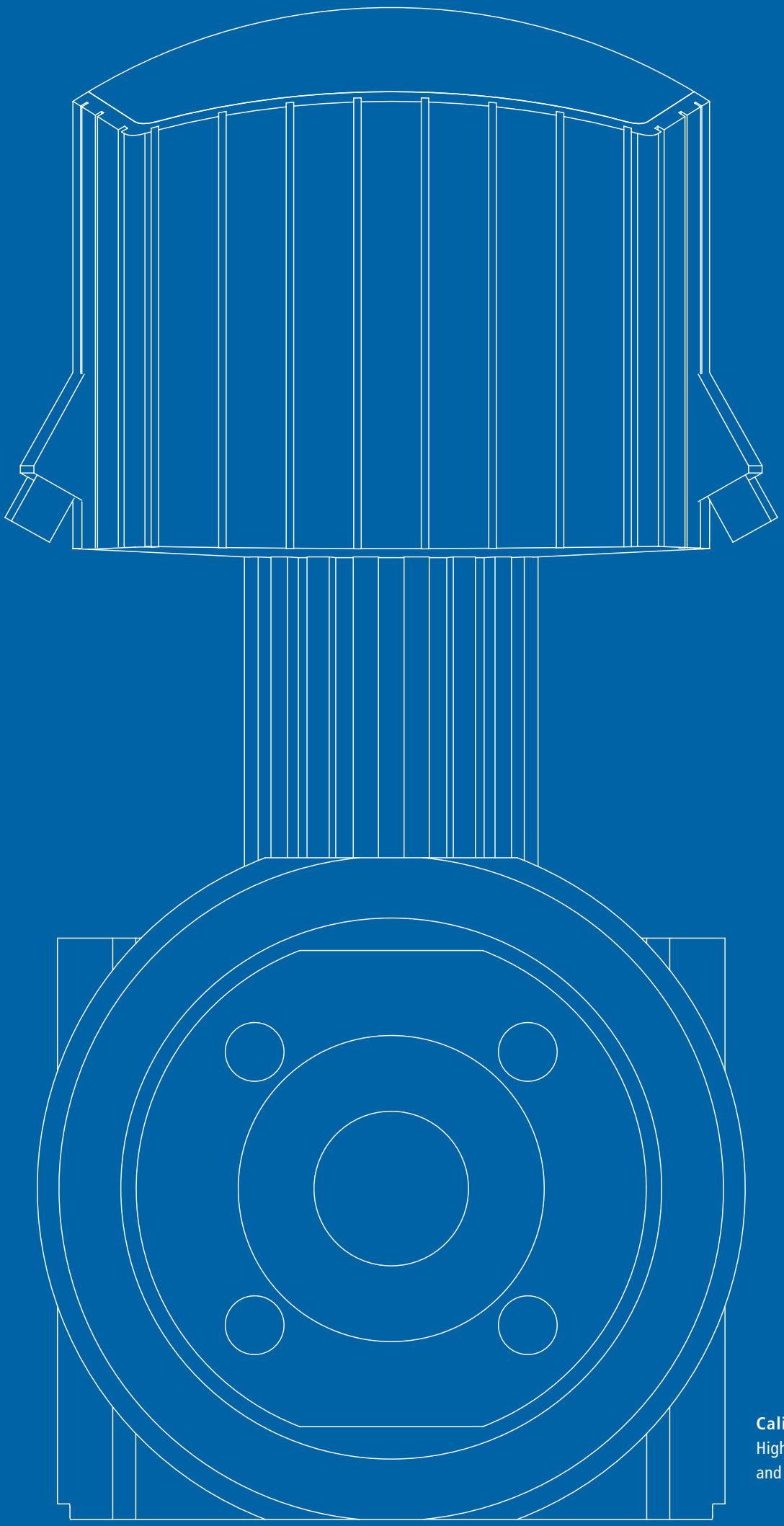
PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

We will propose to the Annual General Meeting on 11 May 2016 that the net retained earnings of € 9,857,123.62 of KSB AG be appropriated as follows:

Distribution of a dividend of € 5.50 per ordinary no-par-value share	€ 4,876,382.50
and, in accordance with the Articles of Association, € 5.76 per preference no-par-value share	€ 4,980,741.12

Frankenthal, 17 March 2016
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.



Calio
High-efficiency pump for heating and air-conditioning systems

5

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 2016

The Board of Management

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KSB Aktiengesellschaft, Frankenthal/Pfalz, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("*Handelsgesetzbuch*": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany) (IDW). 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 annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the 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 the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 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, 17 March 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Ralf Worster
Wirtschaftsprüfer

ppa. Christina Pöpperl
Wirtschaftsprüferin

GLOSSARY

ABBREVIATIONS

API
American Petroleum Institute

ISO 14001
International standard stipulating globally recognised requirements for environmental management systems

IMF
International Monetary Fund

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

KEY CORPORATE AND TECHNICAL TERMS

Cyber-physical system
A network of computing elements (software and hardware) and mechanical and electronic components which communicate via a data infrastructure, such as for example the Internet

Variable speed system
Electronic device which adjusts pump speed in line with the required head and flow rate

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 valve opens and closes smoothly.

FluidFuture
KSB programme to increase the efficiency of pump systems

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

KSB Sonolyzer
Smartphone app capable of analysing the efficiency of fixed speed pump systems equipped with asynchronous motors

Retrofit measures
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.

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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3st kommunikation, Mainz

PHOTOGRAPHY
Robert Kwiatek, Frankenthal
Getty Images (p. 26 / 27 + 34 / 35)
plainpicture (p. 28 / 29)
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PRINTING
Ottweiler Druckerei und Verlag GmbH, Ottweiler

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

Backed up by production and assembly sites around the world, as well as a tight-knit sales and service network, KSB staff are always close at hand.

- KSB production / assembly sites
- KSB sales / service sites

EUROPE

Austria
Belarus
Belgium
Croatia
Czech Republic
Estonia
Finland
France
Germany
Hungary
Italy
Latvia
Luxembourg
Netherlands
Norway
Poland
Portugal
Russia
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Ukraine
United Kingdom

MIDDLE EAST / AFRICA

Algeria
Egypt
Ghana
Iran
Kenya
Morocco
Oman
Qatar
Saudi Arabia
South Africa
Turkey
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
Columbia
Mexico
New Zealand
Peru
USA

FINANCIAL CALENDAR

30 MARCH 2016
Financial press conference
10:00, Frankenthal, Germany

1 APRIL 2016
Invitation to Annual General Meeting

29 APRIL 2016
Interim report
January – March 2016

11 MAY 2016
Annual General Meeting
15:00, Frankenthal, Germany

12 AUGUST 2016
Half-year financial report
January – June 2016

10 NOVEMBER 2016
Interim report
January – September 2016

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