

Dear shareholders and business partners,

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

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

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

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

NEW PRODUCTION AND PRODUCT RANGE CONCEPTS

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

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

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

THREE SALES CHANNELS FOR BETTER CUSTOMER SERVICE

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

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

STRATEGY UPDATE OPENS UP NEW FIELDS OF ACTION

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

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

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

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

Yours,



Dr. Peter Buthmann



Werner Stegmüller