

New technology for mineral processing







Hydrocyclone for mining applications

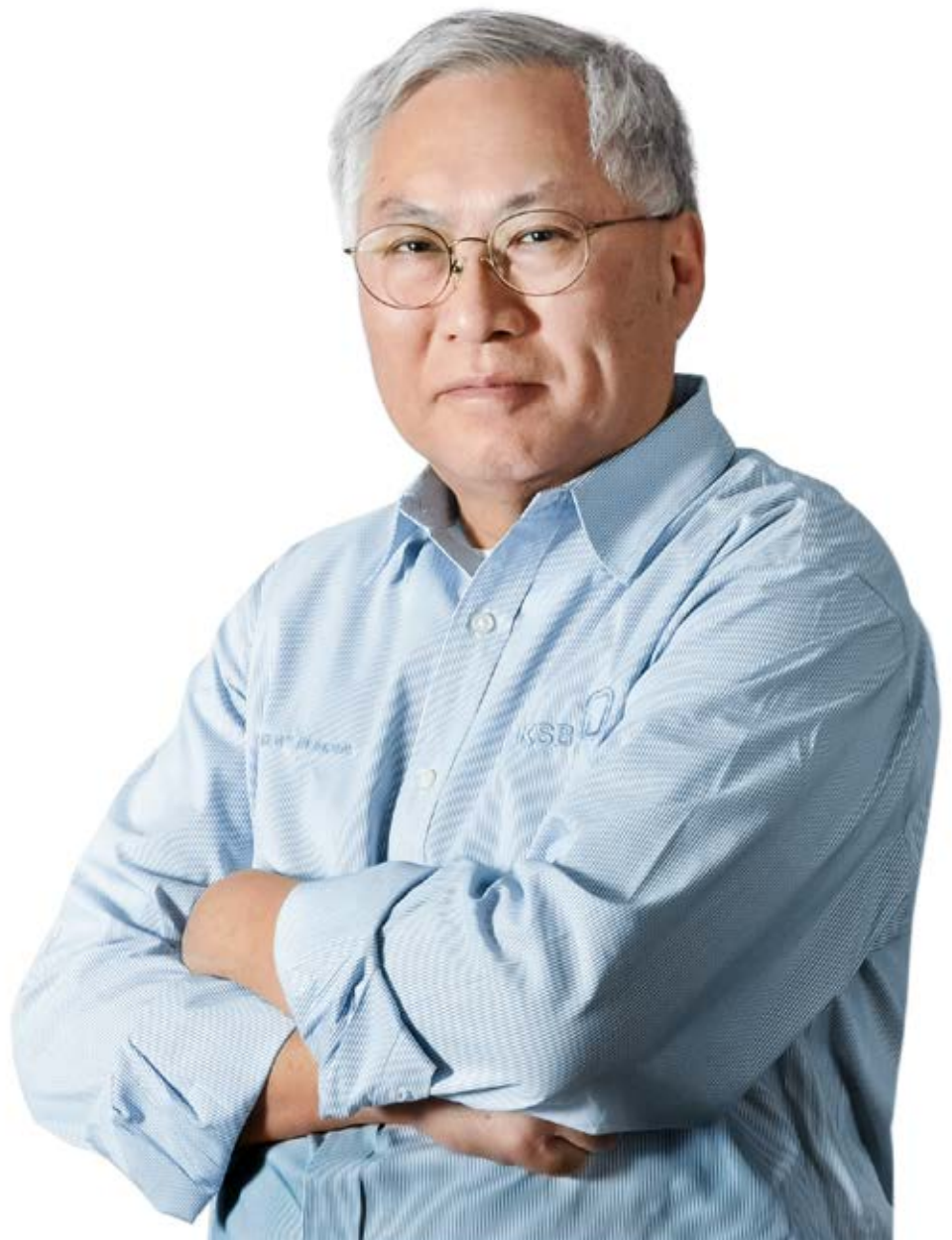
RELIABLE HYDROCYCLONE

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

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

Bill Wong

Senior Product Manager
Hydrocyclone



CONSOLIDATED FINANCIAL STATEMENTS

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BALANCE SHEET

ASSETS

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

EQUITY AND LIABILITIES

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

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

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

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

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

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

STATEMENT OF CHANGES IN EQUITY

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

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

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

Statement of Changes in Equity

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

Revenue reserves						
Other comprehensive income						
Other revenue reserves	Currency translation differences	Measurement of financial instruments	Actuarial gains / losses under IAS 19	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
771,825	– 79,197	3,461	– 77,270	730,254	114,240	844,494
–	26,211	– 7,454	– 68,368	– 49,611	12,073	– 37,538
38,304	–	–	–	38,304	7,874	46,178
38,304	26,211	– 7,454	– 68,368	– 11,307	19,947	8,640
– 21,240	–	–	–	– 21,240	– 1,999	– 23,239
–	–	–	–	–	–	–
– 1,218	–	–	–	– 1,218	–	– 1,218
1,041	–	–	– 1,041	–	531	531
788,712	– 52,986	– 3,993	– 146,679	696,489	132,719	829,208

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

STATEMENT OF CASH FLOWS

(€ thousands)	2014	2013*
Earnings after income taxes	46,178	79,865
Depreciation and amortisation expense /Write-ups	68,357	60,291
Increase in non-current provisions	12,120	7,554
Loss on disposal of fixed assets	-3,068	-834
Other non-cash expenses /income	746	-4,528
Cash flow	124,333	142,348
Decrease /Increase in inventories	-11,334	8,168
Decrease /Increase in trade receivables and other assets	-28,910	30,490
Decrease /Increase in current provisions	2,168	-11,541
Decrease in advances received from customers	-2,915	-40,692
Increase in liabilities (excluding financial liabilities)	5,240	6,575
Other non-cash expenses /income (operating)	-	-
	-35,751	-7,000
Cash flows from operating activities	88,582	135,348
Proceeds from disposal of intangible assets	25	25
Payments to acquire intangible assets	-9,553	-1,719
Proceeds from disposal of property, plant and equipment	5,877	1,990
Payments to acquire property, plant and equipment	-76,494	-53,954
Proceeds from disposal of non-current financial assets	30	80
Payments to acquire non-current financial assets	-1,518	-3,972
Net cash flows from the acquisition and sale of consolidated companies and other business units (less acquired cash and cash equivalents)	178	-3,161
Changes in term deposits (maturity of more than 3 and up to 12 months)	-22,406	45,003*
Other non-cash expenses /income (investing)	-	-
Cash flows from investing activities	-103,861	-15,708*
Proceeds from additions to equity / Payments related to capital decreases (Notes No. 8)	-	-
Dividends paid for prior year (including non-controlling interest) (Notes No. 8)	-23,239	-33,975
Net cash flows from financial liabilities	-13,667	11,359
Payments resulting from financial receivables	-576	286
Other non-cash expenses /income (financing)	-	-
Cash flows from financing activities	-37,482	-22,330
Net change in cash and cash equivalents	-52,761	97,310*
Effects of exchange rate changes on cash and cash equivalents	10,787	-5,039
Effects of changes in consolidated Group	803	3,139
Cash and cash equivalents at beginning of reporting period (1 Jan. 2014 / 1 Jan. 2013)	331,641*	236,231*
Cash and cash equivalents at end of reporting period (31 Dec. 2014 / 31 Dec. 2013)	290,470	331,641*
	31 Dec. 2014	31 Dec. 2013
Cash and cash equivalents	290,470	331,641
Term deposits with a maturity of more than 3 and up to 12 months	126,935	101,835
Term deposits to hedge credit balances for partial retirement arrangements and long-term working hours accounts with a maturity of more than 3 and up to 12 months	15,268	17,962
Cash and cash equivalents with a maturity of under 3 months	432,673	451,438

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

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

NOTES

I. GENERAL INFORMATION ON THE GROUP

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

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

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

Basis of preparation of the consolidated financial statements

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

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

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

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

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

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

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

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

New accounting principles

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

The following new and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2014:

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IFRS 10 Consolidated Financial Statements	12 May 2011	29 Dec. 2012	1 Jan. 2014
IFRS 11 Joint Arrangements	12 May 2011	29 Dec. 2012	1 Jan. 2014
IFRS 12 Disclosure of Interests in Other Entities	12 May 2011	29 Dec. 2012	1 Jan. 2014
IAS 27 Separate Financial Statements (revised 2011)	12 May 2011	29 Dec. 2012	1 Jan. 2014
IAS 28 Associates and Joint Ventures (revised 2011)	12 May 2011	29 Dec. 2012	1 Jan. 2014
Transition guidance (Changes to IFRS 10, IFRS 11 and IFRS 12)	28 June 2012	5 April 2013	1 Jan. 2014
Investment companies (Changes to IFRS 10, IFRS 12 and IAS 27)	31 Oct. 2012	21 Nov. 2013	1 Jan. 2014
IAS 32 Financial Instruments: Presentation	16 Dec. 2011	29 Dec. 2012	1 Jan. 2014
IAS 36 Impairment of Assets	29 May 2013	20 Dec. 2013	1 Jan. 2014
IAS 39 Financial Instruments: Recognition and Measurement	27 June 2013	20 Dec. 2013	1 Jan. 2014

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

IFRS 11 Joint Arrangements affects companies that exercise joint control over a joint venture or joint operations, and supersedes **IAS 31 Interests in Joint Ventures** and **SIC 13 Jointly Controlled Entities**. The previously permitted pro rata consolidation method may no longer be used for joint ventures, which must now exclusively be accounted for in the consolidated financial statements using the equity method in accordance with **IAS 28 Associates and Joint Ventures (revised 2011)**. IAS 28 previously exclusively dealt with associates. Its scope has now been extended to include joint ventures, and it has been renamed accordingly. The KSB Group has examined the Group's investments and re-evaluated them in compliance with the provisions of IFRS 11. This has shown that the investments in the companies listed below now are to be classified as joint ventures and accounted for using the equity method:

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

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

IFRS 12 Disclosure of Interests in Other Entities pools all of the required disclosures in the Notes in relation to subsidiaries, joint arrangements and associate companies, and also non-consolidated structured companies, in one single standard. The disclosure requirements previously set out in IAS 27, 28, 31 and SIC 12 have been replaced and additional disclosure requirements added. As a general rule, IFRS 12 has resulted in significantly more detailed disclosures in the Notes to the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Correction under IAS 8

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

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

II. BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 10 German and 86 foreign companies (previous year: 10 German and 83 foreign companies) were fully consolidated. We hold a majority interest in the voting power of these subsidiaries, either directly or indirectly.

The Thai company KSB Pumps Co. Ltd., Bangkok, and the Indian company KSB Pumps Limited, Pimpri (Pune) are included in the group of fully consolidated affiliates despite the fact that we hold less than 50 % of the voting rights. We do, however, have the power to appoint the majority of the members of these companies' management and/or to determine their business and financial policies and thus the level of variable returns.

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

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

MATERIAL SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

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

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

SUMMARISED BALANCE SHEET

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

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

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

SUMMARISED STATEMENT OF CASH FLOWS

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

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

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

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

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

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

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

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

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

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

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

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

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

The first-time application of IFRS 11 Joint Arrangements has resulted in changes to the classification of investments of the KSB Group previously classified as associates. Four companies are now classified as investments in joint ventures and continue to be accounted for using the equity method; thus there is no quantitative impact on the consolidated financial statements. A joint venture is a joint agreement whereby the parties that have joint control of the arrangement have rights to the net assets or the arrangement. Joint control is the contractually agreed sharing of control of an arrangement. This is only given when decisions about the relevant activities require the unanimous consent of the parties sharing control. Companies are classified as associates if the Group is capable of exerting a significant influence through its involvement in the company's financial and operating policies but does not have control.

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

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

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

Consolidation methods

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

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

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

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

Currency translation

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

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

Transactions denominated in foreign currencies are translated at the individual companies at the rate prevailing when the transaction is initially recognised. Monetary assets and liabilities are subsequently measured at the closing rate. Measurement effects are recognised in the income statement.

When translating financial statements of consolidated companies that are not prepared in euro, assets and liabilities are translated at the closing rate; the income statement accounts are translated at average exchange rates (modified closing rate method). Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity in other comprehensive income and reported under currency translation differences. They amount to € –71,152 thousand (previous year: € –109,986 thousand). The effect of currency translation adjustments taken directly to equity on intangible

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

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

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

III. ACCOUNTING POLICIES

Acquisition cost

In addition to the purchase price, acquisition cost includes attributable incidental costs (except for costs associated with the acquisition of a company) and subsequent expenditure. Purchase price reductions are deducted from cost. Borrowing costs as defined in IAS 23 that can be directly allocated to the acquisition or production of qualifying assets are capitalised from 2009. As in the previous year, no borrowing costs were incurred in the financial year.

Production cost

In addition to direct material and labour costs, production cost includes production-related administrative expenses. General administrative expenses and selling expenses are not capitalised. As in the previous year, no borrowing costs were incurred in the financial year.

Fair value

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

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

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

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

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

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

Financial instruments

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

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

a) Primary financial instruments

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

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

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

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

Changes in the fair value of “available-for-sale financial instruments” are recognised directly in equity in other comprehensive income and reported under measurement of financial instruments. They are recognised in profit or loss when the assets are sold or deemed to be other-than-temporarily impaired. If no asset is derecognised, the accumulated other comprehensive income is reclassified to the income statement.

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

b) Derivative financial instruments

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

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

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

In the case of cash flow hedges, changes in the fair value of the effective portions of the currency derivatives are recognised under other comprehensive income and reported under measurement of financial instruments in equity for as long as the underlying transaction is not cash-effective.

Changes in the market value of interest rate derivatives used to hedge against interest rate risks in liabilities are recognised under other comprehensive income and reported under measurement of financial instruments in equity.

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

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

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

Intangible assets

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

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

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

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

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

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

Property, plant and equipment

In accordance with IAS 16, property, plant and equipment is carried at cost and reduced by straight-line depreciation over its useful life. If an asset's recoverable amount is lower than its carrying amount, an impairment loss is recognised. If the reasons for an impairment loss recognised in a previous period no longer apply, the impairment loss is reversed (write-up) up to a maximum of amortised cost.

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

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

The following useful lives are applied:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

Leases

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

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

Non-current financial assets

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

Investments accounted for using the equity method

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

Inventories

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

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

Construction contracts under IAS 11

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

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

Receivables and other current assets

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

We hedge part of the credit risk exposure of our receivables (for further explanations, refer to the Financial Risks – Credit Risk section).

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

Cash and cash equivalents

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

Assets held for sale

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

Deferred taxes

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

Changes to deferred taxes in the consolidated balance sheet generally result in deferred tax expense or income. If, however, a direct entry is made in other comprehensive income in equity, the change in deferred taxes is also taken directly to equity.

Provisions

a) Provisions for pensions and similar obligations

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

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

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

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

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

b) Other provisions

Provisions are recognised if a past event results in a present legal or constructive external obligation that the company has no realistic alternative to settling, where settlement of this obligation is expected to result in an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably. The amount of the provision corresponds to the best estimate of the settlement amount of the current obligation on the reporting date. Any more or less secure recourse or reimbursement claims are recognised as separate assets.

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

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

Liabilities

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

Contingent liabilities (contingencies and commitments)

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

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

Income and expenses

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

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

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

Sales allowances reduce sales revenue.

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

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

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

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

Estimates and assumptions

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

Impairment tests for goodwill, which are conducted at least once per year, require an estimate of the recoverable amounts for each cash-generating unit (CGU). These correspond to the higher amount from the fair value less costs to sell and value in use. The earnings forecast on the basis of these estimates are affected by various factors, which may include exchange rate fluctuations, progress in Group integration or the expectations for the economic development

of these units. Although management believes that the assumptions used to calculate the recoverable amount are appropriate, any unforeseen changes in these assumptions could lead to an impairment loss.

Estimates and assumptions must also be made to review the **value of assets**. For each asset it must be verified to what extent there are indications of an impairment. The measurement of doubtful receivables is based on forecasts about the creditworthiness of customers. A material change in the assumptions or circumstances can lead in future to additional impairment losses or reversals.

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

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

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

The global scope of our activities must be taken into account in relation to **taxes on income**. Based on our operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for determining our tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. Although we believe we have made a reasonable estimate regarding any tax uncertainties, it is possible that the actual tax obligation will differ from our original estimate. With regard to future tax benefits, we assess their realisability as of every reporting date. For this reason, we only recognise deferred tax assets if sufficient taxable income is available in future. In assessing this future taxable income it must be taken

into account that expected future business developments are subject to uncertainties and are in some cases excluded from control by company management (for example changes to applicable tax legislation). If we come to the conclusion that previously reported deferred tax assets cannot be realised because of changed assumptions, then the assets will be written down by the appropriate amount.

Maturities

Maturities of up to one year are classified as current.

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

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

IV. BALANCE SHEET DISCLOSURES

1 Intangible assets

STATEMENT OF CHANGES IN INTANGIBLE ASSETS

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

As in the previous year, we did not capitalise any development costs in the year under review because not all of the comprehensive recognition criteria defined in IAS 38 were met. The “Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets” item includes € 8.6 million (previous year: € 10.3 million) of software including software licences valid for a limited period.

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

We apply the discounted cash flow model to determine the recoverable amount (value in use). The future earnings (EBIT in accordance with IFRS) applied were taken from a multi-year financial plan (generally covering a maximum of five years), the basis of which was adopted in December taking into account the medium-term strategy approved by management for the respective cash-generating unit. We carried out this planning based on certain assumptions which were drawn from both forecasts from external sources, e.g. current German Engineering Federation (VDMA) publications, and our own experience-based knowledge of markets and competitors. In our calculations we consistently extrapolated the result of the last plan year as a constant, considering that level to be achievable in the long term. We derived growth rates taking account of the rate of inflation and estimates with regard to regional and segment-specific circumstances. As in the previous year, we applied growth rates of between 0.50 % and 1.25 % (previous year: between 0.75 % and 1.25 %).

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

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM), taking into account a peer group. Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure taking account of the peer group. The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 2.1 % in the year under review (previous year: 2.8 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 1.06 (previous year: 1.00). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU).

DISCOUNT RATES

Before taxes in % (value in use)	2014	2013
Companies in Germany	10.7 – 11.0	10.6 – 10.9
Companies in the Netherlands	10.2	10.3
Companies in Italy	14.8 – 15.7	14.4 – 15.5
Companies in the USA	11.8	11.6
Companies in South Africa	14.2	14.0
Companies in the rest of Europe	9.8 – 15.2	9.9 – 15.4
After taxes in % (fair value less costs to sell)	2014	2013
Companies in South Korea	9.1	9.0

GOODWILL

Name of CGU (€ thousands)	31 Dec. 2014	31 Dec. 2013
KSB Seil Co., Ltd., South Korea	26,285	24,001
DP industries B.V., The Netherlands	18,285	18,285
REEL s.r.l., Italy	9,681	9,681
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	5,689
KSB SERVICE MEDIATEC S.A.S., France	3,179	3,179
Dynamik-Pumpen GmbH, Germany	3,150	3,150
Uder Elektromechanik GmbH, Germany	2,980	2,980
KSB Service Centre-Est S.A.S., France	2,609	2,609
KSB Pumps (S.A.) (Pty) Ltd., South Africa	2,120	2,043
KSB Finland Oy, Finland	1,764	1,764
KSB SERVICE ETC S.A.S., France	1,412	1,412
	77,154	74,793
Company consolidated for the first time in 2014:		
KSB Service Suciba, S.L.U., Spain	524	–
	524	–
Other 20 (previous year: 23) companies	15,102	21,519
Total	92,780	96,312

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

IMPAIRMENT LOSS ON GOODWILL

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

The previously recognised impairments were due to ongoing economic difficulties.

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

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

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

DETAILED INFORMATION ON KEY GOODWILL ITEMS

Cash-generating unit	Method	Carrying amount of goodwill (€ million)	Percentage of total goodwill	Discount rate	Underlying assumptions, corporate planning	Method for assessing the value of the underlying assumption
KSB Seil Co., Ltd.	Fair value less costs to sell (costs to sell set at 1 %)	26.3	28 %	9.1 % after taxes	<ul style="list-style-type: none"> ■ Improved business cycle expectations in shipbuilding (liquefied gas tankers) resulting in improved market growth rates ■ Little change in exchange rates 	Consideration of macro-economic key data and external market research
DP industries B.V.	Value in use	18.3	20 %	10.2 % before taxes	<ul style="list-style-type: none"> ■ Greater customer focus ■ Moderate market growth rates 	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments
REEL s.r.l.	Value in use	9.7	10 %	14.8 % before taxes	<ul style="list-style-type: none"> ■ Greater customer focus ■ Improved energy efficiency, resulting in more attractive market growth rates 	Consideration of external market data and macro-economic environment

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

For the purposes of calculating the fair value less costs to sell, the South Korean KSB Seil Co., Ltd. is classed as Level 3 pursuant to IFRS 13. The input factors used for the discounted cash flow method are largely based on observable market data (base interest rate) or freely accessible information (for example sovereign risk classification, tax rates, procurement prices, sales prices, market studies).

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

2 Property, plant and equipment

STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

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

Assets resulting from finance leases are recognised as fixed assets in accordance with IAS 17, and corresponding financial liabilities are recognised. The carrying amount of these capitalised assets amounts to € 2,644 thousand (previous year: € 3,016 thousand), of which € 1,347 thousand (previous year: € 1,437 thousand) relate to land and buildings, € 133 thousand (previous year: € 319 thousand) to plant and machinery and € 1,164 thousand (previous year: € 1,260 thousand) to other equipment, operating and office equipment.

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

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

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

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

No property, plant and equipment (previous year: € 5,491 thousand) have been pledged as security for bank loans and other liabilities on the basis of standard terms and conditions. Information on the purchase obligation is provided in Section IX. Other Disclosures of these Notes to the Consolidated Financial Statements.

Disposals of items of property, plant and equipment resulted in book gains of € 3,646 thousand (previous year: € 1,487 thousand) and book losses of € 578 thousand (previous year: € 653 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

As in the previous year, we did not recognise any impairment losses on property, plant and equipment.

3 Non-current financial assets

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

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

4 Investments accounted for using the equity method

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

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

MATERIAL JOINT VENTURES

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

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

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

SUMMARISED BALANCE SHEET

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

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

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

RECONCILIATION TO CARRYING AMOUNT OF GROUP SHARE IN JOINT VENTURES

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

SUMMARISED INFORMATION ON JOINT VENTURES THAT ARE IMMATERIAL INDIVIDUALLY

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

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

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

5 Inventories

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

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

6 Receivables and other current assets

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

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

Construction contracts under IAS 11 include recognised earnings of € 38,253 thousand (previous year: € 34,041 thousand) and costs of € 128,274 thousand (previous year: € 138,533 thousand). Sales revenue in accordance with IAS 11 amounted to € 561,940 thousand (previous year: € 523,638 thousand).

The other receivables and other current assets include receivables from employees and deferred interest. They also include recoverable taxes (primarily from VAT) in the amount of € 27,013 thousand (previous year: € 25,037 thousand) and financial assets from currency forwards in accordance with IAS 39 in the amount of € 2,369 thousand (previous year: € 6,557 thousand). There were no receivables relating to interest rate derivatives (previous year: € 115 thousand).

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

7 Cash and cash equivalents

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

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

8 Equity

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

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

In addition to revenue reserves from previous years, the revenue reserves primarily include currency translation adjustments, consolidation effects and actuarial gains and losses in accordance with IAS 19 taken directly to equity. These effects resulted in deferred tax assets in the amount of € 65,339 thousand (previous year: € 32,367 thousand) and deferred tax liabilities in the amount of € 448 thousand (previous year: € 1,630 thousand).

A total of € 21,240 thousand (dividend of € 12.00 per ordinary share and € 12.26 per preference share) was paid from equity by resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 14 May 2014.

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

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

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

Capital Disclosures

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

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

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

9

Provisions

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

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

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

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

* CTA = currency translation adjustments

Provisions for pensions and similar obligations

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

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

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

More than 90 % of the defined benefit pension plans are attributable to the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also considered. This pension provision can be broken down into purely company-

financed basic provision and the top-up provision from the employer. The latter is based on the amount of own contributions and the generated return on sales before taxes on income. Both components take account of the general pension contribution (the amount of which partially depends on company performance), personal income (the relationship between pensionable income and maximum income threshold) and the annuity conversion factor (based on age).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Composition of plan assets:

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

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

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

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

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

A mean fluctuation rate (2.0 %) continues to be applied to staff turnover for the German plans. The biometric assumptions continue to be based on the 2005G mortality tables published by Prof. Klaus Heubeck, and the retirement age used for the calculations is based on the *Rentenversicherungs-Altersgrenzenanpassungsgesetz 2007* [RVAGAnpG – German Act Adapting the Standard Retirement Age for the Statutory Pension Insurance System]. Other measurement parameters (e.g. cost trends in the medical care area) are not material.

The discount rate and future mortality were identified as key actuarial assumptions. Were the discount factor to increase by 100 basis points, the DBO would fall by € 93 million (previous year: € 58 million). A 100 basis point reduction in the discount factor would increase the DBO by € 125 million (previous year: € 77 million). It should be noted that a change to the discount factor due to particular financial effects (such as compound interest) does not affect the development of the DBO on a straight-line basis. Were life expectancy to increase by 1 year, the DBO would increase by € 23 million (previous year: € 14 million).

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

On 31 December 2014 the weighted average term of the DBO was 20 years (previous year: 20 years). The following table shows the pension benefit payments expected over the coming years.

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

€ millions at 31 Dec. 2013	2014	2015	2016	2017	2018
Expected payments	13,332	14,628	15,781	16,807	17,993

Other employee benefits

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

Tax provisions and other provisions

The tax liabilities shown contain amounts of tax still payable for the year under review and for previous years for which no final tax assessment has yet been received.

The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers and are based on estimates prepared using historical data for similar products and services. The KSB Group expects to pay most of the provisions in the coming financial year.

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

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

The miscellaneous other provisions include provisions for anticipated losses from uncompleted transactions and onerous contracts (primarily from construction contracts in accordance with IAS 11 with gross amounts due to customers in the amount of € 1,179 thousand for 2014 and € 2,939 thousand for 2013), customer bonuses, accruing expenses (outstanding invoices) and environmental protection measures.

10 Liabilities

NON-CURRENT LIABILITIES

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

CURRENT LIABILITIES

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

TOTAL NON-CURRENT AND CURRENT LIABILITIES

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

To safeguard liquidity in the medium term, in 2009 KSB AG took the precaution of placing a loan against borrower's note worth € 100 million with a 3-year and 5-year maturity. € 37.5 million was repaid in 2011, € 56.5 million in 2012 and € 6.0 million in 2014. As a result there was no residual obligation arising from this borrower's note at the 2014 year end.

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

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

Assets amounting to € 7,804 thousand (previous year: € 8,642 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities on the basis of standard terms and conditions. Of these, none (previous year: € 5,491 thousand) relate to property, plant and equipment, € 3,178 thousand (previous year: € 371 thousand) to inventories, none (previous year: € 981 thousand) to receivables and € 4,626 thousand (previous year: € 1,799 thousand) to other securities.

€ 2,117 thousand (previous year: € 9,287 thousand) of the liabilities were secured by land charges or similar rights in the year under review.

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 2.84 % (previous year: 2.78 %). Interest rate risk exists for the major portion of the loan against borrower's note mentioned above.

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

Miscellaneous other liabilities include changes in the fair value of hedging instruments amounting to € 12,376 thousand (previous year: € 897 thousand). € 888 thousand (previous year: € 92 thousand) of this amount relates to interest rate derivatives. Deferred income amounts to € 12,732 thousand (previous year: € 2,843 thousand). This also includes investment grants and subsidies totalling € 5,558 thousand (previous year: € 4,666 thousand) received primarily for new buildings in Germany.

V. INCOME STATEMENT DISCLOSURES

11 Sales revenue

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

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

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

12 Other income

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

Miscellaneous other income relates primarily to commission income, rental and lease income, insurance compensation, grants and subsidies. Income from government grants for individual projects (for example, for research activities) amounted to € 3,675 thousand (previous year: € 3,230 thousand).

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

13 Cost of materials

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

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

14 Staff costs

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

Pension costs are reduced by the interest component of provisions for pensions and similar obligations, which is reported as an interest cost in financial income/expense.

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

EMPLOYEES

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

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

15 Other expenses

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

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

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

16 Financial income / expense

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

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

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

17 Taxes on income

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

(€ thousands)	2014	2013
Effective taxes	39,279	45,187
Deferred taxes	- 12,863	- 5,637
	26,416	39,550

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

RECONCILIATION OF DEFERRED TAXES

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

ALLOCATION OF DEFERRED TAXES

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

At the reporting date, deferred tax assets (after offsetting) amounting to € 11.281 thousand (previous year: € 7,960 thousand) were recognised, whose realisation exclusively depends on the creation of future profit. Based on the planning figures available, we expect realisation to take place.

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

INCOME TAXES INCLUDED UNDER EQUITY

(€ thousands)	2014	2013
Actuarial gains / losses under IAS 19	– 98,568	18,991
Taxes on income	29,876	– 5,935
Currency translation differences	38,834	– 53,452
Taxes on income	–	–
Measurement of financial instruments	– 11,534	4,212
Taxes on income	3,854	– 1,356
Other comprehensive income	– 37,538	– 37,540

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

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

We did not recognise deferred tax assets from loss carryforwards amounting to € 43,452 thousand (previous year: € 39,216 thousand). It is unlikely that there will be sufficient taxable profit available in the near future against which these deferred tax assets can be utilised. They are largely available for an indefinite period.

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

RECONCILIATION OF INCOME TAXES

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

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

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

18 Earnings after income taxes – Non-controlling interests

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

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

19 Earnings per share

		2014	2013
Earnings after income taxes attributable to KSB AG shareholders	€ thousands	38,304	65,682
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	38,079	65,457
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		1,751,327	1,751,327
Diluted and basic earnings per ordinary share	€	21.74	37.38
Diluted and basic earnings per preference share	€	22.00	37.64

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

VI. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

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

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

ASSETS

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

EQUITY AND LIABILITIES

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

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

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

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

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

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

PRESENTATION OF HIERARCHY LEVELS OF FAIR VALUE 2014

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

PRESENTATION OF HIERARCHY LEVELS OF FAIR VALUE 2013

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Other investments	–	–	7,154	7,154
Financial instruments	650	–	–	650
Currency forwards	–	6,557	–	6,557
Interest rate swaps	–	115	–	115
Financial liabilities recognised at fair value				
Currency forwards	–	805	–	805
Interest rate swaps	–	92	–	92

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

FAIR VALUES CATEGORISED WITHIN LEVEL 3

(€ thousands)	2014	2013
Balance at 1 January	7,154	37,968
Disposal due to new materiality estimates of equity investments	–2,797	–33,018
Changes resulting from capitalisation measures and incorporation processes	1,442	578
Write-down due to impairment (financial expenses)	–1,758	–90
Currency translation differences (loss in other comprehensive income)	–100	–77
Change in fair value (measurement of financial instruments in other comprehensive income)	–	1,793
Balance at 31 December	3,941	7,154

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

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

A measurement model that determines the discounted cash flows of earnings before income taxes was used as the basis for determining the fair value within level 3. The weighted average cost of capital (WACC of 8.0 %) is based on the interest for risk-free 30-year Bunds and takes into account the market risk premium and country risk premium as well as the taxation situation of the country where the company is located. Growth rates were not estimated.

Sensitivity to the weighted average cost of capital of 5 % would not lead to significantly different results.

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2014

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2013

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

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

The AfS measurement category resulted in a remeasurement gain of € 15 thousand (previous year: loss of € 18 thousand), which was recognised directly in other comprehensive income and reported under “Measurement of financial instruments” in equity. In the year under review, € 0 thousand (previous year: € – 5 thousand) was withdrawn from equity or realised.

Financial risks

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

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

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

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

Credit risk

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

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

(€ thousands)	2014	2013
Opening balance at 1 January	30,337	32,232
Additions	8,560	6,305
Utilised	– 1,821	– 4,344
Reversals	– 3,512	– 2,645
Changes in consolidated Group / CTA / Other	2,341	– 1,211
Closing balance at 31 December	35,905	30,337

The maturity structure of trade receivables is as follows:

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

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

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

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

Liquidity risk

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

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

The reporting system additionally ensures, with the help of monthly rolling cash flow planning, that the Group's centralised financial management is continuously informed about liquidity surpluses and requirements. This enables us to optimally meet the needs of the Group as a whole and of the individual companies. For selected companies we use a cash pooling system to ensure that available cash is deployed optimally within the Group. We also apply a world-wide receivables netting procedure within the KSB Group so as to minimise both the volume of cash flows and the associated fees. In order to be able to provide the necessary collateral in the project business, corresponding guarantee volumes are made available. Adequate proportions are confirmed for a period of more than one year. In addition, we always ensure that credit facilities are sufficient; we identify the need for these on the basis of regular liquidity plans. In this way we can react to fluctuating liquidity requirements at all times. Our approved cash loans and credit lines total approximately € 958 million (previous year: approx. € 979 million), of which € 627.8 million has not yet been utilised (previous year: € 671.2 million).

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

CASH FLOWS OF FINANCIAL LIABILITIES 2014

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

CASH FLOWS OF FINANCIAL LIABILITIES 2013

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	290,068	78,149	141,630	70,289
Trade payables	204,766	204,439	327	–
Other liabilities	41,308	34,525	6,783	–
Derivative financial instruments	– 4,784	– 5,267	525	– 42
	531,358	311,846	149,265	70,247

Market price risk

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

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

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

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

NOTIONAL VOLUMES 2014

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

NOTIONAL VOLUMES 2013

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

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

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

One of the most significant foreign currencies in the KSB Group is the USD. The volume of trade receivables denominated in USD is around € 47 million (previous year: approx. € 41 million). Trade payables denominated in USD total around € 18 million (previous year: € 15 million).

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

At the reporting date, equity and the fair value of the derivatives would have been € 13.2 million lower (higher) in this scenario, with € 10.6 million resulting from USD and € 2.6 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 11.0 million lower (higher), with € 9.3 million resulting from USD and € 1.7 million from the other currencies.

The hypothetical impact on earnings in the year under review would have been a decrease (an increase) of € 3.6 million. € 1.0 million would have been attributable to USD and € 2.6 million to the other currencies. The hypothetical impact on earnings in the previous year would have been a decrease (an increase) of € 3.5 million. € 1.2 million would have been attributable to USD and € 2.3 million to the other currencies.

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

As part of our interest rate sensitivity analysis, we simulate a 100 basis point increase (decrease) in market interest rates, with an interest rate of 0 % being the lower limit, however, and analyse the impact on the floating rate financial instruments. In 2014, the net interest balance would have been € 3.7 million (previous year: € 3.8 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 1.1 (1.1) million (previous year: € 1.8 (1.6) million).

VII. STATEMENT OF CASH FLOWS

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

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

Cash flows from investing activities exclusively reflect cash-effective acquisitions and disposals of investments in intangible assets, property, plant and equipment, non-current financial assets, and changes in term deposits with a maturity of more than 3 months.

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

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

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

VIII. SEGMENT REPORTING

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

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

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

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

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

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

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

The **order intake** by segment presents order intake generated with third parties and non-consolidated Group companies. The order intake (unaudited) is reported on a voluntary basis.

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

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

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

* Unaudited

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

€ 604,449 thousand (previous year: € 599,895 thousand) of the sales revenue presented was generated by the companies based in Germany, € 251,267 thousand (previous year: € 250,122 thousand) was generated by the companies based in France, € 164,744 thousand (previous year: € 192,469 thousand) by the companies based in the USA, and € 1,161,279 thousand (previous year: € 1,204,845 thousand) by the other Group companies.

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

At the reporting date, the total non-current assets of the KSB Group amounted to € 494,469 thousand (previous year: € 457,851 thousand), with € 182,151 thousand (previous year: € 181,386 thousand) being attributable to the companies based in Germany and € 312,318 thousand (previous year: € 276,465 thousand) being attributable to the other Group companies. The non-current assets include intangible assets and property, plant and equipment. Goodwill, non-current financial instruments and deferred tax assets are not included.

IX. OTHER DISCLOSURES

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

Contingent liabilities (contingencies and commitments)

CONTINGENT LIABILITIES AND COLLATERAL

(€ thousands)	2014	2013
Liabilities from guarantees	2,545	3,451
Liabilities from warranties	1,250	3,998
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	4,230	3,652
	8,025	11,101

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

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

OPERATING LEASES

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

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

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

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

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

The annual obligations from IT services agreements amount to € 22,956 thousand (previous year: € 32,911 thousand) over a term of one to five years.

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

The aggregate purchase obligation for investments (principally items of property, plant and equipment) amounts to € 17,809 thousand (previous year: € 12,462 thousand). Almost all of the corresponding payments are due in 2015.

Research and development costs

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

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

Related party disclosures

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

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

Pursuant to section 21(1) of the WpHG [Wertpapierhandelsgesetz – German Securities Trade Act], KSB Stiftung [KSB Foundation], Stuttgart, as the top-level parent company, notified us on 21 May 2008 that its voting interest in KSB AG, Frankenthal/Pfalz exceeded the 75.00 % threshold on 5 May 2008 and amounted to 80.24 % (711,453 voting shares) on this date.

0.54 % of the voting rights (4,782 voting shares) were held directly by KSB Stiftung, Stuttgart, and 79.70 % (706,671 voting shares) were attributed to KSB Stiftung, Stuttgart, pursuant to section 22(1), sentence 1, No. 1 of the WpHG. The voting rights attributed to KSB Stiftung, Stuttgart, were held by Klein Pumpen GmbH, Frankenthal.

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

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

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

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

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

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

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

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

Pursuant to IAS 24, the remuneration of key management personnel of the Group must be disclosed. The following table contains the relevant figures for the KSB Group with regard to the remuneration paid to members of the Board of Management:

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

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

€ 41,861 thousand (previous year: € 30,103 thousand) has been provided for pension obligations to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,232 thousand in the year under review (previous year: € 1,699 thousand).

The short-term benefits (total remuneration) paid to members of the Supervisory Board amount to € 944 thousand for the 2014 financial year (previous year: € 1,219 thousand).

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

Auditors

On 14 May 2014, BDO AG Wirtschaftsprüfungsgesellschaft, based in Hamburg with an office in Frankfurt am Main, was appointed as auditors and group auditors for the financial year 2014 by the Annual General Meeting of KSB AG. The following fees (including expenses) were recognised as expenses.

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

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

Use of exemption option

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

Events after the reporting period

There were no reportable events after the reporting date.

German Corporate Governance Code

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

Notes

List of Shareholdings

LIST OF SHAREHOLDINGS

AFFILIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.
National				
1	B & C Pumpenvertrieb Köln GmbH, Cologne	Germany	100.00	
2	Dynamik-Pumpen GmbH, Stuhr	Germany	100.00	
3	KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	100.00	
4	KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	100.00	
5	KSB Service GmbH, Frankenthal	Germany	100.00	
6	KSB Service GmbH, Schwedt	Germany	100.00	
7	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	51.00	
8	PMS-BERCHEM GmbH, Neuss	Germany	100.00	
9	Pumpen-Service Bentz GmbH, Reinbek	Germany	100.00	
10	Uder Elektromechnik GmbH, Friedrichsthal	Germany	100.00	
International				
11	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	100.00	29
12	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	100.00	
13	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	100.00	29
14	DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	28
15	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa	100.00	47
16	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	18
17	Hydroskepi GmbH, Amaroussion (Athens)	Greece	100.00	
18	KSB America Corporation, Richmond / Virginia	USA	100.00	7
19	KSB AMRI, Inc., Houston / Texas	USA	10.03	54
			89.97	18
20	KSB AMVI, S.A., Madrid	Spain	100.00	29
21	KSB Australia Pty Ltd, Bundamba QLD	Australia	100.00	29
22	KSB Belgium S.A., Wavre	Belgium	100.00	29
23	KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	29
24	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	95.00	
25	KSB Chile S.A., Santiago	Chile	100.00	
26	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	100.00	29
27	KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	
28	KSB Finance Nederland B.V., Zwanenburg	The Netherlands	100.00	29
29	KSB FINANZ S.A., Echternach	Luxembourg	100.00	
30	KSB Finland Oy, Kerava	Finland	100.00	
31	KSB, Inc., Richmond / Virginia	USA	100.00	18
32	KSB Italia S.p.A., Milan	Italy	100.00	29
33	KSB ITUR Spain S.A., Zarautz	Spain	100.00	20
34	KSB Korea Ltd., Seoul	South Korea	100.00	
35	KSB Limited, Hong Kong	China	100.00	
36	KSB Limited, Loughborough	United Kingdom	100.00	29

No.	Name and seat of company	Country	Capital share in %	Held by No.
37	KSB Malaysia Pumps & Valves Sdn. Bhd., Petaling Jaya	Malaysia	100.00	67
38	KSB Middle East FZE, Dubai	U.A.E.	100.00	29
39	KSB Mörck AB, Gothenburg	Sweden	55.00	
40	KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	28
41	KSB New Zealand Limited, Albany / Auckland	New Zealand	100.00	21
42	KSB Norge AS, Ski	Norway	100.00	
43	KSB Österreich Gesellschaft mbH, Vienna	Austria	100.00	29
44	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	99.00	29
45	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	54
46	KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	100.00	
47	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	52
48	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
49	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
50	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	29
51	KSB Pumps Limited, Pimpri (Pune)	India	40.54	12
52	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	29
53	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	100.00	
54	KSB S.A.S., Gennevilliers (Paris)	France	100.00	29
55	KSB Seil Co., Ltd., Busan	South Korea	100.00	
56	KSB Service Belgium S.A./N.V., Wavre	Belgium	100.00	22
57	KSB Service Centre-Est S.A.S., Villefranche sur Saône	France	100.00	54
58	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	54
59	KSB Service Est S.A.S., Algrange	France	100.00	54
60	KSB SERVICE ETC S.A.S., Chalon-sur-Saône	France	100.00	63
61	KSB Service Italia S.r.l., Scorzè	Italy	100.00	32
62	KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône	France	100.00	63
63	KSB Service Robinetterie S.A.S., Rambervillers	France	100.00	54
64	KSB Service Suciba, S.L.U., Loiu-Bizkaia	Spain	100.00	20
65	KSB SERVICE VRS SA, Feluy	Belgium	100.00	22
66	KSB Shanghai Pump Co. Ltd., Shanghai	China	80.00	29
67	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
68	KSB Szivattyú és Armatura Kft., Budapest	Hungary	100.00	
69	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
70	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
71	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
72	KSB Valves (Shanghai) Co. Ltd., Shanghai	China	100.00	
73	KSB Válvulas Ltda., Jundiaí	Brazil	100.00	23
74	KSB VIET NAM CO., LTD., Long Thanh District	Vietnam	100.00	67
75	KSB Zürich AG, Zurich	Switzerland	100.00	
76	Mäntän Pumppauspalvelu Oy, Mänttä-Vilppula	Finland	100.00	30
77	MD Invest, Déville lès Rouen	France	100.00	63
78	Metis Levage S.A.S., Villefranche sur Saône	France	100.00	54
79	MIL Controls Limited, Annamanada	India	49.00	51
			51.00	

Notes

List of Shareholdings

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

JOINT VENTURES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands
National						
97	Nikkiso-KSB GmbH, Bruchköbel	Germany	50.00		5,092	118
International						
98	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	29	13,615	4,751
99	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		5,185	961
100	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		37,031	130

ASSOCIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands
International						
101	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		5,335	1,902

* Data according to latest financial statements available

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

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit/ loss for the year* € thousands	
National							
102	gear-tec GmbH, Eggebek	Germany	51.00		489	– 661	■
International							
103	IOOO "KSB BEL", Minsk	Belarus	98.10	81	462	178	—
			1.90	4			
104	KSB Algérie Eurl, Dar El-Beïda (Algiers)	Algeria	100.00	29	503	– 59	■
105	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		283	27	■
106	KSB črpalke in armature d.o.o., Ljubljana	Slovenia	100.00		– 78	53	■
107	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	29	442	21	
108	KSB Ltd., Tokyo	Japan	100.00		– 974	161	
109	KSB Perú S.A., Lurín	Peru	100.00		670	138	■
110	KSB PHILIPPINES, INC., Makati City / Metro Manila	Philippines	100.00	67	60	– 86	
111	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	100.00	106	179	– 119	■
112	KSB pumpe i armature d.o.o., Zagreb	Croatia	100.00	106	– 14	97	■
113	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	35	951	388	
114	KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	70.00		85	– 155	■
115	KSB TESMA AG, Amaroussion (Athens)	Greece	59.74	17	1,418	– 74	■
116	KSB Viosen AG, Patras	Greece	60.28	17	282	– 12	■
117	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	45	– 407	– 203	■
118	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	81	59	31	
119	TOV "KSB Ukraine", Kiev	Ukraine	100.00	81	135	57	

* Data according to latest financial statements available

■ Prior-period figures

SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

Sigrid Maurer, Insurance Trader, Neustadt / Weinstraße
(on the Supervisory Board until 31 Dec. 2014)
Trade Union Secretary of IG Metall
Ludwigshafen-Frankenthal

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

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

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

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

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

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

¹⁾ BKK advita, Alzey, Germany

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

³⁾ Burckhardt Compression AG, Winterthur, Switzerland

⁴⁾ Klüber Lubrication München SE & Co. KG, Munich, Germany
Klüber Lubrication India Pvt. Ltd., Bangalore, India
FCS Holding Inc., Wilmington, USA
Chem-Trend Holding LP, Wilmington, USA
Externa Holding S.R.L., Milan, Italy

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

⁶⁾ Deutsche Rentenversicherung Rheinland-Pfalz, Speyer, Germany

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

⁸⁾ KVG Binnentalster AG, Hamburg, Germany

BOARD OF MANAGEMENT

Board of Management collectively:

Strategy and Regions

Dr.-Ing. Peter Buthmann, Frankenthal¹⁾

Human Resources Director

Responsibilities: Technology, Production, Sales, Purchasing,
Human Resources and the Pumps and Valves Segments

Werner Stegmüller, Mannheim²⁾

(on the Board of Management since 1 Jan. 2014)

Responsibilities: Finance and Accounting, Controlling,
Communications, Investor Relations, IT, Patents & Trademarks,
Legal & Compliance, Internal Audits and the Service Segment

Dr. rer. pol. Wolfgang Schmitt, Bad Dürkheim³⁾

(on the Board of Management until 30 June 2014)

Chairman

Responsibilities: Finance and Accounting, Investor Relations
and Communications

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

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

²⁾ KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, The Netherlands
Canadian Kay Pump Limited, Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri (Pune), India
KSB Shanghai Pump Co. Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
KSB Bombas Hidráulicas S.A., Várzea Paulista, Brazil

³⁾ KSB FINANZ S.A., Echternach, Luxembourg
KSB Finance Nederland B.V., Zwanenburg, The Netherlands
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa
Canadian Kay Pump Ltd., Mississauga / Ontario, Canada
KSB America Corporation, Richmond / Virginia, USA
KSB Pumps Limited, Pimpri (Pune), India
KSB Singapore (Asia Pacific) Pte Ltd, Singapore
KSB ITUR Spain S.A., Zarautz, Spain

Notes

Board of Management

Proposal on the Appropriation of the Net Retained Earnings

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

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

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

Frankenthal, 17 March 2015
The Board of Management

The annual financial statements of KSB AG were prepared in accordance with German accounting principles. They are published in the *Bundesanzeiger* (German Federal Gazette). The annual financial statements can also be downloaded from our web site at www.ksb.com, or sent in print form on request.