4

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS

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

EQUITY AND LIABILITIES

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

* Adjustment under IAS 8

Also see the relevant information in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

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

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

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

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

STATEMENT OF CHANGES IN EQUITY

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

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG
1 Jan. 2015	44,772	66,663
Other comprehensive income	–	–
Earnings after income taxes	–	–
Total comprehensive income	**–**	**–**
Dividends paid (Notes No. 8)	–	–
Capital increases / decreases (Notes No. 8)	–	–
Change in consolidated Group / Step acquisitions	–	–
Other	–	–
31 Dec. 2015	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
Balance at 1 Jan. 2014	– 79,220	– 30,766	**– 109,986**
Change in 2014	26,074	12,760	**38,834**
Balance at 31 Dec. 2014 / 1 Jan. 2015 (adjusted)	**– 53,146**	**– 18,006**	**– 71,152**
Change in 2015	– 8,352	9,510	**1,158**
Balance at 31 Dec. 2015	**– 61,498**	**– 8,496**	**– 69,994**

Revenue reserves						
	Other comprehensive income					
Other revenue reserves	Currency translation differences	Changes in the fair value of financial instruments	Remeasurement of defined benefit plans	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
771,825	– 79,197	3,461	– 77,270	730,254	114,240	**844,494**
– 862	– 23	–	– 3,551	– 4,436	– 3,053	**– 7,489**
770,963	– 79,220	3,461	– 80,821	725,818	111,187	**837,005**
–	26,074	– 7,454	– 70,337	– 51,717	12,033	**– 39,684**
38,705	–	–	–	38,705	7,604	**46,309**
38,705	**26,074**	**– 7,454**	**– 70,337**	**– 13,012**	**19,637**	**6,625**
– 21,240	–	–	–	– 21,240	– 1,604	**– 22,844**
–	–	–	–	–	–	**–**
– 1,218	–	–	–	– 1,218	–	**– 1,218**
646	–	–	– 1,041	– 395	531	**136**
787,856	**– 53,146**	**– 3,993**	**– 152,199**	**689,953**	**129,751**	**819,704**

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

Also see the relevant information in the Notes.

STATEMENT OF CASH FLOWS

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

[1] Adjustment under IAS 8

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

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

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

NOTES

I. GENERAL INFORMATION ON THE GROUP

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

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

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

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

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

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

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

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

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

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

The present consolidated financial statements were approved for issue by the Board of Management on 17 March 2016 and are expected to be approved by the Supervisory Board on 23 March 2016.

New accounting principles

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

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

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

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

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

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

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

IFRS announcement	Adoption	Publication in EU Official Journal	First-time application in the EU
IAS 19 Employee Benefits	17 Dec. 2014	9 Jan. 2015	1 Feb. 2015
Improvements to the International Financial Reporting Standards (2010 to 2012)	17 Dec. 2014	9 Jan. 2015	1 Feb. 2015
Improvements to the International Financial Reporting Standards (2012 to 2014)	15 Dec. 2015	16 Dec. 2015	1 Jan. 2016
IAS 1 Presentation of Financial Statements	18 Dec. 2014	19 Dec. 2015	1 Jan. 2016
IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements	11 Sept. 2014	Open	Open
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures	18 Dec. 2014	exp. in Q2 / 2016	1 Jan. 2016
IFRS 11 Joint Arrangements	24 Nov. 2015	25 Nov. 2015	1 Jan. 2016
IFRS 14 Regulatory Deferral Accounts	30 Jan. 2014	Open	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets	2 Dec. 2015	3 Dec. 2015	1 Jan. 2016
IAS 27 Separate Financial Statements	18 Dec. 2015	23 Dec. 2015	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture	23 Nov. 2015	24 Nov. 2015	1 Jan. 2016
IAS 12 Income Taxes	19 Jan. 2016	exp. in Q4 / 2016	1 Jan. 2017
IAS 7 Statement of Cash Flows	29 Jan. 2016	exp. in Q4 / 2016	1 Jan. 2017
IFRS 15 Revenue from Contracts with Customers	11 Sept. 2015	exp. in Q2 / 2016	1 Jan. 2018
IFRS 9 Financial Instruments	24 July 2014	exp. in H2 / 2016	1 Jan. 2018
IFRS 16 Leases	13 Jan. 2016	Open	1 Jan. 2019

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

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

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

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

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

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

The aim of the amendments to **IAS 16 Property, Plant and Equipment** and to **IAS 38 Intangible Assets** is to provide further guidelines for defining an acceptable method for the depreciation of property, plant and equipment. Under the standards, revenue-based depreciation methods are not permitted for property, plant and equipment at all and for intangible assets only in certain exceptional cases.

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

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

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

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

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

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

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

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

Adjustment under IAS 8

Adjustments (recognised directly in equity)

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

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

Reclassifications

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. BASIS OF CONSOLIDATION

Consolidated Group

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

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

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

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

MATERIAL SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

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

* Adjustment under IAS 8

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

SUMMARISED BALANCE SHEET

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co. Ltd.	
(€ thousands) / 31 Dec.	**2015**	**2014**	**2015**	**2014***	**2015**	**2014**	**2015**	**2014**
Non-current assets	55,351	38,888	33,981	29,778*	35,652	33,205	33,719	30,467
Current assets	79,303	54,899	93,248	84,859	55,279	42,578	133,166	134,177
Non-current liabilities	– 6,812	– 4,769	– 2,473	– 2,417*	–	–	–	– 518
Current liabilities	– 60,001	– 32,928	– 42,092	– 40,635*	– 32,378	– 25,997	– 108,966	– 108,488
Net assets	**67,841**	**56,090**	**82,664**	**71,585***	**58,553**	**49,786**	**57,919**	**55,638**

* Adjustment under IAS 8

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

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

* Adjustment under IAS 8

CONDENSED STATEMENT OF CASH FLOWS

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

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

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

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

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

Our French subsidiary KSB SERVICE COTUMER, which has its head office in Déville lès Rouen, acquired a business in the Service segment in February 2015. The assets and liabilities acquired have been included in the consolidated balance sheet at the following fair values:

(€ thousands)	Fair value at the date of acquisition
Non-current assets	**751**
Intangible assets	539
Property, plant and equipment	212
Current assets	**250**
Inventories	250
	1,001
Current liabilities	**1,001**
Trade payables	502
Other non-financial liabilities	499
	1,001

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

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

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

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

Consolidation methods

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

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

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

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

Currency translation

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

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

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

When translating financial statements of consolidated companies that are not prepared in euro, assets and liabilities are translated at the closing rate; the income statement accounts are translated at average exchange rates (modified closing rate method). Gains and losses from the translation of items of assets and liabilities compared with their translation in the previous year are taken directly to equity in other comprehensive income and reported under currency translation differences. They amount to € –69,994 thousand (previous year: € –71,152 thousand). The effect of currency translation adjustments taken directly to equity on intangible assets, property, plant and equipment, and financial assets was a gain of € 4,935 thousand (previous year: gain of € 19,639 thousand).

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

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

III. ACCOUNTING POLICIES

Acquisition and production costs

In addition to the purchase price, acquisition cost includes attributable incidental costs (except for costs associated with the acquisition of a company) and subsequent expenditure. Purchase price reductions are deducted from cost.

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

Borrowing costs as defined in IAS 23 that can be directly allocated to the acquisition or production of qualifying assets are capitalised from 2009. As in the previous year no such borrowing costs were incurred.

Fair value

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

The KSB Group defined a monitoring framework concept for determining fair value. This includes a measurement team with general responsibility for monitoring all key measurements at fair value and notifying management and, if necessary, the Audit Committee of any major issues. For the purposes of calculating fair value, we make use wherever possible of estimates from market participants or estimates derived from these. In a first step we regularly review the extent to which there are current prices on active markets for identical transactions. If no quoted market prices are available, our preference is to use the market-based approach (deriving the fair value from the market or transaction prices of comparable assets, for example multipliers) or the income-based approach (calculation of fair value as a future value by discounting future cash surpluses).

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

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

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

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

Financial instruments

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

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

a) Primary financial instruments

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

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

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

Financial instruments are carried at fair value on initial recognition, while LaR and FLAC take into account the transaction costs. Subsequent measurement is based on fair value for category AfS and on amortised cost for categories LaR and FLAC. Subsequent measurement of loans and receivables is based on amortised cost using the effective interest method. We do not currently make use of the fair value option. The fair values of the current and non-current financial instruments are based on prices quoted in active markets on the reporting date.

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

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

b) Derivative financial instruments

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

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

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

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

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

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

Intangible assets

Intangible assets are carried at (acquisition or production) cost and reduced by straight-line amortisation. Depreciation / amortisation is reported under "Depreciation and amortisation expense" in the income statement. The underlying useful lives of intangible assets (excluding goodwill) is between two and five years. If the reasons for an impairment loss in a previous period no longer apply, it is reversed (write-up) up to a maximum of amortised cost.

We test goodwill for impairment once a year. This relates to cash-generating units (CGU), which at KSB are generally the legal entities. Occasionally a group of cash-generating units may also serve as the basis, provided these units reflect the lowest level on which we monitor goodwill. The goodwill (and, if necessary, other assets) is reduced by the difference in value if the recoverable amount – the higher of the fair value less costs to sell and the value in use – is lower than the carrying amount of the CGU. Reversal of an impairment loss from an earlier period is not possible. In addition, a review of impairment is always carried out when events or circumstances ("trigger events") suggest that the value could be impaired.

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

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

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

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

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

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

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

The following useful lives are applied:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

Non-current financial assets
Equity investments are carried at fair value. Interest-bearing loans and investments in non-consolidated subsidiaries are measured at amortised cost. Financial instruments are carried at their fair values at the reporting date.

Investments accounted for using the equity method
Investments accounted for using the equity method are companies in which the parties exercise joint control (joint venture) or have the power to exercise significant influence over the companies' operating and financial policies (associate); this is usually the case where an entity holds between 20 % and 50 % of the voting power. These assets are recognised at cost at the time of acquisition. If the costs of acquisition exceed the share of the net assets, adjustments are made on the basis of the fair value (pro rata hidden reserves and liabilities). The remaining amount is recorded as goodwill. It forms part of the carrying amount of the joint venture or associate and is not amortised. For subsequent measurement, the carrying amounts are increased/reduced annually by the pro-rata earnings, distributed dividends or other changes in equity of the joint venture or the associate. If local accounting principles differ from the accounting

methods used in the Group, we make the necessary adjustments. The share of earnings is reported in the consolidated income statement in a separate line (earnings from investments accounted for using the equity method), and changes such as currency translation effects are taken directly to Group equity. If the losses attributable to the KSB Group correspond to the carrying amount of the company or exceed this, they are not recognised unless KSB has entered into obligations or has made payments for the company. Intercompany gains and losses from transactions between Group companies and investments accounted for using the equity method are offset against the carrying amount in profit or loss. At each reporting date we review whether there are any objective indications of impairment, and calculate the amount of such impairment if required. If the carrying amount exceeds the recoverable amount of an investment, it is written down to the recoverable amount. Any impairments or reversals of impairments are reported in the consolidated income statement under financial income / expense.

Inventories

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

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

Construction contracts under IAS 11

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

The percentage contract revenue less the related advances received from customers is reported – depending on the balance – in trade receivables and PoC or within other financial liabilities. Effects in the period are recognised in the income statement as part of sales revenue.

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

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

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

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

Assets held for sale
Pursuant to IFRS 5, non-current assets or disposal groups are classified as held for sale if it is highly likely that the carrying amount will be realised primarily by a sales transaction and not through continued use of that asset. It must be assumed that the sale will be completed within one year. If the Group is committed to a sale that involves loss of control of a subsidiary, all assets and liabilities of that subsidiary will be classified as held for sale, provided the above conditions are met. The intangible assets and property, plant and equipment of the held-for-sale

assets are no longer amortised/depreciated, but instead are recognised at the lower of the carrying amount and fair value less costs to sell.

Deferred taxes

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

Provisions

a) Provisions for pensions and similar obligations

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

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

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

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

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

b) Other provisions

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

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

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

Financial liabilities

Financial liabilities are recognised with their amortised costs using the effective interest rate method.

Contingent liabilities (contingencies and commitments)

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

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

Income and expenses

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

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

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

Sales allowances reduce sales revenue.

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

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

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

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

Estimates and assumptions

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

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

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

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

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

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

The global scope of our activities must be taken into account in relation to **taxes on income**. Based on our operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for determining our tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. Uncertain tax assets and liabilities are recognised if their probability of occurrence exceeds 50 %. For the reporting, the best estimate is based on the expected tax payment. Although we believe we have made a reasonable estimate regarding any tax uncertainties, it is possible that the actual tax obligation will differ from our original estimate. With regard to future tax benefits, we assess their realisability as of every reporting date. For this reason, we only recognise deferred tax assets if sufficient taxable income is available in future. In assessing this future taxable income within a planning horizon of normally five years it must be taken into account that expected future business developments are subject to uncertainties and are in some cases excluded from control by company management (for example changes to applicable tax legislation). If we come to the conclusion that previously reported deferred tax assets cannot be realised because of changed assumptions, then the assets will be written down by the appropriate amount.

Maturities
Maturities of up to one year are classified as current.

Assets that can only be realised after more than 12 months, as well as liabilities that only become due after more than 12 months, are also classified as current if they are attributable to the operating cycle defined in IAS 1. An operating cycle of more than 12 months typically applies to made-to-order production (construction contracts).

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

IV. BALANCE SHEET DISCLOSURES

1 Intangible assets

STATEMENT OF CHANGES IN INTANGIBLE ASSETS

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

As in the previous year, we did not capitalise any development costs in the year under review because not all of the comprehensive recognition criteria defined in IAS 38 were met. The "Concessions, industrial property and similar rights and assets, as well as licences in such rights and assets" item includes € 9.3 million (previous year: € 8.6 million) of software including software licences valid for a limited period. There are no restrictions on ownership or use.

The carrying amounts of the cash-generating units in connection with the impairment testing of goodwill do not contain any items relating to taxes or financing activities.

To determine the discount rate, the weighted average cost of capital (WACC) method is applied in conjunction with the capital asset pricing model (CAPM), taking into account a peer group. Under this method, first the cost of equity is determined using CAPM and the borrowing costs are defined, and then the individual capital components are weighted in accordance with the capital structure taking account of the peer group. The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 1.5 % in the year under review (previous year: 2.1 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 1.03 (previous year: 1.06). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU). We applied growth rates of between 0.75 % and 1.25 % (previous year: between 0.50 % and 1.25 %).

DISCOUNT RATES

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

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

GOODWILL

Name of CGU / (€ thousands)	31 Dec. 2015	31 Dec. 2014
KSB Seil Co., Ltd., South Korea	27,188	26,285
DP industries B.V., the Netherlands	18,285	18,285
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	5,689
REEL s.r.l., Italy	5,526	9,681
KSB SERVICE MEDIATEC S.A.S., France	–	3,179
Dynamik-Pumpen GmbH, Germany	3,150	3,150
Uder Elektromechanik GmbH, Germany	2,980	2,980
KSB Service Centre-Est S.A.S., France	–	2,609
KSB Finland Oy, Finland	2,468	1,764
KSB Pumps (S.A.) (Pty) Ltd., South Africa	1,755	2,120
KSB SERVICE ETC S.A.S., France	1,412	1,412
	68,453	**77,154**
Other 17 (previous year: 21) companies	14,396	15,626
Total	**82,849**	**92,780**

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

IMPAIRMENT LOSS ON GOODWILL

Name of CGU	Segment	Discount factor	Recoverable amount (€ thousands)	Impairment loss (€ thousands)
REEL s.r.l., Italy	Pumps	13.9 %	8,367	4,155
KSB SERVICE MEDIATEC S.A.S., France	Service	13.4 %	1,058	3,179
KSB Service Centre-Est S.A.S., France	Service	11.7 %	1,425	2,609
KSB Service Est S.A.S., France	Service	12.1 %	2,546	903
Total 31 Dec. 2015				**10,846**
KSB Service Est S.A.S., France	Service	13.2 %	4,410	647
KSB Italia S.p.A., Italy	Pumps	15.7 %	23,452	3,710
KSB Service EITB-SITELEC S.A.S., France	Service	10.5 %	2,566	1,944
Metis Levage S.A.S., France	Service	13.3 %	488	453
Total 31 Dec. 2014				**6,754**

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

DETAILED INFORMATION ON KEY GOODWILL ITEMS

Cash-generating unit	Method	Carrying amount of goodwill (€ million)	Percentage of total goodwill	Discount rate	Growth rate	Underlying assumptions, corporate planning	Method for assessing the value of the underlying assumption
KSB Seil Co., Ltd.	Fair value less costs to sell (costs to sell of € 250 thousand)	27.2	33 %	8.3 % after taxes	1.00	▪ Improved business cycle expectations in shipbuilding (liquefied gas tankers) resulting in improved market growth rates ▪ Little change in exchange rates	Consideration of macro-economic key data and external market research
DP industries B.V.	Value in Use	18.3	22 %	9.3 % before taxes	1.25	▪ Greater customer focus ▪ Moderate to significant market growth rates	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments
REEL s.r.l.	Value in Use	5.5	7 %	13.9 % before taxes	0.75	▪ Greater customer focus ▪ Improved energy efficiency, resulting in more attractive market growth rates	Consideration of external market data and macro-economic environment

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

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

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

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

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

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

2 Property, plant and equipment

STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT

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

Assets resulting from finance leases are recognised as fixed assets in accordance with IAS 17, and corresponding financial liabilities are recognised. The carrying amount of these capitalised assets amounts to € 2,277 thousand (previous year: € 2,644 thousand), of which € 1,260 thousand (previous year: € 1,347 thousand) relate to land and buildings, € 113 thousand (previous year: € 133 thousand) to plant and machinery and € 904 thousand (previous year: € 1,164 thousand) to other equipment, operating and office equipment.

In 2013 it was decided to close down a relatively small production site forming part of the Valves segment in Germany. The real estate there was planned to be sold off in 2014 and, for this reason, it was reported pursuant to IFRS 5 in a separate balance sheet item within current assets (assets held for sale). Due to insufficient market liquidity, a sale was not possible until September 2015 despite various sales activities. The carrying amount was € 1,185 thousand.

The KSB Group gave up control of a German subsidiary (Service segment) in February 2015 through the sale of shares. Accordingly, the assets and liabilities of this subsidiary were presented as a disposal group held for sale as at 31 December 2014. No write-down needed to be carried out on the disposal group as the fair value less costs to sell was not below the carrying amount. Also, no accumulated income and expenses arising in connection with the disposal group were included in other comprehensive income.

Within the scope of our "Streamlining the Group structure" project, we identified a subsidiary in the Service segment whose business operations we sold in February 2016. In accordance with IFRS 5, we therefore treat the relevant assets and liabilities as a disposal group held for sale as at 31 December 2015. No write-down needed to be carried out on the disposal group as the fair value less costs to sell was not below the carrying amount. Also, no accumulated income and expenses arising in connection with the disposal group are included in other comprehensive income.

The held-for-sale assets and liabilities are classified as follows:

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Property, plant and equipment	182	36
Inventories	199	429
Receivables and other current assets	423	420
Cash and cash equivalents	130	164
Assets held for sale	**934**	**1,049**

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

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

Disposals of intangible assets and items of property, plant and equipment resulted in book gains of € 2,769 thousand (previous year: € 3,646 thousand) and book losses of € 3,258 thousand (previous year: € 578 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

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

3 Non-current financial assets

(€ thousands)	31 Dec. 2015	31 Dec. 2014
Other investments	5,074	3,941
Non-current financial instruments	668	661
Loans	2,219	2,718
	7,961	**7,320**

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

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

4 Investments accounted for using the equity method

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

MATERIAL JOINT VENTURES

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

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

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

SUMMARISED BALANCE SHEET

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

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

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

RECONCILIATION TO CARRYING AMOUNT OF GROUP SHARE IN JOINT VENTURES

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

SUMMARISED INFORMATION ON JOINT VENTURES THAT ARE IMMATERIAL INDIVIDUALLY

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

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

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

5 Inventories

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

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

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

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

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

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

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

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

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

7 Cash and cash equivalents

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

8 Equity

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

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

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

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

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

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

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

Capital disclosures

Sufficient financial independence is a key requirement for safeguarding KSB's continued existence in the long term. Obtaining the necessary funds for ongoing business operations is also extremely important for us. A key management parameter for us is the net financial position, which is the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash and cash equivalents, and receivables from cash deposits). Our long-term objective is to avoid net debt. We regularly monitor the development of this key performance indicator and manage it through active working capital management and by constantly optimising our financial structure, among other things. In the financial year we exceeded our original target of € 180–190 million and achieved € 211.3 million, based on successes in working capital management and a focused investment policy. In the previous year, owing to the fall in earnings accompanied by a sharp increase in investment volume, the development of the net financial position, at € 185.5 million, was somewhat weaker than planned twelve months earlier (€ 200 million).

9

Provisions

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

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

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

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

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

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

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

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

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

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

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

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

* CTA = Currency translation adjustments

Provisions for pensions and similar obligations

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

For employees of Group companies in Germany there is a defined contribution plan under the German statutory pension insurance scheme into which the employer must pay the currently valid pension contribution rate. Contributions to state pension insurance funds recognised in the income statement totalled € 25,866 thousand (previous year: € 26,383 thousand). € 8,546 thousand (previous year: € 7,512 thousand) was spent on defined contribution schemes for employees in other countries in the year under review.

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

More than 90 % of the defined benefit pension plans are attributable to the German Group companies. These relate to direct commitments by the companies to their employees. The commitments are based on salary and length of service. Contributions from employees themselves are also considered. This pension provision can be broken down into purely company-financed basic provision and the top-up provision from the employer. The latter is based on the amount of own contributions and the generated return on sales before taxes on income. Both components take account of the general pension contribution (the amount of which partially depends on company performance), personal income (the relationship between pensionable income and maximum income threshold) and the annuity conversion factor (based on age). Pension benefits are paid in annual instalments of one tenth of the amount. However, under certain conditions it is also possible to make a capital payment or pay a monthly pension instead.

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

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

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

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

Pension obligations in Switzerland are predominantly based on statutory obligations. This also includes details on a minimum pension which all employees with uninterrupted contributions are entitled to by law. The employer is therefore required to pay in contributions which are high enough for the respective pension fund or insurance company to pay out these minimum amounts. As well as pension benefits, the plans encompass other benefits such as disability or survivors' benefits. Both employer and employee contributions are paid to the pension fund, with the company having to make contributions that at least match the employee contributions specified in the terms and conditions of the plan. The retirement benefits are paid out in monthly instalments, but all employees have the option to receive a (partial) capital payment.

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

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

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

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

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

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

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

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

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

The expected contributions in the following year are anticipated to amount to € 19,820 thousand (previous year: € 18,386 thousand).

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

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

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

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

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

Composition of plan assets:

(€ thousands)	Quoted market price in an active market 31 Dec. 2015	No quoted market price in an active market 31 Dec. 2015	Total 31 Dec. 2015	Quoted market price in an active market 31 Dec. 2014	No quoted market price in an active market 31 Dec. 2014	Total 31 Dec. 2014
Equity instruments (shares)	20,769	–	20,769	17,043	–	17,043
Debt instruments (loans)	21,825	–	21,825	16,080	–	16,080
Government bonds	8,338	–	8,338	6,259	–	6,259
Corporate bonds	13,487	–	13,487	9,821	–	9,821
Money market investments	338	–	338	7,526	–	7,526
Real estate	843	–	843	670	–	670
Insurance contracts	–	16,409	16,409	–	13,405	13,405
Bank credit balances	2,253	–	2,253	2,731	–	2,731
Other investments	551	356	907	150	321	471
Total	**46,579**	**16,765**	**63,344**	**44,200**	**13,726**	**57,926**

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

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

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

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

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

The discount rate and future mortality were identified as key actuarial assumptions. As in the previous year the basis for the calculation of the sensitivities is the same method which was used for the calculation of the provisions for pensions and similar obligations.

Were the discount factor to increase by 100 basis points, the DBO would fall by € 95 million (previous year: € 97 million). A 100 basis point reduction in the discount factor would increase the DBO by € 126 million (previous year: € 130 million). It should be noted that a change to the discount factor due to particular financial effects (such as compound interest) does not affect the development of the DBO on a straight-line basis. Were life expectancy to increase by 1 year, the DBO would increase by € 22 million (previous year: € 24 million).

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

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

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

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

Other employee benefits

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

Other provisions

The provisions for warranty obligations and contractual penalties cover the statutory and contractual obligations to customers and are based on estimates prepared using historical data for similar products and services.

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

The miscellaneous other provisions include provisions for anticipated losses from uncompleted transactions and onerous contracts (€ 1,298 thousand for 2015 and € 1,179 thousand for 2014), customer bonuses and environmental protection measures. They also cover risks of litigation and legal proceedings if the recognition criteria for a provision are met (€ 11.1 million; previous year: € 6.7 million). These are usually risks arising from legal disputes in relation to operations or, in rare cases, disputes with government agencies or personnel matters. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, the results of comparable proceedings and independent legal opinions are considered in individual cases along with assumptions regarding the probability of occurrence and the range of potential claims. In addition, there are contingent liabilities resulting from legal disputes in relation to operations in the amount of € 73.6 million (previous year: € 42.9 million). Appropriate insurance policies in the amount of € 11.0 million (previous year: € 13.4 million) are in place to cover claims.

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

10 Liabilities

NON-CURRENT LIABILITIES

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

CURRENT LIABILITIES

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

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

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

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

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

In 2012, to safeguard liquidity in the medium term, KSB AG took the precaution of placing a loan against borrower's note with a total volume of € 175 million. This loan is divided into repayment tranches of 3, 5, 7 and 10 years. As the different repayment tranches have different terms, different rates of interest apply, some of which are fixed and some variable. In the reporting year € 35.0 million was repaid upon maturity and € 17.5 million before maturity.

€ 102 million (previous year: € 155 million) of the liabilities arising from the loan against borrower's note are classified as bank loans and overdrafts, and € 20 million as other financial liabilities (unchanged).

Assets amounting to € 3,778 thousand (previous year: € 7,804 thousand) have been pledged as security in the KSB Group for bank loans and other liabilities on the basis of standard terms and conditions. Of these, none (as in the previous year) relate to property, plant and equipment, € 180 thousand (previous year: € 3,178 thousand) to inventories, none (as in the previous year) to receivables and € 3,598 thousand (previous year: € 4,626 thousand) to other securities.

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

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

The weighted average interest rate on bank loans and overdrafts as well as on an open-market credit (loan against borrower's note) was 3.03 % (previous year: 2.84 %). Interest rate risk exists for the major portion of the loan against borrower's note mentioned above.

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

V. INCOME STATEMENT DISCLOSURES

11 Sales revenue

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

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

12 Other income

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

Miscellaneous other income relates primarily to commission income, rental and lease income, insurance compensation, grants and subsidies. Income from government grants for individual projects (for example, for research activities) amounted to € 2,846 thousand (previous year: € 3,675 thousand).

13 Cost of materials

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

14 Staff costs

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

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

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

EMPLOYEES

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

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

15 Other expenses

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

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

16 Financial income / expense

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

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

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

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

17 Taxes on income

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

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

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

RECONCILIATION OF DEFERRED TAXES

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

* CTA = Currency translation adjustments

ALLOCATION OF DEFERRED TAXES

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

As at the reporting date, deferred tax assets (after offsetting) of € 66,867 thousand (previous year: € 11,281 thousand) were recognised, arising from companies posting a loss in the financial year or previous year, whose realisation exclusively depends on the creation of future profit. Based on the planning figures available, we expect realisation to take place.

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

INCOME TAXES INCLUDED UNDER EQUITY

(€ thousands)	2015	2014 after adjustment under IAS 8	2014 before adjustment under IAS 8
Remeasurement of defined benefit plans	18,087	– 101,841	– 98,568
Taxes on income	– 5,454	31,003	29,876
Currency translation differences	1,158	38,834	38,834
Taxes on income	–	–	–
Changes in the fair value of financial instruments	3,077	– 11,534	– 11,534
Taxes on income	– 529	3,854	3,854
Other comprehensive income	**16,339**	**– 39,684**	**– 37,538**

As in the previous year, the introduction of new local taxes had no effects in the year under review. Changes in foreign tax rates led to a reduction in the total tax expense of € 591 thousand; they had no material impact on the total tax expense in the previous year.

As far as net income from affiliates and other equity investments is concerned, withholding taxes incurred in connection with distributions and German taxes incurred are recognised as deferred taxes if these gains are expected to be subject to corresponding taxation, or there is no intention of reinvesting them in the long term. No deferred tax liabilities were recognised for temporary differences of € 7,205 thousand (previous year: € 7,370 thousand) in relation to affiliates and associates as it is unlikely that these temporary differences will be reversed in the foreseeable future.

We did not recognise deferred tax assets from loss carryforwards amounting to € 49,641 thousand (previous year: € 43,452 thousand) because it is unlikely that there will be sufficient taxable profit available in the near future against which these deferred tax assets can be utilised. They are largely available for an indefinite period.

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

RECONCILIATION OF INCOME TAXES

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

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

18 Earnings after income taxes – Non-controlling interests

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

19 Earnings per share

		2015	2014*
Earnings after income taxes attributable to KSB AG shareholders	€ thousands	39,285	38,705*
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	**39,060**	**38,480***
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		**1,751,327**	**1,751,327**
Diluted and basic earnings per ordinary share	**€**	**22.30**	**21.97***
Diluted and basic earnings per preference share	**€**	**22.56**	**22.23***

* Adjustment under IAS 8

VI. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

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

ASSETS

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

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

EQUITY AND LIABILITIES

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

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

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

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

The fair values of non-current financial liabilities are determined as the present value of the cash flows associated with the liabilities. We apply an appropriate yield curve to arrive at this present value.

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

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

PRESENTATION OF HIERARCHY LEVELS 2015

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

PRESENTATION OF HIERARCHY LEVELS 2014

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

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

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

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

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

Fair values within level 2 are determined based on a discounted cash flow method. Future cash flows from currency forwards are estimated on the basis of forward exchange rates (observable rates on the reporting date) and the contracted forward exchange rates, and are discounted with an adequate interest rate. Future cash flows from interest rate swaps are estimated on the basis of forward interest rates (observable interest structure curves on the reporting date) and the contracted interest rates, and are discounted with an adequate interest rate. Specific contractual regulations formed the basis for calculating the Level 3 fair values of other financial liabilities measured at amortised cost.

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2015

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

NET RESULTS BY MEASUREMENT CATEGORY IN 2014

		From subsequent measurement				
(€ thousands)	From interest and dividends	At fair value	Currency translation	Impairment losses	From disposal	Net results
LaR	6,434	–	2,334	– 4,901	–	3,867
AfS	33	15	–	– 1,758	–	– 1,710
FLAC	– 8,150	–	– 161	–	–	– 8,311
	– 1,683	**15**	**2,173**	**– 6,659**	**–**	**– 6,154**

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

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

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

Financial risks

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

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

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

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

Credit risk

The primary credit risk is that there is a delay in settling a receivable, or that it is not settled either in full or in part. We minimise this risk using a variety of measures. As a matter of principle, we run credit checks on potential and existing counterparties. We only enter into business relationships if the results of this check are positive. Additionally, our European companies in particular take out trade credit insurance policies. As in the previous year, these policies account for around 10 % of the Group's trade receivables in total. In exceptional cases we accept other securities (collateral) such as guarantees. The insurance policies primarily cover the risk of loss of receivables. Moreover, we also take out cover against political and commercial risks in the case of certain customers in selected countries. For both types of insurance, we have agreed deductibles, which represent significantly less than 50 % of the insured volume. As part of our receivables management system, we continuously monitor outstanding items, perform maturity analyses and establish contact with customers at an early stage if delays in payment occur. In the case of major projects, our terms and conditions provide for prepayments, guarantees and – for export transactions – letters of credit. These also mitigate risk. Impairment losses are recognised for the residual risk remaining in trade receivables. We 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)	**2015**	**2014**
Opening balance at 1 January	**35,905**	**30,337**
Additions	10,310	8,560
Utilised	– 2,197	– 1,821
Reversals	– 8,990	– 3,512
Changes in consolidated Group / CTA* / Other	532	2,341
Closing balance at 31 December	**35,560**	**35,905**

* CTA = Currency translation adjustments

The maturity structure of trade receivables is as follows:

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

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

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

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

Liquidity risk

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

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

The reporting system additionally ensures, with the help of monthly rolling cash flow planning, that the Group's centralised financial management is continuously informed about liquidity surpluses and requirements. This enables us to optimally meet the needs of the Group as a whole and of the individual companies. For selected companies we use a cash pooling system to ensure that available cash is deployed optimally within the Group. We also apply a worldwide receivables netting procedure within the KSB Group so as to minimise both the volume of cash flows and the associated fees. In order to be able to provide the necessary collateral in the project business, corresponding guarantee volumes are made available. Adequate proportions are confirmed for a period of more than one year. In addition, we always ensure that credit facilities are sufficient; we identify the need for these on the basis of regular liquidity plans. In this way we can react to fluctuating liquidity requirements at all times. Our approved cash loans and credit lines total approximately € 940 million (previous year: approx. € 958 million), of which € 627.7 million has not yet been utilised (previous year: € 627.8 million).

The following tables show the contractually agreed non-discounted future cash flows of the financial liabilities (primary financial instruments) and derivative financial instruments. Interest payments on fixed-rate liabilities are determined on the basis of the fixed rate. Floating-rate interest payments are based on the last floating interest rates fixed before 31 December. Projections for future new liabilities are not included in the presentation. Based on our current state of knowledge, it is neither expected that the cash flows will take place significantly earlier, nor that the amounts will differ significantly.

CASH FLOWS OF FINANCIAL LIABILITIES 2015

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

CASH FLOWS OF FINANCIAL LIABILITIES 2014

(€ thousands)	Total	Up to 1 year	1 – 5 years	> 5 years
Financial liabilities	272,124	99,497	146,580	26,047
Trade payables	211,723	211,559	164	–
Miscellaneous other financial liabilities	41,073*	40,457*	616	–
Derivative financial instruments Outgoing payments	– 2,622	– 2,303	– 319	–
Derivative financial instruments Incoming payments	12,687	10,925	1,716	46
	534,985*	360,135*	148,757	26,093

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

Market price risk

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

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

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

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

NOTIONAL VOLUMES 2015

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

NOTIONAL VOLUMES 2014

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

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

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

* CTA = Currency translation adjustments

The main currencies in the KSB Group are the Chinese yuan (CNY) and US dollar (USD). For the currency sensitivity analysis, we simulate the effects based on the notional volume of our existing foreign currency derivatives and our foreign currency receivables and liabilities at the reporting date. For the analysis, we assume a 10 % increase (decrease) in the value of the euro versus the other currencies. In the reporting year, this would have amounted to approximately € 2.7 million for CNY, as in the previous year, and € 2.2 million (previous year: € 1.2 million) for USD.

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

Based on the measurement of derivatives, at the reporting date, equity and the fair value of the derivatives would have been € 8.5 million lower (higher), with € 6.4 million resulting from USD and € 2.1 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 13.2 million lower (higher), with € 10.6 million resulting from USD and € 2.6 million from the other currencies.

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

As part of our interest rate sensitivity analysis, we simulate a 50 basis point increase (decrease) in market interest rates and analyse the impact on the floating rate financial instruments. In 2015, the net interest balance would have been € 1.8 million (previous year: € 1.9 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.3 (0.3) million (previous year: € 0.6 (0.6) million).

VII. STATEMENT OF CASH FLOWS

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

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

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

In addition to cash flows resulting from equity items (capitalisation measures and dividend payments), cash flows from financing activities comprise also cash flows arising from changes in investments in Group companies that are not fully consolidated and in financial liabilities.

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

VIII. SEGMENT REPORTING

Segment reporting is prepared in accordance with IFRS 8 based on the management approach and corresponds to our internal organisational and management structure as well as the reporting lines to the Board of Management as the chief operating decision maker. In our matrix organisation, management decisions are primarily taken on the basis of the key performance indicators – order intake, external sales revenue and earnings before interest and taxes (EBIT) – determined for the Pumps, Valves and Service segments, excluding the effects from measuring construction contracts under IAS 11. Reporting the relevant assets, number of employees and inter-segment sales revenue for these segments is not part of our internal reporting. The managers in charge of the segments, which are geared to product groups, have profit and loss responsibility. They identify business opportunities across markets and industries and assess our options based on current and future market requirements. They also proactively encourage the development of new products and improvements to the available range of products. In this context, they work closely with our Sales organisation and Operations.

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

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

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

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

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

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

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

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

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

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

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

* Adjustment under IAS 8

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

€ 620,238 thousand (previous year: € 604,449 thousand) of the sales revenue presented was generated by the companies based in Germany, € 261,769 thousand (previous year: € 251,267 thousand) was generated by the companies based in France, € 209,959 thousand (previous year: € 164,744 thousand) by the companies based in the USA, and € 1,242,865 thousand (previous year: € 1,161,279 thousand) by the other Group companies.

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

At the reporting date, the total non-current assets of the KSB Group amounted to € 513,057 thousand (previous year: € 494,469 thousand), with € 177,596 thousand (previous year: € 182,151 thousand) being attributable to the companies based in Germany and € 335,461 thousand (previous year: € 312,318 thousand) being attributable to the other Group companies. They include intangible assets, property, plant and equipment and investments accounted for using the equity method; non-current financial instruments and deferred tax assets are not included.

IX. OTHER DISCLOSURES

Contingent liabilities (contingencies and commitments)

CONTINGENT LIABILITIES AND COLLATERAL

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

Other contingent liabilities include € 928 thousand for tax items (previous year: € 607 thousand). At present, there are no indications that any claims will be asserted under these obligations.

The Group has contingent liabilities as a result of its investment in associates and joint ventures of € 5,989 thousand (previous year: € 5,697 thousand). The reported amount is the Group's share of contingent liabilities from joint ventures. Contingent liabilities relating to other investments total € 1,728 thousand (previous year: € 1,758 thousand). The extent to which these will result in a cash outflow depends on the future business performance of the respective company.

OPERATING LEASES

	Minimum lease payments	
(€ thousands)	2015	2014
Due within 1 year	17,832	16,283
Due between 1 and 5 years	32,398	30,045
Due after more than 5 years	7,799	9,005
	58,029	**55,333**

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

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

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

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

The annual obligations from IT services agreements amount to € 62,276 thousand (previous year: € 22,956 thousand) over a term of one to five years.

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

The aggregate purchase obligation for investments (principally items of property, plant and equipment) amounts to € 20,029 thousand (previous year: € 17,809 thousand). Almost all of the corresponding payments are due in 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditors

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

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

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

Use of exemption option

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

Events after the reporting period

There were no reportable events after the reporting date.

German Corporate Governance Code

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

LIST OF SHAREHOLDINGS

AFFILIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.
	National			
1	Dynamik-Pumpen GmbH, Stuhr	Germany	100.00	
2	KAGEMA Industrieausrüstungen GmbH, Pattensen	Germany	100.00	
3	KSB Armaturen Verwaltungs- und Beteiligungs-GmbH, Frankenthal	Germany	100.00	
4	KSB Service GmbH, Frankenthal	Germany	100.00	
5	KSB Service GmbH, Schwedt	Germany	100.00	
6	PAB Pumpen- und Armaturen-Beteiligungsges. mbH, Frankenthal	Germany	51.00	
7	PMS-BERCHEM GmbH, Neuss	Germany	100.00	
8	Pumpen-Service Bentz GmbH, Reinbek	Germany	100.00	
9	Uder Elektromechanik GmbH, Friedrichsthal	Germany	100.00	
	International			
10	Aplicaciones Mecánicas Válvulas Industriales, S.A. (AMVI), Burgos	Spain	100.00	27
11	Canadian Kay Pump Limited, Mississauga / Ontario	Canada	100.00	
12	Dalian KSB AMRI Valves Co., Ltd., Dalian	China	100.00	27
13	DP industries B.V., Alphen aan den Rijn	The Netherlands	100.00	26
14	FORTY FOUR ACTIVIA PARK (PTY) LTD, Germiston (Johannesburg)	South Africa	100.00	45
15	GIW Industries, Inc., Grovetown / Georgia	USA	100.00	17
16	Hydroskepi GmbH, Amaroussion (Athens)	Greece	100.00	
17	KSB America Corporation, Richmond / Virginia	USA	100.00	6
18	KSB AMRI, Inc., Houston / Texas	USA	10.03	52
			89.97	17
19	KSB Australia Pty Ltd, Bundamba QLD	Australia	100.00	27
20	KSB Belgium S.A., Bierges-lez-Wavre	Belgium	100.00	27
21	KSB Bombas Hidráulicas S.A., Várzea Paulista	Brazil	100.00	27
22	KSB, Bombas e Válvulas, SA, Albarraque	Portugal	95.00	
23	KSB Chile S.A., Santiago	Chile	100.00	
24	KSB Compañía Sudamericana de Bombas S.A., Carapachay (Buenos Aires)	Argentina	95.00	27
			5.00	
25	KSB de Mexico, S.A. de C.V., Querétaro	Mexico	100.00	
26	KSB Finance Nederland B.V., Zwanenburg	The Netherlands	100.00	27
27	KSB FINANZ S.A., Echternach	Luxembourg	100.00	
28	KSB Finland Oy, Kerava	Finland	100.00	
29	KSB, Inc., Richmond / Virginia	USA	100.00	17
30	KSB Italia S.p.A., Milan	Italy	100.00	27
31	KSB ITUR Spain S.A., Zarautz	Spain	100.00	27
32	KSB Korea Ltd., Seoul	South Korea	100.00	
33	KSB Limited, Hong Kong	China	100.00	
34	KSB Limited, Loughborough	United Kingdom	100.00	27

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

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

JOINT VENTURES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands
	National					
90	Nikkiso-KSB GmbH, Pegnitz	Germany	50.00		5,400	337
	International					
91	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	55.00	42	189	–
92	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	27	20,361	7,520
93	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		6,374	1,072
94	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		38,262	– 1,286

ASSOCIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands
	International					
95	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		4,433	2,114

* Data according to latest financial statements available

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

No.	Name and seat of company	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands	
	National						
96	gear-tec GmbH, Eggebek	Germany	51.00		260	– 93	
	International						
97	IOOO "KSB BEL", Minsk	Belarus	98.10	75	513	241	
			1.90	3			
98	KSB Algérie Eurl, Dar El-Beida (Algier)	Algeria	100.00	27	741	229	■
99	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		341	72	■
100	KSB Pumps and valves L.t.d., Domžale	Slovenia	100.00		– 69	9	■
101	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	27	12	– 405	
102	KSB Ltd., Tokyo	Japan	100.00		– 1,330	– 242	
103	KSB Perú S.A., Lurin	Peru	100.00		692	– 22	■
104	KSB PHILIPPINES, INC., Makati City	Philippines	100.00	63	– 3	– 78	
105	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	100.00	100	142	170	■
106	KSB pumpe i armature d.o.o., Zagreb	Croatia	100.00	100	– 240	– 227	■
107	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	33	1,803	187	
108	KSB Services Ltd. Co., Al-Khobar	Saudi Arabia	70.00		85	– 155	*
109	NINOMIT VPH-Tekniikka Oy, Oulu	Finland	100.00	28	327	169	
110	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	43	– 427	– 10	■
111	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	75	13	– 65	
112	TOV "KSB Ukraine", Kiev	Ukraine	100.00	75	50	– 51	

* Data according to latest financial statements available
■ Prior-period figures

SUPERVISORY BOARD

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

Klaus Kühborth, Dipl.-Wirtsch.-Ing., Frankenthal
Managing Director of Klein Pumpen GmbH
(Chairman of the Supervisory Board until 10 Sept. 2015)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[2] BKK advita, Alzey, Germany

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

[4] Burckhardt Compression AG, Winterthur, Switzerland

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

[6] Hella KGaA Hueck & Co., Lippstadt, Germany
Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main, Germany
Rheinisch-Bergische Verlagsgesellschaft mbH, Düsseldorf, Germany
Stihl Holding AG & Co. KG, Waiblingen, Germany

[7] Ecoliance Rheinland-Pfalz e.V., Germany

[8] Deutsche Rentenversicherung Rheinland-Pfalz, Speyer, Germany

[9] TÜV SÜD Industrie Service GmbH, Munich, Germany
TÜV SÜD Auto Service GmbH, Stuttgart, Germany

[10] KVG Binnenalster AG, Hamburg, Germany

BOARD OF MANAGEMENT

Board of Management jointly:
Strategy and Regions

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

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

Mandates of KSB AG's Board of Management members in the Board of Directors of KSB companies

1) SISTO Armaturen S.A., Echternach, Luxembourg
KSB FINANZ S.A., Echternach, Luxembourg
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps & Valves (Pty) Ltd., Germiston (Johannesburg), South Africa

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

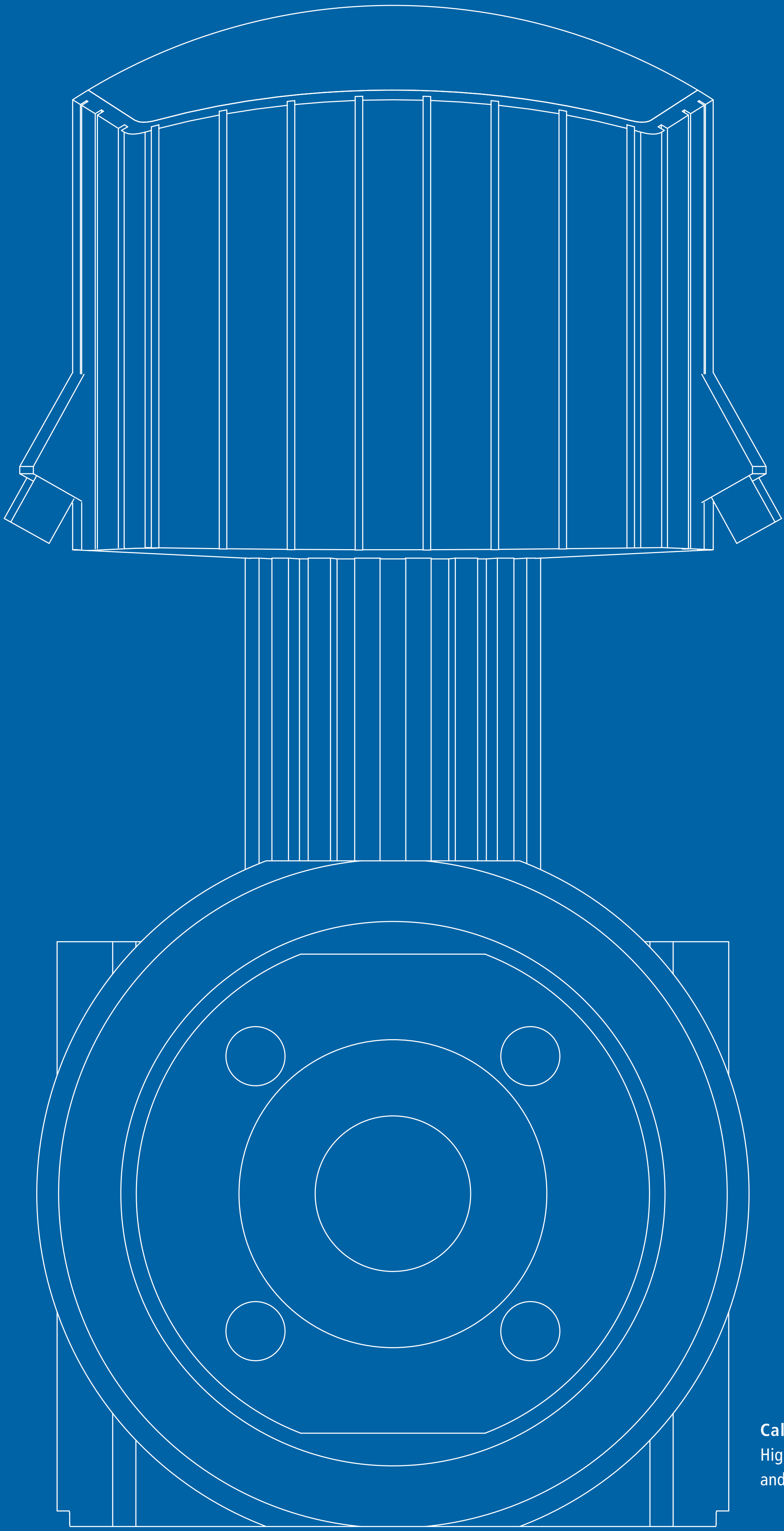
PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB AG

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

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

Frankenthal, 17 March 2016
The Board of Management

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



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