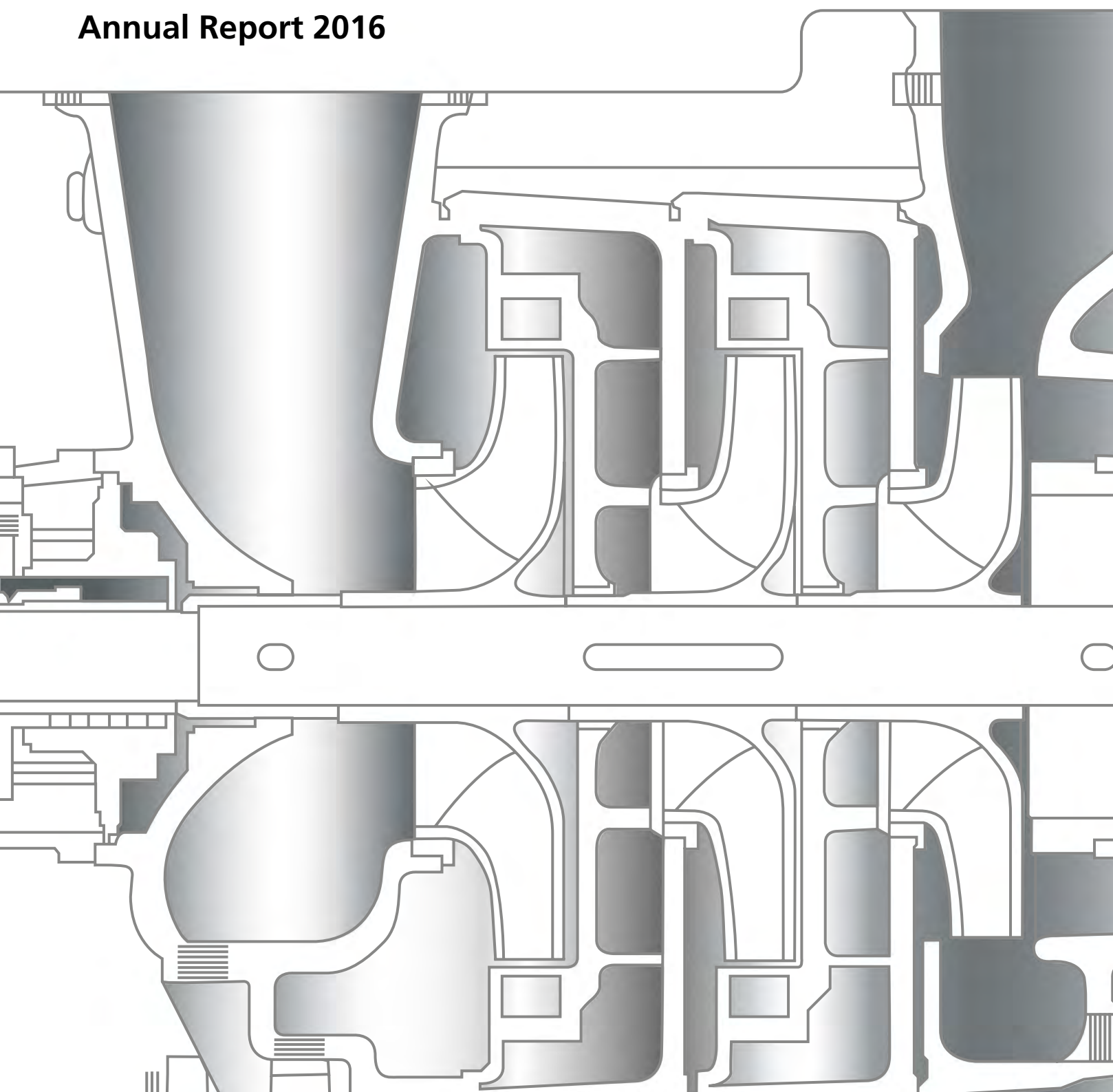


Annual Report 2016





KSB PROFILE

KSB is a leading supplier of pumps, valves and related services. Our reliable, high-efficiency products are used in applications worldwide where fluids need to be transported or shut off, covering everything from building services, industry and water transport to waste water treatment, power plant processes and mining. Wherever our customers are in the world, 170 service centres are on hand to provide local inspection, servicing, maintenance and repair services. Innovative technology that is the fruit of KSB's research and development activities forms the basis for the company's success and that of our customers.

Cover:
Multitec multistage ring-section pump for transporting
large volumes of water at high pressures

GROUP FINANCIAL HIGHLIGHTS

BUSINESS DEVELOPMENT AND EARNINGS

		2016	2015	2014	2013	2012
Order intake	€ m	2,156.6	2,261.2	2,321.2	2,241.2	2,257.4
Sales revenue	€ m	2,165.7	2,334.8	2,181.7	2,247.3	2,268.2
Earnings before interest and taxes (EBIT)	€ m	88.2	105.2	89.2*	136.2	150.4**
Earnings before income taxes (EBT)	€ m	74.6	93.4	72.8*	119.4	132.8**
Earnings after income taxes	€ m	47.8	52.2	46.3*	79.9	90.3**
Cash flow	€ m	139.8	137.5	124.4*	142.3	156.9**

BALANCE SHEET

		2016	2015	2014	2013	2012
Balance sheet total	€ m	2,350.2	2,291.1	2,277.9*	2,151.5	2,188.0**
Fixed assets	€ m	641.2	633.1	622.6	591.2	602.0
Capital expenditure	€ m	82.2	82.8	85.1	57.1	91.4
Depreciation and amortisation expense	€ m	72.6	72.8	66.2	60.2	58.6
Current assets	€ m	1,596.9	1,573.6	1,568.5	1,520.6	1,546.2
Equity (incl. non-controlling interests)	€ m	890.3	870.2	819.7*	844.5	832.2**
Equity ratio (incl. non-controlling interests)	%	37.9	38.0	36.0*	39.3	38.0**

PROFITABILITY

		2016	2015	2014	2013	2012
Return on sales	%	3.5	4.0	3.3	5.3	5.9**
Return on equity	%	8.5	11.1	8.8*	14.2	15.6**
Return on capital employed	%	4.1	4.9	4.3	6.6	7.5**

EMPLOYEES

		2016	2015	2014	2013	2012
Number of employees at 31 Dec.		15,572	16,196	16,309	16,546	16,207
Staff costs	€ m	798.8	819.3	784.8*	787.6	758.3**

SHARES

		2016	2015	2014	2013	2012
Market capitalisation at 31 Dec.	€ m	637.7	659.2	735.7	804.3	769.4
Earnings per ordinary share (EPS)	€	18.68	22.30	21.97*	37.38	42.48**
Earnings per preference share (EPS)	€	18.94	22.56	22.23*	37.64	42.74**
Dividend per ordinary share	€	5.50	5.50	8.50	12.00	12.00
Dividend per preference share	€	5.76	5.76	8.76	12.26	12.26

* Adjustment under IAS 8

** Adjustment to reflect the retroactive amendment to IAS 19

PRODUCTS AND SERVICES

KSB pumps and valves are primarily used to transport or shut off all kinds of fluid. Their efficient and reliable operation is taken care of by 3,000 service specialists worldwide offering inspection, servicing, maintenance, repairs and consultancy services. The most important fields of application for our products are:



INDUSTRY



BUILDING SERVICES




WATER ENGINEERING



WASTE WATER ENGINEERING



ENERGY SUPPLY



MINING

GROWING WITH WATER

A responsible approach to water as our most precious resource has always been one of KSB's core competencies. Population growth, scarcity of clean drinking water in many regions, urbanisation and rising environmental awareness are driving global demand for new water supply infrastructures and efficient solutions for waste water disposal. KSB intends to become more actively engaged in these areas with innovative pumps and valves.

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BOARD OF MANAGEMENT



Dipl.-Kfm. Werner Stegmüller

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

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

Dr.-Ing. Peter Buthmann

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



Dear Shareholders and Business Partners,

New journeys create new paths. In 2016 we set a series of important milestones to map out our company's progress for the next few years. This will help us respond to changing markets, technologies and customer requirements, as you will see below.

KSB's current direction has put us on the right track towards achieving a return on sales of more than 6 percent for 2018, bringing us closer to our target of 8 percent. This is what we are doing to achieve our goals:

1. We are strengthening our business in the water and waste water sector.

In some regions outside of Europe, our customers perceive us as a company that offers the best technical solutions for the most demanding fluids. We want to continue living up to this reputation in the industry, energy, mining and transport sectors. KSB has extensive expertise in handling hot or cryogenic liquids, acids, lyes, oils or water/sand mixtures, and the transport of water is an area in which we continue to excel.

It is therefore all the more important for us to strengthen our image as a supplier of technical products and services for the water and waste water industry. We have an optimum range of products and services; the market is growing continuously and in sales and production we are investing all of our efforts to tap opportunities associated with this growth. To pursue this goal, we launched a global sales initiative, added selected products to our portfolio and put together an international team of experts for important projects. Water is also a key topic in this annual report, as outlined in the following section.

2. We are intensifying our standard and service business.

This is our response to the persistently weak demand for large-scale projects. Our strategy is to expand our general business with standard products and to progressively modernise and automate their production. 2016 saw the first launch of a worldwide campaign for our most important standard product, the Eta pump family. This also involved the commissioning of a new production facility for pumps used in heating and air-conditioning systems. We have extended our network of service centres for all types of pumps and valves worldwide. At the same time, we are focussing on inspiring our customers' interest in new service offers, for example identifying energy savings.

3. We are setting new standards in plant engineering

Our plant engineering customers are adapting to the increased level of competition through modularisation and standardisation; KSB is supporting them in this process. In key account management, we are helping major customers to develop standardised solutions for industrial

plants and power stations. This will enable these companies to act more quickly in their markets and remain competitive in future. KSB itself is using framework agreements to increase production volume as well as leveraging its global manufacturing network to serve these key account customers within the short lead times demanded by the market.

4. We are researching and investing in Industry 4.0.

For companies in our sector, digitalisation is a fundamental requirement for ensuring business success. Our new Business Innovation Lab has been set up to explore the opportunities emerging in an increasingly connected world of technology for KSB and its customers. Working in cooperation, we are developing digital solutions for practical use in industry. This will open up new paths for us to explore, ranging from remote plant diagnosis to 3D printing of spare parts.

5. We are changing our cost basis.

As announced, we launched our Efficiency Improvement Programme 10/10/10 in 2016 to reduce our material, staff and overhead costs by € 200 million. To achieve this, we have initiated more than 1,300 projects. Some 900 are already being implemented and are expected to deliver the targeted savings. The associated one-off costs impacted our 2016 earnings, however, and will continue to affect our results in 2017.

We are aware that the measures introduced require a certain amount of patience from our shareholders. 2017 will represent an interim step towards our goal. At the latest by 2018 we will be able to present KSB as a company ideally equipped for the future with attractive earnings.

KSB's Board of Management looks forward to outlining tangible progress in our report to you next year.



Dr. Peter Buthmann



Werner Stegmüller

REPORT OF THE SUPERVISORY BOARD

Throughout the last financial year, the Supervisory Board continued to perform its tasks with great care in accordance with the law, the Articles of Association and the Rules of Procedure. We regularly advised the Board of Management on corporate management issues and monitored its work. The Supervisory Board was consulted directly and at an early stage with regard to decisions of fundamental importance. The Board of Management informed us in a comprehensive and timely manner, and in compliance with its duty to inform under the law and Rules of Procedure, about the position of the company, in particular its business, financial and staffing situation, planned investments, as well as relevant corporate planning and strategic and organisational development issues via written and oral reports prepared regularly and on an ad hoc basis. We continued to meet on a regular basis to discuss selected issues, both with and in the absence of the Board of Management.

We discussed all business transactions significant for the company in detail on the basis of the Board of Management's reports. Any departures in business developments from the plans and targets were reviewed and commented on in detail by the Board of Management. We adopted our resolutions on the reports and proposals by the Board of Management after thorough examination and discussion. Beyond the intensive work in the plenary sessions and in the committees, the Chairman of the Supervisory Board in particular and other Supervisory Board members were in frequent contact with the Board of Management outside the meetings to discuss the current business development and significant transactions as well as questions of strategy, planning, risk assessment, risk management and compliance.

In the reporting period, no conflicts of interest arose involving members of the Board of Management or the Supervisory Board that would have been subject to disclosure in the Report of the Supervisory Board.

MAIN FOCUS OF WORK IN THE SUPERVISORY BOARD PLENARY SESSIONS

Core topics of our discussions with the Board of Management were the revision of strategic objectives, and the continued development of the corporate organisation and international production concept. The analysis of business development in the segments and Regions represented an additional focus, as did major investment projects at various sites. We dealt on an ongoing basis with the company's economic position, the progress of the new efficiency improvement programme, and the prospects facing selected markets. Based on the recommendations and suggestions contained in the German Corporate Governance Code, we also looked at fundamental aspects of good corporate governance. Special emphasis was placed on corporate culture because KSB had for the first time recorded and evaluated the employee's views concerning the company by means of a structured global survey.

Four regular Supervisory Board meetings were held in 2016. The performance of KSB Aktiengesellschaft and the Group was the subject of regular discussions in the plenary sessions, primarily with regard to net assets, financial position, employment levels and strategic direction, as well as material investment, divestment and acquisition projects. In a few cases of obvious structural difficulties, we decided to approve the Board of Management's proposals to sell off the units concerned.

The Board of Management regularly explained to us in detail the ways in which KSB can achieve the planned growth for the coming years, including the underlying methodological and strategic considerations. Required investments were subjected to critical analysis before being approved and their implementation was subsequently monitored by us. In this context, the Supervisory Board approved significant financial resources to maintain the high technical level of plants on a Group-wide basis, while at the same time taking into account specific site-related aspects.

We approved major investments, in particular for the expansion of the German head office and our production capacities in Pakistan. We repeatedly examined the status of the expansion work in our French and Indian subsidiaries, which are making good progress at the sites in La Roche-Chalais and Shirwal. In order to obtain a major Chinese order for the supply of pumps we had to expand our local manufacturing facilities, as already reported. We expect the successful implementation of this demanding project to strengthen KSB's market over the long term, and so we ensure that we receive ongoing updates from the Board of Management on the progress made with the contract. In a number of countries, the start or expansion of business activities led to property acquisitions. In each case we discussed the long-term impact of such measures.

Given the ongoing changes in the energy sector, we continued to look at the impact these radical market movements are having on our business operations. The main focus is on the optimisation of manufacturing capacities within our international production network. The current implementation of the concept entails significant changes to in-house logistics, so we are supervising it closely. In some cases this also requires the closing down of unprofitable smaller factories, for example in Bochum, Germany, or the sale of units outside future core areas, such as the business of KSB AMRI, Inc. in Houston (Texas), USA.

Repeatedly on the agenda was the continued development of the corporate organisation. We paid special attention to the reduction of internal administrative costs, for example by reducing the number of Group companies and relocating standardised processes to highly efficient external service providers. The latter has since been contractually agreed upon, so the implementation of the required processes will be of high importance in the current year. These activities to reduce expenditure were rounded off by the continuous application of the programme initiated by the Board of Management at the end of 2015 to enhance efficiency in all Group areas. Another focus of our deliberations continued to be the progress made towards strengthening our value-based corporate culture, with the Board of Management providing regular updates. The results of the Group-wide employee engagement survey, which were presented in this context, revealed interesting findings and also areas where action is needed. The latter have to be addressed in order to continue the constructive dialogue with staff and meet their expectations. By doing this we ensure that the employees' performance and engagement are continually strengthened.

For the September session, the Supervisory Board convened for a meeting at the Halle site in Germany. Based on the relevant reports of the Board of Management, we discussed in detail the status of the strategy revision for various markets that is intended to sustainably promote and secure the company's long-term success. As well as organic growth – for example by working more intensively on certain business areas – the potential for development based on acquisitions was explored. In this context, effective proposals were made which have to be considered in greater depth in the current year. The market opportunities offered by digitalisation were also addressed in some detail. In addition, we familiarised ourselves with local business development and the modern technical facilities at the Halle site.

At the December meeting, one main issue was the approval for the introduction of so-called "Shared Services". The aim here is to collate and outsource some services that were previously performed in-house, especially in the commercial departments. Within the scope of this challenging project, internal processes are to be standardised to a greater extent in future and cost structures are to be optimised. We also looked at business performance during the financial year and planning for 2017. Special attention was also given to the suggestion made by the majority shareholder – Klein Pumpen GmbH, Frankenthal – to change the legal form of the company from a public limited company [*Aktiengesellschaft*] into a partnership limited by shares [*Kommanditgesellschaft*]. After discussing the matter in more detail the Board of Management and Supervisory Board gave their approval to this proposal on 12 January 2017.

**COMMITTEES OF THE
SUPERVISORY BOARD**

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

**CORPORATE DEVELOPMENT
COMMITTEE**

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

NOMINATION COMMITTEE

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

PERSONNEL COMMITTEE

Dr. Thomas Seeberg, Chairman
No. of meetings: 8

AUDIT COMMITTEE

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

MEDIATION COMMITTEE

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

MAIN FOCUS OF WORK IN THE COMMITTEES

In order to perform its duties efficiently, the Supervisory Board worked with five committees in 2016. These prepare the Supervisory Board's resolutions and the special topics to be discussed in the plenary sessions. In addition, they also make their own decisions – to the extent that this is legally permissible – within the scope of their areas of responsibility. This allocation has proved worthwhile in practice. The Chairs of the committees regularly and comprehensively report in the plenary sessions on the content and results of the work carried out in the committees.

In the run-up to the election of Supervisory Board members at the Annual General Meeting, on 11 May 2016, the **Nomination Committee** prepared the Supervisory Board's nominations, convening once during the reporting year for this purpose. In looking for and evaluating suitable candidates with the requisite expertise and experience of the industry, long-term succession planning is a key factor.

The **Corporate Development Committee** deals with the company's strategic development, as well as with annual planning and finance, and technology issues. At four meetings in the year under review, it discussed in particular the areas of strategy controlling, production management and innovation, and – on an ongoing basis – looked at a number of major investments, which require the approval of the Supervisory Board. The development of particular product areas also figured on the agenda, as did tie-in measures during acquisitions and selected projects. The Committee examined in detail the current state of implementation of the aforementioned programme to increase efficiency and the progress of global production networking. Another point of focus was the business opportunities offered by digitalisation, which need to be monitored very closely. The heads of the relevant specialist departments took part in the committee meetings, along with the two members of the Board of Management.

The **Personnel Committee** held eight meetings in the year under review. It primarily addresses topics relating to the Board of Management's remuneration, including the terms of the individual service contracts, as well as other Board of Management issues. Decisions on the Board of Management's remuneration are made in plenary session with the committee acting in a preparatory capacity. In the year under review, the Committee also discussed staff development issues with the aim of ensuring that any need for action in terms of filling Board of Management positions and positions at the management level directly below the Board is identified at an early stage and followed up. The main focus of discussions was the preparation for major staffing decisions in the current year. Following the proposal of the Personnel Committee the Supervisory Board consented to the early resignation of Mr. Werner Stegmüller from the Board of Management – at his own request – effective 31 May 2017. As successor and additional member of the Board of Management, the Supervisory Board appointed Dr. Matthias Schmitz on 22 March 2017, initially for a term of office of three years from 1 June 2017 to 31 May 2020. The term of office of the long-standing member of the Board of Management and Human Resources Director, Dr. Peter Buthmann, was again extended, for six months until the end of 2017, to ensure adequate continuity on the Board of Management. The Supervisory Board approved that the age limit applicable to members of the Board of Management will be moderately exceeded. Additionally, the Committee monitored the internal developments within the company that aim at an increased participation of women in leadership roles.

The four meetings of the **Audit Committee** in the year under review were always attended by a Member of the Board of Management and, on several occasions, by the auditors and the heads of the relevant departments. The Committee primarily discussed the 2015 annual and consolidated financial statements, as well as the corresponding audit reports prepared by the auditors. The Audit Committee also prepared the independent examination by the Supervisory Board of the financial statements, the management reports and the proposal on the appropriation of the net retained earnings. In addition, the 2015 half-year financial report was discussed with the Board of Management. Moreover the Committee presented a recommendation to the Supervisory Board for the election of the auditors at last year's Annual General Meeting. It then assigned to the auditors the audit of the annual and consolidated financial statements for the 2016 financial year and specified the key audit areas. The declaration of independence by the auditors was obtained in accordance with the recommendations of the German Corporate Governance Code (section 7.2.1) and the auditors' continued independence was monitored. The Committee was also involved in monitoring the accounting process, the risk management system – taking into account the relevant reports from Internal Audits – and the effectiveness of the internal control and auditing system, including compliance.

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

CORPORATE GOVERNANCE AND STATEMENT OF COMPLIANCE

The Supervisory Board continuously monitored developments in corporate governance standards throughout the financial year. The Board of Management and the Supervisory Board report on corporate governance at KSB in accordance with section 3.10 of the German Corporate Governance Code as part of the Corporate Governance Statement pursuant to section 289a HGB [*Handelsgesetzbuch* – German Commercial Code]. On 2 December 2016 they issued a joint updated statement of compliance in accordance with section 161 of the *AktG* [*Aktien-gesetz* – German Public Companies Act] and made it permanently available to shareholders on the company's web site. KSB Aktiengesellschaft complies with the Code's recommendations subject to a few justified exceptions.

AUDIT OF THE 2016 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board examined the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2016, which were prepared in accordance with the provisions of the *Handelsgesetzbuch* [HGB – German Commercial Code], as well as the consolidated financial statements and the group management report for the year ended 31 December 2016, which were prepared in accordance with the International Financial Reporting Standards (IFRSs), and the proposal by the Board of Management on the appropriation of net retained earnings.

The accounting documentation, in addition to the proposal by the Board of Management on the appropriation of net retained earnings and the audit reports submitted by the auditors, was provided in good time to all members of the Supervisory Board. The documents were examined in detail by the Audit Committee on 21 March 2017 as well as by the Supervisory Board plenary session on 22 March 2017 and explained in depth in both cases by the Board of Management. The auditors attended the meetings of both bodies, reported on the findings of the audit and were available to provide additional information.

The Mannheim office of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt, also audited the annual financial statements and the management report of KSB Aktiengesellschaft for the year ended 31 December 2016, as well as the consolidated financial statements and the Group management report for the year ended 31 December 2016, and issued an unqualified opinion. The key audit areas assigned to the auditor by the Audit

Committee for the year under review mainly included the recoverability of receivables, and the presence and measurement of finished products and work in progress in the inventory. The auditors reported on their findings on these key audit areas both orally and in writing.

The Supervisory Board concurs with the auditors' findings. Following the final result of the examination by the Audit Committee and its own review, the Supervisory Board raised no objections to the annual financial statements, consolidated financial statements, management report and Group management report. In accordance with the recommendation of the Audit Committee, the Supervisory Board approved the financial statements prepared by the Board of Management; the annual financial statements are thus adopted. After its own examination, the Supervisory Board deems the proposal by the Board of Management on the appropriation of net retained earnings of KSB Aktiengesellschaft, and in particular keeping the dividend at the same level as last year, to be appropriate and concurs with it.

DEPENDENT COMPANY REPORT

The auditors also audited the dependent company report for the 2016 financial year prepared by the Board of Management in accordance with section 312 *AktG* and issued the following unqualified audit opinion on this report:

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

1. The actual amounts and disclosures in the report are correct.
2. The consideration paid by the company for the transactions listed in the report was not inappropriately high, or disadvantages were compensated.”

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

CHANGES ON THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The planned resignation of Mr. Werner Stegmüller, the appointment of Dr. Matthias Schmitz as additional member of the Board of Management, and the renewed extension of the term of office of Dr. Peter Buthmann were already mentioned above.

Mr. Günther Koch stepped down from the Supervisory Board with effect from the close of last year's Annual General Meeting after serving for the regular term. The Annual General Meeting elected Dr. Stella Ahlers as his successor and member of the Supervisory Board and confirmed the appointment of Ms. Gabriele Sommer to this office, after she had been appointed by means of an order of the court. Dr. Martin Auer and Dr. Thomas Seeberg resigned from their office as members of the Supervisory Board with effect from 28 February 2017, with Dr. Seeberg also stepping down from his position as Chairman of the Supervisory Board. Dr. Ahlers and Dr. Jörg Matthias Großmann resigned from their office as members of the Supervisory Board with effect from the end of 20 March and 14 April 2017, respectively. Ms. Monika Kühborth, Mr. Oswald Bubel and Dr. Bernd Flohr were appointed members of the Supervisory Board by order of the *Amtsgericht* [Local Court] Ludwigshafen am Rhein on 21 March 2017 to replace the members who had stepped down prior to this date. At the meeting of the Supervisory Board on 22 March 2017, Dr. Flohr was elected Chairman of the Supervisory Board. The Supervisory Board would like to thank the members who have left the Board for their close cooperation. We also thank Dr. Seeberg for his prudent leadership over the past few years.

The Supervisory Board would like to thank the Board of Management, the employees and employee representatives of all Group companies for their continued constructive and committed work during the past financial year.

Frankenthal, 22 March 2017

The Supervisory Board

A LOOK BACK AT 2016

Q1



SPAIN

The Spanish companies KSB Service Suciba, S.L.U. and KSB AMVI, S.A. complete an organisational merger with KSB ITUR Spain S.A. This measure is part of the global project for streamlining the structure of the Group.

MAJOR VALVES ORDER

KSB receives an order to equip a pulp mill in Finland with over 11,000 valves and four pumps from the HGC range. The plant will be producing 1.3 million tonnes of softwood and birch pulp annually.

SERVICE

The new service workshop of the joint venture KSB Service LLC in Abu Dhabi is officially inaugurated. 54 employees are now repairing KSB products and non-KSB brands in the workshop and also offer services and spare parts.



CHINA

KSB Shanghai Pump Co., Ltd. starts production of large RDLO volute casing pumps in a new manufacturing area. The production line is designed and structured according to the principles of lean production.



Q2

NEW PRODUCTION FACILITY

KSB opens a new TRIODIS production facility in La Roche-Chalais, France. The high-performance butterfly valves are used in the gas and crude oil sector as well as in the energy and chemical industries.



25 YEARS OF KSB HALLE

Employees in Halle celebrate the 25th anniversary of the KSB location. During the period following German reunification, KSB took over the pump factory there and developed it into a centre of competence for water and waste water technology.



TRADE FAIR

At the IFAT in Munich KSB presents products for water and waste water applications. One of the highlights is the Amarex KRT pump featuring an enhanced hydraulic system that delivers higher efficiencies.



HYGIENIC PUMPS

KSB wins its largest contract to date in the Life Sciences segment. The 122 pumps from various ranges will be used in Mexican breweries.



MONGOLIA

KSB Shanghai Pump Co., Ltd. and Building's Technology LLC sign a cooperation agreement in order to boost sales of KSB products in Mongolia.

Q3



OLYMPICS IN RIO

During the Olympic summer games in Rio de Janeiro around 100 KSB pumps are in operation at the sports venues and athletes' accommodation, taking care of the air-conditioning, drainage and fire-fighting systems.

E-COMMERCE

KSB launches the sale of Etabloc pumps for the Chinese market via the Alibaba B2B platform. Further products follow, making KSB the first global pump manufacturer to tap this sales channel.



ANNIVERSARY

The Czech company KSB-Pumpy+ Armatury s.r.o., concern celebrates 25 years of business. 44 employees are currently working for customers in the Czech Republic.

EXTENDED RANGE

The Luxembourg-based subsidiary SISTO Armaturen S.A. adds the new SISTO-LAP 500 pneumatic actuator to its current range of actuators for valves. Fitted with two pistons arranged in tandem, it is ideal for use with globe and gate valves.



FRANCE

KSB S.A.S. in France is among the Group's most productive companies with the highest sales revenue. KSB marks the 30th anniversary of the integration of Paris-based Pompes Guinard S.A. into the Group with a special celebration.

Q4

COOPERATION

KSB and the South African Sasol group sign a global framework agreement and commit themselves to intensive collaboration. Based in Johannesburg, the energy and chemical company is one of the world's biggest manufacturers of synthetic fuels.



TOP RANKING

The German business magazine "brand eins" names KSB as one of the most innovative companies in the category "Mechanical and plant engineering companies and suppliers".

€ 100 MILLION CONTRACT

December sees the Chinese-German joint venture Shanghai Electric-KSB win a contract to supply pumps to two power plant units in Zhangzhou. Delivery is due by 2021 and is worth € 100 million. KSB AG will supply components from Frankenthal.

BUILDING SERVICES

KSB launches the small close-coupled pump Etaline L onto the market. The models round off the in-line pump range for building services applications.



IMPROVED EFFICIENCY

By December 1,300 measures have been devised for the Efficiency Improvement Programme 10/10/10 and 70 % have been initiated. The programme is scheduled to run until 2018 and aims to reduce material, staff and overhead costs by € 200 million.

EMPLOYEES

The knowledge, ability, skills and engagement of our employees are essential to our business success. We therefore strive to create a working environment in which our employees can develop at a personal level, drive innovation and perform at their best. This requires a leadership and management culture centred on trust, respect and a commitment to performance.

COMPETITION FOR TALENT

In the context of fierce global competition for top personnel to fill specialist and executive roles, we seek to recruit exceptional individuals who can help us achieve our growth targets. Our search for potential colleagues prepared to take on responsibility and contribute actively to the company extends worldwide. When selecting future employees, we look beyond their professional qualifications to assess whether their interpersonal capabilities fit with us and our company's culture.

We use social media channels to reach out to potential applicants, primarily via contact platforms such as LinkedIn and Xing. This enables us to connect with interesting candidates, build networks and quickly fill vacant positions.

To meet demand for specialist staff we have also developed our own vocational training programme focussing on practical learning and a collaborative working culture. In the year under review, 57 trainees began their training in 18 vocational occupations at our locations in Frankenthal, Halle and Pegnitz. 10 young people started a dual work/degree programme to gain either a Bachelor of Engineering (mechanical engineering) or a Bachelor of Science (engineering science). We are currently training a total of 233 young men and women.

In addition to technical knowledge and manual skills, it is also important to us that junior staff nurture a strong sense of responsibility. The year under review saw KSB trainees demonstrate the social and environmental dimensions of this responsibility by volunteering at animal shelters, assisting at care homes for the elderly and participating in charity runs. The success of our training activities is reflected in

the performance of our young KSB employees before the examination board of the German Chamber of Industry and Commerce and the awards we received as an exemplary training company.

In 2016 we invested € 6.7 million in vocational training in Germany alone, including equipment and machinery for three training workshops.

TAPPING OUR POTENTIAL

The challenges our staff face are continually evolving. To develop and expand their expertise and abilities, we offer them task-oriented qualifications in engineering, business administration, IT and communication.

2016 saw the continuation of our internal distance-learning study programme to qualify staff as "Pump & Applications Professionals". This one-year course is designed to strengthen and extend their knowledge of pumps and pumping applications. A related project saw us pilot a modular train-the-trainer programme with a group of technical experts which sought to refine their ability to convey technical content in a didactically and methodologically effective manner at internal seminars.

As part of a new concept, we adjusted our language training to focus more on the practical requirements of the course participants. Their needs were determined through a series of interviews prior to the start of the course. In addition to our classic training programmes, we introduced a web-based language learning system comprised of online learning modules, individual support from coaches and communication training.

Managers worldwide are offered in-depth seminars in which they can assess and improve their social skills and approach to leadership and management. In the year under review, our Chinese subsidiary KSB Shanghai Pump Co., Ltd. continued the "Leadership Improvement" training programme which was launched in 2015. 51 managers took advantage of this opportunity to further develop their skills.

Employees



Well qualified employees are committed to supporting our customers. An expert in Halle works on motor windings for submersible motor pumps (above). A warehouse logistics expert in Frankenthal ensures that all necessary components are sent to the production plant. A materials engineer in Pegnitz produces cores for pump impellers on a 3D polymer printer [en](#).

AWARD-WINNING HR

In a competition involving 800 companies in China, we received two awards for the best HR team and the best HR management. The jury of the largest HR media company in China commended the HR department of KSB Shanghai Pump Co., Ltd. on its exemplary early-retirement programme, culture of achievement and staff versatility.

In particular, the HR team in China train personnel to work in multiple areas. This enables our employees to operate more flexibly within the company and improves their job security. Our HR personnel in China has developed a tailored and transparent development programme in order to achieve this goal.

GLOBAL EMPLOYEE SURVEY

In 2016 we conducted KSB Voice – our first global employee engagement survey of around 11,000 members of staff at KSB's ten largest companies in Brazil, China, France, Germany, India, Indonesia, Italy, the Netherlands, South Africa and the USA. At 79 percent, the response rate was well above average throughout the company.

The feedback from our employees provided us with valuable reference points for improvement. It also indicated that more than two thirds of employees surveyed are open to changes within the company.

Employees and managers discussed the results and devised measures for improvement. Subsequent surveying of randomly selected employees is being planned in order to assess the extent to which the measures have already begun to take effect.

DECREASE IN EMPLOYEE NUMBERS

At the close of 2016, KSB employed 15,572 staff – 624 less than in 2015. This is the result of measures introduced to adapt our cost structures to changing market conditions.

Our European companies reduced their personnel most significantly with 321 fewer employees, 160 from locations in Germany. A marked decrease in staff numbers was also implemented in the USA, with 157 fewer members of staff being employed as at the reporting date when compared with the end of December 2015.

MOVING FORWARD MEANS EMBRACING CHANGE

Change is a crucial part of life in that it makes development and growth possible. Whatever their title or position, every individual in our company can strike new paths and inspire others.

The Board of Management would like to expressly thank all employees who actively helped the company to assert itself in a difficult market environment in 2016. This applies in particular to the development and implementation of measures introduced in the course of our global efficiency improvement programme. The broad and open feedback given via KSB Voice also provided important impetus for change.

Special thanks also goes to the works councils, the executive representatives and young employee representatives for supporting us with their constructive criticism. Together we will help KSB to move forward and achieve new successes.

CORPORATE SOCIAL RESPONSIBILITY

Our stated goal is to do business sustainably and responsibly. We believe that in striving to achieve this goal, we can secure KSB's long-term success while protecting the interests of people and the environment. This conviction was underlined in 2010 when KSB signed the UN Global Compact², committing itself to ten universal principles in the areas of human rights, labour standards, the environment and anti-corruption.

The year under review saw us employ the materiality analysis process for the first time to analyse stakeholders' interests and define the sustainability topics most important for KSB. The multi-stage process allowed us to identify priorities in the fields of business, environment and society (see infographic on page 22).

As areas with a high or very high priority for both stakeholders and for KSB, these topics will represent the main focus of our corporate social responsibility initiatives over the next few years. In terms of business, the key focus is on compliance, i.e. the degree to which a company and its staff conform to applicable rules and regulations. Environmental topics such as resource efficiency and energy-efficient products also have an economic dimension. In the social context, our company remains traditionally committed to community issues and views education as a key priority for the future. KSB reports on the most important developments in this section.

BUSINESS

Customers and business partners alike expect KSB to act with integrity on the global market. As a company we view compliance with legal regulations and Group guidelines as inherent to our corporate identity. As the actions of a single individual can seriously compromise the reputation of an entire company, we have developed a system which supports employee compliance by defining a core set of binding standards. These standards have been formalised into a Group-wide KSB Code of Conduct, and relevant training has been provided.

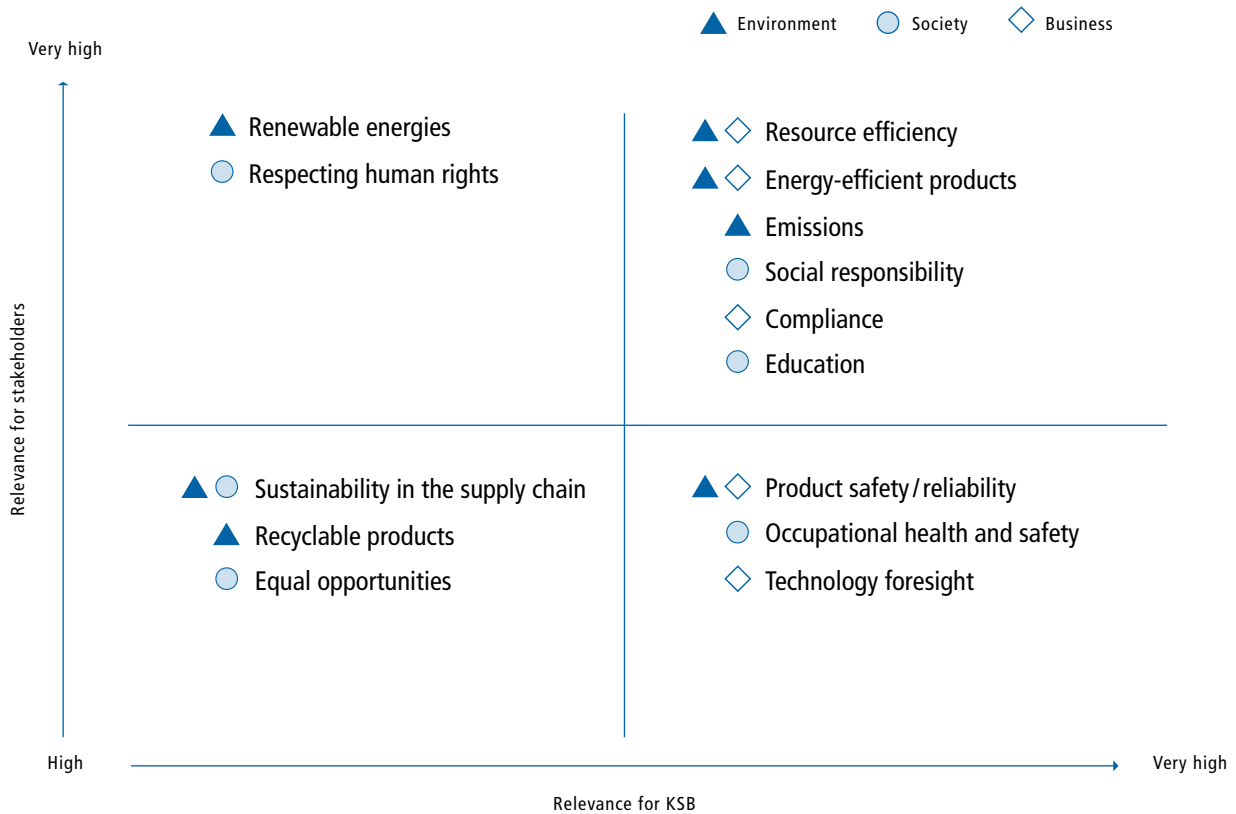
2016 saw more than 5,000 members of staff complete training on cartel/anti-trust law and corruption prevention. Using a global matrix of requirements, we ensure all personnel with customer or supplier contact receive training on these topics. This helps participating staff to recognise and avoid risks and hazards in their day-to-day work. We repeat this training at three-year intervals, with interim demand being met via additional training sessions every six months.

In the event that employees become aware of infringements or are unsure of whether their actions are compliant, they can refer the matter to the compliance organisation, and specifically to the designated "Compliance Officer". In addition, circumstances which give rise to legal or anti-trust concerns can be reported directly to an independent ombudsperson², who can process potential cases without naming informants. If reliable evidence is presented, then this is pursued.

Alongside a good reputation, a company's future viability is of essential importance for long-term success. We thus continuously explore the potential impacts of new trends – currently additive manufacturing² and digitalisation – on our business. In tackling these questions, we hope to exploit new markets and unlock potential business. Our Pegnitz factory currently employs specialised machinery to manufacture small components using selective laser melting². Production of larger components using this process is scheduled for 2018 at the latest. Further promising developments include connecting pumps, valves and other components to create integrated systems. Digitalisation promises to pave the way for new business models, and KSB fully intends to play a leading role as this field develops.

Our customers demand the utmost in reliability from our pumps and valves in order to avoid downtime and harm to individuals or the environment. KSB's goal is thus to ensure the supply of reliable products in the long term. In striving to meet this goal, all of our locations consistently apply uniform quality standards.

KEY SUSTAINABILITY TOPICS FOR KSB



ENVIRONMENT

Dealing responsibly with the natural environment is a key task for our company.

In 2016, our locations completed more than 400 audits. These confirm that KSB Group companies meet mandatory standards of environmental protection, quality, and occupational health and safety. We also have our factories regularly certified according to internationally recognised management systems. In the past financial year, this included implementing new provisions of the ISO 14001 [environmental](#) management system in 72 countries.

Our customers benefit from efficient products characterised by low energy consumption. The year under review saw us introduce numerous innovations, each contributing to our goal of adopting a responsible attitude to the use of natural resources.

In the case of many new products, our engineers have managed to achieve the best hydraulic efficiencies possible – for example in a vertical high-pressure pump primarily intended for industrial processes. Thanks to innovative energy-saving drive technology, our latest submersible borehole pumps for water extraction applications consume less electricity than conventional equipment.

We also continue to cut back on the amount of raw materials and energy required to manufacture our products, allowing us to reduce costs and limit our impact on the environment.

In order to define and assess our savings goals, we document the consumption levels of our ten largest Group companies. This supports us in meeting targets such as a 10 % reduction in our CO₂ emissions by 2020 measured against their 2012 levels. We aim to reduce our consumption of fresh water by 4 % over the same period.

Europe-wide energy audits were carried out in 2015 to pinpoint potential energy savings. The findings of the 18 analyses completed so far have been incorporated into initial measures implemented in the year under review and set to continue into the future.

We have also reduced energy consumption by fitting out our buildings in Germany and France with external wall insulation, new windows and insulated roofs. High-efficiency bulbs requiring less energy than conventional lighting systems are used throughout the company, and we have retrofitted most of our factories, administration buildings and social facilities in Argentina, Germany, India and the USA with hi-tech LED lighting systems.

At KSB, close collaboration between different locations and countries is the norm. In order to keep travel costs down and minimise environmental impact, we continue to expand our international video conference system. 2016 saw us increase the number of available video rooms to 72. 58 locations in 25 countries can now benefit from these communication facilities. 170 members of staff also make use of an individual video system. In total, some 16,000 screen conferences took place during the year under review.

In cases where business travel cannot be replaced with telephone and video conferences, we seek to use environmen-

tally friendly travel options wherever possible. In 2016, our German staff alone travelled more than 500,000 kilometres by train.

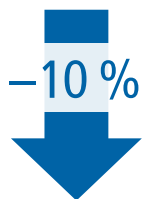
Many of our locations use renewable energies. We endeavour to exploit wind and solar power, especially when it comes to the construction of new factories and buildings. In the year under review we completed a project in India which allows us to generate electricity for an administration building using a solar power system.

When modernising plants, we switch to machinery which meets the most stringent environmental standards. The new paint shop and spray booths which began operation in our French and South African factories in 2016 consume less energy and produce lower emissions.

Production processes generate waste – something we want to limit as far as possible. We thus endeavour to save packaging material wherever we can, or at least to use eco-friendly materials. Where waste cannot be avoided, we collect materials like paper and metals so that they can be recycled. We have already implemented a drastic cut in the use of substances such as oils and solvents, reducing this by 18.4 % between 2012 and 2015. This means that our goal of cutting consumption of these materials by 20 % by 2020 has almost been achieved already.

OUR GOALS

CO₂ emissions



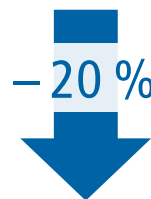
2012–2020

Fresh water consumption



2012–2020

Hazardous substances



2012–2020

Savings goal defined: We aim to reduce our emissions of harmful CO₂ by 10 percent by 2020. Consumption of fresh water will be scaled back by 4 percent over the same period. We further plan to cut the use of substances such as oil and solvents by 20 percent.

SOCIETY

We remain acutely aware of the social responsibility we bear as a globally operating company. KSB is therefore committed to supporting social initiatives, with education being a key focus. In Germany, we are one of the founding members of the *Wissensfabrik – Unternehmen für Deutschland e.V.* [Knowledge Factory – Companies for Germany] initiative. Since 2005 we have agreed educational partnerships with schools and kindergartens which seek to instil in children a passion for science and technology from a young age. KSB provided support in the form of materials for experiments and practical work. Two new partnerships with schools were added in 2016.

For the fourth time, KSB hosted a regional competition in Frankenthal under the banner “*Schüler experimentieren – Jugend forscht*” [Pupils do experiments – Young people do research]. In Bayreuth we renewed our long-standing support for the event as a cooperation partner. As Europe’s largest competition for science and technology of this kind, it offers a platform for school pupils to present their research projects.

In Mexico, our staff taught children about environmental topics and recycling. The project saw participants build a composter for the environmentally sound disposal of organic waste at the Mexican location.

KSB also wishes to foster young people’s interest in business and entrepreneurship. In Spain we supported an education project in which our staff helped school pupils to implement their business ideas. At our Zarautz headquarters, the young “managers-to-be” had the chance to talk about their ambitions with local executives. And at our Halle factory, grammar school pupils learned about the daily working lives of KSB engineers as they implemented a logistics project supported by KSB staff.

We are also committed to long-term social developments in the communities where we are based. In India, we supported 15 charitable projects operating in the vicinity of our factories. These are mainly run by organisations seeking to provide aid for disabled, socially disadvantaged, sick and

elderly people. Various social institutions were provided with urgently needed equipment including a water treatment system and a solar-powered water heating system. KSB also donated vehicles and a new kitchen, as well as building an entrance with disabled access and additional sanitary facilities.

In France we financed an aid project to set up a new classroom for local children in the Republic of Niger and supported the construction of a well close to a remote village.

At Christmas time, it is traditional for KSB AG to make donations to a number of charitable causes. One recipient in 2016 was an organisation which repairs deep well pumps in Ivory Coast. We also supported schools and social projects at our three largest German locations.

KSB’s company health management focuses not only on preventing occupational injuries and illness, but also on offering individually tailored preventive measures. In Germany, these included skin cancer screening and a test for detecting cardiovascular disease. Many staff also took advantage of free flu vaccinations provided by KSB.

Reducing the risk of occupational accidents is one of our ongoing tasks with a focus on measures implemented in production areas.

But ensuring a safe working environment is also important in other contexts. We therefore carry out an annual e-learning course in Germany on health and safety in the office. In the year under review, more than 2,000 members of staff took part in the course to develop their understanding of potential hazards and how these can be avoided.

As well as ensuring the safety of our staff, we also take into account the well-being of our suppliers. To ensure the sustainability of our supply chain, we require that our suppliers not only maintain stringent environmental standards, but also implement fair working conditions. In 2016 we assessed 28 % of our most important global suppliers with regard to environmental protection and occupational health and safety. This analysis will continue in 2017.



Diverse forms of engagement: KSB regularly organises the “Jugend forscht” [Young people do research] regional competition in Frankenthal, in which children and young adults present interesting projects (image above). In Niger we supported an aid project by building a well (image on the left). We have renovated our company buildings to reduce energy requirements, as pictured here in Halle (image on the right).



2

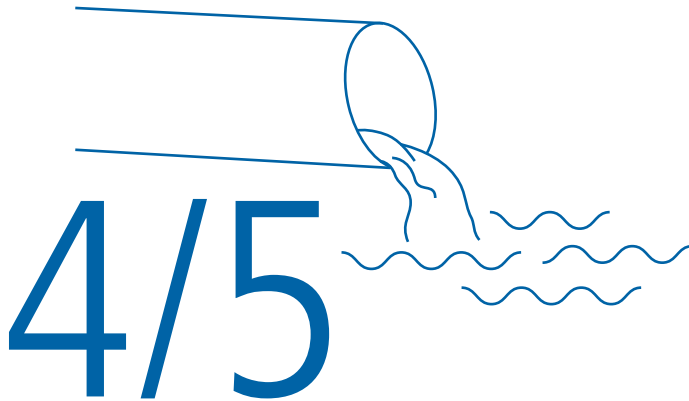
GROWING WITH WATER

28	Facts & Figures
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48	Waste Water



9 billion

is the predicted world population for the year 2040. With the scarcity of water posing a very real threat, it is vital that we find better ways to harness existing resources, for example by recycling waste water and harvesting rainwater more extensively.



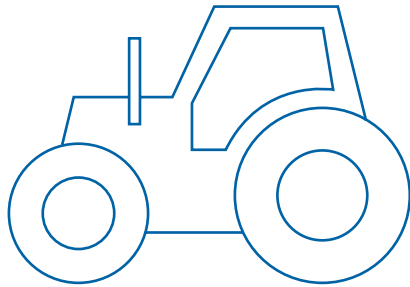
4/5
of all waste water worldwide is still discharged into rivers, lakes and the sea without being treated.

GROWING WITH WATER

55%



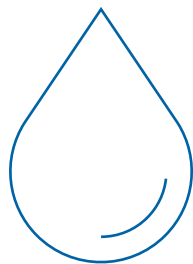
is the magnitude by which global water demand is predicted to increase by 2050 – especially in industry and households.



2,200 cubic kilometres

of water are likely to be needed worldwide in 2025 for agricultural production – the sector with the greatest global consumption. By the year 2050 agriculture will need to produce 60 % more food, in developing countries as much as 100 %.

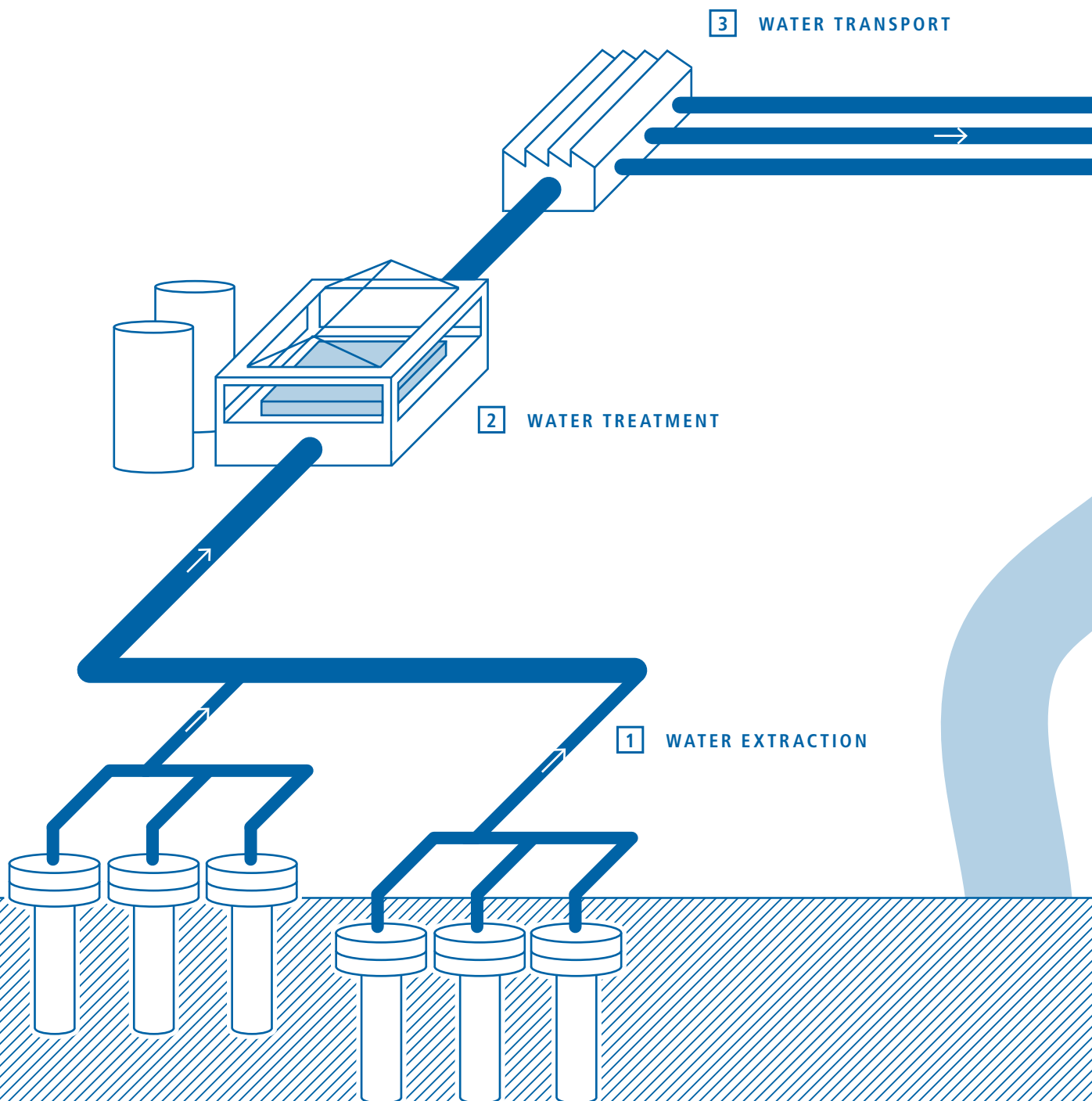
The market for water and waste water shows a clear growth trend and there are many reasons for this. Two major factors are the growing world population and advancing urbanisation, which are both placing higher demands on the supply of fresh water and waste water treatment. Projects for the construction and modernisation of water engineering plants are therefore being planned in many countries around the world. KSB is increasing its involvement in such infrastructure projects through a host of specific regional measures. In addition to a series of sales initiatives and structural changes, we are also tailoring individual product ranges to the needs of the market, improving our logistics and investigating new business models. A key focus region for KSB is the Middle East / Africa.

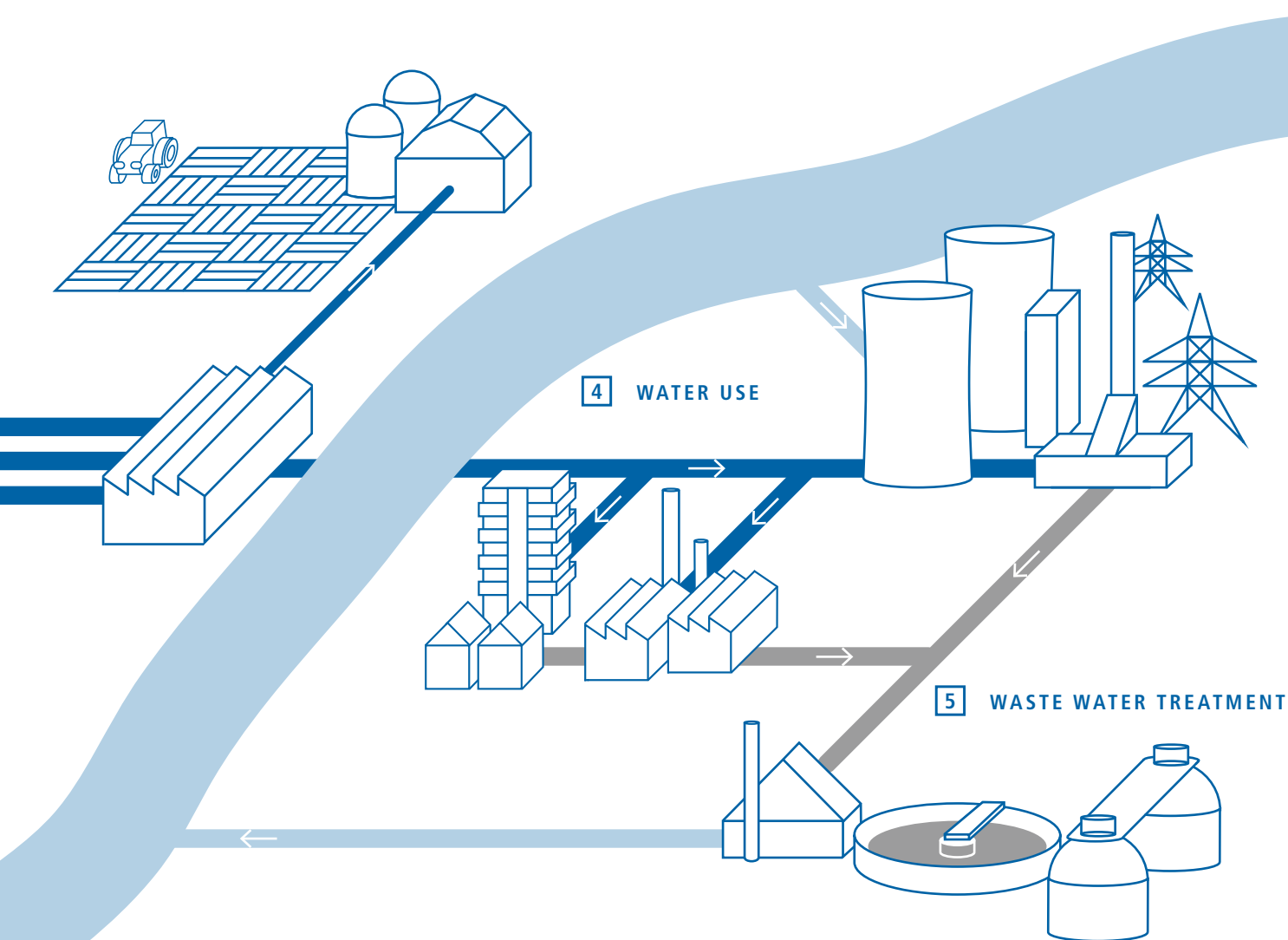


400%

is the percentage by which global water consumption in industry is expected to increase between the year 2000 and 2050 – more than in any other area. A sharply rising level of demand can be seen in developing and emerging countries.

INNOVATIVE TECHNOLOGY FOR THE COMPLETE WATER SUPPLY CYCLE





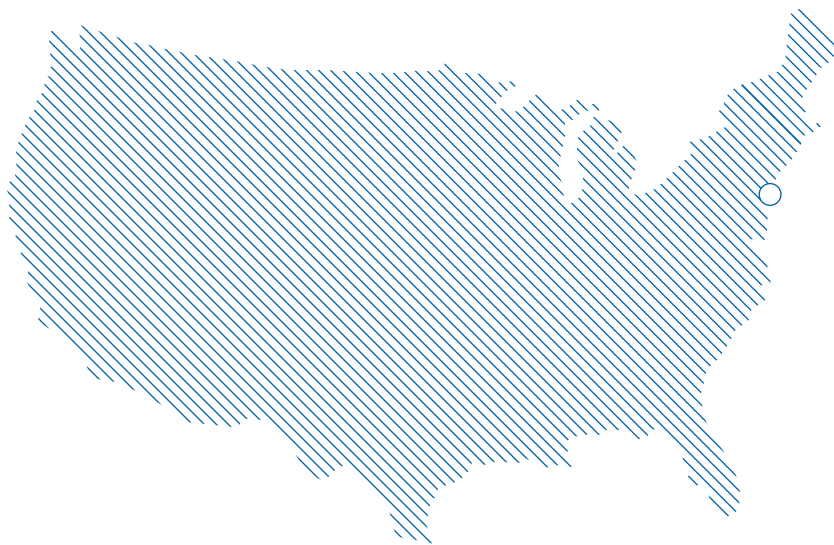
Providing fresh, clean water every day is a growing challenge for the water supply industry. KSB is on hand to provide support in the form of pumps and valves for the complete water supply cycle. Our products are used for extracting water from wells and water bodies, treatment processes in waterworks, transporting water to consumers, on-site applications and subsequent purification processes. Our innovative technology, sustainable solutions and 146 years of experience and expertise makes KSB the first choice for countless customers world-wide – from New York or Qatar to the south coast of Brazil. Read on to find out how and where our products are currently being used.



1

WATER EXTRACTION

Water is precious. To enable us to access it, high-performance submersible borehole pumps are deployed in wells and waterworks. They also play an important role in the refurbishment of municipal piping systems in cities around the globe.



NEW YORK

OUTSTANDING PERFORMANCE IN THE MEGA-CITY

More than half of New York's drinking water is conveyed to the city via the Rondout-West Branch Tunnel. Measuring 71 kilometres in length, it supplies up to 37 cubic metres of drinking water per second from Ulster County via a natural incline. As a result of geological conditions, the tunnel was losing up to 130 million litres of drinking water a day through leaks under the Hudson River. To enable the tunnel to be pumped empty for repairs in as short a time as possible, KSB supplied the most powerful single-entry submersible borehole pumps that our company has ever produced. The pumps are made from corrosion-resistant stainless steel. Each of the five pump sets is equipped with a 2,000-kilowatt electric motor and handles around 2,000 cubic metres per hour.



BSF SUBMERSIBLE BOREHOLE PUMP

Pumps like this were used to empty the Rondout-West Branch Tunnel in New York.



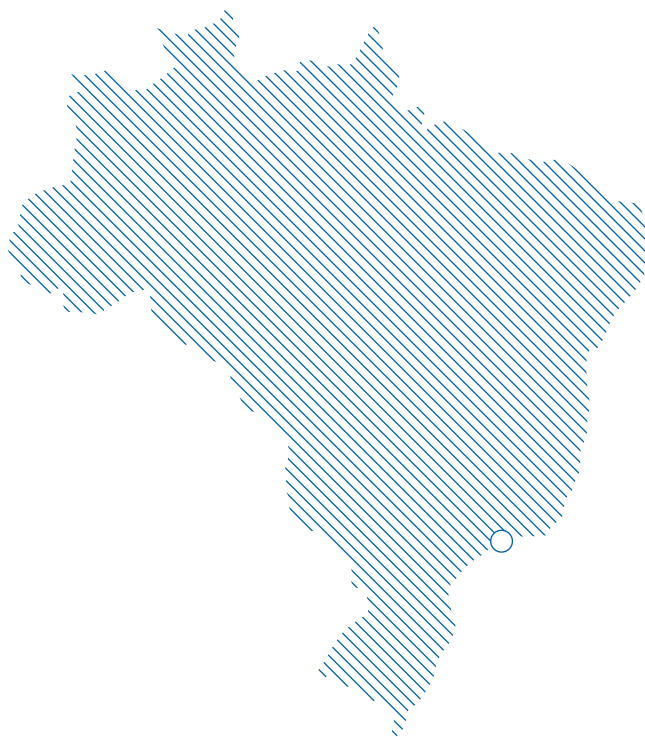


An aerial photograph of a coastal town and a large body of water. The town is situated on a peninsula, with a road leading up to it from the mountains. The water is a deep blue, and the mountains are covered in green forest. A vertical line runs down the right side of the image, separating the left and right halves.

2

WATER TREATMENT

Producing drinking water often requires mechanical and biological treatment. Large volumes of water also need to be transported. Our pumps and valves ensure that water is efficiently pumped to the water treatment plants. Operators attach great importance to a high level of reliability and low maintenance.



SÃO PAULO

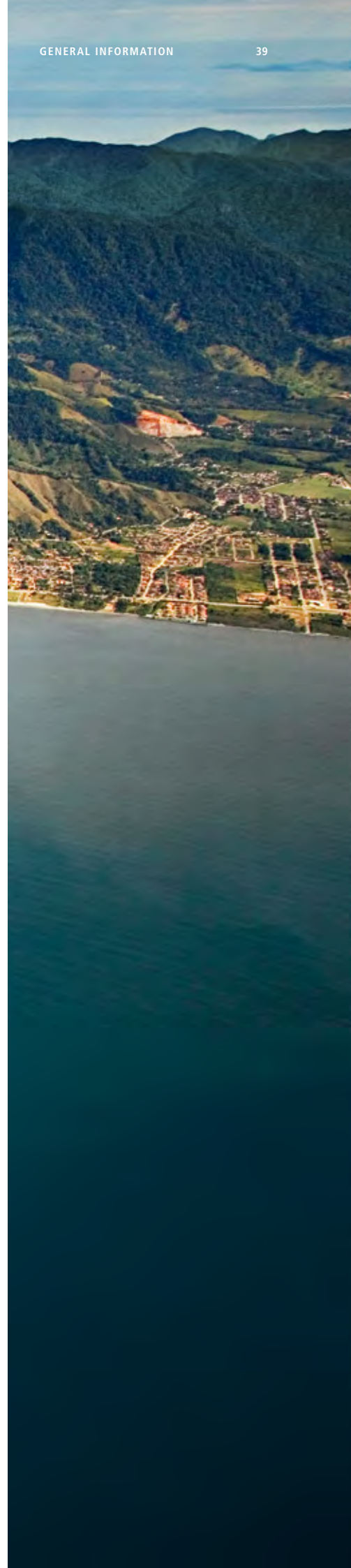
WATER FOR 1.2 MILLION PEOPLE

For decades the shortage of water has been an existential problem for the Santos area of Brazil, located on the south coast of the São Paulo state. In order to meet the increased demand for drinking water, the government decided to extend the existing system and use the Branco river as an additional resource. The extension included a dam, pumping stations for raw and drinking water as well as a treatment plant. KSB supplied large volute casing and propeller pumps for the project. Comprising 66 kilometres of water pipes, the improved water supply system now serves 1.2 million people in five cities.



RDLO WATER TRANSPORT PUMP

RDLO pumps ensure safe and reliable water transport worldwide.

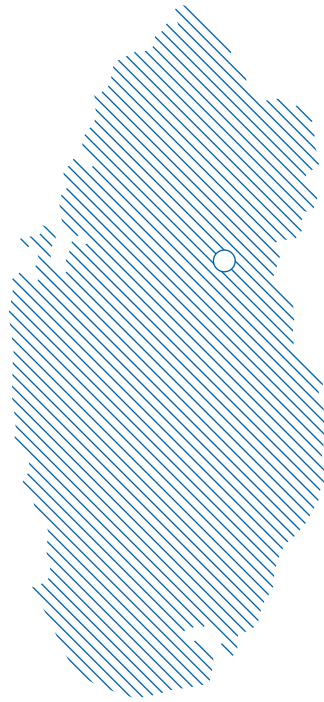




3

WATER TRANSPORT

In many regions, transporting water from the place of extraction to consumers' locations entails bridging great distances. Particularly in countries located in the Middle East, this requires long water pipelines with pumping stations installed along the way. KSB valves with diameters of up to four metres are used to shut off sections of piping for inspection and maintenance purposes.



QATAR

DESERT STATE BUILDS GIANT WATER RESERVOIR

In Qatar the world's largest artificial water reservoir system is currently under construction. It will collect the water produced by two large seawater desalination plants. In the first phase of the project, the utility company responsible is building 24 concrete reservoirs, each as large as nine football pitches, with a total capacity of around 10 million cubic metres. A 650-kilometre-long system of large-diameter pipelines connects the reservoirs. KSB is supplying maintenance-free butterfly valves which will ensure smooth operation for many years.



MAMMOUTH BUTTERFLY VALVE

165 large butterfly valves will control the flow of water in Qatar's pipelines in future.



4

WATER USE

Pumps in operation in industry, agriculture and municipalities ensure that water reaches the consumers. Households around the world need drinking water every day. If the available water pressure is not sufficient, for example on the top floors of tall buildings, the solution is pressure boosting. KSB pumps make sure that water flows right up to the top of the building, even in skyscrapers.





HANOI

ENERGY-EFFICIENT PRESSURE BOOSTING FOR 40-STOREY BUILDING

In addition to commercial units, the Thang Long Number One building complex includes over 1,000 apartments. The new buildings feature a green architectural design and are based on the principle of smart living. The centrepiece of the complex comprises two 40-storey skyscrapers with 200,000 square metres of floor space. They are among the tallest buildings in the Vietnamese capital. Transporting water to this height requires serious pumping power – which KSB pumps routinely deliver. Pump sets with low noise emissions and outstanding efficiencies are in operation here in Hanoi. Thanks to their vertical design, they have a small footprint, leaving more space for comfortable modern living.





MOVITEC

Vertically installed Movitec VCF pumps ensure that sufficient drinking water is available even on the top floors of skyscrapers.

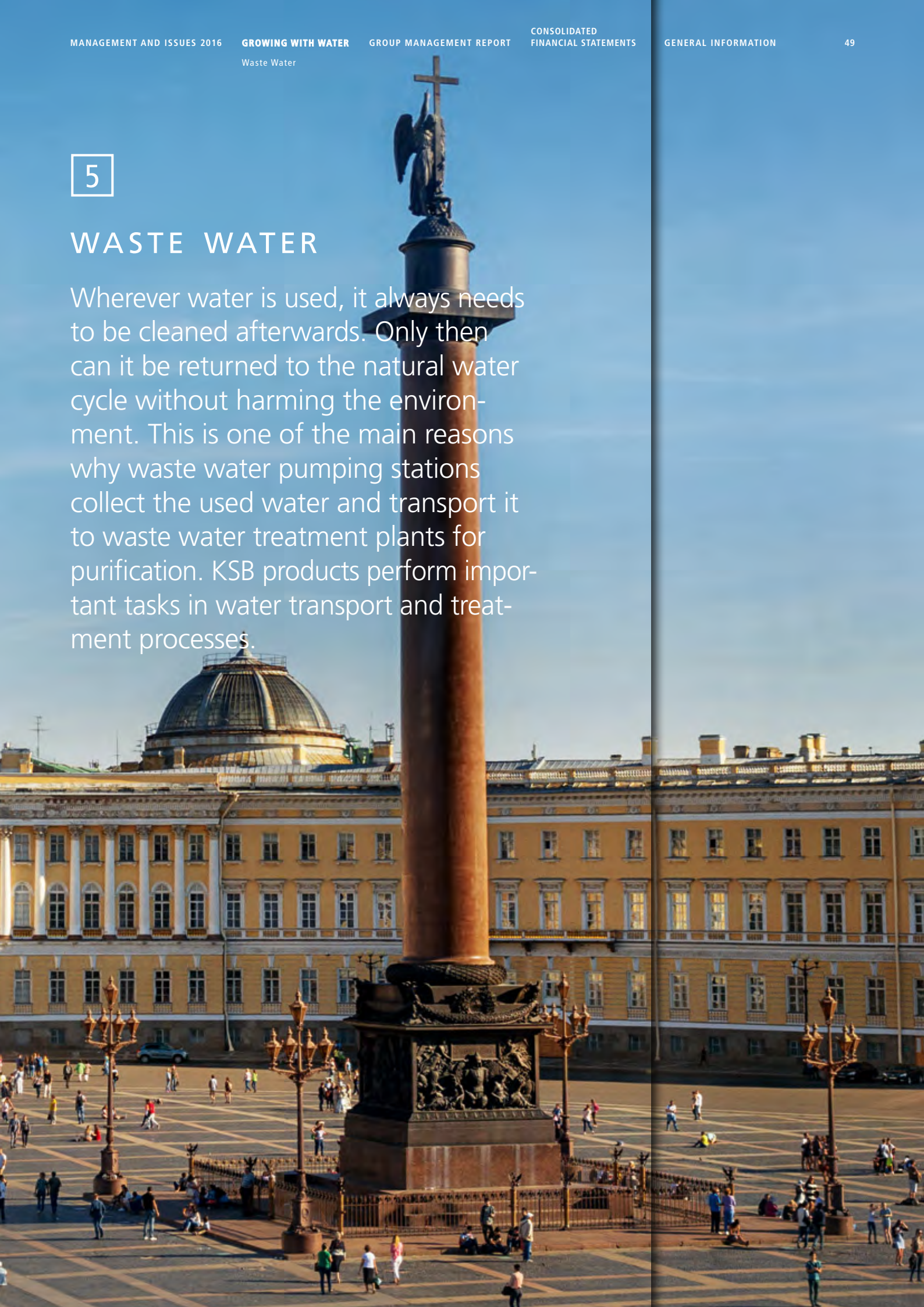




5

WASTE WATER

Wherever water is used, it always needs to be cleaned afterwards. Only then can it be returned to the natural water cycle without harming the environment. This is one of the main reasons why waste water pumping stations collect the used water and transport it to waste water treatment plants for purification. KSB products perform important tasks in water transport and treatment processes.





ST. PETERSBURG

EUROPE'S DEEPEST WASTE WATER PUMPING STATION

Far below the city of St. Petersburg, Russia, Europe's deepest waste water pumping station is located beneath the ground at a depth of 92 metres. Rainwater and waste water from a twelve-kilometre tunnel system is collected here. The system is designed to prevent the untreated mix of stormwater and sewage from flowing into the Baltic Sea during heavy rain. Large submersible motor pumps from KSB transfer the waste water from a depth of 92 metres into a channel from which it flows by gravity to the waste water treatment plant. Since the commissioning of the pumping station, virtually all waste water from St. Petersburg has been consistently and continuously treated. The city now fulfils the environmental standards agreed between the countries bordering on the Baltic Sea.

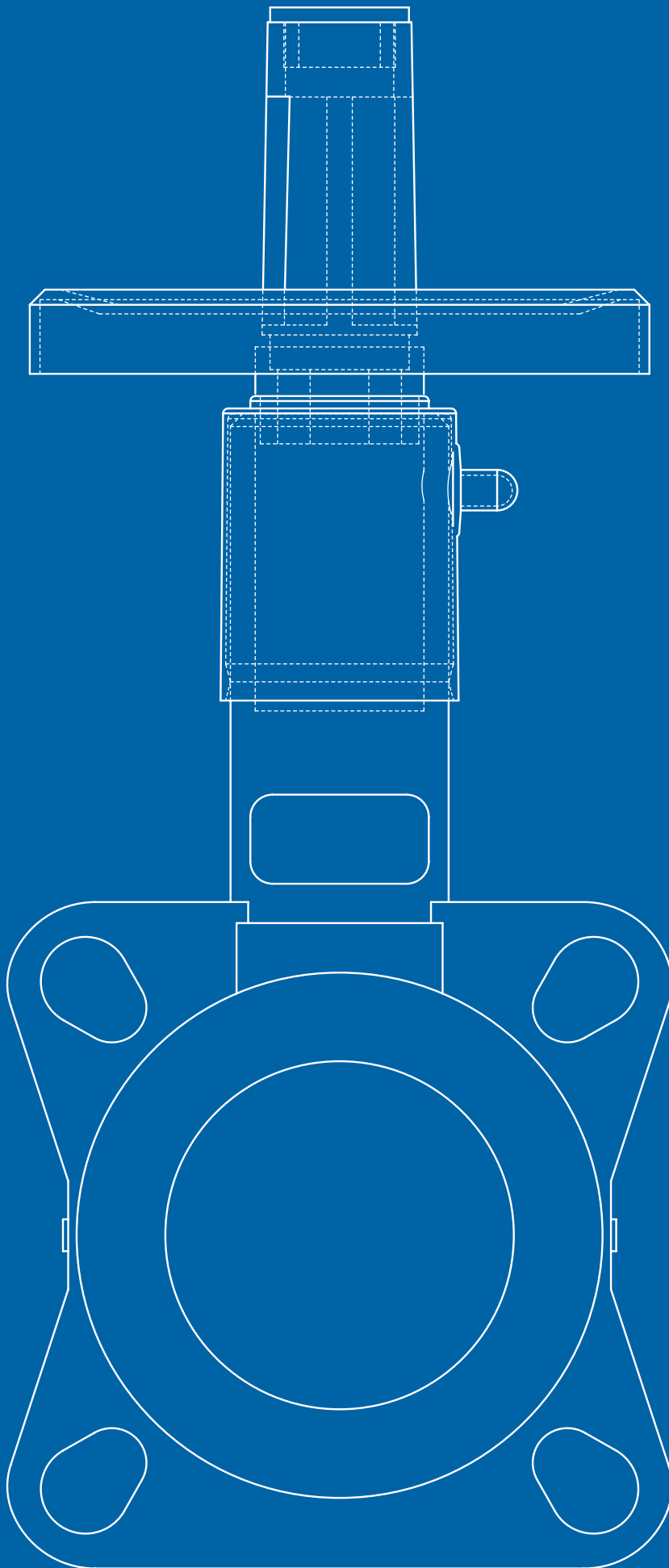




AMAREX KRT

Submersible motor pumps from the Amarex KRT range handle the disposal of waste water deep below ground.





BOA-COMPACT EKB
Compact valve for use in
drinking water systems

3

GROUP MANAGEMENT REPORT

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BASIC PRINCIPLES OF THE GROUP

GROUP BUSINESS MODEL

The KSB Group's mission is to supply customers around the world with top-quality pumps and valves as well as related systems. We also provide a wide range of service offerings to users of these products.

KSB AG, Frankenthal/Pfalz, Germany, as the parent company, directly or indirectly holds the shares in the companies belonging to the Group. Besides it, 9 domestic and 79 foreign companies are fully consolidated; 6 other companies are accounted for under the equity method. KSB is currently represented in over 40 countries with its own subsidiaries.

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

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

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

ORGANISATION, MANAGEMENT AND CONTROL

KSB AG's Board of Management manages and controls the KSB Group. This body formed of two persons is assisted in operational decisions by a management team of senior executives. Managers and employees implement the strategy and instructions of the Board of Management within an organisa-

tion that is structured according to responsibilities for product groups, corporate functions and regions.

All organisational units act with the aim of ensuring sustainable, profitable growth that will secure both KSB's financial independence and its medium- and long-term future. Management is monitored by a Supervisory Board consisting of twelve members. The Annual General Meeting of shareholders appoints six members of the Supervisory Board, with the remaining six being delegated by the employees under the terms of the *Mitbestimmungsgesetz* [German Co-determination Act].

The KSB Group organises its business activities in three segments based on product groups: Pumps, Valves and Service. The Pumps segment covers single- and multistage pumps, and associated control and drive systems. Applications are industry (manufacturing, chemical/petrochemical, transport), energy supply, water transport and waste water treatment, construction/building services and the hydraulic transport of solids in mining. The Valves segment covers butterfly, globe, gate, control, diaphragm and ball valves, as well as associated actuators and control systems. The applications for these products are essentially identical to those for pumps. The Service segment covers the installation, commissioning, start-up, inspection, servicing, maintenance and repair of pumps, related systems and valves for all these applications, as well as modular service concepts and system analyses for complete systems.

MARKETS AND LOCATIONS

Within the KSB Group, centrifugal pumps account for around two thirds of sales revenue. These pumps, as well as valves, are sold to engineering contractors, OEMs and end users or, in some cases, distributed via dealers. The same applies to control and monitoring systems, and to package units with pumps and valves.

The best developed sales market for these products is Europe, where KSB operates its main manufacturing facilities in

Germany and France. KSB AG's main plant in Frankenthal is its largest in Europe, ahead of the production sites in Pegnitz (Bavaria) and Halle (Saxony-Anhalt) in Germany, and La Roche-Chalais in France.

The second-largest market for KSB products is the Region Asia, followed by the Region Americas/Oceania and the Region Middle East/Africa. Outside Europe, KSB's biggest manufacturing plants are in Brazil, China, India and the USA.

KSB manufactures products and components in a total of 16 countries; they are sold through the Group's own companies or agencies in more than 100 countries. With their products, the Group companies serve customers in industry including the chemical and petrochemical industries, customers in the energy and construction/building services sectors, transport equipment manufacturers and operators (e.g. ships, rail vehicles), water and waste water utilities, and mining companies. Once again in 2016, the top-selling markets for our products were the industrial and energy supply sectors.

In order to be able to offer our products at favourable prices, we combine the Group's purchasing requirements and source affordable suppliers around the world who meet our quality standards. The focus is currently upon Asian companies. We are able to maintain our market position as one of the leading pump and valve manufacturers through our good and long-term relationships with our customers and suppliers. Our highly trained and motivated employees as well as the high quality of our products have also helped cement our reputation.

CONTROL SYSTEM

Based upon our matrix organisation, we determine our key financial performance indicators as follows:

Management decisions are taken primarily on the basis of the key indicators that are determined for the Pumps, Valves and Service segments: order intake, sales revenue and the operating result (i.e. earnings before interest and taxes (EBIT) excluding the effects from measuring construction contracts in accordance with IAS 11). For further information on these key indicators see the Notes to the Consolidated Financial Statements, section VIII. Segment Reporting.

In addition, we take the earnings before income taxes (EBT), pre-tax return on sales and net financial position into consideration for controlling the Group as a whole. The pre-tax return on sales describes the ratio between the earnings before income taxes (EBT) and the sales revenue; net financial position is the balance of financial liabilities and interest-bearing financial assets (current and non-current financial instruments, interest-bearing loans, cash, and receivables from cash deposits). When specifying and evaluating these key indicators, we are guided on the one hand by developments in the market, and on the other by the performance of our key competitors.

We do not consult any non-financial performance indicators for controlling the Group and for making decisions regarding management issues.

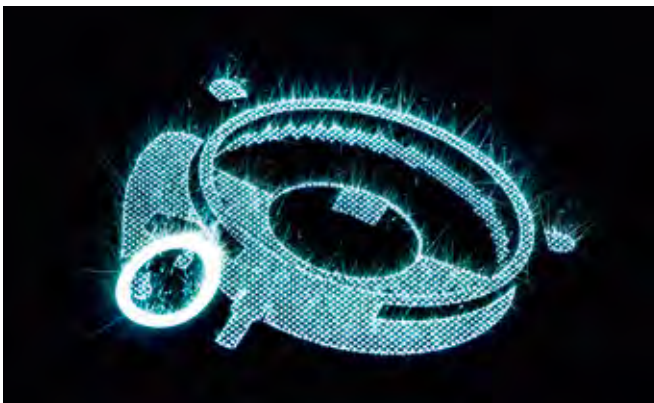
RESEARCH AND DEVELOPMENT

KSB provides pumps and valves for a broad range of technical applications. Diverse activities for the development of KSB's own products and refinement of its existing products form the basis of our long-term success. In 2016 we again made use of our research and development capacity at our centres in Europe, Asia and the USA. Our expenses in this area totalled approximately € 51 million for the year under review. This equates to about 2 % of our sales revenue.

Our work was focused on hydraulics and materials technology, as well as automation and drives. We also looked at the smart networking of pumps, valves and motors. Linking

hydraulic and electronic systems opens up approaches for services of the kind that our customers expect in the context of Industry 4.0[®].

In terms of material research, we tested and explored the use of new materials for sealing elements and plain bearings. This involved intensive cooperation with external organisations and institutions of higher education, making important steps forward in extending the service life of these components.



Innovative manufacturing method: Laser melting[®] allows the production of highly complex metal components which are built up layer by layer.

ECONOMIC REVIEW

MACROECONOMIC ENVIRONMENT AND SECTOR VIEW

Global economic growth remained subdued in 2016. The increase of a mere 3.1 % was weaker than forecast by the majority of economic research institutes. The International Monetary Fund (IMF), whose forecast provided the basis for our planning, also proved to have been overly optimistic, predicting 3.4 % growth in GDP. In the industrialised nations, economic development became markedly less dynamic during the reporting year. In contrast, the emerging markets and developing countries were able to more or less maintain the same rate of growth.

Consistently weak levels of demand for energy and raw materials, as well as unfavourable economic data from China, were key factors in what were far from satisfactory economic developments overall. Political crises, both new and emerging, also contributed to the state of the economy, impacting on global willingness to invest on the part of private companies and, in the countries hit by these crises, also government institutions.

Some three quarters of the modest growth recorded during the reporting year can be attributed to the world's emerging economies, with significant growth in Asia, where KSB has major production companies in China and India. Growth on the Chinese market, however, actually slowed. There was also a shift in growth from the industrial sector to services, as reported by the German Engineering Federation (VDMA). In two other BRIC [\[2\]](#) countries, namely Brazil and Russia, we continued to find ourselves in a recessionary market environment with our range of products and services. South Africa, the location of a significant KSB sales and production company for the region, failed to record any appreciable growth in 2016.

The economy in the industrialised countries grew only slightly year on year, up by 1.6 %. The moderate recovery in the euro zone, KSB's most important sales market, continued. The single-currency area's gross domestic product grew by 1.7 %, although structural problems in some member states hampered any stronger push forward.

LACK OF GROWTH IN MECHANICAL ENGINEERING

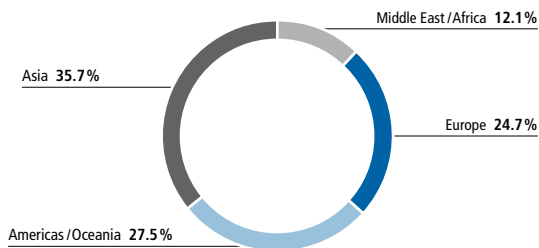
Global sales revenue from the mechanical engineering sector stagnated in 2016. According to figures from the VDMA, of which KSB is a member, demand for investment goods was too weak to trigger even a low level of growth. While increases were indeed in evidence in some emerging markets in Asia, sales in the mechanical engineering sectors in Europe and the USA were down on the previous year.

Sales revenue in Germany, as well as in France and Italy, remained at prior-year levels. According to the VDMA, companies were able to use successes in Europe and on many smaller markets to offset some major falls in business, particularly in relation to operations in Brazil, China and the USA. Sales revenues recorded by liquid pump and industrial valve producers in Germany were considerably weaker than for the mechanical engineering sector as a whole. In the pumps business, they declined by 6.0 %, with valves falling by 3.1 % year on year.

RISING DEMAND IN THE WATER INDUSTRY

Among the main sales markets for pumps and valves, the water and waste water sectors displayed the most stable growth. In the emerging economies with growing populations and rising standards of living, investments in the construction of new water infrastructures were a key focus. Wells, treatment plants and pumping stations are all being built, as well as municipal and industrial waste water systems. These applications require pumps for wet and dry installation, mixers for sedimentation tanks, and butterfly valves. Market conditions in the construction sector were also favourable, benefiting our products

WORLD MARKET OF CENTRIFUGAL PUMPS AND VALVES



Source: KSB estimate (February 2017), European Industrial Forecasting

used in pressure boosting, heating, ventilation and air-conditioning, and also drainage and garden technology products. Boosted by low interest rates, the construction boom continued.

In most other fields of application for our pumps and valves, demand either stagnated or fell further compared with 2015. This is particularly true of the oil and gas industry, which was hit hard by low energy and commodity prices. In contrast, the mining sector experienced a slight improvement, with prices for some minerals making up ground again. The oil-processing industry and gas producers only began to profit from slight price increases towards the end of the year, which meant that no additional projects were initiated during the year under review. Similarly, the transport of liquefied gas by tankers, which we fit with cryogenic valves, was a sector still dominated by overcapacity. There was a general lack of new shipbuilding, with replacement investments being kept to a minimum. In particular in the oil-producing countries, the slump also had an effect on secondary sectors; public investors lacked the funds for major projects.

In the energy sector, new power plants were only being planned and built on a very limited scale. To this extent, there was no let-up in the poor order levels affecting plant engineering contractors. For their part, they then only had a handful of orders to place with suppliers of components such as high-pressure pumps and valves. At the same time, fierce competition meant that some of these orders were not financially attractive. One exception was equipment for nuclear power stations, an area in which price pressure is not so acute and in which plans are in the pipeline, both in Asia and in Europe, for some new projects.

Generally weak business activity in industry across the globe also manifested itself in the manufacturing sector. Demand picked up in only a handful of countries, among them India. Overall, however, it fell short of expectations, even in Asia.

COMPETITORS TURN TO RESTRUCTURING

Given the weak demand in the sectors mentioned, coupled with currency-related reductions, global pump and valve manufacturers were often forced to accept dramatic falls in order intake. Their response to the market difficulties and decline in business was, in some cases, to introduce restructuring programmes. As in the case of KSB, these targeted large savings.

Where a national market proved particularly difficult, individual pump and valve producers also took steps to reduce their local production and sales capacity. This was particularly relevant in Brazil in 2016, with several companies cutting back their activities substantially.

In light of the small number of large-scale orders to be placed, some suppliers were willing to grant larger discounts in order to put their production capacity to good use. Consequently, pricing pressure in relation to projects from industry and the energy sector continued unabated.

BUSINESS DEVELOPMENT AND RESULTS OF OPERATIONS

In the 2016 financial year, we focused to a greater extent than before on meeting the needs of those customers who are already using our products. The strategy of offering these customers our services, replacement pump sets, and additional pumps and valves proved very successful. In addition, we focused on sales of our standard products, developing new distribution concepts specifically for our successful Eta industrial pump series.

The situation with regard to project business remained difficult, with fierce pricing competition continuing to affect orders to fit out power plants and petrochemical facilities. Consequently, we continued to shift our power plant pump activities to Asia in order to be closer to our customers and also to cut our manufacturing costs. In the oil and gas sector, and in petrochemicals, we took advantage of our global production network in order to be able to bid at the prices demanded by the market. Nevertheless, the number of new projects was very limited for the reasons outlined above.

In order to bring our cost structure into line with the changed market conditions, we launched our efficiency improvement programme in 2016. This programme is designed to cover a three-year period, during which time we will use a variety of global and regional measures to make cuts of around € 200 million overall to our material, staff and overhead costs. Key focuses of this programme include a reduction in our production sites and the merger of smaller companies. As far as purchasing is concerned, we will be using dedicated supplier events and online auctions to help to reduce our material costs. The reduction in staffing levels also associated with 1,300 different measures will be carried out in a socially responsible manner. With this in mind, we have rescheduled the end date of some measures to beyond the target year of 2018.

As predicted, the restructuring costs associated with the programme and additional one-off costs had a negative impact

on profit performance in the year under review. For the Group, this amounted to around € 50 million, while worldwide savings were broadly similar in amount. Order intake and sales revenue remained down on prior-year levels.

ORDER INTAKE

At € 2,156.6 million, the KSB Group's volume of incoming orders was down € 104.6 million on 2015. We had begun the year still expecting to see a clear improvement in order intake, anticipating several large-scale assignments in the power plant sector. However, the decisions on the award of these contracts were delayed.

The 4.6 % decrease can be attributed to weak levels of demand in key customer segments, in particular the energy industry, but is also due to significant negative currency exchange effects. The conversion to our Group currency, the euro, resulted in reductions of around € 51 million. Fluctuations in the exchange rates between the euro and the Argentine peso, the Chinese yuan and the South African rand had a particularly strong impact.

Developments in Europe (–5.2 %) and Americas/Oceania (–8.4%) were primarily responsible for the decline in orders received, although the companies in the Region Middle East/Africa also faced a downward trend (–3.0%). In Asia (+0.5 %), order intake was on a par with the previous year overall. Order levels posted by KSB Aktiengesellschaft, at –3.7 %, held up more strongly than in the Group as a whole. Our German parent company recorded new orders totalling € 751.8 million, a figure boosted by an increase in orders from existing customers for service support, spare parts and new products.

Pumps

Order intake in the Pumps segment, totalling € 1,386.6 million, was down € 65.8 million on the previous year and therefore did not grow “significantly” as expected. The year-on-year change, at –4.5 %, more or less corresponded to the overall development of new orders received by the Group. The difficult situation in the Middle East, economic problems in Brazil and Russia, and a change in the focus of government investments in China all contributed to the decline in pump orders.

Overall, the order situation in relation to pumps for the mining sector improved on the previous year, reacting to the signs of recovery mentioned above. However, the decline in orders received by our companies from the energy, chemicals/petrochemicals and transport sectors was sharper, and overall more significant to our business.

The sale of pumps to the construction industry in Europe was one specific area that developed positively. In addition to increased sales in circulator pumps, new compact lifting units also contributed to this upward development. In India, above all the level of new orders from the water industry was gratifying. Having revamped our range of well pumps, we saw the first signs of sales success in this field.

Valves

In the Valves segment, orders received in 2016 totalled € 331.2 million. Rather than stagnating, as expected, this meant that order intake fell by € 36.8 million or 10.0 %.

The key factor responsible for this decline was the renewed drop in demand for cryogenic valves that we supply worldwide for liquefied gas tankers and terminals. In light of the difficulties facing the oil and gas industry, shipping companies were being exceptionally cautious with regard to any plans to modernise or expand their fleets of tankers. Like the Pumps segment, the Valves business also reflected that the energy industry was holding back from the construction of new installations and thus from placing any purchase orders. This reticence impacted on new orders for high-pressure globe, gate and butterfly valves. With production capacity frequently being under-utilised, industry, in particular chemicals and petrochemicals, was another sector that did little to stimulate demand.

In contrast, business with pipeline valves for use in water supply systems developed very positively. Indeed, we expanded our market share in this sector, helped not least by our introduction of butterfly valves with diameters of up to 2 metres capable of withstanding pressures of up to 40 bar in either flow direction. In the construction sector, orders for our valves continued to be supported by the construction boom, itself triggered by low interest rates, and our sales figures were able to grow.

Service

In our Service segment, we failed to achieve the predicted “moderate” growth, with an order intake of € 438.8 million. Total orders for service support and related spare parts were € 2.0 million or 0.5 % down on the previous year.

We recorded positive growth rates through our service business in East and South-East Asia, particularly China and Indonesia, and in the Region Middle East/Africa. In Europe, our traditionally strong service business in Germany continued to be impaired by the shut-down of nuclear power plants. Growing business in mobile valve service for industrial customers partially offset this negative trend. Overall, however, the companies in Germany recorded a clearly negative figure. In contrast, French service business posted a positive performance, also buoyed by framework agreements with large companies.

In the Americas, the value of our service orders was down on the previous year, not least due to the continued decline in the mining sector. In South America, business in Argentina in particular developed very positively. This is not reflected in the Group’s order intake figures, however, due to the change in the peso/euro exchange rate.

SALES REVENUE

Consolidated sales revenue fell strongly year on year, totalling € 2,165.7 million. This represents a decrease of € 169.2 million or 7.2 % compared with 2015. We had been expecting to see a “significant” decline in the figures. € 49 million of the decrease can be attributed to changes in exchange rates. Their impact reduced the sales revenue figures reported by several companies after the conversion into the Group currency, the euro. We recorded falling sales revenue across all regions: Europe (–7.4 %), Middle East/Africa (–2.5 %), Asia (–4.8 %) and Americas/Oceania (–10.8 %). In Europe, KSB AG generated sales revenue of € 760.6 million, which equates to a decrease of 7.7 %.

Pumps

In our Pumps segment, in which we once again achieved around two thirds of consolidated sales revenue in 2016, there was, as expected, a significant decline in sales revenue, down by € 85.5 million to € 1,428.5 million. This represents a decrease of 5.6 %. All four regions were affected. Waning

demand in earlier years for feed pumps for fossil-fuelled power plants had a particularly strong impact. However, the lull that has been in evidence in the oil and gas industry, as well as in mining, for several years now, with negative fall-out for other sectors, has long been hampering investment to the extent that there were fewer pump orders for large-scale projects during the past financial year.

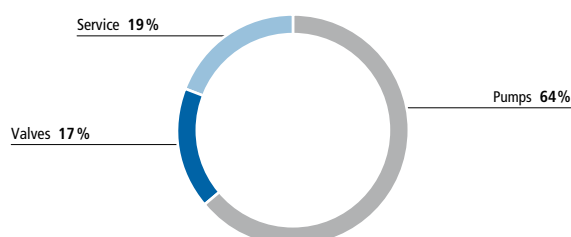
Valves

Similarly to order intake development, our Valves segment experienced the strongest decline in sales revenue in percentage terms. Sales revenue for globe valves, gate valves, butterfly valves and other valve types fell significantly (and not “substantially” as expected), down by € 23.8 million or 6.2 % to € 360.8 million. The decline in orders was particularly marked in the case of butterfly and diaphragm valves. In China and South Korea, weaker demand for butterfly valves in the marine sector was the main factor impacting on sales revenue.

Service

Sales revenue in our Service segment, at € 416.5 million, almost matched the previous year with, as anticipated, a slight increase of € 2.9 million (+ 0.7 %). This meant that we slightly exceeded the prior-year level in our most important market, namely Europe. In addition, our companies in the Region Middle East/Africa reported strong increases. This growth was, however, offset by the market-driven downward movement in the Americas and in some Asian countries. In China, where we actually recorded above-average growth, a major focus was on the modernisation of power plants.

SALES REVENUE BY SEGMENT



€2.17 billion

Consolidated sales revenue in 2016

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

The KSB Group achieved earnings before interest and taxes (EBIT), excluding the effects from measuring construction contracts in accordance with IAS 11, of € 102.9 million (previous year: € 101.9 million). The Pumps segment contributed EBIT of € 60.9 million (previous year: € 55.4 million). This means that the forecast (of a substantial decline) made in the previous year's report did not materialise. As predicted, EBIT fell substantially in the Valves segment, totalling € 8.8 million (previous year: € 10.3 million). EBIT for the Service segment also declined substantially (and not moderately, as planned) to € 33.3 million (previous year: € 36.2 million). The reconciliation effect from the measurement of construction contracts under IAS 11 to EBIT changed by € –18.1 million year on year.

TOTAL OUTPUT OF OPERATIONS

The above-mentioned decrease in sales revenue is also reflected in a lower total output of operations, totalling € 2,174.2 million compared with € 2,350.3 million in the previous year. Work in progress and inventories of finished goods increased by € 2.9 million, and thus by € 7.8 million less than in the previous year. In contrast, other work performed and capitalised rose by € 0.9 million.

INCOME AND EXPENSES

Other income declined from € 50.0 million to € 47.2 million, partly due to lower income from the reversal of provisions no longer required.

The cost of materials fell by 10.8 % and thus more strongly than total output of operations. In percentage terms, the cost of materials (€ 874.2 million) decreased from 41.7 % in

the previous year to 40.2 % in the year under review. This can also be attributed to first successes of our efficiency improvement programme.

Staff costs fell by 2.5 % to € 798.8 million. In relation to total output of operations, however, this represented an increase of 1.8 percentage points. Key factors were a lower number of employees on the one hand, and collectively agreed salary increases on the other. Compared with 2015, the number of employees fell by 624, taking the total figure at the end of the reporting year to 15,572. The European companies reported the biggest fall with a reduction of 321 staff, 160 of whom had been employed at the Group's German sites. Employee numbers were also markedly down in the Americas with 157 fewer people working for KSB on the reporting date compared with the end of December 2015. This development is the result of measures introduced to bring our cost structures into line with new market conditions. The KSB Group employed on average 401 fewer people than in the previous year. Based on the significantly lower total output of operations and simultaneous decrease in the number of employees, the average output per employee fell from € 144 thousand in the previous financial year to € 137 thousand.

The ratio of other expenses to total output of operations fell from 17.5 % to 17.1 %. In absolute terms, this means a change from € 411.5 million to € 372.4 million, attributable to falling sales costs, lower administrative expenses and a lower level of third-party services.

Financial income/expense deteriorated by € 5.1 million. This is primarily a reflection of the lower income from investments accounted for using the equity method. Based on the contribution to income from our Chinese joint venture included in this item, we reported expenses totalling € 1.3 million. This compares with income of € 4.4 million in the previous year.

EARNINGS

The KSB Group generated earnings before income taxes (EBT) of € 74.6 million, compared with € 93.4 million in 2015. This means that the previous year's forecast of a substantial fall in earnings due to one-off costs was accurate. Correspondingly, the return on sales before tax decreased from 4.0 % in the previous year to 3.5 %, also confirming our expectations outlined in the previous year. The income tax rate was down, due to such factors as the reduced scope of non-tax-effective impairments on goodwill. The rate was 36.0 %, compared with 44.1 % in 2015. Earnings after income taxes, at € 47.8 million (previous year: € 52.2 million) were down 8.4 % and therefore did not fall as sharply as earnings before income taxes (EBT) (20.1 %).

€74.6 million

Consolidated earnings (EBT) in 2016

Earnings attributable to non-controlling interests were up from € 12.9 million to € 14.9 million. This can be attributed to improved contributions to earnings from our Asian companies. Relative to earnings after income taxes, there was therefore a change from 24.7 % to 31.0 %.

The earnings attributable to shareholders of KSB AG (€ 32.9 million) were € 6.4 million lower than in the previous year (€ 39.3 million).

Earnings per ordinary share were € 18.68, compared with € 22.30 in the previous year, and € 18.94 per preference share, compared with € 22.56 in 2015.

FINANCIAL POSITION AND NET ASSETS

FINANCIAL POSITION

The financial position of the KSB Group remains as solid as ever, as evidenced by a consistently high equity ratio.

Equity

The KSB Group's equity amounts to € 890.3 million (previous year: € 870.2 million). This includes KSB AG's subscribed capital of € 44.8 million as in the previous year. The capital reserve remains unchanged at € 66.7 million. Revenue reserves total € 614.2 million (previous year: € 609.1 million), including the proportion of earnings after taxes attributable to shareholders of KSB AG of € 32.9 million (previous year: € 39.3 million). € 164.6 million (previous year: € 149.6 million) is attributable to non-controlling interests. Given that the increase in equity (+2.3 %) more or less corresponds to the rise in total assets (+2.6 %), the equity ratio remained constant (37.9 %; previous year: 38.0 %).

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

Liabilities

The largest item under liabilities continues to be provisions for employee benefits, including, also as the largest item, pension provisions, which were up by € 63.5 million to € 589.5 million as at the reporting date primarily as a result of the lower discount rate for the German pension plans. A large number of the pension plans currently in place in the KSB Group are defined benefit models. We will be reducing the associated risks, such as demographic changes, inflation and salary increases, for example by increasingly introducing defined contribution plans for new staff.

Our obligations for current pensioners and vested benefits of employees who have left the company account for nearly half of the amount recognised in the balance sheet. The rest relates to defined benefit obligations for our current employees.

Other provisions for employee benefits, which are predominantly current, only changed slightly and total € 86.9 million (previous year: € 88.8 million).

The picture with regard to other provisions, which we created almost exclusively for current uncertain liabilities, is more or less stable (€ 99.6 million compared with € 100.8 million in 2015). Increased provisions for restructuring in conjunction with our efficiency improvement programme offset a decline in miscellaneous other provisions.

37.9%

Equity ratio in 2016

Non-current financial liabilities decreased by € 75.5 million to € 58.0 million. This can be attributed to the reclassification of the € 74.5 million tranche of the loan against borrower's note due in 2017. Based on our current information, no external financing measures will be required for repayment. We placed this loan with a total volume of € 122 million at the 2016 year end back in 2012. It is divided into repayment tranches of 3 to 10 years.

Current liabilities increased overall by € 54.9 million (€ 613.5 million compared with € 558.6 million at the 2015 year end). Trade payables in particular were down, falling by € 28.0 million, as a result of the decline in the volume of business. In contrast, other non-financial liabilities (+ € 3.8 million) and other financial liabilities (+ € 3.5 million) rose slightly. The increase in current financial liabilities (+ € 75.6 million) can be attributed to the reclassification, referred to above, of the tranche of the loan against borrower's note due in 2017.

Taking into account the increase in total equity and liabilities, the share of current liabilities in total equity is 26.1 % (previous year: 24.2 %).

Investments

The additions to intangible assets amounting to € 10.0 million (previous year: € 8.3 million) primarily concerned advance payments and own work capitalised for a new software to be deployed in Sales, as in the previous year.

Investments in property, plant and equipment in the reporting year amounted to € 72.2 million, slightly down on the figure of € 74.5 million for the previous year. The highest additions at € 23.6 million (previous year: € 27.7 million) relate to advance payments and assets under construction, as in the previous year. A further € 21.1 million are attributable to technical equipment and machinery (previous year: € 19.9 million). As in 2015, the focus of our investment activities was Europe, and predominantly Germany and France. Outside Europe, the highest additions were again recorded at our plants in Brazil, China, India and the USA. We maintained our policies for measuring depreciation and amortisation in the year under review.

Net financial position

The net financial position, at € 259.5 million compared with € 211.3 million in the previous year, developed more favourably than forecast twelve months earlier (slightly below € 211 million) due to a decrease in trade receivables and PoC.

€259.5 million

Net financial position in 2016

Liquidity

Cash flows from operating activities amounted to € 134.5 million, a year-on-year increase of € 17.9 million. This was

principally attributable to the release of funds in trade receivables and PoC (commitment of funds in previous year). This contrasted above all with declines in advances received and liabilities, as well as an increase in inventories. The drop in earnings also had a negative impact on the development of cash flow compared with the same period of the previous year.

The outflows from our investing activities increased by € 79.5 million compared with 2015. The change in term deposits and commercial papers significantly reduced cash flow whereas an increase had been reported in the previous year. Accordingly, cash flows from investing activities were significantly lower at € –114.0 million (previous year: € –34.5 million).

Cash flows from financing activities improved strongly, totaling € –9.6 million compared with € –87.4 million in the previous year. While the overall amount of the loan against borrower's note remained unchanged compared with 2015, the previous year's cash flow included significant repayments.

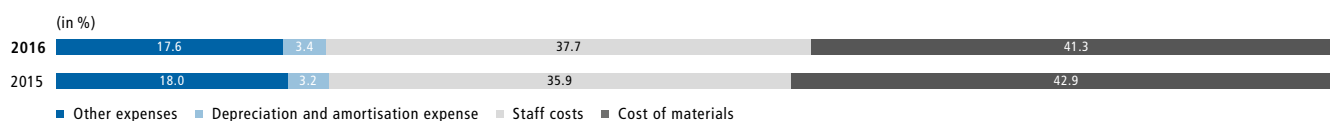
Cash and cash equivalents from all cash flows increased from € 273.1 million to € 288.9 million. Exchange rate effects amounting to € + 4.3 million (previous year: € –0.1 million) contributed to this rise.

We assume that, in future, we will continue to be able to meet our outgoing payments largely from operating cash flow. From the current perspective our financial management is meeting the goal of ensuring our liquidity at all times essentially without any additional external financing measures. For more information on liquidity management (such as credit lines) see the section on Risk Reporting on the Utilisation of Financial Instruments elsewhere in this group management report.

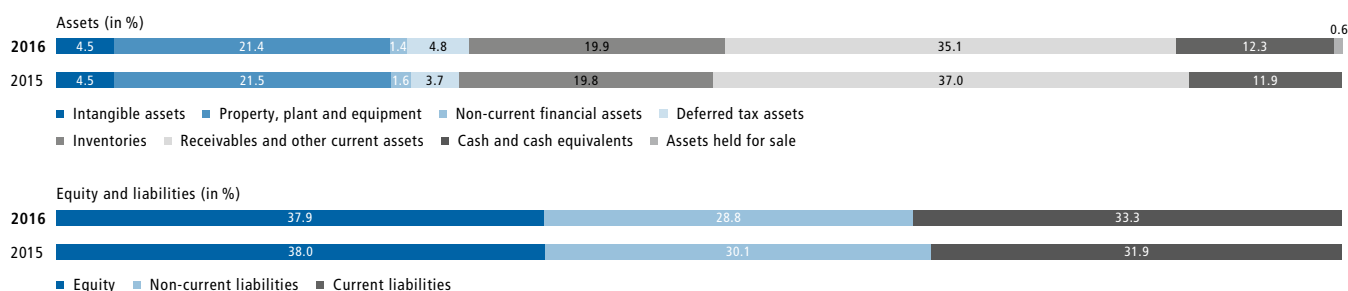
Contingencies and commitments

The KSB Group's off-balance sheet contingent liabilities totalled € 15.9 million as at the reporting date (previous year: € 13.4 million). These arise mainly from collateral and performance guarantees.

EXPENSES IN STATEMENT OF COMPREHENSIVE INCOME



BALANCE SHEET STRUCTURE



There are no other extraordinary obligations and commitments beyond the reporting date. Other financial obligations arise only within the normal scope from long-term rental, lease and service agreements (in particular IT and telecommunications) necessary for business operations and from purchase commitments amounting to € 17.9 million (previous year: € 20.0 million).

NET ASSETS

Our total assets increased by 2.6 % to € 2,350.2 million. Increases, in some cases considerable, were recorded for both non-current assets (particularly deferred tax assets) and for cash and cash equivalents. This contrasted with lower receivables and other assets.

Approximately 27 % is attributable to fixed assets (previous year: just under 28 %). Intangible assets and property, plant and equipment with a historical cost of € 1,393.1 million (previous year: € 1,336.4 million) have carrying amounts of € 608.2 million (previous year: € 595.9 million). With investments in property, plant and equipment (€ 72.2 million) once again exceeding write-downs (€ 61.7 million), this balance sheet item increased by € 7.8 million. Reclassifications to “Assets held for sale”, mainly relating to the sale of valves operations in the USA in January 2017, had the opposite effect. The carrying amount of financial assets and investments accounted for using the equity method fell by a total of € 4.2 million to € 33.0 million. The investments accounted for using the equity method accounted for € –4.8 million.

Inventories totalled € 467.4 million, up € 13.0 million on the 2015 year end. Raw materials, consumables and supplies, work in progress and advance payments all increased, while finished goods and goods purchased and held for resale were down on the previous year. Inventories continued to tie up around 20 % of our resources.

As a result of the lower business volume, trade receivables and PoC were € 49.4 million down on the 2015 year-end figure. Overall, taking into account the change in total assets, this balance sheet item accounts for approximately 26 % (previous year: 29 %) of total assets.

Other financial assets increased from € 156.2 million to € 187.0 million, on account of a rise in the proportion contained therein of fixed-term deposits with terms of more than 3 and up to 12 months, including commercial papers, and an increase in receivables from loans to other equity investments, associated companies and joint ventures.

Cash and cash equivalents continue to account for around 12 % of assets, totalling € 288.9 million (previous year: € 273.1 million).

Inflation and exchange rate effects

There were no consolidated companies within the Group whose financial statements were required to be adjusted for the effects of inflation.

The currency translation of financial statements of consolidated companies that are not prepared in euro gave rise to a difference of +€ 20.2 million (previous year: +€ 1.2 million). This was taken directly to equity.

SUMMARY OF THE BOARD OF MANAGEMENT

The forecasts made in the previous year's report have not been fully realised due to the circumstances outlined. The weak state of the economy had a major impact on our core markets in some areas, and thus also on the achievement of our order intake targets. A further negative effect resulted from delays in the award of orders for large-scale projects. Consequently, our order intake was down by 4.6 %, and the significant improvement that we were seeking failed to materialise.

Weak demand across the world in several important sectors held back the growth in our business. For various products we also once again experienced that our pricing flexibility was not sufficient in order to achieve satisfactory margins in a tougher competitive situation. The resulting impact differed across the various segments.

Consequently, sales revenue developed somewhat more poorly than expected (strong rather than "significant" decline).

As forecast, our earnings figures were impacted by one-off costs (around € 50 million across the Group). Positive effects were recorded as a result of cost-cutting measures initiated earlier (also around € 50 million across the Group). Their contribution was actually slightly higher than expected. Overall, while the substantial falls predicted in earnings before income taxes and return on sales did occur, the figures in real terms were higher than originally planned.

The sales revenue forecast (significant decrease) for the Pumps segment proved correct. Earnings generated were, however, € 5.5 million up on the 2015 figure and did not fall substantially, as anticipated. Order intake was expected to rise significantly, but actually fell by 4.5 % as a result of the general economic environment.

The difficult market situation also had an impact on the Valves segment. Consequently, the stable order intake that had been expected did not materialise, with orders down by 10.0 %. This translated into significant decreases in sales revenue. A year ago we were even expecting a substantial downward trend. Earnings, as predicted, were well down on the previous year.

In the Service segment, our forecasts of slight sales revenue growth proved correct. Counter to expectations, the decline in earnings was substantial, rather than moderate. Our order intake target (moderate increase) could not be achieved, however, and we were faced with a slight fall.

The net financial position, at € 259.5 million compared with € 211.3 million in the previous year, developed more favourably than forecast twelve months earlier (slightly less than € 211 million).

Our business development in the reporting year in terms of order intake and sales revenue was thus somewhat less favourable overall than expected. In terms of our earnings figures and net financial position, however, the overall picture was somewhat better than anticipated.

KSB continues to have a healthy financial basis for the future. The measures initiated to permanently improve our cost structures will strengthen this basis for the long term.

DEPENDENT COMPANY REPORT

The Board of Management has submitted the dependent company report to the Supervisory Board. This concludes with the following declaration: "In accordance with section 312(3) of the AktG [*Aktiengesetz* – German Public Companies Act], we declare that our company – on the basis of the circumstances known to us at the time when the transactions were made – did not receive adequate compensation for all transactions listed in the dependent company report. Before the end of the financial year, the company was granted a legal title to an adequate benefit as compensation. No measures subject to reporting requirements were undertaken in the financial year."

REPORT ON EXPECTED DEVELOPMENTS

The International Monetary Fund (IMF) expects real growth of 3.4 % for the current year. The UN organisation is forecasting a 1.9 % increase in growth in the industrialised nations. The continuation of an expansionist monetary policy may contribute to this. However, the favourable basic financial parameters are being countered by both the structural problems referred to above and also by new political uncertainties. The latter include protectionist tendencies in some of the markets relevant to our business. Growth in the euro zone is expected to remain more or less unchanged.

With regard to the emerging markets and developing countries, the IMF is forecasting growth of 4.5 % in real terms despite a slight slowing of growth in China again. In contrast, in India, Asia's second-largest market, structural reforms are intended to improve overall economic development. In Latin America, including Brazil, which is an important production base for us, the situation can be expected to change for the better, if commodity prices recover. A normalisation of oil and gas prices would be expected to generate a positive development in the Arab producing countries too.

The German Engineering Federation (VDMA) believes that the benefits of this global economic development will be below average for the mechanical engineering sector. Globally, the VDMA expects to see a real increase of just 2 %, but its forecast for the German mechanical engineering sector is even more pessimistic, at a mere +1 %. This forecast is based on such factors as the weakness of some "raw material-related areas" and unresolved geopolitical crises, but also the aforementioned protectionist trends.

As far as producers of liquid pumps in Germany are concerned, the VDMA is expecting sales revenue to stagnate during the current year. With regard to industrial valves, the Association is even forecasting a 3 % drop in sales.

SIGNIFICANT GROWTH IN ORDER INTAKE, SALES REVENUE MORE OR LESS STABLE

In light of this economic outlook, we are planning on the basis that our order intake will only rise slightly in the current year, with sales revenue set to remain more or less stable. We

primarily expect to see our business in standard products, service and spare parts pick up. Ultimately, a key factor in order intake will be whether and to what extent project business recovers again and whether we can win new projects from potential customers on the basis of our technical expertise and our pricing.

Pumps

We expect to see a significant increase in demand for centrifugal pumps of the kind we primarily produce and sell. This is likely to be supported by growth in the water and waste water market and by investment activity in the chemicals and petrochemicals industry gradually picking up speed again. New petrochemical projects, as well as projects in relation to water and waste water engineering are expected, for example, on the markets in Saudi Arabia and Iran, if oil prices rise again. Further major waste water projects are at the planning stage in East Asia, North America and North Africa.

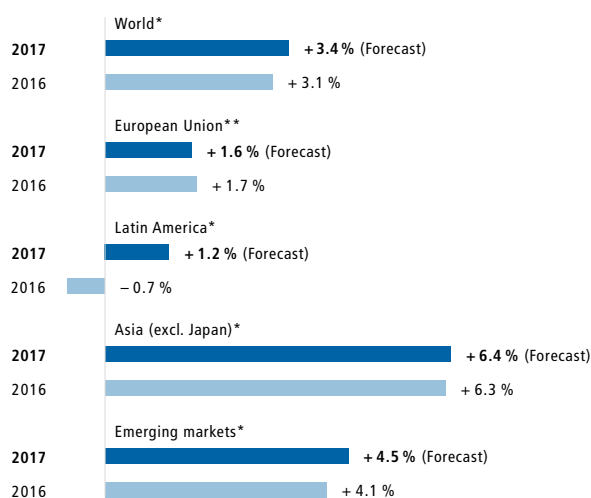
Generally speaking, the trend towards energy-efficient solutions is one factor that could lend impetus to our business with automation equipment and energy-saving motors. This is particularly true of building services in Germany, where the "National Energy Efficiency Action Plan" calls for solutions to reduce electricity consumption. We are expecting to see increased demand for our high-efficiency circulator pumps in particular.

In the manufacturing sector, the indicators point to only slight growth. In mining, further improvements in order intake are anticipated for 2017.

The situation with regard to conventional energy generation, however, remains as difficult as ever.

Overall, we expect the Pumps segment to experience significant growth in order intake and a significant decline in sales revenue.

GROSS DOMESTIC PRODUCT GROWTH



* Source: International Monetary Fund (January 2017)

** Source: European Commission (February 2017);
additional information: euro zone + 1.7 % (2016), + 1.6 % (2017)

Valves

In the Valves segment we are also expecting the keen level of demand from the water and waste water industry to continue. This relates to the construction of new plants and to replacement investments designed to secure existing infrastructure. The main areas of demand are Asia and the Middle East, as well as North America. Given the favourable market environment in the construction sector, we are expecting to see the order situation for butterfly valves, globe valves and gate valves used in building services change for the better.

Should oil and gas prices return to normal, a slightly higher level of demand for valves can be expected from the petrochemicals sector. There is also the likelihood of a slight increase in other industrial sectors, including chemicals.

In the energy supply sector, in contrast, we do not yet see any sign of a sustainable market recovery. We are expecting prices for power plant valves to remain under pressure.

Based on the sales momentum described, as well as technical innovations and sales initiatives for the global expansion of our valves business, we look set to achieve a significant increase in orders, with a slight rise in sales revenue.

Service

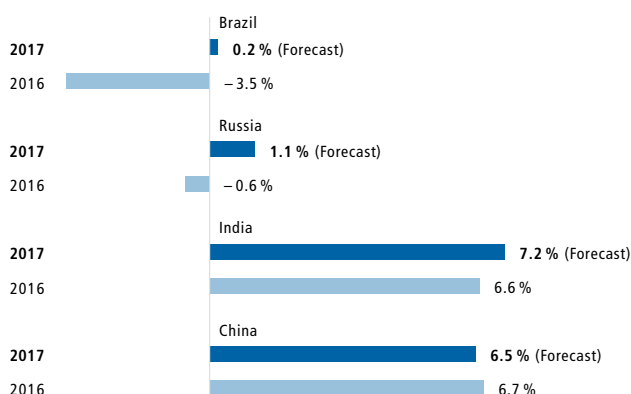
In the Service segment, we are continuing to expand our infrastructure, focusing on China, India and the USA. By setting up new bases in proximity to key industrial centres, we are working to partially offset the decline in service business for nuclear power plants, primarily in Germany. We are expecting to see considerable order intake from our new service centres, which were set up in Abu Dhabi, Australia, Indonesia, Canada, Malaysia, Mexico, Saudi Arabia and Turkey in 2016. We also foresee good growth prospects for our business in India, where we have realigned our service organisation and extended our range of services, and are aiming to achieve above-average growth during the current year.

In addition, we are anticipating increased interest in the current year in our service to check and improve the energy efficiency of pump systems. This is particularly relevant to customers from industry and local authorities who are looking for ways to cut costs.

Given the ongoing difficulties in the oil and gas industries, demand for service from this sector will remain muted at first. Similarly, we are not expecting any increase in orders from the energy sector in 2017, with service frequently being kept to a minimum. As Germany gradually withdraws from nuclear energy, orders from operators of nuclear power plants are also set to fall further.

Consequently, we are only expecting to see a slight increase in order volume and stable sales revenue in the Service segment in 2017. It is still difficult to predict how order intake will develop in the Middle East, with the level of new orders influenced by the political crises in this region of the world.

GROSS DOMESTIC PRODUCT GROWTH IN THE BRIC COUNTRIES



Source: International Monetary Fund (January 2017)

BOARD OF MANAGEMENT'S SUMMARY OF
EXPECTED DEVELOPMENT

For the current business period we anticipate, as detailed above, a marked improvement in order intake, driven primarily by an upturn in our business with standard products, spare parts and service support. As already mentioned, we expect all segments to make a positive contribution, with Pumps and Valves recording a larger increase in percentage terms than Service. The negative impact from the measurement of construction contracts under IAS 11 on sales revenue is expected to be significantly lower. Accordingly, sales revenue will be more or less stable from today's perspective. Significant falls in the pumps business are likely to be offset by a slight rise in valves. We are planning for stable sales revenue in our Service segment. We will be continuing as before with our measures for long-term improvements in our profit situation. These aim to reduce material, staff and overhead costs. As part of this approach we will be looking to drive forward with our programme to redistribute tasks within our global manufacturing network. We will also be creating the basis for further reductions in the number of KSB companies and for streamlining our product range. Consequently, earnings figures will again be burdened by one-off costs in the current year, with around

€ 50 million forecast worldwide. However, in 2017 we will already be seeing further positive effects from our cost-cutting programmes (worldwide, at a comparable level to 2016). We are therefore planning on a segment result, in other words earnings before interest and taxes (EBIT) excluding the effects from measuring construction contracts under IAS 11 that, depending on the level of one-off costs for efficiency improvement measures, should be well above the previous year's figure. We are expecting substantial growth from Valves and Service, and significant increases in Pumps to contribute to this. Based on what is likely to be a less negative impact from measuring construction contracts under IAS 11, earnings before taxes (EBT) will also be well up on 2016 levels. As a consequence, our return on sales would improve substantially.

With regard to our net financial position, we are anticipating a figure of between € 240 and 260 million.

The forecast period for the above figures and information, which we have drawn up taking into account the opportunities and risks presented below, covers the 2017 financial year. Material special factors beyond this period may result from our measures geared towards the long-term improvement of our profit situation, which are aimed at reducing material, staff and overhead costs.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information that are based upon the assumptions of Management. They express our current forecasts and expectations with regard to future events. As a result, these forward-looking statements and information are exposed to risks and uncertainties that lie outside the Management's sphere of influence. We wish to point out that actual events or results may differ materially from the forward-looking statements and information mentioned, if one or more of the following opportunities or risks, or other opportunities, risks and uncertainties should materialise, or if the assumptions underlying the statements prove to be inaccurate.

OPPORTUNITIES AND RISKS REPORT

As an organisation that operates throughout the world, the KSB Group is exposed to macroeconomic, sector-typical, financial and company-specific risks. Our risk policy is designed to enable us to grow sustainably and profitably. We aim to reduce the risks associated with our business and where possible avoid them completely. At the same time our global alignment and our extensive product range offer a wealth of opportunities. This includes in particular any opportunities that arise on the basis of our research and development activities, as well as any that are linked to the quality and cost effectiveness of our products. Our competitive position is also being strengthened by optimising our global sales and production network. We always review opportunities to expand our global presence and are able to achieve this through start-ups and acquisition projects.

We see opportunities and risks as possible future developments or events that may lead to forecast or target deviation. The deviation can be both positive and negative. In order to manage the varied opportunities and risks professionally and efficiently, we align our actions accordingly and focus upon the respective situation when selecting the persons responsible. In doing so, Controlling, Finance and Accounting as well as Internal Audits perform important monitoring tasks.

RISK MANAGEMENT SYSTEM

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

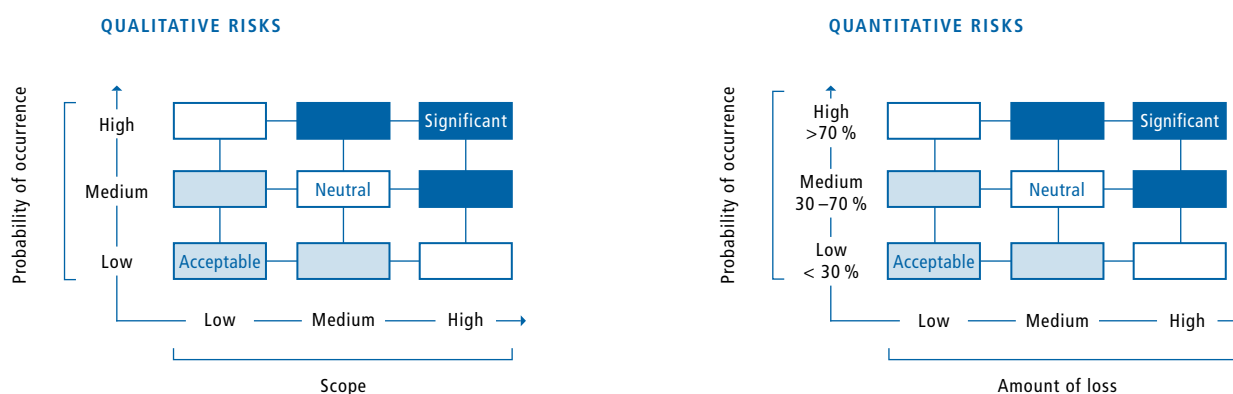
Managers are encouraged to take timely action to define and implement measures to limit or avoid damage that may result from the occurrence of risk events. All corporate and central

functions and Group companies, including Group companies that are not consolidated, are included in the risk management system. The responsible managers are required to supply their relevant key business and financial indicators each month. As well as creating quarterly forecasts on business trends, they also twice a year report the recognised risks for the next 24 months from the reporting date for the categories of market and competitive risks, technological risks, project- and product-related risks, financial risks and procurement risks. Other business risks (environmental, human resources, etc.) are also reported in this cycle to the Risk Managers at the Group headquarters. We classify risks as qualitative and quantitative risks:

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

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

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



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

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

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

The bodies to which specific responsibilities and competencies have been assigned in KSB's risk management system are shown and explained in the figure on page 72.

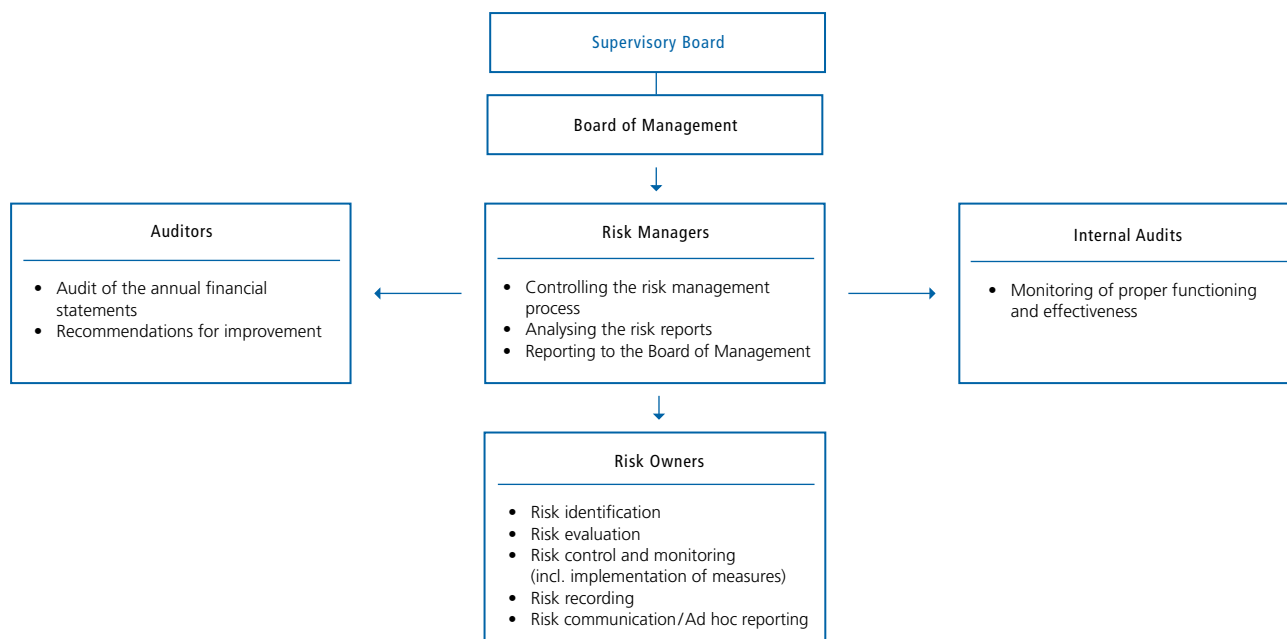
The overall responsibility for risk management lies with the Board of Management of KSB AG. It reports to the Supervisory Board during regular Audit Committee meetings and is monitored by the latter. The Board of Management is supported by the Chief Compliance Officer and the Group Finance and Accounting department. The latter coordinates the risk management process at Group level and investigates all reported risks to determine whether they are relevant for the financial statements. It ensures that there is a systematic link with the Group accounting process. The Board of Management and the Supervisory Board's Audit Committee receive at least

two risk reports per financial year. These reports include all the risks that are categorised as significant or neutral that exceed pre-defined threshold values individually or collectively, not considering any action that has been taken. Particularly critical topics are reported on an ad-hoc basis by the managers in charge. In contrast, opportunities are not taken into account in this system, but are examined separately in consultation with segment managers and regional managers.

With regard to financial risks we also make use of additional risk identification, assessment, management and communication. The central Finance department is responsible for this task which is described in further detail later in this section.

Compliance risks are dealt with by the Chief Compliance Officer, who is assigned to the Legal and Compliance, Patents and Trademarks staff function. The Chief Compliance Officer is supported by the members of the Compliance Committee and the Compliance Managers of the individual companies.

RISK MANAGEMENT AT KSB



The Internal Audits department is integrated into the risk management system as part of our internal control system. When planning audits, it prioritises areas according to potential risks and is provided with all the necessary information. The auditors ensure that all audited units adhere to the applicable guidelines, actively participate in the risk management system, and control or avoid their risks. Information obtained by Internal Audits on both the recognised risks and the countermeasures introduced in response forms an integral part of the reporting to the Board of Management and the Audit Committee of the Supervisory Board.

Our risk management system is regularly reviewed and promptly updated where necessary, for example, in the event of relevant legal or organisational changes. In addition, our auditor examines within the scope of the annual audit the early risk detection system, establishing that it is present and checking that it is fit for purpose.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS

The accounting-related internal control system (ICS) contributes towards ensuring proper financial reporting. The aim is to ensure that the consolidated financial statements and group management report comply with all relevant regulations. Key elements of the ICS are – as well as the risk management system described above – guidelines and regulations, which include standard accounting and measurement policies. They must be applied to the full extent by all our Group companies. Functional separation and the principle of dual control are observed; this is ensured by the audits carried out by our Internal Audits department.

In addition, the Accounting department carries out regular analytical plausibility checks using time series analyses and actual/budget variance analyses. This enables us to identify

significant changes early on, which we then examine for accounting and measurement discrepancies. The resulting findings are then discussed at management level.

The responsibility for Group accounting lies with the employees in the central Accounting KSB Group department. We employ the services of qualified external reviewers for certain calculations as part of financial reporting (such as the calculation of complex pension obligations using actuarial assumptions).

Binding schedules and guidelines apply to accounting within the KSB Group and to accounting at each individual subsidiary. The accounting methods that must be applied to compile the consolidated financial statements are defined in writing in a manual that we update and revise on a continual basis. This also includes the guidelines for posting intra-group transactions. We continually analyse new accounting principles and other official announcements with regard to their relevance and impact on the consolidated financial statements. We adapt our guidelines and manual where necessary and communicate any changes immediately to our companies. Accounting KSB Group monitors compliance with these regulations. This enables us to reduce the risk of compiling inappropriate financial statements or failing to publish them by the defined deadlines.

We automatically process the financial statement information for all Group companies using certified and tested standard consolidation software. Systematic checks are implemented to help us validate the data. Employees in Accounting KSB Group verify any warning signals that arise before using the data. The sequence of the processing steps is strictly specified through the use of the consolidation monitor within our IT system. This ensures the correct processing of data.

To enable a seamless and accurate accounting process, we only assign employees to this task who have the appropriate specialist know-how. These employees are trained on a regular basis to make sure that their expert knowledge remains up to date.

We have defined access authorisations for the accounting-related IT system. This protects the data against unauthorised access as well as improper usage and modification. The data is checked at many stages, helping to ensure the processing quality. Alongside regular system reviews by the auditors, these checks contribute to limiting operational risks.

INDIVIDUALLY ASSESSED OPPORTUNITIES AND RISKS

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

Markets / Competition

■ Risks

Our business and the opportunities available to us are affected by changes in the economic and political environments. The key economic factors, once again in the current year, include oil prices, which have yet to reach a satisfactory level despite climbing in 2016. In the absence of a continued recovery, the oil-producing countries' financial strength would be hampered and with it their options for new investments. We counter this risk, which is classed as "significant" by intensifying our contacts with companies and institutions that are making purchases within the means available to them. In this way we aim to limit the negative impact on our business.

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

The political situation in various parts of the world remains critical, not least the general situation in Turkey and Ukraine. The destabilisation of Syria, Libya, Yemen and Iraq following internal and external conflicts is having an impact beyond national borders, affecting these countries' neighbours too.

Both private companies and government institutions are very reticent with regard to investment in new plant. It is possible that the conflicts could spread further, which would place additional constraints on our business opportunities in this region.

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

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

We manage the risk of fluctuations in the economy and in demand by remaining active in several market sectors and industries with different economic cycles. Furthermore we are monitoring the development of the economic environment for our market sectors. If necessary, we adjust capacities, relocate production facilities and implement cost-cutting measures.

Political relations between various European countries and Iran improved in 2016, providing a foundation for improved business activities but also posing the risk of US business suffering as a result.


Asia remains our most important sales market for power plant equipment, including pumps and valves. However, competition in China has intensified again, not least due to the negative economic development. For the KSB Group, this has created increased pricing pressure and thus represents a “significant” risk. Political decisions too, such as the postponement or even abandonment of energy projects in several Chinese

provinces, have impacted negatively on our business performance. In order to tap into the Asian market more widely, we have agreed a strategic alliance with our long-term partner, the Chinese SEC Group, in late 2015. This aims at closer co-operation so that KSB can achieve success in Asian power plant projects outside of China.

■ Opportunities

As detailed in the report on expected developments, the water and waste water market is continuing to develop positively, resulting in large-scale project orders in North Africa and the Middle East, as well as in France, China and the USA. With expert staff on the ground, we can provide clients with technical and commercial advice, and therefore see good opportunities to contribute to these and other projects.

In Brazil, the difficult economic situation, particularly in the oil and gas sector, has prompted several of our competitors to scale back their activities. This has extended to the closure of plants and sales offices. From KSB's perspective, there are therefore opportunities to win market share again when the economy starts moving upwards.

The expansion of our service network improves our opportunities in several countries to offer classic services such as inspections, maintenance and repairs. At the same time, however, our new service centres could provide a base from which to offer retrofit  services and our energy-saving concepts to a broader range of customers. Where this is successful, we can become involved in the modernisation of existing plant and, in particular, convert inefficient plants to energy-saving operation.

Projects / Products

■ Risks

The markets' requirements for our products are constantly changing. We will only succeed if we meet our delivery deadlines and offer technically advanced products in good quality at affordable prices. To minimise the risk of delivery delays, which can lead to an adverse effect on our reputation with

customers and also result in financial penalties, we constantly monitor our sales and manufacturing operations. If we discover that machinery needs to be renewed or capacities expanded, we examine these investment projects as part of a step-by-step approval process. By doing this, we counter the risk of schedule and cost overruns.

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

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

There are also technical and financial risks to orders with newly designed products. We limit technical risks to the extent that we define intermediate steps for development work and subject partial solutions to assessments. This also applies to pumps that we provide within the framework of a major contract running over a number of years for the construction of a new type of power plant in China. We minimise financial risks by using appropriate contractual clauses, and ensure that advances cover the costs incurred.

We set aside suitable provisions for warranty obligations and contractual penalty risks. These amounted to € 50 million in the consolidated financial statements for 2016 compared with

€ 52 million in the previous year; beyond this there is no other major residual risk (net risk).

■ Opportunities

In the course of 2016 we partially renewed our water and waste water product portfolio, improving our offering with energy-efficient components. This provides good opportunities to benefit from the growing demand from the customer industry, particularly as our product's low electricity consumption is increasingly becoming a purchasing argument for operators of waterworks, waste water treatment plants and the connected pumping stations. Our new packaged pump station with integrated solids separation system for pumped drainage applications will open up new sales opportunities in several Eastern European countries this year.

Over the current year we will be able to supply equipment suppliers for heating and air-conditioning systems with a full range of our own glandless pumps, covering all needs from detached family homes to large-scale industrial or hotel complexes. This extended range improves our opportunities to sell to original equipment manufacturers and large-scale plant engineering contractors. Where fire protection systems are also needed in industrial applications and building services, we are now able to offer our certified butterfly valves for fire protection.

The successive expansion of our range of mechanical seals produced in-house forms part of our efforts to extend our value added and cut external purchasing costs. With the 25 pump type series that we are now fitting with these components, we can offer our customers a high-quality technical solution that will have a positive impact on their maintenance and repair costs. To this extent there is a good opportunity to record more significant increases in the quantity sold of these seals.

We are supporting plant engineering contractors in the energy and industry sectors as they strive to achieve standardisation and modularisation. Through framework agreements, we can offer the most appropriate system components with short

delivery times. In this way, we have the chance to extend and consolidate our business relations with major customers over the long term.

Finance / Liquidity

■ Risks

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

Alongside the euro, the most important currencies for the KSB Group are the US dollar, the Indian rupee, the Brazilian real and the Chinese yuan. If the exchange rate differs from our assumptions, this would have positive or negative effects on our business volumes and our earnings. A strict receivables management system and the use of trade credit insurance helps us avoid situations where receivables cannot be collected from our customers.

Risks regarding margins and liquidity are typical of the project business. As well as the continued pressure on our selling prices, which is reducing our profit margins, these include unfavourable contract conditions such as reduced advances and tougher contractual penalties. As we comply exactly with our approval processes in the quotation phase and constantly monitor our net financial position, we minimise this risk. At the same time, this enables us to recognise and avoid liquidity shortages. Where necessary, we secure sufficient liquidity by agreeing appropriate credit lines early on.

Persistent recessions or newly emerging crisis may adversely affect the financial situation of our customers. Delayed payments and credit losses as a result of this can place a burden upon our results of operations. The same effect might occur if the foreign exchange regulations become stricter for individual countries. We counter this by means of a strict receivables management system and intensive customer contacts. Our Italian company, whose product range includes high-efficiency motors, experienced a deterioration in its financial situation during the reporting year. Some service companies in France also suffered as a result of the persistently difficult economic situation in the country, with an impact on business development and thus on economic and financial solvency, as well as medium-term business prospects. We are therefore reviewing the strategic direction and organisational structures of our service activities there. Where deemed appropriate, we will merge individual units and also exit from any areas from which we do not expect long-term profitability.

Changing market conditions mean that our business models need to be fundamentally reviewed time and time again. This can also mean that we have to adjust our product range accordingly.

As regards tax matters, the global orientation of our activities must be taken into consideration. Based on our operative activities in numerous countries with varying tax laws and administrative interpretation, differentiated assessment is required for measuring our tax obligations. Uncertainty may arise due to different interpretations by taxable entities on the one hand and local finance authorities on the other. These may come to light during audits. By cooperating closely with external local tax specialists, we counteract the risk of having to pay back taxes. As we continually monitor unclear issues, we can generally classify the probability of occurrence. Should a need for subsequent payment arise, we create the corresponding provisions in good time. In the 2016 consolidated financial statements, we set aside € 1.3 million for circumstances that are classified as a significant or neutral risk. In addition, there are contingent liabilities expected to total up to € 7.4 million.

■ Opportunities

By the end of 2016 the US dollar had reached its highest level for 14 years against other major currencies, based on the expectation that the new government would work to generate economic impetus. If the dollar remains strong against the euro, exporting European products to the US market could become easier, provided that the general trading conditions do not change. Contracts that we post in US dollars would also, after conversion to our Group currency, result in higher amounts than if exchange rates remained unchanged.

Procurement

■ Risks

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

In the context of our procurement strategy, we are also careful to avoid becoming dependent on individual suppliers. If local conditions mean that it is impossible to ensure sufficient diversification in this regard, we make use of additional foreign business partners.

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

■ Opportunities

In order to make our products more competitive, our global purchasing managers are closely involved in the “design-to-cost”² process. Through this process we manage the conception and development of our products to ensure that the resulting market opportunities are optimised, including from a pricing perspective. To this end, Purchasing can influence design considerations in the interests of cost-optimised procurement.

For the purposes of standardising and harmonising our processes, smaller KSB companies are also increasingly making use of uniform ERP systems². This standardisation increases the transparency of our procurement processes and makes it easier to pool the procurement of the same or similar parts, thereby saving costs. Using SAP software, we are also creating end-to-end electronic processes from the placing of an order through to payment, accelerating the entire workflow and reducing the likelihood of errors.

Technology / Research and Development

■ Risks

It is essential to our future success that we have a product and service range that is suited to the market in terms of technology, price and delivery time. The changing needs of our customers and new standards and regulations – especially in promising markets such as China – require that we continuously develop and improve our products and services. Research and development required for adjustments consumes significant financial and human resources, with no guarantee of success in either the medium or the long term.

To avoid any negative impact on earnings, it is important to recognise the market-related or technical risks early on. To this end, we are constantly updating our development process, which incorporates various control levels. As sales employees are regularly included in this process, risks arising from

changes in markets or applications can be taken into account in good time in the evaluation. This close integration also enables us to respond to new market trends more quickly than our competitors.

■ Opportunities

We are keeping a close eye on our markets and are actively involved in the development of new technologies. In this way, we are able to find appropriate solutions to match our customers' needs at an early stage. By implementing these solutions in the form of innovative products and services, we are able to offer the type of product benefits that our customers value.

In addition to further developments in hydraulics, materials technology and automation, we also monitor the technical options presented by digitally networked systems with a high level of information transparency. Using interdisciplinary teams we are currently looking into the opportunities in relation to serving our customers. In early 2017 we created a special unit which is dedicated to developing and fleshing out new business models on the basis of Industry 4.0² within the scope of four projects.

Other business-specific risks – Environment

■ Risks

Our business activities, primarily in the area of production, are subject to numerous environmental protection laws and regulations. Environmental damage of any kind (for example, groundwater contamination, renovation needed due to outdated construction materials or unpleasant odours arising from the use of chemicals) may result in losses not covered by an insurance policy. Therefore, at all company sites officers monitor compliance with laws and regulations as well as with internal KSB rules, which in some cases exceed the prescribed environmental standards. If we discover any contamination, we set aside provisions to meet the liabilities for the necessary clean-up work. In the 2016 consolidated financial statements, these amounted to just under € 1 million for significant or neutral risks.

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

In markets where environmental regulations are becoming more stringent, there is a risk that our products and own or purchased services may cause infringements that lead to us losing our market authorisation and which damage our reputation. A change in rules on liability in environmental protection can also increase the risks for our business success. As a member of national and international professional associations we become aware of imminent changes in environmental law early on. We also continually update the legal frameworks that are in place in our Operational Units, enabling us to ensure that our employees always abide by the applicable law. This is also monitored by external auditors as part of the management certifications.


■ Opportunities

Our activities as an industrial company inevitably present risks to humans and to nature. Using a global environmental management system, we recognise any hazards in good time, implementing protective measures as and when required. This puts us in a good position to prevent damage and any resulting financial consequences. By having our production and service plants checked by auditors and certified according to international standards, we and our customers are both assured that KSB companies respect the environment. This is an important prerequisite for many business relations. It offers KSB the opportunity to present itself to the market as an environmentally sound company. Our commitment to the UN Global Compact², too, allows us to meet the expectations of our customers and thus improve our sales prospects.

We also conduct regular energy audits, complying with the implementation, at national level, of an EU Regulation. Ultimately, these analyses reveal potential for additional energy savings by renovating our production halls, through smart

management of our production facilities and through instructions to the operators of machine tools.

In some countries, tax incentives are available for companies with an environmental and energy management system. Through our certified systems we have always been able to provide the relevant documentation in this regard.

It is clear to us that the trend towards effective environmental protection and greater energy efficiency among our customers is ongoing worldwide. This will continue to have a positive impact on demand for our products and services. Our customers can, for example, use our FluidFuture  concept to cut their electricity consumption. A system analysis is used to ensure that pumps and valves are properly designed and to provide information on the benefits of using high-efficiency pumps, valves and drives.

Other business-specific risks – Human resources, legal aspects and IT

■ Risks

To achieve our growth and profitability business objectives, we need qualified employees at all our locations, including technical specialists. Due to the demographic change in some countries, the competition for these and other highly skilled professionals is increasing, and will intensify if economic recovery sets in. We counter this risk with demand-oriented measures, systematic human resources planning and international recruitment processes.

Changing market conditions can have a negative impact on the funded status of our pension obligations. Strong fluctuations in the evaluation of capital market interest rates to be paid may have a considerable impact on the Group's earnings and the equity carried on the balance sheet. To limit this risk, we validate alternative models.

Like all companies, KSB has to adapt to new market conditions. We are currently implementing a global efficiency improvement programme, which also encompasses staff reduction measures. By seeking out socially responsible solutions in the areas of the company concerned and by keeping our employees up to date at all times, we are aiming to keep motivation high and to avoid the departure of employees from key positions.

Changes to our processes and organisational structure, such as the introduction of shared services centres, require clearly defined project responsibilities and valid project plans, as well as the selection of suitably qualified external partners. This helps to avoid teething troubles when changes are introduced to structures and processes, as such problems could impact on the expected cost benefits.

Other potential risks associated with the activities of our employees include dishonest conduct or violations of laws, that could damage the image of KSB. We counter these risks and safeguard our reputation among our customers by organising regular compliance training and through individual initiatives in critical regions.

Legal disputes cannot always be avoided within the framework of our business activities. These are usually disputes arising from operations, generally involving unclear warranty issues. If as a result of these issues we expect negative effects on the success of our business, we set aside corresponding provisions, which cover not only the anticipated amount of loss, but also the costs of proceedings. To rule out a net risk, the 2016 consolidated financial statements include about € 3 million for those cases classified as significant or neutral risks. We have also created provisions for litigation with authorities and for staff matters. These amount to just under € 2 million to cover any cases we classify as significant or neutral within our risk assessment methodology.

The manipulation and loss of electronic data can lead to serious commercial disadvantages. We limit this risk by means of adequate security systems and access procedures. An increased centralisation of the IT systems of our various operating units assists us in this. In this way, we implement high security standards and thus reduce the risk of data loss or corruption.

■ Opportunities

In 2016 we carried out a survey of 11,000 employees across ten countries in order to pinpoint the company's strengths and weaknesses. Based on the feedback from approximately 8,700 members of staff, we developed measures that should already be helping to further improve the fundamentals of our work, including customer focus, innovation, cooperation and performance management in the current year. Provided these measures are successful, we can expect to see even greater commitment from our employees, thereby further increasing our company's value for our customers. At the same time, we also expect the measures triggered by our staff's responses to strengthen KSB's reputation as an employer. This will make it easier for us to attract the experts and managers that we need.

IMPORTANT OPPORTUNITIES AND RISKS BY SEGMENT

As in the previous year, the opportunities and risks for the Pumps, Valves and Service segments are most influenced by economic development. The future development of China remains important to KSB. Particularly in Eastern Europe, uncertainty regarding political risk is of great significance to the Pumps and Valves segments, and to a lesser degree to Service. At the same time, the still comparatively low price of oil and worsening payment morale also harbour risk potential for future business transactions. A quicker-than-expected return to political stability, combined with a calming of the currency turmoil, would probably have positive repercussions. This would also be the case were the oil price to experience another recovery matching that of 2016. Conversely, a continuation of the political uncertainty, combined with persistent depreciation tendencies among some currencies or a permanently low oil price, would have a negative impact on our business. As regards our main influencing factor, the economic situa-

tion, we estimate the risk to be slightly higher compared with the previous year. We nonetheless hope that our measures, intended to foster growth, will provide us with considerable support in achieving our goals. Furthermore, the political crises and future development of the oil price mean both opportunities and risks for all segments. Our customers are also often affected by recessions and more intense competition, which can compromise their ability to pay in individual cases.

Negative currency changes in growth countries could threaten our exports, in particular those from our European plants. But this would also enable our production facilities in the countries affected to benefit from such developments and to increase their export volumes.

RISK REPORT ON THE UTILISATION OF FINANCIAL INSTRUMENTS

Central financial management in the KSB Group performs its duties within the framework of the guidelines laid down by the Board of Management. We base the nature and scope of all financial transactions exclusively on the requirements of our business and do not lend ourselves to business of a speculative nature. The aim is to ensure liquidity at all times and to finance our activities under optimal conditions. With respect to our export business, we hedge foreign exchange and credit risks to the greatest extent possible. We continuously improve our receivables management methods with the goal of settling our outstanding amounts by their due dates.

We are exposed to the following financial risks as a consequence of our business activities:

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

We use foreign exchange hedges to reduce the risks from transactions involving different currencies. These are generally currency forwards, which we use both for transactions that have already been recognised and for future cash flows from orders still to be processed. At year end, the notional volume of currency forwards used to hedge exchange rate risks was € 269.8 million (previous year: € 254.0 million). Foreign currency items denominated in US dollars account for the major volume hedged by forwards. By strengthening our production sites worldwide, we can realise “natural” currency hedging in currency markets that continue to be volatile.

To minimise interest rate risks, we concluded interest rate swaps to hedge cash flows from underlyings amounting to € 39.5 million (previous year: € 39.5 million). Underlyings and hedge transactions share the same variable interest rates and maturities (1 year).

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

For more information on the three risk areas and the impact on the balance sheet, see the Notes, section VI. Additional Disclosures on Financial Instruments.

OVERALL ASSESSMENT OF OPPORTUNITIES AND RISKS BY THE BOARD OF MANAGEMENT

The opportunities and risks for the KSB Group are mainly derived from macroeconomic influencing factors and their effects on the global mechanical engineering markets and the competition.

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

Overall, we assume there will be moderate economic recovery over the next year. Our structural measures will afford us additional support in achieving our objectives. However, there are risks associated with an economic slowdown in the growth markets, particularly China, as well as with negative developments that could stem from regions in Eastern Europe, the Middle East, Turkey or parts of Africa experiencing political unrest. This similarly applies to future changes in the price of oil, as well as to volatile currencies. Such circumstances would have a negative effect on our business volumes as well as our planned earnings.

In this environment, the KSB Group continues to rely on its ability to match capacities and resources to the changing market conditions. For us, a solid financial position and an efficient cost structure are vital in order to maintain our long-term competitiveness. We are convinced that we can continue to successfully overcome the risks arising from the above-mentioned challenges.

The risk management system in place, as well as the related organisational measures, allow the Board of Management to identify risks in a timely manner and to take adequate measures. In view of the somewhat uncertain situation, the focus of activities in 2017 will continue to be on the management of market risks. The Board of Management states that, based on the risk management system established by the KSB Group, at present there are no risks that could lead to a lasting and significant impact on the net assets, financial position and results of operations of the KSB Group.

ACQUISITION-RELATED DISCLOSURES

A summary of the acquisition-related disclosures required by section 315(4) of the *HGB* [*Handelsgesetzbuch* – German Commercial Code] is given below and explanatory information is provided pursuant to sections 175(2) and 176(1) of the *AktG* [*Aktiengesetz* – German Public Companies Act]. Information is disclosed only to the extent that it applies to KSB AG.

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

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

The company is authorised by a resolution passed at the Annual General Meeting on 6 May 2015 to purchase, until 5 May 2020, company shares of any type totalling up to 10 % of the current share capital or, if lower, of the share capital at the time of this authorisation being exercised. The Board of Management shall be entitled to: (1) sell company shares purchased on the basis of this authorisation either on the stock exchange or by another means that safeguards the rule of equal treatment of all shareholders, for example by means of an offer to all of the company's shareholders; (2) sell the acquired shares of the company with the consent of the Supervisory Board, excluding shareholders' subscription rights, if the shares are sold for cash and at a price that is not materially lower than the market price for company shares of the same type and with the same features at the time of the sale. This authorisation is limited to the sale of shares that overall represent no more than 10 % of the existing share capital on the date on which such authorisation becomes effective or, if the amount is lower, the date this authorisation is exercised. The 10 % limit shall be reduced by the proportional amount of share capital for shares (i) issued within the scope of a capital increase during the term of the authorisation excluding subscription rights pursuant to section 186(3) sentence 4 of the *AktG* or (ii) to be issued for the purpose of servicing warrants and convertible bonds, provided that the bonds were issued during the term of the authorisation excluding subscription rights pursuant to section 186(3) sentence 4 of the *AktG*; (3) sell the shares with the consent of the Supervisory Board, excluding shareholders' subscription rights, to third parties for the purpose of acquiring companies, parts thereof and/or financial interests in companies as well as within the scope of corporate mergers or (4) redeem the acquired shares without any further resolution of the Annual General Meeting in full or in part, including in several partial steps. The

CORPORATE GOVERNANCE STATEMENT (SECTION 289 a OF THE HGB)

redemption may also take place without a capital reduction by adjusting the proportional amount of the other no-par-value shares in the company's share capital. In such cases, the Board of Management shall be authorised by the Articles of Association to adjust the number of no-par-value shares. KSB AG has not yet made use of this authorisation to purchase treasury shares.

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

In accordance with its Articles of Association, KSB AG is managed by two Board of Management members. The Supervisory Board decides on the appointment and termination of the mandate of members of the Board of Management in accordance with the statutory provisions.

Amendments to the company's Articles of Association are resolved by the Annual General Meeting. If the amendments only affect the wording of the Articles of Association, they can be made by the Supervisory Board, which operates and is formed in accordance with the regulations of the *Mitbestimmungsgesetz* [German Co-determination Act].

The Corporate Governance Statement pursuant to section 289a of the *HGB* [German Commercial Code] dated 30 March 2016 is accessible to the public at www.ksb.com > Investor Relations > Corporate Governance/Corporate Governance Statement. The updated Statement will be made accessible to the public in the same way from 30 March 2017.

In addition to the Corporate Governance Report (including the Statement of Compliance in accordance with section 161 of the German Public Companies Act), the Corporate Governance Statement includes relevant information on corporate governance practices applied at KSB AG that go beyond statutory requirements. Also described are the working methods of the Board of Management and Supervisory Board, and the composition and working methods of the committees of the Supervisory Board.

REMUNERATION OF THE BOARD OF MANAGEMENT (REMUNERATION REPORT)

The Remuneration Report summarises the principles applied when determining the remuneration arrangements for the Board of Management of KSB AG. It is prepared in accordance with the recommendations of the German Corporate Governance Code (item 4.2.5) and explains the remuneration system in place for Board of Management members. This system is geared towards sustainable corporate development. It is adopted by the Supervisory Board plenary session based on the recommendation of the Personnel Committee and reviewed at regular intervals. The same applies to individual Board of Management compensation amounts.

The remuneration arrangements for the Board of Management are structured as clearly and transparently as possible. The total amount of remuneration for the individual Board of Management members is determined based on various parameters. Criteria for assessing the appropriateness of the remuneration include the responsibilities of the individual Board of Management members, their personal performance, the economic situation, the company's success and prospects as well as customary remuneration amounts when taking peer companies and the remuneration structure used elsewhere within the company into consideration.

The remuneration of the Board of Management consists of fixed and variable components. Fixed components are granted regardless of performance and consist of a fixed sum plus benefits, as well as pension commitments (retirement, disability, widow's or orphan's pension). The fixed sum makes up 60 % of the maximum annual salary and is paid out as a monthly basic remuneration. All Board of Management members are equally entitled to the accompanying fringe benefits which include the private use of a company car, payment of insurance premiums and any payments associated with a post-contractual non-competition clause. No loans or advance payments were

granted to members of the Board of Management in the year under review.

To ensure the sustainability of the nature of the remuneration, the variable remuneration component consists mainly of future-oriented components determined on the basis of a multi-year assessment. They are partly based (60 %) on the degree of implementation of the corporate strategy and its actual market success, and partly (20 %) on the return on investment measured according to the economic value added method based on a past average value over a medium-term horizon. The short-term share (20 %) is based on the development of the net financial position in the respective financial year as compared with the planned development. The total amount of the variable remuneration components is limited in order to take extraordinary, unforeseen developments into account.

The weighting factors above do not reflect the additional possibility of a bonus, to be paid out in individual cases at the discretion of the Supervisory Board, of no more than three monthly salary payments per financial year in recognition of any special performance of individual members of the Board of Management. Such decisions are only made on an irregular basis, meaning that they do not necessarily have to be made annually.

Furthermore, when Board of Management contracts are concluded it is agreed that payments made to a Board of Management member in the event of his or her Board of Management tenure being terminated earlier than agreed without good reason shall not exceed the value of two years' remuneration including fringe benefits (settlement cap in accordance with item 4.2.3 of the German Corporate Governance Code). No other payments have been promised to any Board of Management members in the event of termination of service; similarly

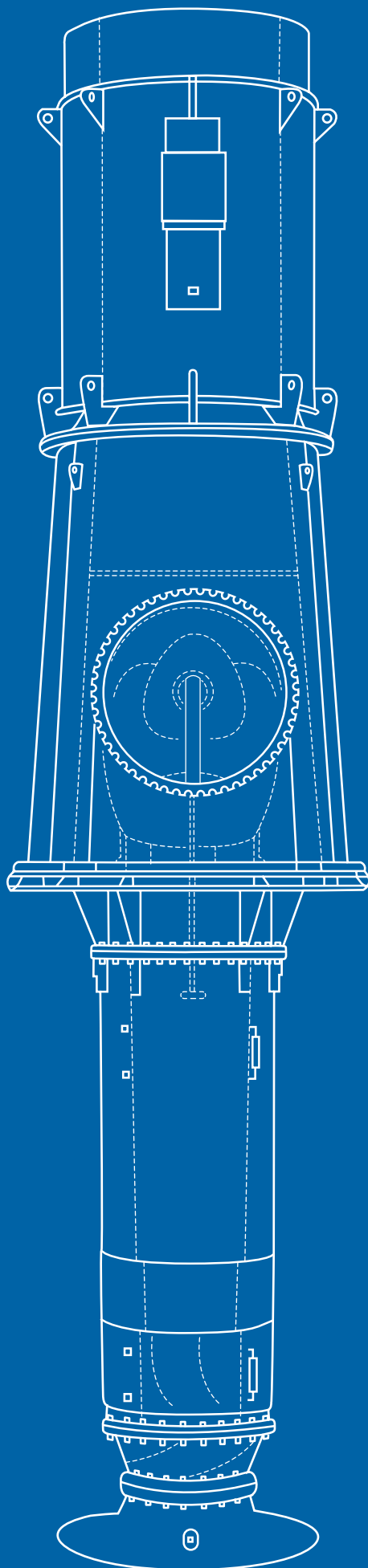
no compensation will be paid in the event of a takeover offer. If the contract of service of a Board of Management member is terminated for cause, the company shall not make any severance payments.

On 6 May 2015 – using a legally permissible option – the Annual General Meeting again resolved not to disclose the details of the compensation for individual members of the Board of Management for a period of five years. In total, the short-term benefits (total remuneration) paid to the members of the Board of Management for their activities in the 2016 financial year amounted to € 1,250 thousand (previous year: € 1,289 thousand), and the payments for benefits after termination of work € 1,388 thousand (previous year: € 1,429 thousand). € 5,255 thousand (previous year: € 4,518 thousand) has been provided for pension obligations to current members of the Board of Management, and € 39,309 thousand (previous year: € 39,387 thousand) to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,244 thousand in the year under review (previous year: € 2,246 thousand). No stock options or other share-based payment arrangements are granted to members of the Board of Management.

The short-term benefits (total remuneration) paid to members of the Supervisory Board amounted to € 716 thousand for the 2016 financial year (previous year: € 833 thousand). Information on the structure of the remuneration arrangements for the Supervisory Board is provided in the Corporate Governance Statement pursuant to section 289a of the *HGB*.

Frankenthal, 21 March 2017

The Board of Management

**SEZ**

Tubular casing pump for large
water intake structures

4

CONSOLIDATED FINANCIAL STATEMENTS

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BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 Dec. 2016	31 Dec. 2015
Non-current assets			
Intangible assets	1	106,596	102,075
Property, plant and equipment	2	501,606	493,831
Non-current financial assets	3	8,526	7,961
Investments accounted for using the equity method	4	24,439	29,235
Deferred tax assets	17	112,166	84,360
		753,333	717,462
Current assets			
Inventories	5	467,437	454,411
Trade receivables and PoC	6	614,293	663,740
Other financial assets	6	186,995	156,169
Other non-financial assets	6	24,923	25,200
Cash and cash equivalents	7	288,883	273,136
Assets held for sale	2	14,369	934
		1,596,900	1,573,590
		2,350,233	2,291,052

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 Dec. 2016	31 Dec. 2015
Equity	8		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		614,238	609,159
Equity attributable to shareholders of KSB AG		725,673	720,594
Non-controlling interests		164,661	149,623
		890,334	870,217
Non-current liabilities			
Deferred tax liabilities	17	12,375	13,039
Provisions for employee benefits	9	605,540	541,256
Other provisions	9	1,406	1,379
Financial liabilities	10	57,962	133,504
		677,283	689,178
Current liabilities			
Provisions for employee benefits	9	70,916	73,613
Other provisions	9	98,160	99,450
Financial liabilities	10	119,958	44,316
Trade payables	10	210,813	238,848
Other financial liabilities	10	89,406	85,911
Other non-financial liabilities	10	182,979	179,139
Income tax liabilities	10	9,354	10,082
Liabilities held for sale	2	1,030	298
		782,616	731,657
		2,350,233	2,291,052

Also see the relevant information in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

(€ thousands)	Notes	2016	2015
Sales revenue	11	2,165,652	2,334,831
Changes in inventories		2,948	10,714
Work performed and capitalised		5,646	4,790
Total output of operations		2,174,246	2,350,335
Other income	12	47,227	49,952
Cost of materials	13	– 874,156	– 979,531
Staff costs	14	– 798,750	– 819,250
Depreciation and amortisation expense	1, 2	– 72,592	– 72,845
Other expenses	15	– 372,441	– 411,467
Other taxes		– 13,491	– 13,497
		90,043	103,697
Financial income	16	6,612	7,682
Financial expense	16	– 20,672	– 22,360
Income from / expense to investments accounted for using the equity method	16	– 1,342	4,373
		– 15,402	– 10,305
Earnings before income taxes		74,641	93,392
Taxes on income	17	– 26,864	– 41,222
Earnings after income taxes		47,777	52,170
Attributable to:			
Non-controlling interests	18	14,834	12,885
Shareholders of KSB AG		32,943	39,285
Diluted and basic earnings per ordinary share (€)	19	18.68	22.30
Diluted and basic earnings per preference share (€)	19	18.94	22.56

STATEMENT OF INCOME AND EXPENSE RECOGNISED IN EQUITY

(€ thousands)	Notes	2016	2015
Earnings after income taxes		47,777	52,170
Remeasurement of defined benefit plans	9	– 47,278	18,087
Taxes on income		13,546	– 5,454
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		– 33,732	12,633
Currency translation differences		20,223	1,158
Attributable to: Expense and income recognised directly in equity attributable to investments accounted for using the equity method		– 157	2,208
Changes in the fair value of financial instruments		– 1,622	3,077
Taxes on income		453	– 529
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		19,054	3,706
Other comprehensive income		– 14,678	16,339
Total comprehensive income		33,099	68,509
Attributable to:			
Non-controlling interests		17,836	22,318
Shareholders of KSB AG		15,263	46,191

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. 2015	44,772	66,663	
Other comprehensive income	–	–	
Earnings after income taxes	–	–	
Total comprehensive income	–	–	
Dividends paid (Notes No. 8)	–	–	
Capital increase / decrease (Notes No. 8)	–	–	
Change in consolidated Group / Step acquisitions	–	–	
Other	–	–	
31 Dec. 2015	44,772	66,663	

(€ thousands)	Subscribed capital of KSB AG	Capital reserve of KSB AG	
1 Jan. 2016	44,772	66,663	
Other comprehensive income	–	–	
Earnings after income taxes	–	–	
Total comprehensive income	–	–	
Dividends paid (Notes No. 8)	–	–	
Capital increase / decrease (Notes No. 8)	–	–	
Change in consolidated Group / Step acquisitions	–	–	
Other	–	–	
31 Dec. 2016	44,772	66,663	

	Equity attributable to shareholders of KSB AG	Non-controlling interests	Total equity
Accumulated currency translation differences (€ thousands)			
Balance at 1 Jan. 2015	– 53,146	– 18,006	– 71,152
Change in 2015	– 8,352	9,510	1,158
Balance at 31 Dec. 2015 / 1 Jan. 2016	– 61,498	– 8,496	– 69,994
Change in 2016	16,991	3,232	20,223
Balance at 31 Dec. 2016	– 44,507	– 5,264	– 49,771

Statement of Changes in Equity

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	

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	
813,771	– 61,498	– 3,342	– 139,772	720,594	149,623	870,217	
–	16,991	– 1,257	– 33,414	– 17,680	3,002	– 14,678	
32,943	–	–	–	32,943	14,834	47,777	
32,943	16,991	– 1,257	– 33,414	15,263	17,836	33,099	
– 9,857	–	–	–	– 9,857	– 2,798	– 12,655	
–	–	–	–	–	–	–	
– 327	–	–	–	– 327	–	– 327	
–	–	–	–	–	–	–	
836,530	– 44,507	– 4,599	– 173,186	725,673	164,661	890,334	

Also see the relevant information in the Notes.

STATEMENT OF CASH FLOWS

(€ thousands)	2016	2015
Earnings after income taxes	47,777	52,170
Depreciation and amortisation expense / Write-ups	72,592	75,547
Increase in non-current provisions	14,952	11,027
Gain / loss on disposal of fixed assets	-208	489
Other non-cash income / expenses	4,714	-1,728
Cash-flow	139,827	137,505
Increase in inventories	-11,834	-4,192
Decrease / increase in trade receivables and other assets	51,091	-60,271
Decrease / increase in current provisions	-8,475	3,503
Decrease / increase in advances received from customers	-12,161	20,237
Decrease / increase in liabilities (excluding financial liabilities)	-22,690	21,115
Other non-cash expenses (operating)	-1,260	-1,260
	-5,329	-20,868
Cash flows from operating activities	134,498	116,637
Proceeds from disposal of intangible assets	90	772
Payments to acquire intangible assets	-11,775	-6,755
Proceeds from disposal of property, plant and equipment	2,956	4,533
Payments to acquire property, plant and equipment	-71,775	-75,833
Proceeds from disposal of non-current financial assets	91	257
Payments to acquire non-current financial assets	-925	-1,213
Proceeds from the sale of consolidated companies and other business operations (less acquired cash and cash equivalents)	-	700
Payments to acquire consolidated companies and other business operations (less acquired cash and cash equivalents)	-	-352
Payments for investments in Group companies that are not fully consolidated	-12,044	-730
Payments for commercial papers	-74,944	-
Proceeds from term deposits (maturity of more than 3 and up to 12 months)	110,027	154,121
Payments for term deposits (maturity of more than 3 and up to 12 months)	-55,824	-110,027
Cash flows from investing activities	-113,954	-34,527
Dividends paid for prior year – Shareholders of KSB AG (Notes No. 8)	-9,857	-15,111
Dividends paid for prior year – Non-controlling interests (Notes No. 8)	-2,798	-2,349
Proceeds from / Payments for financial liabilities	3,044	-68,740
Payments to acquire non-controlling interests	-	-1,200
Cash flows from financing activities	-9,611	-87,400
Changes in cash and cash equivalents	10,933	-5,290
Effects of exchange rate changes on cash and cash equivalents	4,325	-50
Effects of changes in consolidated Group	489	-76
Cash and cash equivalents at beginning of period	273,136	278,552
Cash and cash equivalents at end of period	288,883	273,136

Cash flows from operating activities include cash flows from interest received amounting to € 6,357 thousand (previous year: € 7,635 thousand) and cash flows from (income) taxes totalling € -31,807 thousand (previous year: € -36,760 thousand). Cash flows from investing activities for the 2016 financial year include cash flows from dividends received of € 147 thousand (previous year: none). Cash flows from financing activities include cash flows from interest expense of € -7,619 thousand (previous year: € 7,340 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 the IFRSs 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 21 March 2017 and are expected to be approved by the Supervisory Board on 22 March 2017.

New accounting principles

a) Accounting principles applied for the first time in the 2016 financial year

The following new and revised Standards issued by the International Accounting Standards Board (IASB) were required to be applied for the first time in financial year 2016:

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
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures	22 Sept. 2016	23 Sept. 2016	1 Jan. 2016
IFRS 11 Joint Arrangements	24 Nov. 2015	25 Nov. 2015	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets	2 Dec. 2015	3 Dec. 2015	1 Jan. 2016
IAS 16 Property, Plant and Equipment, and IAS 41 Agriculture	23 Nov. 2015	24 Nov. 2015	1 Jan. 2016

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. This standard also deals with the presentation of additional subtotals in the balance sheet and statement of comprehensive income, and with the presentation of other comprehensive income attributable to associates and joint ventures accounted for using the equity method. Additionally, the structure of disclosures in the Notes and the presentation of the significant accounting methods are covered by the standard.

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 IFRSs, provided that this does not contradict the provisions of IFRS 11.

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.

The amendments to **IAS 16 Property, Plant and Equipment** and **IAS 41 Agriculture** mean that bearer plants that no longer undergo significant biological transformation are recognised in the same way as property, plant and equipment.

The changes had no material impact on the consolidated financial statements.

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

The following Standards and revised Standards, as well as the new Interpretation issued by the IFRS Interpretations Committee (IFRIC), were not yet mandatory and were not applied in the 2016 financial year:

IFRS announcement	Adoption / Publication	Publication in EU Official Journal	First-time application in the EU
IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements	11 Sept. 2014	Open	Open
IAS 12 Income Taxes	19 Jan. 2016	Exp. in Q2/2017	1 Jan. 2017
IAS 7 Statement of Cash Flows	29 Jan. 2016	Exp. in Q2/2017	1 Jan. 2017
Improvements to the International Financial Reporting Standards (2014 to 2016)	8 Dec. 2016	Exp. in Q3/2017	1 Jan. 2017 1 Jan. 2018
IFRS 15 Revenue from Contracts with Customers	11 Sept. 2015	29 Oct. 2016	1 Jan. 2018
Clarifications of IFRS 15 Revenue from Contracts with Customers	12 Apr. 2016	Exp. in Q1/2017	1 Jan. 2018
IFRS 9 Financial Instruments	24 July 2014	29 Nov. 2016	1 Jan. 2018
IFRS 2 Share-based Payment	20 June 2016	Exp. in Q3/2017	1 Jan. 2018
IFRS 4 Insurance Contracts	12 Sept. 2016	Exp. in Q3/2017	1 Jan. 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	8 Dec. 2016	Exp. in Q3/2017	1 Jan. 2018
IAS 40 Investment Property	8 Dec. 2016	Exp. in Q3/2017	1 Jan. 2018
IFRS 16 Leases	13 Jan. 2016	Exp. in Q4/2017	1 Jan. 2019

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 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 expanded, for example, to indicate how future taxable income needs to be calculated in order to capitalise deferred tax assets.

The amendment to **IAS 7 Statement of Cash Flows** aims to add information that will help users of financial statements to assess changes in the entity's liabilities from financing activities.

IFRS 15 Revenue from Contracts with Customers defines principles that an entity should apply to report on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Revenue is no longer realised upon the transfer of the material opportunities and risks but, in future, is realised once the customer has acquired control over the agreed goods and services and can derive benefits from these. The rules and definitions of IFRS 15 will in future replace the content of IAS 18 Revenue and of IAS 11 Construction Contracts. The transitional provisions of IFRS 15 allow both fully retrospective and modified retrospective first-time application. In 2016 KSB launched a Group-wide project to introduce IFRS 15. Based on the three business models of Plant Engineering, Series Production and Service, this includes taking stock of the relevant contracts in the individual Group companies. Using the results from this analysis of contracts, we will be developing a specialist concept for bringing the recognition of sales revenue into line with the new IFRS 15 provisions. The IT processes and systems in place will also be analysed to determine the need for action, necessary adjustments will be implemented, and the Group companies will be given training in the new IFRS 15 rules.

Based on our current information, KSB will be applying the standard for the first time for the 2018 financial year using the modified retrospective approach, i.e. the comparative period will include the amounts reported in accordance with the earlier standards. The cumulative impact of applying IFRS 15 will be reported as an adjustment to the opening equity balance at the time of first-time application. We currently expect only very limited changes to the total amount of sales revenue recorded from contracts with customers. Additionally, the timing of the sales revenue will change for certain types of contract. For example, some sales revenue might be recognised at an earlier stage if there are variable remuneration components or if the transaction price is allocated to different performance obligations. Based on the analysis conducted to date, we expect the vast majority of construction contracts that are currently recognised using the percentage-of-completion method to continue to fulfil the requirements for sales revenue recognition over time. At the same time, the company expects additional quantitative and qualitative disclosures in the Notes. Based on current knowledge,

we do not expect any material impact on the consolidated financial statements, which include sales revenue recognised by PoC of € 407 million and receivables recognised by PoC of € 76 million for 2016.

IFRS 9 Financial Instruments contains revised guidelines on classifying and measuring financial instruments, and will replace IAS 39 in future. Depending on their contractual cash flows 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 depiction of an entity's risk management activities. The Group cannot yet definitively assess the impact of applying the standard for the first time. We do not currently expect the effects on the company's results of operations, financial position and net assets to be material. The disclosures will, however, be extended. The new classification rules will only result in financial asset items being reallocated. The current view is that the transition from the incurred loss model to the expected loss model for the calculation of impairment of financial assets will not result in material changes. The Group already monitors all receivables very closely, demanding advances wherever possible to minimise risk and applying strict rules in the event of any payment default. Consequently, significant effects would only occur if our current customers were to face unprecedented serious payment difficulties. There are currently no indications of any such difficulties. Similarly, no significant adjustments are expected from the change in how financial liabilities are measured, given that these are currently measured in full at amortised cost. In the current year, we will be reviewing the extent to which we apply the new standards on hedge accounting, including from a cost/benefit perspective.

The amendments to **IFRS 2 Share-based Payment** relate to the accounting treatment of cash-settled share-based payment transactions. Some of the new provisions concern the calculation of the fair value of obligations resulting from share-based payments.

The changes to **IFRS 4 Insurance Contracts** aim to reduce the impact of the differing start dates for IFRS 9 Financial Instruments and the successor standard to IFRS 4, above all for entities with comprehensive insurance activities.

IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the exchange rate to be used on initial recognition for the conversion of foreign currency transactions that include the receipt or payment of advance consideration.

IAS 40 Investment Property has been amended in order to clarify that an entity may only transfer a property to or out of its investment property portfolio if there is evidence of a change of use.

IFRS 16 Leases specifies the new rules on recognising, measuring, presenting and disclosing leases. The classification into operating and finance leases shall no longer apply to lessees in future. Pursuant to IFRS 16, all leases shall as a general rule be accounted for in the form of a right of use with corresponding lease obligation. These are to be reported in separate balance sheet items under fixed assets or liabilities, or may be described in the Notes.

As far as lessees are concerned, the new standard offers various accounting options. Leases with a term of less than 12 months and low-value assets may be capitalised. If this option is used, the lease will be accounted for in a comparable way to that stipulated to date under IAS 17 for operating leases. A further simplification is provided by the option of applying the new rules to a lease portfolio, provided that the resulting effect does not involve any significant change compared with an individual approach.

Comprehensive qualitative and quantitative disclosures will be required in the Notes in future.

Based on current knowledge, IFRS 16 will be applied for the first time on a modified, retrospective basis within the KSB Group by recording the cumulative effect from the first-time application in equity. On this basis, only those existing contracts that are already classified as leases under IAS 17 will be covered by the scope of IFRS 16. Other existing contracts need not be reviewed to determine whether they would be covered by the new standard based on the amended definitions in IFRS 16. For the Group, this means that the assets and liabilities for operating leases already in place must be reported. The discounted residual lease payments are to be recognised as a lease liability. The right of use can either be recognised at the amount that would have resulted from application of the standard at the start of the lease or, more simply, at the amount of the liability (adjusted to take account of any payments before the lease began).

Information on the current leases applicable within the Group are included in Section IX. Other Disclosures of the present Notes. Based on current information, we will be exercising the options applicable to leases with a term of less than 12 months and low-value assets in such a way that we account for these leases in a comparable way to that stipulated to date under IAS 17 for operating leases. Consequently, we expect a balance sheet extension. This will not, however, correspond to the full scope of the operating lease volume (€ 52.9 million) presented in Section IX. Other Disclosures. There will also be a change in the income statement, given that lease payments for operating leases currently reported under other expenses will in future be partially replaced with a depreciation expense for rights of use and interest expenses for liabilities from leases. Accounting for finance leases in place will not be affected by the new standard.

In order to examine the impact of these changes on the KSB Group more accurately, we have already prepared an appropriate project plan. We will be carrying out a detailed impact analysis during the first half of 2017 on the basis of the relevant contracts for the parent company KSB AG, reviewing the need for any process adjustments or IT system adjustments. On the basis of these findings, we will then extend the scope of the impact analysis, preparing a questionnaire on IFRS 16 to be completed by each Group company. Once the returned questionnaires have been analysed, any necessary system adjustments will be initiated, with the corresponding changes being made to the reporting package and accounting instructions. These stages have been scheduled for completion by the end of 2017. Only then will it be possible to make an in-depth conclusive assessment of the impact of applying IFRS 16 for the first time.

As a matter of principle, we have not voluntarily applied the above-mentioned new or revised Standards or the Interpretation prior to their effective dates. We do not anticipate any, or any material, impact on our net assets, financial position or results of operations. With regard to IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, please refer to the comments in the previous sections.

II. BASIS OF CONSOLIDATION

Consolidated Group

In addition to KSB AG, 9 German and 79 foreign companies (previous year: 9 German and 80 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 (€ thousands)	Non- controlling interest in capital	Earnings after income taxes attributable to non-controlling interests		Accumulated non-controlling interests	
		31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
GIW Industries, Inc., USA	49.0 %	4,860	2,780	29,927	23,738
KSB Pumps Limited, India	59.5 %	4,889	4,939	53,604	49,856
KSB America Corporation, USA	49.0 %	245	175	25,062	22,348
KSB Shanghai Pump Co., Ltd., China	20.0 %	491	– 347	12,150	12,085
Individually immaterial fully consolidated subsidiaries with non-controlling interests		4,349	5,338	43,918	41,596
Total amount of non-controlling interests		14,834	12,885	164,661	149,623

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

SUMMARISED BALANCE SHEET

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
(€ thousands) / 31 Dec.	2016	2015	2016	2015	2016	2015	2016	2015
Non-current assets	58,303	55,351	41,469	33,981	35,399	35,652	31,474	33,719
Current assets	62,755	79,303	95,337	93,248	57,686	55,279	149,400	133,166
Non-current liabilities	-6,899	-6,812	-3,327	-2,473	-	-	-	-
Current liabilities	-33,687	-60,001	-44,527	-42,092	-27,931	-32,378	-127,922	-108,966
Net assets	80,472	67,841	88,952	82,664	65,154	58,553	52,952	57,919

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
(€ thousands)	2016	2015	2016	2015	2016	2015	2016	2015
Sales revenue	134,612	139,127	109,147	113,399	-	-	129,850	134,734
Earnings after income taxes	9,919	5,673	9,026	9,391	4,457	2,975	2,540	-1,399
Other comprehensive income	2,712	6,079	-163	4,377	2,144	5,792	-7,507	3,680
Comprehensive income	12,631	11,752	8,863	13,768	6,601	8,767	-4,967	2,281
Other comprehensive income attributable to non-controlling interests	1,329	2,979	-97	2,603	1,051	2,838	-1,501	736
Comprehensive income attributable to non-controlling interests	6,189	5,758	5,270	8,186	3,234	4,296	-993	456
Dividends paid to non-controlling interests	-	-	-1,531	-1,599	-	-	-	-

CONDENSED STATEMENT OF CASH FLOWS

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
(€ thousands)	2016	2015	2016	2015	2016	2015	2016	2015
Cash flows from operating activities	23,570	-3,562	7,562	15,749	3,819	3,534	9,660	5,005
Cash flows from investing activities	-6,477	-14,594	-8,235	-2,082	-	-	-1,112	-3,375
Cash flows from financing activities	-18,072	18,020	-2,848	-6,698	-12,257	-12,556	-11,203	-8,619
Changes in cash and cash equivalents	-979	-136	-3,521	6,969	-8,438	-9,022	-2,655	-6,989
Cash and cash equivalents at beginning of period	1,169	1,173	31,707	23,299	22,956	28,832	5,301	11,430
Effects of exchange rate changes	-10	132	54	1,439	332	3,146	-355	860
Cash and cash equivalents at end of period	180	1,169	28,240	31,707	14,850	22,956	2,291	5,301

NINOMIT VPH-Tekniikka Oy, a Finnish company previously not consolidated due to there being no material impact, was merged with the fully consolidated company KSB Finland Oy on 1 January 2016. We had acquired the shares in 2015. In addition, the Slovenian company KSB Pumps and valves L.t.d., Domžale, which was previously not consolidated due to there being no material impact, was also included in the group of consolidated companies. This affiliate, which was consolidated for the first time, was established some years earlier.

Consolidation of the two companies had the following impact on the consolidated balance sheet:

(€ thousands)	2016
Non-current assets	-498
Current assets	1,013
Assets	515
Equity	-327
Non-current liabilities	17
Current liabilities	825
Equity and liabilities	515

The new company PT. KSB Sales Indonesia, established in 2016, was included in the group of consolidated companies on a fully consolidated basis. The already fully consolidated PT. KSB Sales Indonesia holds 99 % of the shares in this company, with KSB Aktiengesellschaft holding the remaining 1 %. There was no impact on the consolidated financial statements, as the company's business operations formed part of the already fully consolidated PT. KSB Indonesia prior to the new company being established.

On 28 November 2016, KSB AG increased its share in KSB Mörck AB, Gothenburg (Sweden), from 55 % to 100 % at a purchase price of € 3.6 million. On the basis of a written put option, the anticipated acquisition method was applied back in 2015 to report a notional acquisition of the remaining shares by way of a purchase price liability of € 3.5 million. The difference of € 0.1 million was recognised in financial income/expense under expenses from the remeasurement of financial instruments. The impact on the consolidated financial statements is therefore not material.

In China, we transferred the foundry operations of KSB Shanghai Pump Co., Ltd., Shanghai, to a new, independent company by the name of KSB Shanghai Precision Casting Co., Ltd. This did not have any impact on the consolidated financial statements.

The Italian company KSB Service Italia S.r.l., Scorzè, which previously was fully consolidated, was merged with another fully consolidated company, Milan-based KSB Italia S.p.A., with effect from 1 November 2016. Again, this did not have any impact on the consolidated financial statements.

The company Rotary Equipment Services Limited based in Loughborough in the UK was liquidated in August 2016. The impact on the consolidated financial statements was not material.

The Dutch company VRS Valve Reconditioning Services B.V., the business operations of which we sold in February 2016, was liquidated with effect from the financial year end. The impact on the consolidated financial statements was not material.

In December 2016 we sold the French service company Metis Leverage S.A.S., based in Villefranche sur Saône. The resulting impact on these consolidated financial statements was not material.

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 and cash flow statement items are translated at average annual 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 € –49,771 thousand (previous year: € –69,994 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 € 8,827 thousand (previous year: gain of € 4,935 thousand).

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

	Closing rate		Average rate	
	31 Dec. 2016	31 Dec. 2015	2016	2015
US dollar	1.0541	1.0887	1.1067	1.1099
Brazilian real	3.4305	4.3117	3.8606	3.6934
Indian rupee	71.5935	72.0215	74.3500	71.1886
Chinese yuan	7.3202	7.0608	7.3494	6.9748

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. 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.

We do not currently make use of the fair value option.

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 one year. 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 (indefinite useful life) – 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

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. Receivables that are not individually impaired are subdivided into risk classes according to how overdue they are, and written down on a portfolio basis using historical default rates. 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Historical cost								
Balance at 1 January	61,708	58,279	103,910	103,019	8,550	8,543	174,168	169,841
Changes in consolidated Group	2	–	135	–122	–	–	137	–122
Currency translation adjustments	700	–717	482	525	–	–	1,182	–192
Other	6,502	–15	–338	–11	–	–	6,164	–26
Additions	2,519	2,785	–	–	7,520	5,527	10,039	8,312
Addition from business combination	–	40	–	499	–	–	–	539
Disposals	726	584	–	–	14	3,600	740	4,184
Reclassifications	1,061	1,920	–	–	–275	–1,920	786	–
Reclassification to assets held for sale	–599	–	–	–	–	–	–599	–
Balance at 31 December	71,167	61,708	104,189	103,910	15,781	8,550	191,137	174,168
Accumulated depreciation and amortisation								
Balance at 1 January	51,032	48,161	21,061	10,239	–	–	72,093	58,400
Currency translation adjustments	605	–438	46	–14	–	–	651	–452
Other	2,089	–8	–338	–10	–	–	1,751	–18
Additions	4,447	3,838	6,478	10,846	–	–	10,925	14,684
Disposals	650	521	–	–	–	–	650	521
Reclassifications	–	–	–	–	–	–	–	–
Reclassification to assets held for sale	–229	–	–	–	–	–	–229	–
Balance at 31 December	57,294	51,032	27,247	21,061	–	–	84,541	72,093
Carrying amount at 31 December	13,873	10,676	76,942	82,849	15,781	8,550	106,596	102,075

The additions to intangible assets amounting to € 10.0 million (previous year: € 8.3 million) primarily concerned, as in the previous year, advance payments and own work capitalised for a new software to be deployed in Sales.

As in the previous year, we did not capitalise any development costs in the financial year 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 as in the previous year includes € 9.3 million of software including software licences valid for a limited period. As in the previous year, 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 0.5 % in the year under review (previous year: 1.5 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 1.06 (previous year: 1.03). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU). As in the previous year, we applied growth rates of between 0.75 % and 1.25 %.

DISCOUNT RATES

Before taxes in % (value in use)	2016	2015
Companies in Germany	8.5 – 8.6	9.6 – 9.8
Companies in the Netherlands	8.1	9.3
Companies in Italy	13.3 – 13.5	13.7 – 14.3
Companies in the USA	9.1	10.4
Companies in South Africa	12.8	13.8
Companies in the rest of Europe	8.3 – 14.5	8.9 – 15.4
After taxes in % (fair value less costs to sell)	2016	2015
Companies in South Korea	7.3	8.3

GOODWILL

Name of CGU / (€ thousands)	31 Dec. 2016	31 Dec. 2015
KSB Seil Co., Ltd., South Korea	27,432	27,188
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
Dynamik-Pumpen GmbH, Germany	3,150	3,150
Uder Elektromechanik GmbH, Germany	2,980	2,980
KSB Finland Oy, Finland	2,603	2,468
KSB Pumps (S.A.) (Pty) Ltd., South Africa	2,059	1,755
KSB SERVICE ETC S.A.S., France	1,412	1,412
	63,610	68,453
Other 16 (previous year: 17) companies	13,332	14,396
Total	76,942	82,849

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	13.5 %	2,412	5,526
KSB, Inc. – Western Division, USA	Service	9.1 %	–	952
Total 31 Dec. 2016				6,478
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

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)	27.4	36 %	7.3 % after taxes	1.00	<ul style="list-style-type: none"> ■ Improvement in long-term business cycle expectations in ship-building (liquefied gas tankers) resulting in tangible improvement in 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	24 %	8.1 % before taxes	1.25	<ul style="list-style-type: none"> ■ Greater customer focus ■ Low to significant market growth rates 	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments

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	Significant 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

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 fall in the growth rate would not necessitate any further write-downs. Moreover, the sensitivity analysis regarding the impact of a 10 % fall in sales revenue, with a corresponding reduction in EBIT, would also not necessitate any further write-downs.

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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Historical cost										
Balance at 1 January	344,473	332,531	551,208	528,014	212,750	205,681	53,791	34,359	1,162,222	1,100,585
Changes in consolidated Group	10	-104	12	-70	102	-35	-	-	124	-209
Currency translation adjustments	5,482	815	6,873	3,601	2,878	-163	92	2,523	15,325	6,776
Other	6	-	-	60	-8	-20	-	-	-2	40
Additions	10,888	7,717	21,113	19,939	16,599	19,170	23,554	27,669	72,154	74,495
Addition from business combination	-	134	-	78	-	-	-	-	-	212
Disposals	529	12	12,165	5,242	17,789	13,519	156	41	30,639	18,814
Reclassifications	19,651	3,514	23,921	5,496	1,874	1,709	-46,232	-10,719	-786	-
Reclassification to assets held for sale	-7,906	-122	-7,358	-668	-1,203	-73	-	-	-16,467	-863
Balance at 31 December	372,075	344,473	583,604	551,208	215,203	212,750	31,049	53,791	1,201,931	1,162,222
Accumulated depreciation and amortisation										
Balance at 1 January	146,566	136,542	372,554	345,201	149,271	143,034	-	-	668,391	624,777
Currency translation adjustments	801	1,571	4,266	2,876	2,286	-454	-	-	7,353	3,993
Other	-	-	2	20	-40	-13	-	-	-38	7
Additions	8,832	8,542	34,178	30,298	18,657	19,321	-	-	61,667	58,161
Disposals	273	-	11,201	4,831	16,600	13,035	-	-	28,074	17,866
Reclassifications	-	-	-	-479	-	479	-	-	-	-
Reclassification to assets held for sale	-2,907	-89	-5,131	-531	-936	-61	-	-	-8,974	-681
Balance at 31 December	153,019	146,566	394,668	372,554	152,638	149,271	-	-	700,325	668,391
Carrying amount at 31 December	219,056	197,907	188,936	178,654	62,565	63,479	31,049	53,791	501,606	493,831

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 € 2,022 thousand (previous year: € 2,277 thousand), of which € 918 thousand (previous year: € 1,260 thousand) relate to land and buildings, € 123 thousand (previous year: € 113 thousand) to plant and machinery and € 981 thousand (previous year: € 904 thousand) to other equipment, operating and office equipment.

We decided during the financial year to sell the Chinese company KSB Shanghai Precision Casting Co., Ltd., Shanghai (Pumps segment). We also divested the valves business of the US company KSB AMRI, Inc., Houston, in late January 2017. Additionally, we are selling real estate owned by our Australian company, which is assigned to the Pumps segment. Following these decisions taken for strategic reasons, the related assets and liabilities will be classified as being held for sale pursuant to IFRS 5. 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:

	KSB Australia Pty Ltd, Bundamba QLD, Australia	KSB AMRI, Inc., Houston, USA	KSB Shanghai Precision Casting Co., Ltd., Shanghai, China
(€ thousands)	31 Dec. 2016	31 Dec. 2016	31 Dec. 2016
Intangible assets	–	–	371
Property, plant and equipment	1,467	967	5,058
Inventories	–	2,891	1,631
Receivables and other current assets	–	1,430	548
Cash and cash equivalents	–	4	2
Assets held for sale	1,467	5,292	7,610

	KSB Australia Pty Ltd, Bundamba QLD, Australia	KSB AMRI, Inc., Houston, USA	KSB Shanghai Precision Casting Co., Ltd., Shanghai, China
(€ thousands)	31 Dec. 2016	31 Dec. 2016	31 Dec. 2016
Provisions	–	–216	–
Liabilities	–	–152	–662
Liabilities held for sale	–	–368	–662

Disposals of intangible assets and items of property, plant and equipment resulted in book gains of € 1,478 thousand (previous year: € 2,769 thousand) and book losses of € 1,270 thousand (previous year: € 3,258 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

We recognised impairment losses of € 3,757 thousand (previous year: none) on property, plant and equipment, as we do not expect sufficient future and sustained cash inflows from these assets against the background of the consistently difficult economic situation in the energy sector.

3 Non-current financial assets

(€ thousands)	31 Dec. 2016	31 Dec. 2015
Other investments	5,401	5,074
Non-current financial instruments	667	668
Loans	2,458	2,219
	8,526	7,961

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

(€ thousands)	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Non-current assets	4,051	3,687	90,404	96,312
Current assets	43,248	38,835	86,062	74,975
of which cash and cash equivalents	5,093	1,149	7,569	6,771
Non-current liabilities	-7,583	-1,976	-39,238	-11,451
of which non-current financial liabilities (excluding trade payables and provisions)	-6,336	-942	-	-
Current liabilities	-20,779	-20,185	-107,448	-121,574
of which current financial liabilities (excluding trade payables and provisions)	-3,650	-4,439	-40,649	-18,867
Net assets	18,937	20,361	29,780	38,262

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

(€ thousands)	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	2016	2015	2016	2015
Sales revenue	38,387	45,896	29,841	51,856
Depreciation / amortisation	290	299	3,758	3,145
Interest income	-	1	18	15
Interest expense	-418	-159	-2,833	-3,084
Earnings from continuing operations	3,074	7,967	-6,164	238
Taxes on income	-1,109	-575	-934	-1,513
Earnings after taxes from continuing operations	1,965	7,392	-7,098	-1,276
Earnings after taxes from discontinued operations	-	-	-	-
Other comprehensive income	549	1,760	-1,384	2,507
Comprehensive income	2,514	9,152	-8,482	1,231
Dividends received from joint ventures	1,969	1,203	-	-

RECONCILIATION TO CARRYING AMOUNT OF GROUP SHARE IN JOINT VENTURES

(€ thousands)	KSB Pumps Arabia Ltd.		Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd.	
	2016	2015	2016	2015
Net carrying amount at 1 January	20,361	13,615	38,262	37,031
Earnings after income taxes	1,965	7,392	-7,098	-1,276
Distribution of dividends	-3,937	-2,406	-	-
Other comprehensive income	549	1,760	-1,384	2,507
Net carrying amount at 31 December	18,938	20,361	29,780	38,262
Investment in joint venture (50 % / 45 %)	9,469	10,181	13,401	17,218
Elimination of intercompany profit and loss	-	-	-3,058	-2,420
Goodwill	-	-	-	-
Carrying amount at 31 December	9,469	10,181	10,343	14,798

SUMMARISED INFORMATION ON JOINT VENTURES THAT ARE IMMATERIAL INDIVIDUALLY

(€ thousands)	Joint ventures 2016	Associates 2016	Total 2016	Joint ventures 2015	Associates 2015	Total 2015
Group share of earnings from continuing operations	266	524	790	679	525	1,204
Group share of other comprehensive income	107	-	107	305	-	305
Group share of comprehensive income	383	524	907	984	525	1,509
Total carrying amounts of Group shares in these companies	3,595	1,032	4,627	3,148	1,108	4,256

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. 2016	31 Dec. 2015
Raw materials, consumables and supplies	168,455	163,123
Work in progress	179,859	163,716
Finished goods and goods purchased and held for resale	100,534	115,027
Advance payments	18,589	12,545
	467,437	454,411

€ 52,336 thousand (previous year: € 61,508 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the reporting period amount to € 18,318 thousand (previous year: € 7,125 thousand). Due to new estimates, we reversed write-downs totalling € 7,856 thousand (previous year: € 1,905 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 871,208 thousand (previous year: € 968,817 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. 2016	31 Dec. 2015
Trade receivables and PoC	614,293	663,740
Trade receivables	504,595	524,610
Trade receivables from other investments, associates and joint ventures	33,576	36,193
thereof from other investments	6,480	8,316
thereof from associates	39	330
thereof from joint ventures	27,057	27,547
Receivables recognised by PoC	76,122	102,937
Receivables recognised by PoC (excl. advances received from customers PoC)	147,078	185,605
Advances received from customers (PoC)	- 70,956	- 82,668
Other financial assets	186,995	156,169
Receivables from loans to other investments, associates and joint ventures	13,578	3,189
Currency forwards	2,170	1,978
Other receivables and other current assets	171,247	151,002
Other non-financial assets	24,923	25,200
Other tax assets	18,100	18,210
Deferred income	6,823	6,990

Impairment losses on trade receivables amount to € 34,530 thousand (previous year: € 35,560 thousand) and on receivables from other investments to € 6,283 thousand (previous year: € 3,644 thousand). As in the previous year, no impairment losses were recognised on receivables from joint ventures and from associates.

Construction contracts under IAS 11 include recognised earnings of € 32,167 thousand (previous year: € 44,920 thousand) and costs of € 114,911 thousand (previous year: € 140,685 thousand). Sales revenue in accordance with IAS 11 amounts to € 406,604 thousand (previous year: € 498,435 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 € 16,951 thousand (previous year: € 15,501 thousand).

€ 25,230 thousand (previous year: € 31,950 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.

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 € 75,663 thousand (previous year: € 61,762 thousand) and deferred tax liabilities in the amount of € 39 thousand (previous year: none).

A total of € 9,857 thousand (dividend of € 5.50 per ordinary share and € 5.76 per preference share) was paid from equity by resolution of the Annual General Meeting of the Group's parent company KSB AG, Frankenthal, on 11 May 2016.

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

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

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

Capital disclosures

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 € 200 to 210 million and achieved € 259.5 million, based on further successes in working capital management and a consistently focused investment policy. Our net financial position was already developing more positively in the previous year than originally planned (€ 211.3 million compared with a planned figure of € 180 to 190 million). This can also be attributed to successes in working capital management and a focused investment policy.

9

Provisions

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

Changes (€ thousands)	31 Dec. 2016			31 Dec. 2015		
	Total	Non-current	Current	Total	Non-current	Current
Employee benefits	676,456	605,540	70,916	614,869	541,256	73,613
Pensions and similar obligations	589,542	589,542	–	526,033	526,033	–
Other employee benefits	86,914	15,998	70,916	88,836	15,223	73,613
Other provisions	99,566	1,406	98,160	100,829	1,379	99,450
Warranty obligations and contractual penalties	50,257	–	50,257	52,234	–	52,234
Provisions for restructuring	5,294	–	5,294	3,372	–	3,372
Miscellaneous other provisions	44,015	1,406	42,609	45,223	1,379	43,844
	776,022	606,946	169,076	715,698	542,635	173,063

Individual categories of provisions developed as follows in the 2016 financial year:

Changes (€ thousands)	1 Jan. 2016	Changes in consolidated Group / CTA* / Other	Utilisation/ Prepayments	Reversal	Additions	31 Dec. 2016
Employee benefits	614,869	705	– 78,301	– 2,452	141,635	676,456
Pensions and similar obligations	526,033	194	– 15,732	– 953	80,000	589,542
Other employee benefits	88,836	511	– 62,569	– 1,499	61,635	86,914
Other provisions	100,829	570	– 57,715	– 6,982	62,864	99,566
Warranty obligations and contractual penalties	52,234	– 60	– 26,552	– 6,252	30,887	50,257
Provisions for restructuring	3,372	– 16	– 1,372	– 230	3,540	5,294
Miscellaneous other provisions	45,223	646	– 29,791	– 500	28,437	44,015
	715,698	1,275	– 136,016	– 9,434	204,499	776,022

* 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 € 25,676 thousand (previous year: € 25,866 thousand). € 8,488 thousand (previous year: € 8,546 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, 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 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. Most of the plan assets are managed by insurers who set their own appropriate investment policies.

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

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

(€ thousands)	Defined benefit obligations (DBOs) 31 Dec. 2016	Fair value of plan assets 31 Dec. 2016	Net liability from defined benefit plans 31 Dec. 2016	Defined benefit obligations (DBOs) 31 Dec. 2015	Fair value of plan assets 31 Dec. 2015	Net liability from defined benefit plans 31 Dec. 2015
Germany	560,775	–	560,775	502,739	–	502,739
France	17,035	7,265	9,770	13,098	6,918	6,180
USA	15,936	12,180	3,756	15,168	11,293	3,875
Switzerland	17,998	16,493	1,505	17,439	15,740	1,699
Other countries	42,648	28,912	13,736	40,933	29,393	11,540
Balance sheet values	654,392	64,850	589,542	589,377	63,344	526,033

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

(€ thousands)	2016	2015
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	589,377	582,495
Current service cost	15,867	16,504
Interest cost	14,269	13,874
Employee contributions	5,520	6,574
Remeasurements		
– / + Gain / loss from the change in demographic assumptions	– 215	587
– / + Gain / loss from the change in financial assumptions	52,479	– 16,260
– / + Experience-based gain / loss	– 2,481	– 2,804
Benefit payments	– 19,054	– 18,231
Past service cost (incl. effects of settlements and curtailments)	445	– 1,343
Transfer of assets	– 559	397
Currency translation adjustments	– 1,141	3,754
Changes in consolidated Group / Other	– 115	3,830
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	654,392	589,377

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 € 11,770 thousand (previous year: € 19,820 thousand).

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

(€ thousands)	2016	2015
Opening balance of the plan assets measured at fair value – 1 Jan.	63,344	57,926
Interest income	2,329	2,297
Remeasurements		
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	2,514	– 390
Contributions by the employer	2,216	2,485
Contributions by the beneficiary employees	279	871
Currency translation adjustments	– 1,292	2,945
Changes in consolidated Group	–	–
Paid benefits	– 4,614	– 3,259
Other	74	469
Closing balance of the plan assets measured at fair value – 31 Dec.	64,850	63,344

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)	2016	2015
Opening balance of the net liability from defined benefit plans – 31 Dec.	526,033	524,569
Current service cost	15,867	16,504
Interest income	– 2,329	– 2,297
Interest cost	14,269	13,874
Employee contributions	5,241	5,703
Contributions by the employer	– 2,216	– 2,485
Remeasurements		
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	– 2,514	390
– / + Gain / loss from the change in demographic assumptions	– 215	587
– / + Gain / loss from the change in financial assumptions	52,479	– 16,260
– / + Experience-based gain / loss	– 2,481	– 2,804
Benefit payments	– 14,440	– 14,972
Past service cost (incl. effects of settlements and curtailments)	445	– 1,343
Transfer of assets	– 559	397
Currency translation adjustments	151	809
Changes in consolidated Group / Other	– 189	3,361
Closing balance of the net liability from defined benefit plans – 31 Dec.	589,542	526,033

Composition of plan assets:

(€ thousands)	Quoted market price in an active market 31 Dec. 2016	No quoted market price in an active market 31 Dec. 2016	Total 31 Dec. 2016	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
Equity instruments (shares)	20,538	–	20,538	20,769	–	20,769
Debt instruments (loans)	22,469	–	22,469	21,825	–	21,825
Government bonds	8,602	–	8,602	8,338	–	8,338
Corporate bonds	13,867	–	13,867	13,487	–	13,487
Currency forwards	20	–	20	–	–	–
Money market investments	373	–	373	338	–	338
Real estate	880	–	880	843	–	843
Insurance contracts	–	17,295	17,295	–	16,409	16,409
Bank credit balances	2,115	–	2,115	2,253	–	2,253
Other investments	800	360	1,160	551	356	907
Total	47,195	17,655	64,850	46,579	16,765	63,344

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

The actual income from plan assets amounted to € 4,843 thousand (previous year: € 1,907 thousand).

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

(in %)	Discount rate		Assumed rate of salary increase		Assumed rate of pension increase	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Germany	1.9	2.3	2.7	2.7	1.9	1.9
France	2.0	2.0	3.0	3.0	–	–
USA	3.8	4.1	2.3	2.3	2.3	2.3
Switzerland	0.6	0.7	1.0	1.0	1.0	1.0
Other countries	0.75–9.9	0.9–9.7	1.0–10.5	1.0–11.0	1.5–3.1	1.0–3.0

A mean fluctuation rate (2.0 %) continues to be applied to staff turnover for the German plans, as in the previous year. The biometric assumptions continue to be based on the 2005G mortality tables published by Prof. Klaus Heubeck as in the previous year, 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 € 107 million (previous year: € 95 million). A 100 basis point reduction in the discount factor would increase the DBO by € 145 million (previous year: € 126 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 € 27 million (previous year: € 22 million).

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

On 31 December 2016 the weighted average term of the DBO was 23 years (previous year: 22 years). The following table shows the pension benefit payments expected over the coming years.

€ millions at 31 Dec. 2016	2017	2018	2019	2020	2021
Expected payments	21,659	21,315	21,549	21,605	22,569

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

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 current year's addition to the provisions for restructuring relates to costs arising in conjunction with the closure of a production site in North Rhine-Westphalia.

The miscellaneous other provisions include provisions for anticipated losses from uncompleted transactions and onerous contracts (€ 1,667 thousand for 2016 and € 1,298 thousand for 2015), customer bonuses and environmental protection measures. They also cover risks of litigation and legal proceedings if the recognition criteria for a provision are met (€ 9.2 million; previous year: € 11.1 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 € 71.8 million (previous year: € 73.6 million). Appropriate insurance policies in the amount of € 11.0 million (previous year: € 11.0 million) are in place to cover claims.

€ 18,392 thousand (previous year: € 18,790 thousand) of the other provisions are expected to become cash-effective after more than one year.

10 Liabilities

NON-CURRENT LIABILITIES

(€ thousands)	31 Dec. 2016	31 Dec. 2015
Financial liabilities	57,962	133,504
Loan against borrower's note	47,918	122,371
Bank loans and overdrafts	9,229	10,069
Finance lease liabilities	693	954
Other	122	110

CURRENT LIABILITIES

(€ thousands)	31 Dec. 2016	31 Dec. 2015
Financial liabilities	119,958	44,316
Loan against borrower's note	74,500	–
Bank loans and overdrafts	44,571	42,739
Finance lease liabilities	501	436
Liabilities to other investments, associates and joint ventures	376	1,131
Other	10	10
Trade payables	210,813	238,848
Trade payables to third parties	208,774	236,879
Liabilities to other investments, associates and joint ventures	2,039	1,969
Other financial liabilities	89,406	85,911
Advances received from customers (PoC)	44,046	49,418
Currency forwards	11,203	6,843
Interest rate swaps	435	745
Miscellaneous other financial liabilities	33,722	28,905
Other non-financial liabilities	182,979	179,139
Advances received from customers	92,505	87,173
Social security and liabilities to employees	52,657	54,080
Tax liabilities (excluding income taxes)	22,022	19,884
Prepaid expenses	10,882	12,744
Investment grants and subsidies	4,913	5,258
Income tax liabilities	9,354	10,082

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. There were no repayments during the reporting year. € 35.0 million was repaid upon maturity and € 17.5 million before maturity in the previous year.

€ 102 million (unchanged on the previous year) 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 (also unchanged).

Assets amounting to € 2,351 thousand (previous year: € 3,778 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, € 724 thousand (previous year: € 180 thousand) to inventories, none (as in the previous year) to receivables and € 1,627 thousand (previous year: € 3,598 thousand) to other securities.

None (previous year: € 93 thousand) of the liabilities were secured by land charges or similar rights in the 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 3.44 % (previous year: 3.03 %). 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)	2016	2015
Revenue from the sale of goods and goods purchased and held for resale	1,915,739	2,086,660
Services sales revenue	249,913	248,171
	2,165,652	2,334,831

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)	2016	2015
Income from disposal of assets	1,478	2,769
Reversal of impairment losses on receivables	9,277	10,032
Currency translation gains	3,629	2,450
Income from the reversal of provisions	8,400	14,222
Miscellaneous other income	24,443	20,479
	47,227	49,952

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 € 2,564 thousand (previous year: € 2,846 thousand).

13 Cost of materials

(€ thousands)	2016	2015
Cost of raw materials and production supplies consumed and of goods purchased and held for resale	789,298	888,152
Cost of purchased services	84,858	91,379
	874,156	979,531

14 Staff costs

(€ thousands)	2016	2015
Wages and salaries	641,451	661,374
Social security contributions and employee assistance costs	129,574	126,876
Pension costs	27,725	31,000
	798,750	819,250

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	
	2016	2015	31 Dec. 2016	31 Dec. 2015
Wage earners	7,311	7,512	7,091	7,351
Salaried employees	8,125	8,364	8,015	8,415
	15,436	15,876	15,106	15,766
Apprentices	477	438	466	430
	15,913	16,314	15,572	16,196

The first-time inclusion of fully consolidated companies in Slovenia and Finland led to an increase of 21 in the average number of employees over the year and in the total number at the reporting date.

15 Other expenses

(€ thousands)	2016	2015
Losses from asset disposals	1,270	3,258
Losses from current assets (primarily impairment losses on receivables)	12,744	12,798
Currency translation losses	2,222	2,778
Other staff costs	31,157	28,253
Repairs, maintenance, third-party services	85,816	95,546
Selling expenses	73,835	90,658
Administrative expenses	83,657	94,038
Rents and leases	26,898	28,923
Miscellaneous other expenses	54,842	55,215
	372,441	411,467

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

16 Financial income / expense

(€ thousands)	2016	2015
Financial income	6,612	7,682
Income from equity investments	147	–
thereof from other investments	(147)	(–)
Interest and similar income	6,357	7,635
thereof from other investments	(37)	(76)
thereof from investments accounted for using the equity method	(20)	(12)
Other financial income	108	47
Financial expense	– 20,672	– 22,360
Interest and similar expenses	– 19,885	– 19,414
thereof to other investments	(1)	(–)
Write-downs on other investments	–	– 2
Write-downs on investments accounted for using the equity method	–	– 2,700
Expenses from the remeasurement of financial instruments	– 62	– 178
Other financial expense	– 725	– 66
Income / expense from / to investments accounted for using the equity method	– 1,342	4,373
Financial income / expense	– 15,402	– 10,305

Interest and similar expenses include the interest cost on pension provisions amounting to € 11,940 thousand (previous year: € 11,577 thousand). The change in the financial income/expense is mainly due to the negative result from investments accounted for using the equity method. Write-downs on investments accounted for using the equity method in the previous year 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)	2016	2015
Effective taxes	41,160	43,538
Deferred taxes	-14,296	-2,316
	26,864	41,222

€ 875 thousand (previous year: € 85 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 2,923 thousand (previous year: € 2,912 thousand) to tax arrears.

RECONCILIATION OF DEFERRED TAXES

(€ thousands)	2016	2015
Change in deferred tax assets	-27,806	2,493
Change in deferred tax liabilities	-664	1,015
Change in deferred taxes recognised in balance sheet	-28,470	3,508
Change in deferred taxes taken directly to equity	13,999	-5,983
Changes in consolidated Group/CTA*/Other	175	159
Deferred taxes recognised in income statement	-14,296	-2,316

* CTA = Currency translation adjustments

ALLOCATION OF DEFERRED TAXES

(€ thousands)	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Non-current assets	1,828	1,619	31,309	33,543
Intangible assets	1,152	1,019	279	484
Property, plant and equipment	612	479	30,964	32,932
Non-current financial assets	64	121	66	127
Current assets	57,152	59,132	45,621	54,236
Inventories	48,516	52,413	1,924	94
Receivables and other current assets	7,096	6,719	43,554	54,142
Assets held for sale	1,540	–	143	–
Non-current liabilities	96,462	82,244	25	222
Provisions	96,305	82,055	–	183
Other liabilities	157	189	25	39
Current liabilities	20,949	17,789	8,573	8,765
Provisions	11,248	7,929	1,201	719
Other liabilities	9,701	9,860	7,372	8,046
Tax loss carryforwards	8,928	7,303	–	–
Gross deferred taxes – before offsetting	185,319	168,087	85,528	96,766
Offset under IAS 12.74	– 73,153	– 83,727	– 73,153	– 83,727
Net deferred taxes – after offsetting	112,166	84,360	12,375	13,039

As at the reporting date, deferred tax assets of € 97,825 thousand (previous year: € 66,867 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)	2016	2015
Remeasurement of defined benefit plans	-47,278	18,087
Taxes on income	13,546	-5,454
Currency translation differences	20,223	1,158
Taxes on income	-	-
Changes in the fair value of financial instruments	-1,622	3,077
Taxes on income	453	-529
Other comprehensive income	-14,678	16,339

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 € 664 thousand (previous year: reduction of € 591 thousand).

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 € 6,529 thousand (previous year: € 7,205 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 € 41,720 thousand (previous year: € 49,641 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 € 9,145 thousand (previous year: € 9,736 thousand).

RECONCILIATION OF INCOME TAXES

(€ thousands)	2016	2015
Earnings before income taxes (EBT)	74,641	93,392
Calculated income taxes on the basis of the applicable tax rate (30 % as in the previous year)	22,392	28,018
Differences in tax rates	-793	-331
Change in write-downs on deferred taxes on loss carryforwards and unused tax loss carryforwards	-108	2,357
Tax-exempt income	-1,184	-4,071
Non-deductible expenses	1,231	2,211
Impairment loss on goodwill	1,542	3,535
Prior-period taxes	2,048	2,827
Non-deductible foreign income tax	3,396	2,851
Investments accounted for using the equity method	662	-306
Deferred taxes not recognised	-273	2,181
Other	-2,049	1,950
Current taxes on income	26,864	41,222
Current tax rate	36 %	44 %

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 € 15,190 thousand (previous year: € 13,259 thousand) and the net loss attributable to non-controlling interests amounts to € 356 thousand (previous year: € 374 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

		2016	2015
Earnings after income taxes attributable to KSB AG shareholders	€ thousands	32,943	39,285
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	32,718	39,060
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	€	18.68	22.30
Diluted and basic earnings per preference share	€	18.94	22.56

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. 2016	Fair value 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2015
Non-current assets						
Other investments	n / a	Amortised cost	5,401	–	5,074	–
Non-current financial instruments	AfS	Fair value	667	667	668	668
Loans	LaR	Fair value / Amortised cost	2,458	2,458	2,219	2,219
Current assets						
Trade receivables	LaR	Fair value / Amortised cost	504,595	504,595	524,610	524,610
Trade receivables from other investments, associates and joint ventures	LaR	Fair value / Amortised cost	33,576	33,576	36,193	36,193
Receivables from loans to other invest- ments, associates and joint ventures	LaR	Fair value / Amortised cost	13,578	13,578	3,189	3,189
Receivables recognised by PoC, net	LaR	Fair value / Amortised cost	76,122	76,122	102,937	102,937
Currency forwards used as hedges	n / a	Fair value	2,170	2,170	1,978	1,978
Other receivables and other current assets	LaR	Fair value / Amortised cost	171,247	171,247	151,002	151,002
Cash and cash equivalents	LaR	Fair value / Amortised cost	288,883	288,883	273,136	273,136

EQUITY AND LIABILITIES

Balance sheet item / Class (€ thousands)	Measurement category	Initial / subsequent measurement	Carrying amount 31 Dec. 2016	Fair value 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2015
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	57,269	55,803	132,550	130,942
Finance lease liabilities	n / a	Under IAS 17	693	699	954	982
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	119,457	119,457	43,880	43,880
Finance lease liabilities	n / a	Under IAS 17	501	561	436	446
Trade payables	FLAC	Fair value / Amortised cost	210,813	210,813	238,848	238,848
Advances received from customers (PoC)	FLAC	Fair value / Amortised cost	44,046	44,046	49,418	49,418
Interest rate swaps used as hedges	n / a	Fair value	435	435	745	745
Currency forwards used as hedges	n / a	Fair value	11,203	11,203	6,843	6,843
Miscellaneous other financial liabilities (purchase price liability)	FLAC	Fair value / Amortised cost	–	–	3,506	3,506
Miscellaneous other financial liabilities	FLAC	Fair value / Amortised cost	33,722	33,722	25,399	25,399
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	1,090,459	1,090,459	1,093,286	1,093,286
Available-for-sale financial instruments	AfS	Fair value	667	667	668	668
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	465,307	463,841	493,601	491,993

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 2016

(€ thousands)	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	667	–	–	667
Currency forwards	–	2,170	–	2,170
Financial liabilities recognised at fair value				
Currency forwards	–	11,203	–	11,203
Interest rate swaps	–	435	–	435
Loans and receivables measured at amortised cost				
Loans	–	2,458	–	2,458
Trade receivables	–	504,595	–	504,595
Receivables from other investments, associates and joint ventures	–	47,154	–	47,154
Receivables recognised by PoC (inc. advances received from customers PoC)	–	76,122	–	76,122
Other receivables and other current assets	–	171,247	–	171,247
Cash and cash equivalents	–	288,883	–	288,883
Financial liabilities measured at amortised cost				
Financial liabilities excluding finance lease liabilities	–	175,260	–	175,260
Trade payables	–	210,813	–	210,813
Advances received from customers (PoC)	–	44,046	–	44,046
Miscellaneous other financial liabilities	–	33,722	–	33,722

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

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 2016

(€ thousands)	From interest and dividends	From subsequent measurement			From disposal	Net results
		At fair value	Currency translation	Impairment losses		
LaR	6,357	–	–1,029	–6,815	–	–1,487
AfS	161	–	–	–	–87	74
FLAC	–7,607	–	2,636	–	–	–4,971
	–1,089	–	1,607	–6,815	–87	–6,384

NET RESULTS BY MEASUREMENT CATEGORY IN 2015

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

The interest shown 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 € –4 thousand (previous year: € 0 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)	2016	2015
Opening balance at 1 January	35,560	35,905
Additions	9,776	10,310
Utilised	-4,614	-2,197
Reversals	-5,818	-8,990
Changes in consolidated Group/CTA* / Other	-374	532
Closing balance at 31 December	34,530	35,560

* CTA = Currency translation adjustments

The maturity structure of trade receivables is as follows:

(€ thousands)	31 Dec. 2016	31 Dec. 2015
Receivables that are neither past due nor individually impaired	364,733	398,135
Receivables that are past due but not individually impaired		
1 to 30 days	49,802	44,810
31 to 90 days	29,827	32,146
91 to 180 days	16,590	10,289
> 180 days	30,716	11,622
Total	126,935	98,867
Receivables individually determined to be impaired	12,927	27,608
Receivables individually determined to be impaired at their principal amount	47,457	63,168
Specific write-downs	34,530	35,560
Carrying amount (net)	504,595	524,610

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 € 969 million (previous year: approx. € 940 million), of which € 648.1 million has not yet been utilised (previous year: € 627.7 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 2016

(€ thousands)	Total	Up to 1 year	1–5 years	> 5 years
Financial liabilities	190,914	127,826	39,477	23,611
Trade payables	210,813	210,813	–	–
Miscellaneous other financial liabilities	33,722	29,801	3,921	–
Derivative financial instruments Incoming payments	–3,094	–2,718	–376	–
Derivative financial instruments Outgoing payments	12,562	11,000	1,493	69
	444,917	376,722	44,515	23,680

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 Incoming payments	–1,877	–1,683	–194	–
Derivative financial instruments Outgoing payments	7,487	5,542	1,881	64
	464,590	317,703	122,120	24,767

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 € 269,794 thousand (previous year: € 253,980 thousand), and the notional volume of all interest rate derivatives was € 39,500 thousand (previous year: € 39,500 thousand). The contractual maturities of payments for currency forwards and interest rate derivatives are as follows:

NOTIONAL VOLUMES 2016

(€ thousands)	Total	Up to 1 year	1–5 years	> 5 years
Currency forwards	269,794	203,390	670	65,704
Interest rate derivatives	39,500	39,500	–	–
	309,294	242,890	670	65,704

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

Equity includes changes in the fair value of derivatives used to hedge future cash flows amounting to € –6,644 thousand (previous year: € –5,026 thousand). They changed as follows:

(€ thousands)	2016	2015
Opening balance at 1 January	–5,026	–8,104
Changes in consolidated Group/CTA*/Other	8	–32
Disposals	948	5,552
Additions	–2,574	–2,442
Closing balance at 31 December	–6,644	–5,026

* 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 € 2.0 million for CNY (previous year: € 2.7 million) and € 1.2 million (previous year: € 2.2 million) for USD.

	CNY 31 Dec. 2016	CNY 31 Dec. 2015	USD 31 Dec. 2016	USD 31 Dec. 2015
Trade receivables	€ 66,7 million	€ 73,4 million	€ 26,4 million	€ 36,1 million
Trade payables	€ 46,6 million	€ 46,0 million	€ 14,9 million	€ 13,8 million
Balance	€ 20,1 million	€ 27,4 million	€ 11,5 million	€ 22,3 million

Based on the measurement of derivatives, at the reporting date, equity and the fair value of the derivatives would have been € 11.3 million lower (higher), with € 8.7 million resulting from USD and € 2.6 million from the other currencies. At the previous year's reporting date, equity and the fair value of the derivatives would have been € 8.5 million lower (higher), with € 6.4 million resulting from USD and € 2.1 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 2016, the net interest balance would have been € 2.0 million (previous year: € 1.8 million) higher (lower). Changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increase (decrease) equity by € 0.1 (0.1) million (previous year: € 0.3 (0.3) 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, including commercial papers.

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

(€ thousands)	Order intake		External sales revenue		EBIT	
	2016	2015	2016	2015	2016	2015
Pumps segment	1,386,617	1,452,431	1,428,491	1,513,977	60,876	55,389
Valves segment	331,182	367,965	360,794	384,570	8,794	10,340
Service segment	438,756	440,783	416,521	413,618	33,279	36,157
Reconciliation	–	–	–40,154	22,666	–14,780	3,285
Total	2,156,555	2,261,179	2,165,652	2,334,831	88,169	105,171
	Financial income – Interest and similar income				6,357	7,635
	Financial expense – Interest and similar expenses				–19,885	–19,414
	Earnings before income taxes (EBT)				74,641	93,392

The EBIT of the Pumps segment includes depreciation and amortisation expense of € 49.2 million (previous year: € 50.9 million), the EBIT of the Valves segment includes depreciation and amortisation expense of € 11.1 million (previous year: € 12.6 million) and the EBIT of the Service segment includes depreciation and amortisation expense of € 12.3 million (previous year: € 12.0 million).

€ 552,538 thousand (previous year: € 620,238 thousand) of the sales revenue presented was generated by the companies based in Germany, € 262,601 thousand (previous year: € 261,769 thousand) was generated by the companies based in France, € 200,779 thousand (previous year: € 209,959 thousand) by the companies based in the USA, and € 1,149,734 thousand (previous year: € 1,242,865 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 € 555,699 thousand (year-end figure in 2015: € 542,292 thousand), with € 192,139 thousand (year-end figure in 2015: € 196,625 thousand) being attributable to the companies based in Germany and € 363,560 thousand (year-end figure in 2015: € 345,667 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)	2016	2015
Liabilities from guarantees	4,481	2,739
Liabilities from warranties	224	1,239
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	11,231	9,444
	15,936	13,422

Other contingent liabilities are expected to include up to € 7,380 thousand (previous year: € 928 thousand) for tax items (plus any interest). 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 € 9,344 thousand (previous year: € 5,989 thousand). The reported amount is the Group's share of contingent liabilities from joint ventures. Contingent liabilities relating to other investments total € 1,006 thousand (previous year: € 1,728 thousand). The extent to which these will result in a cash outflow depends on the future business performance of the respective company.

OPERATING LEASES

(€ thousands)	Minimum lease payments	
	2016	2015
Due within 1 year	16,627	17,832
Due between 1 and 5 years	29,269	32,398
Due after more than 5 years	7,001	7,799
	52,897	58,029

In the year under review, € 17,832 thousand (previous year: € 16,283 thousand) was spent.

Operating leases relate primarily to vehicles and real estate.

FINANCE LEASES

(€ thousands)	Minimum lease payments		Present values	
	2016	2015	2016	2015
Due within 1 year	561	446	501	436
Due between 1 and 5 years	587	818	584	803
Due after more than 5 years	112	164	109	151
	1,260	1,428	1,194	1,390

Finance leases relate mostly to real estate, as well as to other equipment, operating and office equipment. The term of the contract covers most of the useful life of the asset concerned.

The annual obligations from IT services agreements amount to € 56,243 thousand (previous year: € 62,276 thousand) over a term of one to five years.

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

The aggregate purchase obligation for investments (principally items of property, plant and equipment) amounts to € 17,854 thousand (previous year: € 20,029 thousand). Almost all of the corresponding payments are due in 2017.

Research and development costs

Research and development costs in the year under review amounted to € 51,262 thousand (previous year: € 57,987 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 ultimate 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 [Kühborth Foundation], Stuttgart, which holds 1 % of the shares in Klein Pumpen GmbH. In addition, related parties include entities controlled by or under joint control of the Managing Directors of Klein Pumpen GmbH.

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

(€ thousands)	Sales of goods and services		Purchases of goods and services		Receivables		Liabilities	
	2016	2015	2016	2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
KSB Stiftung and Kühborth-Stiftung GmbH	–	1	–	–	–	–	–	–
Parent company Klein Pumpen GmbH	143	13	35	24	133	–	–	–
Subsidiaries of Klein Pumpen GmbH	75	–	765	520	124	–	214	–
Associates / joint ventures of Klein Pumpen GmbH	483	410	2,172	2,226	–	127	25	213
Other related parties	12	1	16	16	1	–	–	–

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. In addition, following an increase in the interest held from 50 % to 100 %, Abacus alpha GmbH and its subsidiaries Abacus Experten GmbH, Abacus Resale GmbH and airinotec GmbH have been subsidiaries of Klein Pumpen GmbH since 18 November 2016. Until 17 November 2016 these companies had still been classified as associates and joint ventures of Klein Pumpen GmbH. AIM GmbH & Co. KG and AIM Power Service GmbH also have to be classed as associates and joint ventures of Klein Pumpen GmbH in the reporting year. The two companies carry out maintenance and servicing work, and provide other services.

A rental and services agreement is in place between Palatina Versicherungsservice GmbH and KSB AG. Abacus Experten GmbH has entered into several contracts for work with KSB AG; Abacus Resale GmbH trades in products. KSB AG has also concluded service agreements with Abacus alpha GmbH and Abacus Resale GmbH. We supply airinotec GmbH with our products.

All transactions are carried out at arm's length with the following exceptions:

In the 2016 financial year KSB incurred costs of € 418 thousand for garden maintenance work at the property in Frankenthal. The real estate concerned is attributable to both KSB and Klein Pumpen GmbH on a pro rata basis. The garden maintenance work was carried out by a service provider, Abacus alpha GmbH, Frankenthal, which was directly and wholly owned by Klein Pumpen GmbH as at 31 December 2016, and by other service providers. Based on the pro rata area, an amount of € 84 thousand should have been charged to Klein Pumpen GmbH as its share of the garden maintenance services costs. In accordance with the contractually agreed provisions, only € 4 thousand of these costs were passed on, creating a disadvantage for KSB of € 80 thousand. The disadvantage relating to the 2016 financial year was offset between the parties in the financial year by means of a disadvantage compensation agreement. Payment is scheduled for 2017.

For the financial years before 2016 there is, according to the same principles, a potential claim for damages in accordance with section 317 *AktG* of around € 800 thousand in the ten-year statutory documentation and retention periods. This potential claim for damages is not recognised due to it being disputed and because the statutory capitalisation criteria are not fully met.

Expenses of € 52 thousand incurred by KSB for third-party services for the maintenance of outdoor facilities were not passed on at the instigation or in the interest of Klein Pumpen GmbH during the 2016 financial year, creating a disadvantage of € 52 thousand for KSB. The disadvantage relating to the 2016 financial year was offset between the parties in the financial year by means of a disadvantage compensation agreement. Payment is scheduled for 2017.

For the financial years before 2016 there is, according to the same principles, a potential claim for damages in accordance with section 317 *AktG* of around € 466 thousand in the ten-year

statutory documentation and retention periods. This potential claim for damages is not recognised due to it being disputed and because the statutory capitalisation criteria are not fully met.

The Managing Directors of Klein Pumpen GmbH are also deemed to be related parties.

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. 2016	31 Dec. 2015
Short-term benefits (total remuneration)	1,250	1,289
Post-employment benefits	1,388	1,429
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	2,638	2,718

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. € 5,255 thousand (previous year: € 4,518 thousand) has been provided for pension obligations to current members of the Board of Management, and € 39,309 thousand (previous year: € 39,387 thousand) to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,244 thousand in the year under review (previous year: € 2,246 thousand).

The short-term benefits paid to members of the Supervisory Board amount to € 716 thousand for the 2016 financial year (previous year: € 833 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 2016 at the Annual General Meeting of KSB AG on 11 May 2016. Overall, fees (including expenses) amounting to € 481 thousand were recognised as expenses. Of this, € 449 thousand relate to audit services, € 24 thousand to other certification services and € 8 thousand to other services.

KSB applied the IDW RS HFA 36 (new version) standard for the financial year ending on 31 December 2016, i.e. earlier than required. The audit fees include costs for the audit of the consolidated financial statements and of the statutory annual financial statements of KSB AG and the German subsidiaries included in the consolidated financial statements. The fees for other certification services primarily include attestation services outside of the audit of the annual financial statements. The fees for other services mainly include fees for project-specific consultancy services.

Use of exemption option

KSB Service GmbH, Frankenthal, and KSB Service GmbH, Schwedt, 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.

Events after the Reporting Period

The Board of Management and the Supervisory Board agreed to a proposal made by the major shareholder Klein Pumpen GmbH on 12 January 2017 that KSB Aktiengesellschaft be converted into a partnership limited by shares [*Kommanditgesellschaft auf Aktien*]. A motion to this effect will be proposed to the Annual General Meeting on 10 May 2017. If the motion is adopted, the company will trade under the legal form of SE & Co. KGaA in future. The general partner would be a management company, which would be wholly owned by a new subsidiary of the non-profit KSB Stiftung [KSB Foundation] and the non-profit Kühborth-Stiftung GmbH [Kühborth Foundation]. The parent SE & Co. KGaA and thus the KSB Group would be

managed via this management company by a single-tier Administrative Board with four executive and five non-executive directors.

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

German Corporate Governance Code

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

Notes

List of Shareholdings

LIST OF SHAREHOLDINGS

AFFILIATES (NATIONAL AND INTERNATIONAL)

No.	Name and seat of company	Country	Capital share in %	Held by No.
National				
1	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	47
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	55
			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, Inc. – Western Division, Bakersfield / California	USA	100.00	17
31	KSB Italia S.p.A., Milan	Italy	100.00	27
32	KSB ITUR Spain S.A., Zarautz	Spain	100.00	27
33	KSB Korea Ltd., Seoul	South Korea	100.00	
34	KSB Limited, Hong Kong	China	100.00	

No.	Name and seat of company	Country	Capital share in %	Held by No.
35	KSB Limited, Loughborough	United Kingdom	100.00	27
36	KSB Malaysia Pumps & Valves Sdn. Bhd., Shah Alam	Malaysia	100.00	66
37	KSB Middle East FZE, Dubai	U.A.E.	100.00	27
38	KSB MIL Controls Limited, Annamanada	India	49.00 51.00	52
39	KSB Mörck AB, Gothenburg	Sweden	100.00	
40	KSB Nederland B.V., Zwanenburg	The Netherlands	100.00	26
41	KSB New Zealand Limited, Albany / Auckland	New Zealand	100.00	19
42	KSB Norge AS, Ski	Norway	100.00	
43	KSB Österreich Gesellschaft mbH, Vienna	Austria	100.00	27
44	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	100.00	27
45	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	55
46	KSB Pompy i Armatura Sp. z o.o., Ozarów-Mazowiecki	Poland	100.00	
47	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	53
48	KSB Pumps and valves L.t.d., Domžale	Slovenia	100.00	
49	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
50	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
51	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	27
52	KSB Pumps Limited, Pimpri (Pune)	India	40.54	11
53	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	27
54	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	100.00	
55	KSB S.A.S., Gennevilliers (Paris)	France	100.00	27
56	KSB Seil Co., Ltd., Busan	South Korea	100.00	
57	KSB Service Belgium S.A./N.V., Bierges-lez-Wavre	Belgium	100.00	20
58	KSB Service Centre-Est S.A.S., Villefranche sur Saône	France	100.00	55
59	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	55
60	KSB Service Est S.A.S., Algrange	France	100.00	55
61	KSB SERVICE ETC S.A.S., Chalon-sur-Saône	France	100.00	63
62	KSB SERVICE MEDiatec S.A.S., Chalon-sur-Saône	France	100.00	63
63	KSB Service Robinetterie S.A.S., Rambervillers	France	100.00	55
64	KSB Shanghai Pump Co., Ltd., Shanghai	China	80.00	27
65	KSB Shanghai Precision Casting Co., Ltd., Shanghai	China	100.00	64
66	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
67	KSB Szivattyú és Armatúra Kft., Budapest	Hungary	100.00	
68	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
69	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
70	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
71	KSB Valves (Shanghai) Co. Ltd., Shanghai	China	100.00	
72	KSB Válvulas Ltda., Jundiaí	Brazil	100.00	21
73	KSB Vietnam Co., Ltd, Long Thanh District	Vietnam	100.00	66
74	KSB (Schweiz) AG, Oftringen	Switzerland	100.00	
75	KSB SERVICE COTUMER, Déville lès Rouen	France	100.00	63
76	ООО "KSB", Moscow	Russia	100.00	3

Notes

List of Shareholdings

No.	Name and seat of company	Country	Capital share in %	Held by No.
77	PT. KSB Indonesia, Cibitung	Indonesia	94.10	27
			5.90	
78	PT. KSB Sales Indonesia, Cibitung	Indonesia	99.00	77
			1.00	
79	PUMPHUSET Sverige AB, Sollentuna	Sweden	100.00	39
80	REEL s.r.l., Ponte di Nanto	Italy	100.00	
81	SISTO Armaturen S.A., Echternach	Luxembourg	52.85	27
82	SMEDEGAARD AG Pumpen und Motorenbau, Beinwil am See	Switzerland	100.00	27
83	Smedegaard Pumps Limited, Bridgwater	United Kingdom	100.00	35
84	Société de travaux et Ingénierie Industrielle (ST II), Déville lès Rouen	France	100.00	75
85	SPI Energie S.A.S., La Ravoire	France	100.00	55
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	39

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						
89	Nikkiso-KSB GmbH, Pegnitz	Germany	50.00		-455	40
International						
90	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	55.00	44	131	-35
91	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	27	18,937	3,148
92	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		7,192	582
93	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		29,780	-7,098

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						
94	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		4,129	2,096

* Data according to latest annual 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							
95	gear-tec GmbH, Eggebek	Germany	51.00		334	77	
International							
96	IOOO "KSB BEL", Minsk	Belarus	98.10	76	609	328	—
			1.90	3			
97	KSB Algérie Eurl, Bordj el Kifane (Alger)	Algeria	100.00	27	461	– 226	■
98	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		332	5	■
99	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	27	16	3	
100	KSB Ltd., Tokyo	Japan	100.00		– 1,318	100	
101	KSB Perú S.A., Lurín	Peru	100.00		1,096	440	■
102	KSB PHILIPPINES, INC., Makati City	Philippines	100.00	66	162	245	
103	KSB Pumpe i Armatore d.o.o. Beograd, Belgrad	Serbia	100.00	48	– 35	– 3	■
104	KSB pumpe i armature d.o.o., Rakov Potok	Croatia	100.00	48	– 731	– 492	■
105	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	34	1,163	146	
106	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	45	– 477	– 41	■
107	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	76	– 64	– 47	
108	TOV "KSB Ukraine", Kiev	Ukraine	100.00	76	346	303	

* Data according to latest annual financial statements available

■ Prior-period figures

Notes

List of Shareholdings
Supervisory Board

SUPERVISORY BOARD

Dr. Wolfgang Kühborth, Dipl.-Ing., Frankenthal
Honorary Chairman of the Supervisory Board
(† 31 January 2017)

Dr. Thomas Seeberg, Dipl.-Kfm., Icking¹⁾
Former Managing Director of OSRAM GmbH
(Chairman of the Supervisory Board until 28 Feb. 2017)

Alois Lautner, Lathe Operator, Kirchenthumbach²⁾
Deputy Chairman of the Pegnitz Works Council
(Deputy Chairman of the Supervisory Board)

Dr. Stella A. Ahlers, Business Management Assistant,
Feusisberg/Switzerland³⁾
Chairwoman of the Board of Management of Ahlers AG
(Member of the Supervisory Board from 11 May 2016 to 20 March 2017)

Dr. Martin Auer, Mannheim⁴⁾
Head of Corporate Legal, Compliance, Procurement and Logistic Services
MVV Energie AG
(Member of the Supervisory Board until 28 Feb. 2017)

Dr.-Ing. Stephan Bross, Freinsheim⁵⁾
Head of Corporate Unit Pumps

Dr. Jörg Matthias Großmann, Dipl.-Kfm., Großhesselohe⁶⁾
Member of the Management / CFO of
Freudenberg Chemical Specialities SE & Co. KG
(Member of the Supervisory Board until 14 April 2017)

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

Günter Koch, Dipl.-Wirtsch.Ing., Ludwigshafen
Former Member of the Board of Management of Pfalzwerke AG,
Ludwigshafen
(Member of the Supervisory Board until 11 May 2016)

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

Klaus Kühborth, Dipl.-Wirtsch.Ing., Frankenthal
Managing Director of Klein Pumpen GmbH

Birgit Mohme, Industrial Business Management Assistant, Frankenthal⁷⁾
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., Wörthsee⁸⁾
Global Head of Human Resources TÜV SÜD AG
(Member of the Supervisory Board since 1 Jan. 2016)

**Mandates of KSB Supervisory Board members on the Supervisory Board /
Board of Directors of other companies**

¹⁾ Member of the Board of Trustees of WTS-Stiftung für Altersversorgung, Munich, Germany

²⁾ BKK advita, Alzey, Germany

³⁾ Adolf Ahlers AG, Zug, Switzerland

⁴⁾ Palatina Versicherungsservice GmbH, Frankenthal, Germany
Stadtwerke Ingolstadt Beteiligungs GmbH, Ingolstadt, Germany

⁵⁾ Burckhardt Compression AG, Winterthur, Switzerland

⁶⁾ 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
TÜV Süd AG, Munich, Germany

⁷⁾ Deutsche Rentenversicherung Rheinland-Pfalz, Speyer, Germany

⁸⁾ TÜV SÜD Industrie Service GmbH, Munich, Germany
TÜV SÜD Auto Service GmbH, Stuttgart, Germany

BOARD OF MANAGEMENT

Board of Management jointly:

Strategy and Regions

Dr.-Ing. Peter Buthmann, Frankenthal¹⁾

Human Resources Director

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

Werner Stegmüller, Mannheim²⁾

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

Mandates of KSB Board of Management members on 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 and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa

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

Notes

Board of Management

Proposal on the Appropriation of the Net Retained Earnings

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

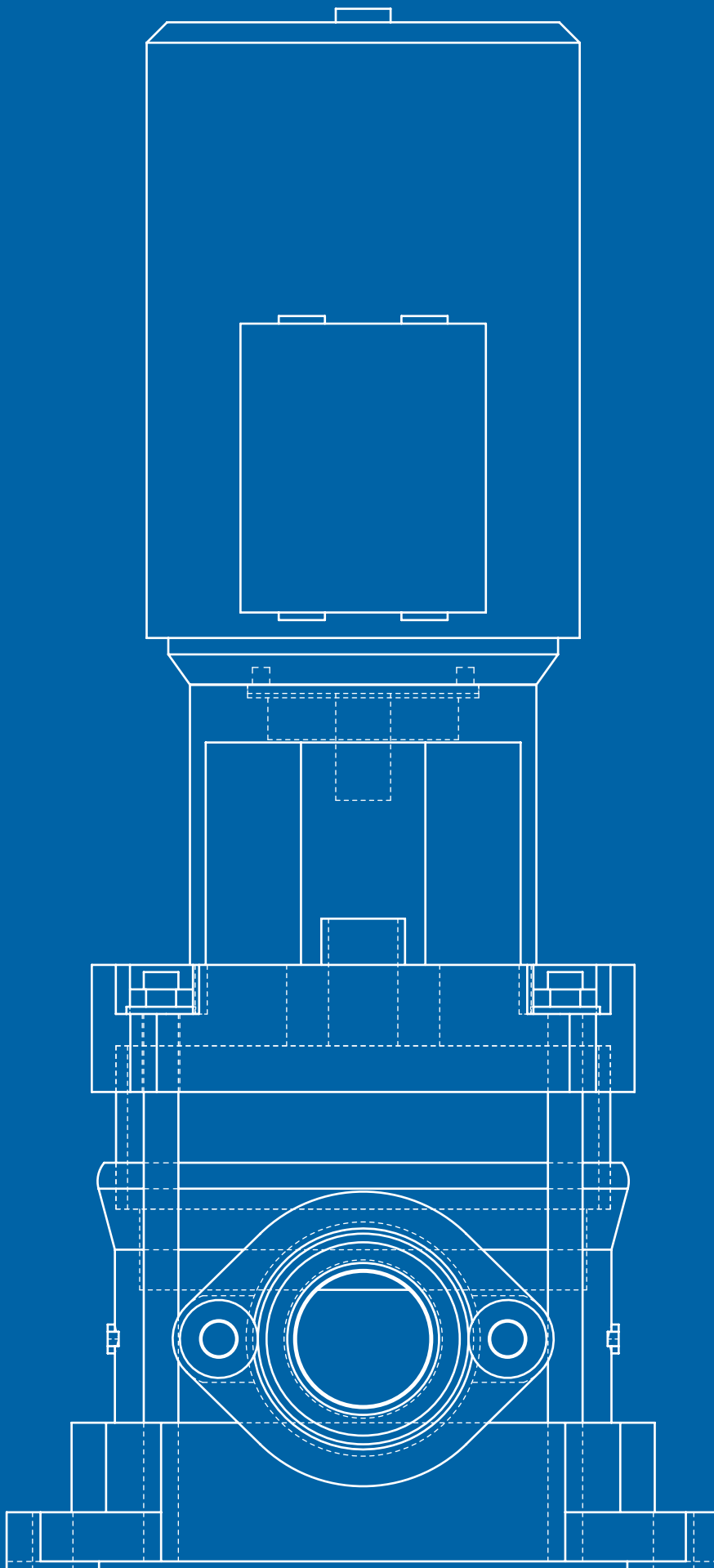
We will propose to the Annual General Meeting on 10 May 2017 that the net retained earnings of € 11,889,797.83 of KSB AG be appropriated as follows:

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
Appropriation to revenue reserves	€ 2,000,000.00
<hr/>	
Total	€ 11,857,123.62
Carried forward to new account	€ 32,674.21
<hr/>	
	€ 11,889,797.83

Frankenthal, 21 March 2017

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.

**MOVITEC**

Multistage pump for pressure boosting applications in building services and agriculture

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GENERAL INFORMATION

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RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankenthal, 21 March 2017

The Board of Management

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by KSB Aktiengesellschaft, Frankenthal/Pfalz, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("*Handelsgesetzbuch*": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with statutory provisions, provides a suitable view of the Group's position overall and suitably presents the opportunities and risks of future development.

Mannheim, 21 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk
Wirtschaftsprüfer

ppa. Christina Pöpperl
Wirtschaftsprüferin

GLOSSARY

ABBREVIATIONS

BRIC

Acronym for the four major emerging countries referred to as the "BRIC states": Brazil, Russia, India and China

ISO 14001

International standard stipulating requirements to be met by environmental management systems

IMF

International Monetary Fund

VDMA

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

KEY CORPORATE AND TECHNICAL TERMS

3D polymer printing

A process in which three-dimensional plastic parts can be built up layer by layer

Design to cost

A product development process aimed at finding the most cost-effective solution for individual components beginning at the development stage

ERP system

An Enterprise Resource Planning system is a software solution which handles the integrated management of a company's core business processes.

FluidFuture

KSB programme to increase the efficiency of pump systems

Additive manufacturing processes

A process for fast and cost-effective manufacturing of patterns, samples, prototypes, tools and final products

Industry 4.0

A visionary project from the German government's future technologies strategy aimed at bringing the real and the virtual world together while encompassing the "Internet of Things"

Laser melting

A production method used to create metal components layer by layer on the basis of 3D CAD data

Ombudsperson

A neutral adjudicator; in the context of corporate governance a person of trust who accepts anonymous information relating to potential infringements

Retrofit measures

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

Stakeholders

Groups directly or indirectly affected by a company's activities; in the case of KSB these include customers, suppliers, investors, employees and the public.

UN Global Compact

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

CONTACTS

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CONCEPT AND DESIGN

KSB Communications, Frankenthal
3st kommunikation, Mainz


PHOTOGRAPHY

KSB Image Library
Robert Kwiatek, Frankenthal (p. 4/5 + 19 + 56)
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shutterstock (p. 26/27 + 48/49)
eo Vision/ESA (2017) (p. 40/41)
Les Puits du Désert (p. 25)

PRINTING

Ottweiler Druckerei und Verlag GmbH, Ottweiler



As a signatory to the United Nations Global Compact , KSB is committed to endorsing the ten principles of the international community in the areas of human rights, labour standards, environmental protection and anti-corruption.

A print version of the KSB Group's Annual Report is additionally available in German. We also publish German and English versions online in PDF and HTML formats at <http://annualreport2016.ksb.com>.



GLOBAL PRESENCE

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

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

GLOBAL PRESENCE



EUROPE

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

MIDDLE EAST / AFRICA

Algeria
Egypt
Ghana
Iran
Kenya
Morocco
Oman
Qatar
Saudi Arabia
South Africa
Turkey
United Arab Emirates

ASIA

China
India
Indonesia
Japan
Kazakhstan
Malaysia
Pakistan
Philippines
Singapore
South Korea
Taiwan
Thailand
Vietnam

AMERICAS

Argentina
Brazil
Canada
Chile
Columbia
Mexico
Peru
USA

OCEANIA

Australia
New Zealand



FINANCIAL CALENDAR

30 MARCH 2017

Financial press conference
10:00, Frankenthal, Germany

31 MARCH 2017

Invitation to Annual General Meeting

28 APRIL 2017

Interim report
January – March 2017

10 MAY 2017

Annual General Meeting
10:00, Frankenthal, Germany

11 AUGUST 2017

Half-year financial report
January – June 2017

9 NOVEMBER 2017

Interim report
January – September 2017



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