CONSOLI-DATED FINANCIAL STATEMENTS

BALANCE SHEET

Assets

€ thousands	Notes	31 Dec. 2017	31 Dec. 2016
Non-current assets			
Intangible assets	1	108,054	106,596
Property, plant and equipment	2	506,214	501,606
Non-current financial assets	3	6,132	8,526
Investments accounted for using the equity method	4	22,185	24,439
Deferred tax assets	17	91,736	112,166
		734,321	**753,333**
Current assets			
Inventories	5	461,877	467,437
Trade receivables and PoC	6	613,311	614,293
Other financial assets	6	116,970	186,995
Other non-financial assets	6	37,402	24,923
Cash and cash equivalents	7	289,535	288,883
Assets held for sale	2	–	14,369
		1,519,095	**1,596,900**
		2,253,416	**2,350,233**

Equity and liabilities

€ thousands	Notes	31 Dec. 2017	31 Dec. 2016
Equity	8		
Subscribed capital		44,772	44,772
Capital reserve		66,663	66,663
Revenue reserves		611,855	614,238
Equity attributable to shareholders of KSB SE & Co. KGaA		723,290	725,673
Non-controlling interests		162,108	164,661
		885,398	**890,334**
Non-current liabilities			
Deferred tax liabilities	17	14,703	12,375
Provisions for employee benefits	9	606,875	605,540
Other provisions	9	1,397	1,406
Financial liabilities	10	54,333	57,962
		677,308	**677,283**
Current liabilities			
Provisions for employee benefits	9	81,472	70,916
Other provisions	9	98,407	98,160
Financial liabilities	10	21,960	119,958
Trade payables	10	212,029	210,813
Other financial liabilities	10	81,467	89,406
Other non-financial liabilities	10	190,161	182,979
Income tax liabilities	10	5,214	9,354
Liabilities held for sale	2	–	1,030
		690,710	**782,616**
		2,253,416	**2,350,233**

Also see the relevant information in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

Income statement

€ thousands	Notes	2017	2016
Sales revenue	11	**2,204,958**	**2,165,652**
Changes in inventories		– 49	2,948
Work performed and capitalised		5,588	5,646
Total output of operations		**2,210,497**	**2,174,246**
Other income	12	69,170	47,227
Cost of materials	13	– 887,820	– 874,156
Staff costs	14	– 796,732	– 798,750
Depreciation and amortisation expense	1, 2	– 70,593	– 72,592
Other expenses	15	– 392,414	– 372,441
Other taxes		– 15,753	– 13,491
		116,355	**90,043**
Financial income	16	6,417	6,612
Financial expense	16	– 20,106	– 20,672
Income from / expense to investments accounted for using the equity method	16	1,514	– 1,342
		– 12,175	**– 15,402**
Earnings before income taxes		**104,180**	**74,641**
Taxes on income	17	– 52,076	– 26,864
Earnings after income taxes		**52,104**	**47,777**
Attributable to:			
Non-controlling interests	18	14,923	14,834
Shareholders of KSB SE & Co. KGaA		**37,181**	**32,943**
Diluted and basic earnings per ordinary share (€)	19	21.10	18.68
Diluted and basic earnings per preference share (€)	19	21.36	18.94

Statement of income and expense recognised in equity

€ thousands	Notes	2017	2016
Earnings after income taxes		**52,104**	**47,777**
Remeasurement of defined benefit plans	9	9,328	– 47,278
Taxes on income		– 3,843	13,546
Expense and income recognised directly in equity and not reclassified to profit or loss in subsequent periods		**5,485**	**– 33,732**
Currency translation differences		– 54,238	20,223
Attributable to: Expense and income recognised directly in equity attributable to investments accounted for using the equity method		– 2,225	– 157
Changes in the fair value of financial instruments		7,203	– 1,622
Taxes on income		– 2,257	453
Expense and income recognised directly in equity and reclassified to profit or loss in subsequent periods		**– 49,292**	**19,054**
Other comprehensive income		**– 43,807**	**– 14,678**
Total comprehensive income		**8,297**	**33,099**
Attributable to:			
Non-controlling interests		– 62	17,836
Shareholders of KSB SE & Co. KGaA		**8,359**	**15,263**

Also see the relevant information in the Notes.

STATEMENT OF CHANGES IN EQUITY

€ thousands	Subscribed capital of KSB SE & Co. KGaA	Capital reserve of KSB SE & Co. KGaA
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**

€ thousands	Subscribed capital of KSB SE & Co. KGaA	Capital reserve of KSB SE & Co. KGaA
1 Jan. 2017	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. 2017	**44,772**	**66,663**

Accumulated currency translation differences (€ thousands)	Equity attributable to shareholders of KSB SE & Co. KGaA	Non-controlling interests	Total equity
Balance at 1 Jan. 2016	– 61,498	– 8,496	**– 69,994**
Change in 2016	16,991	3,232	**20,223**
Balance at 31 Dec. 2016 / 1 Jan. 2017	**– 44,507**	**– 5,264**	**– 49,771**
Change in 2017	– 39,262	– 14,881	**– 54,143**
Balance at 31 Dec. 2017	**– 83,769**	**– 20,145**	**– 103,914**

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 SE & Co. KGaA	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

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 SE & Co. KGaA	Non-controlling interests	Total equity
836,530	−44,507	−4,599	−173,186	725,673	164,661	890,334
–	−39,357	5,036	5,499	−28,822	−14,985	−43,807
37,181	–	–	–	37,181	14,923	52,104
37,181	**−39,357**	**5,036**	**5,499**	8,359	**−62**	8,297
−9,857	–	–	–	−9,857	−2,491	−12,348
–	–	–	–	–	–	–
−980	95	–	–	−885	–	−885
–	–	–	–	–	–	–
862,874	−83,769	437	−167,687	723,290	162,108	885,398

Also see the relevant information in the Notes.

STATEMENT OF CASH FLOWS

€ thousands	2017	2016
Earnings after income taxes	52,104	47,777
Depreciation and amortisation expense / Write-ups	71,445	72,592
Increase in non-current provisions	9,947	14,952
Gain / loss on disposal of fixed assets	– 9,150	– 208
Other non-cash income / expenses	29	4,714
Cash flow	**124,375**	**139,827**
Increase in inventories	– 15,725	– 11,834
Increase / Decrease in trade receivables and other assets	– 21,001	51,091
Increase / Decrease in current provisions	8,231	– 8,475
Increase / Decrease in advances received from customers	15,536	– 12,161
Increase / Decrease in liabilities (excluding financial liabilities)	10,535	– 22,690
Other non-cash expenses (operating)	– 1,260	– 1,260
	– 3,684	**– 5,329**
Cash flows from operating activities	**120,691**	**134,498**
Proceeds from disposal of intangible assets	4	90
Payments to acquire intangible assets	– 11,941	– 11,775
Proceeds from disposal of property, plant and equipment	20,224	2,956
Payments to acquire property, plant and equipment	– 88,526	– 71,606
Proceeds from disposal of non-current financial assets	218	91
Payments to acquire non-current financial assets	– 819	– 925
Proceeds from / payments for investments in Group companies that are not fully consolidated	295	– 12,044
Proceeds from commercial papers	74,820	–
Payments for commercial papers	– 29,979	– 74,944
Proceeds from term deposits (maturity of more than 3 and up to 12 months)	55,825	110,027
Payments for term deposits (maturity of more than 3 and up to 12 months)	– 28,447	– 55,824
Other non-cash expenses / income	165	–
Cash flows from investing activities	**– 8,161**	**– 113,954**
Dividends paid for prior year – Shareholders of KSB SE & Co. KGaA (Notes No. 8)	– 9,857	– 9,857
Dividends paid for prior year – Non-controlling interests (Notes No. 8)	– 2,491	– 2,798
Payments for loan against borrower's note	– 74,500	–
Payments for / Proceeds from financial liabilities	– 19,150	3,044
Cash flows from financing activities	**– 105,998**	**– 9,611**
Changes in cash and cash equivalents	6,532	10,933
Effects of exchange rate changes on cash and cash equivalents	– 6,828	4,325
Effects of changes in consolidated Group	948	489
Cash and cash equivalents at beginning of period	288,883	273,136
Cash and cash equivalents at end of period	**289,535**	**288,883**

Cash flows from operating activities include cash flows from interest received amounting to € 6,139 thousand (previous year: € 6,357 thousand) and cash flows from income taxes totalling € – 40,193 thousand (previous year: € – 31,807 thousand). Cash flows from investing activities for the 2017 financial year include cash flows from dividends received of € 1,654 thousand (previous year: € 2,716 thousand). Cash flows from financing activities include cash flows from interest expense of € – 8,649 thousand (previous year: € – 7,619 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 SE & Co. KGaA (formerly KSB Aktiengesellschaft), Frankenthal/Pfalz, Germany, is a capital market-oriented partnership limited by shares [*Kommanditgesellschaft auf Aktien*] under the law of the Federal Republic of Germany. The company is registered with the *Handelsregister* [German Commercial Register] of the *Amtsgericht* [Local Court] Ludwigshafen am Rhein, registration No. HRB 65657, and has its registered office in Frankenthal/Pfalz, Germany. After the reporting period, KSB Aktiengesellschaft changed its legal form into that of a SE & Co. KGaA by entry in the German Commercial Register on 17 January 2018. The Annual General Meeting of KSB AG adopted a resolution on 10 May 2017 on the announced change in the legal form of the company. The general partner is KSB Management SE, a European public limited company. The shares in this company are wholly owned (100 %) by Klein, Schanzlin & Becker GmbH, a subsidiary of the non-profit KSB Stiftung [KSB Foundation] and the non-profit Kühborth-Stiftung GmbH [Kühborth Foundation]. KSB SE & Co. KGaA and thus the KSB Group are managed via KSB Management SE, which has four Managing Directors and a five-member Administrative Board.

In the previous year, KSB SE & Co. KGaA and its subsidiaries were included in the consolidated financial statements of Johannes und Jacob Klein GmbH (formerly Klein Pumpen GmbH), Frankenthal, Germany. Johannes und Jacob Klein GmbH, Frankenthal, is the parent company that 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 support 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 SE & Co. KGaA 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 315e(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 SE & Co. KGaA 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, due to be approved by the Supervisory Board on 21 March 2018, will be approved for publication on 28 March 2018 by the Managing Directors of KSB Management SE.

IFRS announcement

	First-time application in the EU
Improvements to the International Financial Reporting Standards (2014 to 2016)	1 Jan. 2018
IFRS 15 Revenue from Contracts with Customers	1 Jan. 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 Jan. 2018
IFRS 9 Financial Instruments	1 Jan. 2018
IFRS 2 Share-based Payment	1 Jan. 2018
IFRS 4 Insurance Contracts	1 Jan. 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 Jan. 2018
IAS 40 Investment Property	1 Jan. 2018
IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements	1 Jan. 2019
IFRS 16 Leases	1 Jan. 2019
IFRIC 23 Uncertainty over Income Tax Treatment	1 Jan. 2019
IAS 19 Employee Benefits	1 Jan. 2019
Improvements to the International Financial Reporting Standards (2015 to 2017)	1 Jan. 2019
IFRS 17 Insurance Contracts	1 Jan. 2021

New accounting principles

a) Accounting principles applied for the first time in the 2017 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 2017:

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. The "Changes in cash flows from financing activities" table in Section VII. Statement of Cash Flows has thus been supplemented.

Three IFRS standards were amended by the **Annual Improvements to IFRS Standards – 2014–2016 Cycle**, with only the following amendment being required to be applied in 2017: IFRS 12 clarifies that on principle the disclosure requirements also apply to interests in subsidiaries, joint ventures and associates that are classified as held for sale as defined by the IFRSs. Exceptions are disclosures under IFRS 12.B10–B12 (financial information). This clarification does not have any impact on our reporting.

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

The following standards and revised standards issued by the IFRS Interpretations Committee (IFRIC) were not yet mandatory and were not applied in the 2017 financial year:
→ IFRS announcement

In May 2014, the IASB published the new **IFRS 15 Revenue from Contracts with Customers** standard. The new accounting standard, which is to be applied to financial years that begin on or after 1 January 2018, defines principles that an entity should apply when reporting on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Sales revenue is recognised when the customer has control over the agreed goods and services and can derive benefits from these. It supersedes the previous IAS 11 Construction Contracts and IAS 18 Revenue standards.

KSB will not apply IFRS 15 early for the first time, instead deciding to initially apply the standard in the 2018 financial year using the modified retrospective method. The cumulated impact on earnings resulting from the transition will be recognised directly in equity at the beginning of the comparative period.

The focus of the Group-wide project to introduce IFRS 15, underway since 2016, has been on ensuring complete identification of the resulting effects, training the Group companies, creating and implementing the technical concept, and analysing the materiality of the identified effects of IFRS 15. The impact analysis carried out in the 2017 financial year confirmed our assumptions that no material effects are to be expected.

We expect minimal effects for the construction contracts recognised using the percentage-of-completion method until the end of the 2017 financial year. For a number of these contracts, the criteria laid down in IFRS 15.35 for sales revenue recognition over time were not fulfilled. This led to sales revenue being recognised later. At the moment, we expect reported consolidated sales revenue to decrease by approx. 2 %. In the consolidated balance sheet there will be reclassifications between receivables recognised by PoC and contractual assets under Assets, and between advances received from customers PoC and contractual liabilities under Equity and Liabilities.

In July 2014, the IASB published **IFRS 9 Financial Instruments** as the successor to IFRS 39 Financial Instruments: Recognition and Measurement. IFRS9 specifies revised rules for classifying and measuring financial instruments, new rules regarding the impairment of financial assets and additional rules for recognising hedges.

The rules for *classification* of financial instruments under IFRS 9 are based on the following two criteria: the business model – hold or sell – and the type of cash flows – repayment of principal or interest. Changes to the financial liabilities measured at fair value were fully recognised in the income statement under IFRS 39, while IFRS 9 requires a separate treatment. If changes are a result of credit risk developments, then they are to be recognised in other comprehensive income; other changes will be recognised in the income statement. As the Group currently measures all of its financial liabilities at amortised cost, and intends to maintain this approach, no material effects on financial liabilities are to be expected from the application of IFRS 9. Based on our review, the measurement of financial assets will remain mostly unaffected by the changes.

According to the new rules regarding *impairment* the incurred loss model (retrospective) applied under IAS 39 is to be replaced by the expected credit loss model (prospective). The standard stipulates a general 3-stage model (impairment model) and a simplified method for determining the anticipated impairment. For all financial instruments that fall within the scope of the new impairment model, the calculated prospective impairment needs to be recorded at the time of initial recognition based on a valid future estimation. The Group intends to apply the simplified method for the measurement of trade receivables. As far as the relevant impairment losses are concerned, the Group expects an increase of approx. 1 % in relation to the current receivables.

IFRS 9 also requires a calculation of expected credit loss (ECL) for investments (term deposits) with a maturity of more than three months, investments in Euro Commercial Papers (ECP) and loans to third parties. When transitioning to IFRS 9, the effect of the first-time application of the standard will be taken directly to equity. Subsequent changes will be recognised in profit or loss. However, we do not expect any material impact in this respect.

In addition, IFRS 9 covers hedge accounting. A particular focus is on the presentation of cross-currency basis spreads as derivative components. KSB currently intends to use the option of excluding the forwards points and cross-currency basis spread component. The effects will thus be recognised directly in equity as "Cost of hedging reserve" under a new item in other comprehensive income. We do not expect any material effects in this respect.

Furthermore, any hedges need to be consistent with the objectives and strategy of Group risk management in order to better present the associated activities. It is expected that the hedge accounting relations of the Group meet all requirements of IFRS 9.

KSB will apply the IFRS 9 accounting rules for the first time in the 2018 financial year. Comparative disclosures will not be adjusted. Consequently, all differences between the carrying amounts of the financial instruments before and after the application of IFRS 9 will be recognised in revenue reserves and other reserves as of 1 January 2018.

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.

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. On 12 October 2017, the IASB published amendments regarding accounting for long-term interests in associates and joint ventures. The amendments to IAS 28 clarify that IFRS 9 is to be applied to long-term interests in associates or joint ventures that are not accounted for using the equity method.

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. Other leases result in a balance sheet extension, which, however, will not correspond to the full scope of the operating lease volume (€ 49.7 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. Within the statement of cash flows, too, the first-time application of IFRS 16 will result in shifts between the individual cash flows. However, because the redemption component of lease payments in the future will be an element of cash flows from financing activities, this will result in an improvement of cash flows from operating activities. Accounting for finance leases in place will not be affected by the new standard.

In order to estimate the workload and expense for the first-time application and ensure the correct implementation of the standard at the time of that first-time application, we began to implement an associated project plan in the financial year under review. This included an inventory evaluation of leases of the parent company KSB SE & Co. KGaA and the other Group companies / KSB companies. We have already obtained an overview of the workload and costs involved in the initial compilation of contractual data in a contract management tool designed for that purpose. The analysis of the lease situation that has already begun will be extended in 2018 to include all contracts, and we will also create a questionnaire on IFRS 16 that will have to be completed by every Group company. The results will be used to derive any further system changes required and create guidelines for correctly handling contracts after 1 January 2019. Appropriate changes to the reporting forms and accounting instructions will also be made.

IFRIC 23 Uncertainty over Income Tax Treatment specifies requirements for the recognition and measurement of uncertain income tax items. As part of the assessment of uncertainty, a company needs to evaluate whether it is probable that the tax jurisdiction will accept the treatment of income taxes.

The IASB has revised **IAS 19 Employee Benefits** with regard to plan amendment, curtailment and settlement. As of 1 January 2019, in the event of amendment, curtailment or settlement related to a defined benefit pension plan, the current service cost and the net interest for the remaining financial year are to be determined based on the current actuarial assumptions that were used for the required remeasurement of net liabilities.

IFRS 17 Insurance Contracts stipulates the principles governing the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective is to ensure that the reporting companies provide relevant information that faithfully represents the insurance contracts.

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 SE & Co. KGaA, 9 German and 73 foreign companies (previous year: 9 German and 79 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

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

→ Summarised balance sheet
→ Summarised statement of comprehensive income
→ Condensed statement of cash flows

Material subsidiaries with non-controlling interests

Name and seat	Non-controlling interest in capital	Earnings after income taxes attributable to non-controlling interests		Accumulated non-controlling interests	
€ thousands	**2017 / 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
GIW Industries, Inc., USA	49.0 %	4,191	4,860	28,878	29,927
KSB Pumps Limited, India	59.5 %	4,742	4,889	53,508	53,604
KSB America Corporation, USA	49.0 %	91	245	23,736	25,062
KSB Shanghai Pump Co., Ltd., China	20.0 %	– 847	491	10,569	12,150
Individually immaterial fully consolidated subsidiaries with non-controlling interests		6,746	4,349	45,417	43,918
Total amount of non-controlling interests		**14,923**	**14,834**	**162,108**	**164,661**

Summarised balance sheet

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
€ thousands / 31 Dec.	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-current assets	49,366	58,303	48,551	41,469	29,591	35,399	25,398	31,474
Current assets	55,819	62,755	101,760	95,337	54,731	57,686	137,263	149,400
Non-current liabilities	– 6,643	– 6,899	– 5,223	– 3,327	–	–	–	–
Current liabilities	– 20,173	– 33,687	– 56,330	– 44,527	– 25,950	– 27,931	– 113,214	– 127,922
Net assets	**78,369**	**80,472**	**88,758**	**88,952**	**58,372**	**65,154**	**49,447**	**52,952**

Summarised statement of comprehensive income

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
€ thousands	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Sales revenue	127,114	134,612	127,563	109,147	–	–	146,291	129,850
Earnings after income taxes	8,554	9,919	8,804	9,026	1,175	4,457	– 5,478	2,540
Other comprehensive income	– 2,821	2,712	– 4,083	– 163	– 7,957	2,144	7,893	– 7,507
Comprehensive income	5,733	12,631	4,721	8,863	– 6,782	6,601	2,415	– 4,967
Other comprehensive income attributable to non-controlling interests	– 1,382	1,329	– 2,428	– 97	– 3,899	1,051	1,579	– 1,501
Comprehensive income attributable to non-controlling interests	2,809	6,189	2,807	5,270	– 3,323	3,234	483	– 993
Dividends paid to non-controlling interests	–	–	– 1,549	– 1,531	–	–	–	–

Condensed statement of cash flows

	GIW Industries, Inc.		KSB Pumps Limited		KSB America Corporation		KSB Shanghai Pump Co., Ltd.	
€ thousands	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Cash flows from operating activities	9,577	23,570	– 3,606	7,562	1,670	3,819	9,495	9,660
Cash flows from investing activities	– 664	– 6,477	– 10,354	– 8,235	1,638	–	193	– 1,112
Cash flows from financing activities	– 8,856	– 18,072	– 2,867	– 2,848	2,827	– 12,257	– 9,121	– 11,203
Changes in cash and cash equivalents	**57**	**– 979**	**– 16,827**	**– 3,521**	**6,135**	**– 8,438**	**567**	**– 2,655**
Cash and cash equivalents at beginning of period	180	1,169	28,241	31,707	14,849	22,956	2,292	5,301
Effects of exchange rate changes	– 25	– 10	– 1,150	54	– 2,156	332	– 301	– 355
Cash and cash equivalents at end of period	**212**	**180**	**10,264**	**28,240**	**18,828**	**14,850**	**2,558**	**2,291**

KSB Pump & Valve Technology Service (Tianjin) Co., Ltd and KSB PHILIPPINES, INC., previously not consolidated due to there being no material impact, were included in the group of consolidated companies on 1 January 2017. These affiliates, which were consolidated for the first time, were established some years earlier. First-time consolidations contributed € 3,669 thousand to sales revenue and also had the following impact on the consolidated balance sheet:

First-time consolidations – Impact on balance sheet

€ thousands	2017
Non-current assets	– 659
Current assets	2,624
Assets	**1,965**
Equity	– 885
Non-current liabilities	–
Current liabilities	2,850
Equity and liabilities	**1,965**

Other effects resulting from the consolidation of companies were not material.

With effect from 1 January 2017, the previously fully consolidated service companies KSB Service Est S.A.S., Algrange, and Service Centre-Est S.A.S., Villefranche-sur-Saône, were merged with KSB S.A.S. in France, which has its head office in Gennevilliers and is also fully consolidated. The two previously fully consolidated service companies KSB SERVICE MEDIATEC S.A.S., Chalon-sur-Saône, and KSB SERVICE ETC S.A.S., Chalon-sur-Saône, were merged, with effect from 1 January 2017, with Rambervillers-based KSB Service Energie S.A.S.U., which is also fully consolidated.

With effect from 1 January 2017, the previously fully consolidated company KSB Válvulas Ltda., Jundiaí, was merged with KSB BRASIL LTDA., which has its head office in Várzea Paulista (Brazil) and is also fully consolidated.

In China, we had already transferred the foundry operations of KSB Shanghai Pump Co., Ltd., Shanghai, to a new, independent company (KSB Shanghai Precision Casting Co., Ltd.) in the previous year. 95 % of the interest held in the company, which at the time was classified as being held for sale, was sold within the reporting period, with a remaining share of 5 %.

The Danish company T. Smedegaard A/S, Glostrup and the Chinese company KSB Valves (Shanghai) Co. Ltd., Shanghai, were liquidated in the financial year.

We sold our valves business in the USA, operated KSB AMRI Inc., Houston, in the financial year.

In December 2017 we purchased 51 % of the shares in Pumpen Partner Netzwerk UG. Due to reasons of materiality the company will not be consolidated.

The impact of the above changes on the 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 SE & Co. KGaA 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 € – 103,914 thousand (previous year: € – 49,771 thousand). The effect of currency translation adjustments taken directly to equity on intangible assets, property, plant and equipment, and financial assets was a loss of € 25,689 thousand (previous year: gain of € 8,827 thousand).

→ Exchange rates for the most important currencies

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

Exchange rates for the most important currencies

	Closing rate		Average rate	
	31 Dec. 2017	31 Dec. 2016	2017	2016
US dollar	1.1993	1.0541	1.1292	1.1067
Brazilian real	3.9729	3.4305	3.6041	3.8606
Indian rupee	76.6055	71.5935	73.4887	74.3500
Chinese yuan	7.8044	7.3202	7.6257	7.3494

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 the LaR and FLAC categories 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.

As in the previous year, maturities of the currency derivatives used are mostly between one and two years; there are no interest rate derivatives for the financial year in the Group. 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. The Group regularly tests goodwill for impairment in the fourth quarter based on the figures as per 30 September of the year in question.

As part of the assessment, the Group conducts sensitivity analyses to estimate the risk of impairment. The following assumptions are used in the process: a 5 % increase in the cost of capital (Sensitivity 1), a 0.25 % reduction in the growth rate (Sensitivity 2) and a reduction in sales revenue with the corresponding impact on expense items and performance indicators (Sensitivity 3). Sensitivity 3 is only applied to the most important goodwills of the KSB Group.

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	
Historical cost	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance at 1 January	71,167	61,708	104,189	103,910	15,781	8,550	**191,137**	**174,168**
Changes in consolidated Group	28	2	–	135	–	–	**28**	**137**
Currency translation adjustments	– 2,014	700	– 813	482	–	–	**– 2,827**	**1,182**
Other	– 6	6,502	–	– 338	–	–	**– 6**	**6,164**
Additions	2,767	2,519	–	–	9,692	7,520	**12,459**	**10,039**
Disposals	285	726	166	–	–	14	**451**	**740**
Reclassifications	226	1,061	–	–	– 162	– 275	**64**	**786**
Reclassification to assets held for sale	–	– 599	–	–	–	–	**–**	**– 599**
Balance at 31 December	71,883	71,167	103,210	104,189	25,311	15,781	**200,404**	**191,137**
Accumulated depreciation and amortisation	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance at 1 January	57,294	51,032	27,247	21,061	–	–	**84,541**	**72,093**
Currency translation adjustments	– 1,441	605	– 132	46	–	–	**– 1,573**	**651**
Other	– 6	2,089	– 1	– 338	–	–	**– 7**	**1,751**
Additions	4,114	4,447	5,556	6,478	–	–	**9,670**	**10,925**
Disposals	281	650	–	–	–	–	**281**	**650**
Reclassifications	–	–	–	–	–	–	**–**	**–**
Reclassification to assets held for sale	–	– 229	–	–	–	–	**–**	**– 229**
Balance at 31 December	59,680	57,294	32,670	27,247	–	–	**92,350**	**84,541**
Carrying amount at 31 December	**12,203**	**13,873**	**70,540**	**76,942**	**25,311**	**15,781**	**108,054**	**106,596**

The additions to intangible assets amounting to € 12.5 million (previous year: € 10.0 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 includes € 8.3 million (previous year: € 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 factor, 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. This peer group information includes things like beta factors, capital structure data and borrowing costs. The peer group includes companies that are similar to the KSB Group in terms of industry, size and activity. To account for changes in market parameters, the composition of the peer group is reviewed at regular intervals and adjusted if necessary (e.g. changes in the business model of either the company, the cash-generating unit or the comparable company being looked at). This year's review resulted in an adjustment of the peer group.

The interest rate for risk-free 30-year Bunds was used as a base rate. This rate was 1.25 % in the year under review (previous year: 0.5 %). The market risk premium was set at 5.75 %, which was unchanged on the previous year, with a beta factor of 0.94 (previous year: 1.06). In addition, country-specific tax rates and country risk premiums are taken into account individually for each cash-generating unit (CGU). As in the previous year, we applied growth rates of between 0.75 % and 1.25 %.

Discount rates

Before taxes in % (value in use)	2017	2016
Companies in Germany	8.7 – 8.8	8.5 – 8.6
Companies in The Netherlands	8.3	8.1
Companies in the USA	9.7	9.1
Companies in South Africa	12.2	12.8
Companies in the rest of Europe	8.2 – 13.8	8.3 – 14.5

After taxes in % (fair value less costs to sell)	2017	2016
Companies in South Korea	7.3	7.3

Goodwill

Name of CGU / € thousands	31 Dec. 2017	31 Dec. 2016
KSB Seil Co., Ltd., South Korea	21,665	27,432
DP industries B.V., The Netherlands	18,285	18,285
Société de travaux et Ingénierie Industrielle (ST II), France	5,689	5,689
Dynamik-Pumpen GmbH, Germany	3,150	3,150
Uder Elektromechanik GmbH, Germany	2,980	2,980
KSB Finland Oy, Finland	2,603	2,603
KSB Pumps (S.A.) (Pty) Ltd., South Africa	2,010	2,059
KSB SERVICE ETC S.A.S., France*	1,412	1,412
	57,794	**63,610**
Other 16 (previous year: 16) companies	12,746	13,332
Total	**70,540**	**76,942**

* Merged with KSB Service Energie S.A.S.U. in the financial year

As part of the regular review, the peer group was adjusted based on updated findings regarding the business models of the comparable companies. The change in the peer group also resulted in a change to the weighted capital cost factor. The adjustment only had a material impact on the goodwill of KSB Seil Co., Ltd., Busan, South Korea, with a change in the discount factor after taxes from 7.9 % to 7.3 %.

→ Impairment loss on goodwill

Impairment loss on goodwill

Name of CGU	Segment	Discount factor	Recoverable amount € thousands	Impairment loss € thousands
KSB Seil Co. Ltd., Busan, South Korea	Valves	7.3 %	41,662	5,556
Total 31 Dec. 2017				**5,556**
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**

According to an assessment by management, the impairment of the cash-generating unit was the result of a significant delay in the recovery in the shipbuilding market that was longer than forecast in previous years. The impairment loss will be reported in the income statement under "Depreciation and amortisation expense".

Detailed information on key goodwill items

Cash-generating unit	Method	Carrying amount of goodwill € millions	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)	21.7	31 %	7.3 % after taxes	1.00	■ Slower recovery in the shipbuilding sector than expected ■ Little change in exchange rates	Consideration of macro-economic key data and external market research
DP industries B.V.	Value in use	18.3	26 %	8.3 % before taxes	1.25	■ Low to significant market growth rates	Consideration of macro-economic key data and internal estimates of the relevant purchasing and sales departments

Basic assumptions for goodwill considered material

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

For the annual impairment test, the assumptions presented in the "Basic assumptions for goodwill considered material" table were made regarding the development of order intake, sales revenue and operating earnings for goodwill deemed to be material.

→ Basic assumptions for goodwill considered material

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 were conducted for each cash-generating unit. These only increased the impairment loss for KSB Seil Co., Ltd. (Sensitivity 1: € 7.5 million; Sensitivity 2: € 6.6 million; Sensitivity 3: € 8.0 million). No additional impairment loss would have resulted for a further cash-generating unit.

Before adjusting the peer group, an impairment loss of € 10.4 million would have been incurred (Sensitivity 1: € 13.8 million, Sensitivity 2: € 11.5 million, Sensitivity 3: € 11.4 million); this would have primarily affected KSB Seil Co. Ltd. (South Korea).

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

2 Property, plant and equipment

Statement of changes in property, plant and equipment

€ thousands	Land and buildings		Plant and machinery		Other equipment, operating and office equipment		Advance payments and assets under construction		Property, plant and equipment Total	
Historical cost	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance at 1 January	372,075	344,473	583,604	551,208	215,203	212,750	31,049	53,791	**1,201,931**	**1,162,222**
Changes in consolidated Group	149	10	605	12	132	102	–	–	**886**	**124**
Currency translation adjustments	–13,032	5,482	–20,397	6,873	–7,892	2,878	–1,813	92	**–43,134**	**15,325**
Other	–68	6	–2,073	–	2,586	–8	–	–	**445**	**–2**
Additions	18,226	10,888	29,041	21,113	21,762	16,599	20,402	23,554	**89,431**	**72,154**
Disposals	3,989	529	10,596	12,165	10,972	17,789	23	156	**25,580**	**30,639**
Reclassifications	8,226	19,651	12,970	23,921	4,284	1,874	–25,544	–46,232	**–64**	**–786**
Reclassification to assets held for sale	–	–7,906	–	–7,358	–	–1,203	–	–	**–**	**–16,467**
Balance at 31 December	381,587	372,075	593,154	583,604	225,103	215,203	24,071	31,049	**1,223,915**	**1,201,931**
Accumulated depreciation and amortisation	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Balance at 1 January	153,019	146,566	394,668	372,554	152,638	149,271	–	–	**700,325**	**668,391**
Currency translation adjustments	–3,962	801	–11,936	4,266	–5,449	2,286	–	–	**–21,347**	**7,353**
Other	–603	–	–2,161	2	2,641	–40	–	–	**–123**	**–38**
Additions	10,466	8,832	31,910	34,178	18,547	18,657	–	–	**60,923**	**61,667**
Disposals	2,132	273	9,581	11,201	10,364	16,600	–	–	**22,077**	**28,074**
Reclassifications	–333	–	–796	–	1,129	–	–	–	**–**	**–**
Reclassification to assets held for sale	–	–2,907	–	–5,131	–	–936	–	–	**–**	**–8,974**
Balance at 31 December	156,455	153,019	402,104	394,668	159,142	152,638	–	–	**717,701**	**700,325**
Carrying amount at 31 Dec.	**225,132**	**219,056**	**191,050**	**188,936**	**65,961**	**62,565**	**24,071**	**31,049**	**506,214**	**501,606**

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 € 1,382 thousand (previous year: € 2,022 thousand), of which € 429 thousand (previous year: € 918 thousand) relate to land and buildings, € 13 thousand (previous year: € 123 thousand) to plant and machinery and € 940 thousand (previous year: € 981 thousand) to other equipment, operating and office equipment.

In December 2017, 95 % of the interest in the Chinese company KSB Shanghai Precision Casting Co., Ltd., Shanghai (Pumps segment) was sold, with a remaining share of 5 %.

The property of our Australian company classified as held for sale in the previous year, which is assigned to the Pumps segment, was sold in the second half of 2017.

We also divested the valves business of the US company KSB AMRI, Inc., Houston, in late January 2017.

Income from the sale of assets and liabilities presented as held for sale in the previous year totalled € 9.3 million and were recognised in other income. Of that, € 1.3 million relate to KSB Shanghai Precision Casting Co., Ltd., Shanghai, € 5.3 million to the property in Australia and € 2.7 million to the valves business of the US company KSB AMRI, Inc., Houston, Texas.

Disposals of intangible assets and items of property, plant and equipment resulted in book gains of € 12,319 thousand (previous year: € 1,478 thousand) and book losses of € 3,169 thousand (previous year: € 1,270 thousand). The book gains and losses are reported in the income statement under other income and other expenses.

We did not recognise any impairment losses on property, plant and equipment (previous year: € 3.757 thousand).

3 Non-current financial assets

€ thousands	31 Dec. 2017	31 Dec. 2016
Other investments	2,985	5,401
Non-current financial instruments	657	667
Loans	2,490	2,458
	6,132	**8,526**

Other investments are investments in non-consolidated affiliates that were not consolidated due to there being no material impact. Write-downs on other investments amounted to € 850 thousand (previous year: none). € 186 thousand of the loans are loans to equity investments (previous year: none).

4 Investments accounted for using the equity method

The table below 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

Neither of the two joint ventures included in the table below is listed on a stock market; there is therefore no available active market value.

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

→ Summarised balance sheet
→ Summarised statement of comprehensive income
→ Reconciliation to carrying amount of group share in joint ventures
→ Summarised information on joint ventures that are immaterial individually

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.

Summarised balance sheet

€ thousands	KSB Pumps Arabia Ltd. 31 Dec. 2017	KSB Pumps Arabia Ltd. 31 Dec. 2016	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 31 Dec. 2017	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 31 Dec. 2016
Non-current assets	9,958	4,051	79,251	90,404
Current assets	36,141	43,248	102,249	86,062
of which cash and cash equivalents	157	5,093	7,116	7,569
Non-current liabilities	– 4,619	– 7,583	– 35,836	– 39,238
of which non-current financial liabilities (excluding trade payables and provisions)	– 3,334	– 6,336	–	–
Current liabilities	– 26,193	– 20,779	– 116,777	– 107,448
of which current financial liabilities (excluding trade payables and provisions)	– 4,989	– 3,650	– 37,227	– 40,649
Net assets	**15,287**	**18,937**	**28,887**	**29,780**

Summarised statement of comprehensive income

€ thousands	KSB Pumps Arabia Ltd. 2017	KSB Pumps Arabia Ltd. 2016	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2017	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2016
Sales revenue	39,056	38,387	53,331	29,841
Depreciation / amortisation	590	290	4,223	3,758
Interest income	11	–	35	18
Interest expense	– 608	– 418	– 2,617	– 2,833
Earnings from continuing operations	1,872	3,074	1,569	– 6,164
Taxes on income	– 680	– 1,109	– 592	– 934
Earnings after taxes from continuing operations	**1,192**	**1,965**	**977**	**– 7,098**
Earnings after taxes from discontinued operations	–	–	–	–
Other comprehensive income	– 2,941	549	– 1,870	– 1,384
Comprehensive income	**– 1,749**	**2,514**	**– 893**	**– 8,482**
Dividends received from joint ventures	**951**	**1,969**	**–**	**–**

Reconciliation to carrying amount of group share in joint ventures

€ thousands	KSB Pumps Arabia Ltd. 2017	KSB Pumps Arabia Ltd. 2016	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2017	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd. 2016
Net carrying amount at 1 January	18,938	20,361	29,780	38,262
Earnings after income taxes	1,192	1,965	977	– 7,098
Distribution of dividends	– 1,902	– 3,937	–	–
Other comprehensive income	– 2,941	549	– 1,870	– 1,384
Net carrying amount at 31 December	**15,287**	**18,938**	**28,887**	**29,780**
Investment in joint venture (50 % / 45 %)	7,643	9,469	12,999	13,401
Elimination of intercompany profit and loss	–	–	– 2,969	– 3,058
Goodwill	–	–	–	–
Carrying amount at 31 December	**7,643**	**9,469**	**10,030**	**10,343**

Summarised information on joint ventures that are immaterial individually

€ thousands	Joint ventures 2017	Associates 2017	Total 2017	Joint ventures 2016	Associates 2016	Total 2016
Group share of earnings from continuing operations	211	583	794	266	524	790
Group share of other comprehensive income	–460	–	–460	107	–	107
Group share of comprehensive income	–249	583	334	383	524	907
Total carrying amounts of Group shares in these companies	**3,347**	**1,165**	**4,512**	**3,595**	**1,032**	**4,627**

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. 2017	31 Dec. 2016
Raw materials, consumables and supplies	162,577	168,455
Work in progress	161,394	179,859
Finished goods and goods purchased and held for resale	121,421	100,534
Advance payments	16,485	18,589
	461,877	**467,437**

€ 51,933 thousand (previous year: € 52,336 thousand) of the inventories is carried at net realisable value. The impairment losses recognised as an expense in the reporting period amount to € 11,969 thousand (previous year: € 18,318 thousand). Due to new estimates, we reversed write-downs totalling € 1,303 thousand (previous year: € 7,856 thousand) where the current net realisable value was higher than the prior-period value. Inventories amounting to € 887,869 thousand (previous year: € 871,208 thousand) were recognised as an expense in the reporting period.

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

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

There were impairment losses on trade receivables from third parties of € 33,995 thousand (previous year: € 34,530 thousand) and on receivables from other investments of € 839 thousand (previous year: € 2,627 thousand). Impairment losses on receivables from loans to other equity investments amounted to € 3,127 (previous year: € 3,656). There were no impairment losses on receivables from joint ventures or associates, as in the previous year.

Sales revenue under IAS 11 amounts to € 376,499 thousand (previous year: € 406,604 thousand). The balance of receivables recognised by PoC (gross) carried as assets or liabilities includes costs of € 131,097 thousand (previous year: € 114,911 thousand) and a share in profits of € 37,695 thousand (previous year: € 32,167).

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 € 20,900 thousand (previous year: € 16,951 thousand).

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

€ thousands	31 Dec. 2017	31 Dec. 2016
Trade receivables and PoC	**613,311**	**614,293**
Trade receivables from third parties	480,928	504,595
Trade receivables from other investments, associates and joint ventures	32,341	33,576
thereof from other investments	3,524	6,480
thereof from associates	280	39
thereof from joint ventures	28,537	27,057
Receivables recognised by PoC, net	100,042	76,122
Receivables recognised by PoC, gross	130,021	107,144
Advances received from customers (PoC)	– 29,979	– 31,022
Other financial assets	**116,970**	**186,995**
Receivables from loans to other investments, associates and joint ventures	13,344	13,578
Currency forwards	5,074	2,170
Other receivables and other current assets	98,552	171,247
Other non-financial assets	**37,402**	**24,923**
Other tax assets	30,830	18,100
Deferred income	6,572	6,823

€ 23,681 thousand (previous year: € 25,230 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 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 € 70,477 thousand (previous year: € 75,663 thousand) and deferred tax liabilities in the amount of € 187 thousand (previous year: € 39 thousand).

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 SE & Co. KGaA, Frankenthal, on 10 May 2017.

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 SE & Co. KGaA holds a 51 % interest in PAB GmbH, while Johannes und Jacob Klein 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 SE & Co. KGaA 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 € 240 to 260 million and achieved € 288 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 (€ 260 million compared with a planned figure of € 200 to 210 million). This can also be attributed to successes in working capital management and a focused investment policy.

9 Provisions

→ Composition of provisions
→ Development of individual provision categories

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 € 25,989 thousand (previous year: € 25,676 thousand). € 7,446 thousand (previous year: € 8,488 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

Composition of provisions

			31 Dec. 2017			31 Dec. 2016
€ thousands	Total	Non-current	Current	Total	Non-current	Current
Employee benefits	688,347	606,875	81,472	676,456	605,540	70,916
Pensions and similar obligations	586,861	586,861	–	589,542	589,542	–
Other employee benefits	101,486	20,014	81,472	86,914	15,998	70,916
Other provisions	99,804	1,397	98,407	99,566	1,406	98,160
Warranty obligations and contractual penalties	51,275	–	51,275	50,257	–	50,257
Provisions for restructuring	2,750	–	2,750	5,294	–	5,294
Miscellaneous other provisions	45,779	1,397	44,382	44,015	1,406	42,609
	788,151	608,272	179,879	776,022	606,946	169,076

Development of individual provision categories

€ thousands	1 Jan. 2017	Changes in consolidated Group / CTA* / Other	Utilisation / Prepayments	Reversal	Additions	31 Dec. 2017
Employee benefits	676,456	–613	–71,179	–3,532	87,215	688,347
Pensions and similar obligations	589,542	–1,145	–18,055	–195	16,714	586,861
Other employee benefits	86,914	532	–53,124	–3,337	70,501	101,486
Other provisions	99,566	–510	–46,918	–11,512	59,178	99,804
Warranty obligations and contractual penalties	50,257	–1,205	–22,263	–6,001	30,487	51,275
Provisions for restructuring	5,294	–3	–3,827	–30	1,316	2,750
Miscellaneous other provisions	44,015	698	–20,828	–5,481	27,375	45,779
	776,022	–1,123	–118,097	–15,044	146,393	788,151

* CTA = Currency translation adjustments

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).

→ **Balance sheet figures for defined benefit plans**
→ **Change in cash value of defined benefit obligations**

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 be € 11,448 thousand (previous year: € 11,770 thousand).

→ **Changes in the fair value of the plan assets**

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

→ **Changes to the net liability of the defined benefit obligations**
→ **Composition of plan assets**

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

The actual income from plan assets amounted to € 5,109 thousand (previous year: € 4,843 thousand).

→ **Actuarial assumptions**

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.

Balance sheet figures for defined benefit plans

€ thousands	Defined benefit obligations (DBOs) 31 Dec. 2017	Fair value of plan assets 31 Dec. 2017	Net liability from defined benefit plans 31 Dec. 2017	Defined benefit obligations (DBOs) 31 Dec. 2016	Fair value of plan assets 31 Dec. 2016	Net liability from defined benefit plans 31 Dec. 2016
Germany	560,234	–	560,234	560,775	–	560,775
France	17,920	7,181	10,739	17,035	7,265	9,770
USA	14,217	12,066	2,151	15,936	12,180	3,756
Switzerland	17,253	15,769	1,484	17,998	16,493	1,505
Other countries	40,841	28,588	12,253	42,648	28,912	13,736
Balance sheet values	**650,465**	**63,604**	**586,861**	**654,392**	**64,850**	**589,542**

Change in cash value of defined benefit obligations

€ thousands	2017	2016
Opening balance of the defined benefit obligation (DBO) – 1 Jan.	**654,392**	**589,377**
Current service cost	9,858	15,867
Interest cost	12,844	14,269
Employee contributions	4,409	5,520
Remeasurements		
– / + Gain / loss from the change in demographic assumptions	1,206	– 215
– / + Gain / loss from the change in financial assumptions	– 5,340	52,479
– / + Experience-based gain / loss	– 2,091	– 2,481
Benefit payments	– 18,614	– 19,054
Past service cost (incl. effects of settlements and curtailments)	– 218	445
Transfer of assets	– 138	– 559
Currency translation adjustments	– 5,613	– 1,141
Changes in consolidated Group / Other	– 230	– 115
Closing balance of the defined benefit obligation (DBO) – 31 Dec.	**650,465**	**654,392**

Changes in the fair value of the plan assets

€ thousands	2017	2016
Opening balance of the plan assets measured at fair value – 1 Jan.	**64,850**	**63,344**
Interest income	2,008	2,329
Remeasurements		
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	3,101	2,514
Contributions by the employer	1,655	2,216
Contributions by the beneficiary employees	223	279
Currency translation adjustments	– 4,485	– 1,292
Changes in consolidated Group	–	–
Paid benefits	– 2,801	– 4,614
Other	– 947	74
Closing balance of the plan assets measured at fair value – 31 Dec.	**63,604**	**64,850**

Changes to the net liability of the defined benefit obligations

€ thousands	2017	2016
Opening balance of the net liability of the defined benefit obligations – 1 Jan.	**589,542**	**526,033**
Current service cost	9,858	15,867
Interest income	– 2,008	– 2,329
Interest cost	12,844	14,269
Employee contributions	4,186	5,241
Contributions by the employer	– 1,655	– 2,216
Remeasurements		
– / + Gain / loss from plan assets excluding amounts already recognised in interest income	– 3,101	– 2,514
– / + Gain / loss from the change in demographic assumptions	1,206	– 215
– / + Gain / loss from the change in financial assumptions	– 5,340	52,479
– / + Experience-based gain / loss	– 2,091	– 2,481
Benefit payments	– 15,813	– 14,440
Past service cost (incl. effects of settlements and curtailments)	– 218	445
Transfer of assets	– 138	– 559
Currency translation adjustments	– 1,128	151
Changes in consolidated Group / Other	717	– 189
Closing balance of the net liability of the defined benefit obligations – 31 Dec.	**586,861**	**589,542**

Composition of plan assets

€ thousands	Quoted market price in an active market 31 Dec. 2017	No quoted market price in an active market 31 Dec. 2017	Total 31 Dec. 2017	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
Equity instruments (shares)	19,660	–	19,660	20,538	–	20,538
Debt instruments (loans)	16,782	–	16,782	22,469	–	22,469
Government bonds	8,817	–	8,817	8,602	–	8,602
Corporate bonds	7,965	–	7,965	13,867	–	13,867
Currency forwards	–	–	–	20	–	20
Money market investments	7,611	–	7,611	373	–	373
Real estate	520	–	520	880	–	880
Insurance contracts	–	16,319	16,319	–	17,295	17,295
Bank credit balances	1,482	–	1,482	2,115	–	2,115
Other investments	870	360	1,230	800	360	1,160
Total	**46,925**	**16,679**	**63,604**	**47,195**	**17,655**	**64,850**

Actuarial assumptions

	Discount rate		Assumed rate of salary increase		Assumed rate of pension increase	
in %	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Germany	1.9	1.9	2.7	2.7	1.9	1.9
France	1.35	2.0	3.0	3.0	–	–
USA	3.4	3.8	–	2.3	–	2.3
Switzerland	0.6	0.6	1.0	1.0	–	1.0
Other countries	0.75 – 10.4	0.75 – 9.9	1.0 – 11.0	1.0 – 10.5	1.5 – 3.0	1.5 – 3.1

Were the discount factor to increase by 100 basis points, the DBO would fall by € 102 million (previous year: € 107 million). A 100 basis point reduction in the discount factor would increase the DBO by € 131 million (previous year: € 145 million). It should be noted that a change in 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 € 20 million (previous year: € 27 million).

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

On 31 December 2017 the weighted average term of the DBO was 24 years (previous year: 23 years).

→ Expected pension benefit payments

Expected pension benefit payments

€ millions at 31 Dec. 2017	2018	2019	2020	2021	2022
Expected payments	23,964	21,181	21,241	22,230	21,716

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

Other employee benefits

Provisions for other employee benefits relate primarily to profit-sharing, jubilee payments, partial retirement obligations and severance payments. The provisions include € 15,770 thousand (previous year: € 12,234 thousand) created on account of the Efficiency Improvement Programme.

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 miscellaneous other provisions include provisions for anticipated losses from the project business (€ 4,656 thousand for 2017 and € 1,667 thousand for 2016), customer bonuses and environmental protection measures. They also cover risks of litigation and legal proceedings if the recognition criteria for a provision are met (€ 5.3 million; previous year: € 9.2 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 the operative business in the amount of € 56.7 million (previous year: € 71.8 million). There are no longer any insurance claims to be covered for 2017 (previous year: € 11.0 million).

€ 18,489 thousand (previous year: € 18,392 thousand) of the other provisions are expected to become cash-effective after more than one year.

10 Liabilities

Non-current liabilities

€ thousands	31 Dec. 2017	31 Dec. 2016
Financial liabilities	**54,333**	**57,962**
Loan against borrower's note	47,964	47,918
Bank loans and overdrafts	5,468	9,229
Finance lease liabilities	574	693
Other	327	122

Current liabilities

€ thousands	31 Dec. 2017	31 Dec. 2016
Financial liabilities	**21,960**	**119,958**
Loan against borrower's note	–	74,500
Bank loans and overdrafts	21,275	44,571
Finance lease liabilities	353	501
Liabilities to other investments, associates and joint ventures	322	376
Other	10	10
Trade payables	**212,029**	**210,813**
Trade payables to third parties	210,819	208,774
Liabilities to other investments, associates and joint ventures	1,210	2,039
Other financial liabilities	**81,467**	**89,406**
Advances received from customers PoC (net)	49,401	44,046
Advances received from customers PoC (gross)	88,172	83,980
Receivables recognised by PoC	–38,771	–39,934
Currency forwards	1,883	11,203
Interest rate swaps	–	435
Miscellaneous other financial liabilities	30,183	33,722
Other non-financial liabilities	**190,161**	**182,979**
Advances received from customers	97,703	92,505
Social security and liabilities to employees	48,703	52,657
Tax liabilities (excluding income taxes)	28,171	22,022
Prepaid expenses	10,788	10,882
Investment grants and subsidies	4,796	4,913
Income tax liabilities	**5,214**	**9,354**

In 2012, to safeguard liquidity in the medium term, KSB SE & Co. KGaA took the precaution of placing a loan against borrower's note with a total volume of € 175 million. This loan is divided into repayment tranches of 3, 5, 7 and 10 years. As the different repayment tranches have different terms, different rates of interest apply, some of which are fixed and some variable. In the year under review, € 74.5 million was repaid; in the previous year there were no repayments.

Further information on receivables recognised by PoC can be found in Section IV. Balance Sheet Disclosures – Notes No. 6. "Trade receivables and PoC as well as other financial and non-financial assets".

€ 27.5 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 € 20.5 million as other financial liabilities (also unchanged).

Assets amounting to € 6,098 thousand (previous year: € 2,351 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, € 1,522 thousand (previous year: € 724 thousand) to inventories, none (as in the previous year) to receivables and € 4,576 thousand (previous year: € 1,627 thousand) to other securities.

As in the previous year, no 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 4.31 % (previous year: 3.44 %). 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	2017	2016
Revenue from the sale of goods and goods purchased and held for resale	1,951,928	1,915,739
Services sales revenue	253,030	249,913
Sales revenue	**2,204,958**	**2,165,652**

The breakdown of sales revenue by pumps, valves and service is presented in the segment reporting.

12 Other income

€ thousands	2017	2016
Income from disposal of assets	12,319	1,478
Income from current assets	5,834	9,277
Currency translation gains	5,767	3,629
Income from the reversal of provisions	14,845	8,400
Miscellaneous other income	30,405	24,443
	69,170	**47,227**

Income from current assets is primarily from the reversal of impairment losses on receivables. Miscellaneous other income relates primarily to insurance compensation amounting to € 12,491 thousands (previous year: € 1,899 thousands). Grants and subsidies, rental and lease income and commission income are also part of miscellaneous other income. Income from government grants for individual projects (for example, for research activities) amounted to € 3,065 thousand (previous year: € 2,564 thousand).

13 Cost of materials

€ thousands	2017	2016
Cost of raw materials, production supplies and of goods purchased and held for resale	795,559	789,298
Cost of purchased services	92,261	84,858
	887,820	**874,156**

14 Staff costs

€ thousands	2017	2016
Wages and salaries	640,390	641,451
Social security contributions and employee assistance costs	128,563	129,574
Pension costs	27,779	27,725
	796,732	**798,750**

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

The first-time inclusion of fully consolidated companies in China and in the Philippines led to an increase of 43 in the average number of employees over the year and in the total number at the reporting date.

Employees

	Average for the year		At reporting date	
	2017	2016	31 Dec. 2017	31 Dec. 2016
Wage earners	6,998	7,311	6,954	7,091
Salaried employees	8,073	8,125	8,047	8,015
	15,071	**15,436**	**15,001**	**15,106**
Apprentices	450	477	454	466
	15,521	**15,913**	**15,455**	**15,572**

15 Other expenses

€ thousands	2017	2016
Losses from asset disposals	3,169	1,270
Losses from current assets (primarily impairment losses on receivables)	10,867	12,744
Currency translation losses	5,508	2,222
Other staff costs	38,480	31,157
Repairs, maintenance, third-party services	96,981	85,816
Selling expenses	66,083	73,835
Administrative expenses	84,232	83,657
Rents and leases	27,232	26,898
Miscellaneous other expenses	59,862	54,842
	392,414	**372,441**

Miscellaneous other expenses relate primarily to warranties and contractual penalties amounting to € 13.5 million (previous year: € 14.0 million), as well as additions to provisions. Other staff costs include expenses within the scope of the Efficiency Improvement Programme of € 10.3 million (previous year: € 12.2 million)

16 Financial income / expense

→ Financial income / expense

Interest and similar expenses include the interest cost on pension provisions amounting to € 10,836 thousand (previous year: € 11,940 thousand). The change in the financial results is mainly due to the positive result from investments accounted for using the equity method.

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.

Taxes on income

€ thousands	2017	2016
Effective taxes	36,053	41,160
Deferred taxes	16,023	– 14,296
	52,076	**26,864**

Financial income / expense

€ thousands	2017	2016
Financial income	**6,417**	**6,612**
Income from equity investments	253	147
thereof from other investments	(253)	(147)
Interest and similar income	6,139	6,357
thereof from other investments	(36)	(37)
thereof from investments accounted for using the equity method	(644)	(20)
Other financial income	25	108
Financial expense	**– 20,106**	**– 20,672**
Interest and similar expenses	– 19,204	– 19,885
thereof to other investments	(0)	(1)
Write-downs on other investments	– 853	–
Write-downs on investments accounted for using the equity method	–	–
Expenses from the remeasurement of financial instruments	–	– 62
Other financial expense	– 49	– 725
Income / expense from / to investments accounted for using the equity method	**1,514**	**– 1,342**
Financial income / expense	**– 12,175**	**– 15,402**

€ 425 thousand (previous year: € 875 thousand) of the effective taxes in the year under review related to prior-period tax refunds and € 2,632 thousand (previous year: € 2,923 thousand) to tax arrears.

Reconciliation of deferred taxes

€ thousands	2017	2016
Change in deferred tax assets	20,430	– 27,806
Change in deferred tax liabilities	2,328	– 664
Change in deferred taxes recognised in balance sheet	**22,758**	**– 28,470**
Change in deferred taxes taken directly to equity	– 6,100	13,999
Changes in consolidated Group / CTA* / Other	– 635	175
Deferred taxes recognised in income statement	**16,023**	**– 14,296**

* CTA = Currency translation adjustments

→ Allocation of deferred taxes

As at the reporting date, deferred tax assets of € 80,111 thousand (previous year: € 97,825 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.

Income taxes included under equity

€ thousands	2017	2016
Remeasurement of defined benefit plans	9,328	– 47,278
Taxes on income	– 3,843	13,546
Currency translation differences	– 54,238	20,223
Taxes on income	–	–
Changes in the fair value of financial instruments	7,203	– 1,622
Taxes on income	– 2,257	453
Other comprehensive income	**– 43,807**	**– 14,678**

Allocation of deferred taxes

€ thousands	Deferred tax assets 2017	Deferred tax assets 2016	Deferred tax liabilities 2017	Deferred tax liabilities 2016
Non-current assets	**1,456**	**1,828**	**28,220**	**31,309**
Intangible assets	739	1,152	105	279
Property, plant and equipment	717	612	28,060	30,964
Non-current financial assets	–	64	55	66
Current assets	**54,912**	**57,152**	**50,142**	**45,621**
Inventories	49,356	48,516	143	1,924
Receivables and other current assets	5,556	7,096	49,999	43,554
Assets held for sale	–	1,540	–	143
Non-current liabilities	**93,504**	**96,462**	**88**	**25**
Provisions	93,312	96,305	77	–
Other liabilities	192	157	11	25
Current liabilities	**15,806**	**20,949**	**11,438**	**8,573**
Provisions	10,408	11,248	1,261	1,201
Other liabilities	5,398	9,701	10,177	7,372
Tax loss carryforwards	**1,243**	**8,928**	**–**	**–**
Gross deferred taxes – before offsetting	**166,921**	**185,319**	**89,888**	**85,528**
Offset under IAS 12.74	– 75,185	– 73,153	– 75,185	– 73,153
Net deferred taxes – after offsetting	**91,736**	**112,166**	**14,703**	**12,375**

The introduction of new local taxes had minor effects (previous year: none) in the year under review. Changes in foreign tax rates led to a reduction in the total tax expense of € 2,386 thousand (previous year: reduction of € 664 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 € 108,394 thousand (previous year: € 130,581 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 for loss carryforwards amounting to € 78,748 thousand (previous year: € 41,720 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 € 32.722 thousand (previous year: € 9,145 thousand).

→ Reconciliation of income taxes

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

Reconciliation of income taxes

€ thousands	**2017**	**2016**
Earnings before income taxes (EBT)	104,180	74,641
Calculated income taxes on the basis of the applicable tax rate (30 % as in the previous year)	31,254	22,392
Differences in tax rates	– 3,297	– 793
Unused tax loss carryforwards	4,229	– 108
Impairment losses on deferred taxes on tax loss carryforwards	7,012	–
Impairment loss on goodwill	1,222	1,542
Impairment losses on deferred taxes for temporary differences	3,991	–
Tax-exempt income	– 2,381	– 1,184
Non-deductible expenses	7,548	1,231
Prior-period taxes	2,207	2,048
Non-deductible foreign income tax	2,406	3,396
Investments accounted for using the equity method	– 408	662
Deferred taxes not recognised	–	– 273
Other	– 1,707	– 2,049
Current taxes on income	**52,076**	**26,864**
Current tax rate	50 %	36 %

18 Earnings after income taxes – Non-controlling interests

The net profit attributable to non-controlling interests amounts to € 15,770 thousand (previous year: € 15,190 thousand) and the net loss attributable to non-controlling interests amounts to € 847 thousand (previous year: € 356 thousand). They relate primarily to PAB GmbH, Frankenthal, Germany, and the interests it holds, as well as to our companies in India and Pakistan.

19 Earnings per share

Earnings per share

		2017	2016
Earnings after income taxes attributable to KSB SE & Co. KGaA shareholders	€ thousands	37,181	32,943
Additional dividend attributable to preference shareholders (€ 0.26 per preference share)	€ thousands	– 225	– 225
	€ thousands	**36,956**	**32,718**
Number of ordinary shares		886,615	886,615
Number of preference shares		864,712	864,712
Total number of shares		**1,751,327**	**1,751,327**
Diluted and basic earnings per ordinary share	**€**	**21.10**	**18.68**
Diluted and basic earnings per preference share	**€**	**21.36**	**18.94**

VI. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

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

Financial instruments by measurement categories – Assets

Balance sheet item / Class € thousands	Measurement category	Initial / subsequent measurement	Carrying amount 31 Dec. 2017	Fair value 31 Dec. 2017	Carrying amount 31 Dec. 2016	Fair value 31 Dec. 2016
Non-current assets						
Other investments	n / a	Amortised cost	2,985	–	5,401	–
Non-current financial instruments	AfS	Fair value	657	657	667	667
Loans	LaR	Fair value / Amortised cost	2,490	2,490	2,458	2,458
Current assets						
Trade receivables	LaR	Fair value / Amortised cost	480,928	480,928	504,595	504,595
Trade receivables from other investments, associates and joint ventures	LaR	Fair value / Amortised cost	32,341	32,341	33,576	33,576
Receivables from loans to other investments, associates and joint ventures	LaR	Fair value / Amortised cost	13,344	13,344	13,578	13,578
Receivables recognised by PoC, net	LaR	Fair value / Amortised cost	100,042	100,042	76,122	76,122
Currency forwards used as hedges	n / a	Fair value	5,074	5,074	2,170	2,170
Other receivables and other current assets	LaR	Fair value / Amortised cost	98,552	98,552	171,247	171,247
Cash and cash equivalents	LaR	Fair value / Amortised cost	289,535	289,535	288,883	288,883

Financial instruments by measurement categories – Equity and liabilities

Balance sheet item / Class € thousands	Measure-ment category	Initial / subsequent measurement	Carrying amount 31 Dec. 2017	Fair value 31 Dec. 2017	Carrying amount 31 Dec. 2016	Fair value 31 Dec. 2016
Non-current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	53,759	52,622	57,269	55,803
Finance lease liabilities	n / a	Under IAS 17	574	579	693	699
Current liabilities						
Financial liabilities excluding finance lease liabilities	FLAC	Fair value / Amortised cost	21,607	21,607	119,457	119,457
Finance lease liabilities	n / a	Under IAS 17	353	359	501	561
Trade payables	FLAC	Fair value / Amortised cost	212,029	212,029	210,813	210,813
Advances received from customers (PoC)	FLAC	Fair value / Amortised cost	49,401	49,401	44,046	44,046
Interest rate swaps used as hedges	n / a	Fair value	–	–	435	435
Currency forwards used as hedges	n / a	Fair value	1,883	1,883	11,203	11,203
Other financial liabilities	FLAC	Fair value / Amortised cost	30,183	30,183	33,722	33,722
Thereof aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	Fair value / Amortised cost	1,017,232	1,017,232	1,090,459	1,090,459
Available-for-sale financial instruments	AfS	Fair value	657	657	667	667
Financial liabilities measured at amortised cost	FLAC	Fair value / Amortised cost	366,979	365,842	465,307	463,841

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 and loans 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). 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. 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.
→ Hierarchy levels 2017
→ Hierarchy levels 2016

Hierarchy levels 2017

€ thousands	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Current financial instruments	657	–	–	657
Currency forwards	–	5,074	–	5,074
Financial liabilities recognised at fair value				
Currency forwards	–	1,883	–	1,883
Interest rate swaps	–	–	–	–
Loans and receivables measured at amortised cost				
Loans	–	2,490	–	2,490
Trade receivables	–	480,928	–	480,928
Receivables from other investments, associates and joint ventures	–	45,685	–	45,685
Receivables recognised by PoC (inc. advances received from customers PoC)	–	100,042	–	100,042
Other receivables and other current assets	–	98,552	–	98,552
Cash and cash equivalents	–	289,535	–	289,535
Financial liabilities measured at amortised cost				
Financial liabilities excluding finance lease liabilities	–	74,229	–	74,229
Trade payables	–	212,029	–	212,029
Advances received from customers (PoC)	–	49,401	–	49,401
Miscellaneous other financial liabilities	–	30,183	–	30,183

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 2017
→ Net results by measurement category in 2016

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 € 0 thousand (previous year: € –4 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:

For one thing, 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.

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**

Net results by measurement category in 2017

€ thousands	From interest and dividends	From subsequent measurement: At fair value	From subsequent measurement: Currency translation	From subsequent measurement: Impairment losses	From disposal	Net results
LaR	6,164	–	– 718	– 1,476	–	3,970
AfS	265	–	–	– 2	–	263
FLAC	– 9,542	–	228	–	–	– 9,314
	– 3,113	**–**	**– 490**	**– 1,478**	**–**	**– 5,081**

Net results by measurement category in 2016

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

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 Managing Directors 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.

Impairment losses from the "trade receivables" category

€ thousands	2017	2016
Opening balance at 1 January	**34,530**	**35,560**
Additions	8,219	9,776
Utilised	– 3,004	– 4,614
Reversals	– 3,903	– 5,818
Changes in consolidated Group / CTA* / Other	– 1,847	– 374
Closing balance at 31 December	**33,995**	**34,530**

* CTA = Currency translation adjustments

Maturity structure for trade receivables

€ thousands	31 Dec. 2017	31 Dec. 2016
Receivables that are neither past due nor individually impaired	329,503	364,733
Receivables that are past due but not individually impaired		
1 to 30 days	62,517	49,802
31 to 90 days	31,251	29,827
91 to 180 days	16,839	16,590
> 180 days	35,091	30,716
Total	145,698	126,935
Receivables individually determined to be impaired	5,727	12,927
Receivables individually determined to be impaired at their principal amount	39,722	47,457
Specific write-downs	33,995	34,530
Carrying amount (net)	**480,928**	**504,595**

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 € 893.5 million (previous year: approx. € 968.7 million), of which € 620.2 million has not yet been utilised (previous year: € 648.1 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 2017
→ Cash flows of financial liabilities 2016

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

Cash flows of financial liabilities 2017

€ thousands	Total	Up to 1 year	1–5 years	> 5 years
Financial liabilities	82,888	24,827	57,504	557
Trade payables	212,029	212,029	–	–
Miscellaneous other financial liabilities	30,184	30,176	8	–
Derivative financial instruments – Incoming payments	–5,074	–4,690	–384	–
Derivative financial instruments – Outgoing payments	1,883	1,489	375	19
	321,910	263,831	57,503	576

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

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 almost completely 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 € 276,489 thousand (previous year: € 269,794 thousand), and the notional volume of all interest rate derivatives was € 0 thousand (previous year: € 39,500 thousand). The contractual maturities of payments for currency forwards and interest rate derivatives are as follows:

→ Notional volumes 2017
→ Notional volumes 2016

Changes in derivatives

€ thousands	2017	2016
Opening balance at 1 January	– 6,644	– 5,026
Changes in consolidated Group / CTA* / Other	– 272	8
Disposals	8,179	948
Additions	– 686	– 2,574
Closing balance at 31 December	**577**	**– 6,644**

* 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 € 1.5 million for CNY (previous year: € 2.0 million) and € 1.2 million (previous year: € 1.2 million) for USD.

→ Currency volumes

Notional volumes 2017

€ thousands	Total	Up to 1 year	1 – 5 years	> 5 years
Currency forwards	276,489	261,560	14,819	110
Interest rate derivatives	–	–	–	–
	276,489	**261,560**	**14,819**	**110**

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**

Currency volumes

	CNY 31 Dec. 2017	CNY 31 Dec. 2016	USD 31 Dec. 2017	USD 31 Dec. 2016
Trade receivables	€ 57.5 million	€ 66.7 million	€ 22.3 million	€ 26.4 million
Trade payables	€ 42.1 million	€ 46.6 million	€ 10.8 million	€ 14.9 million
Balance	**€ 15.4 million**	**€ 20.1 million**	**€ 11.5 million**	**€ 11.5 million**

Based on the measurement of derivatives, at the reporting date, equity and the fair value of the derivatives would have been € 11.7 million lower (higher), with € 9.0 million resulting from USD and € 2.7 million from the other currencies. At the previous year's 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.

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. No such transactions were recognised in the financial year.

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 2017, the net interest balance would have been € 1.7 million (€ 1.2 million) (previous year: € 2.0 million (€ 2.0 million) higher (lower). There were no interest rate derivatives in the Group in the financial year. In the previous year, changes in the fair value of interest rate derivatives used to hedge floating rate liabilities increased (decreased) equity by € 0.1 million (€ 0.1 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.

→ Changes in cash flows from financing activities

Changes in cash flows from financing activities

		Cash-effective	Non-cash		
€ thousands	31 Dec. 2016		Acquisitions	Exchange-rate-related changes	31 Dec. 2017
Non-current liabilities	57,269	– 2,122	–	– 1,388	53,759
Current liabilities	119,082	– 95,491	–	– 2,306	21,285
Lease liabilities	1,193	– 223	–	– 43	927
Total liabilities from financing activities	**177,544**	**– 97,386**	**–**	**– 3,737**	**75,971**
Dividend payments	–	– 12,348	–	–	–
Salary conversion (provisions for pensions)	–	4,186	–	–	–
Total cash flows from financing activities	**–**	**– 105,998**	**–**	**–**	**–**

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

The **Pumps** 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 table shows **earnings before interest and taxes (EBIT)** and **consolidated earnings before income taxes (EBT)** including non-controlling interests.
→ Segment reporting

The EBIT of the Pumps segment includes depreciation and amortisation expense of € 47.0 million (previous year: € 49.2 million), the EBIT of the Valves segment includes depreciation and amortisation expense of € 9.6 million (previous year: € 11.1 million) and the EBIT of the Service segment includes depreciation and amortisation expense of € 14.9 million (previous year: € 12.3 million).

€ 588,997 thousand (previous year: € 552,538 thousand) of the sales revenue presented was generated by the companies based in Germany, € 228,404 thousand (previous year: € 262,601 thousand) by the companies based in France, € 167,274 thousand (previous year: € 200,779 thousand) by the companies based in the USA, and € 1,220,283 thousand (previous year: € 1,149,734 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 € 636,453 thousand (year-end figure in 2017: € 632,641 thousand), with 204,209 thousand (year-end figure in 2017: € 199,272 thousand) being attributable to the companies based in Germany and € 432,244 thousand (year-end figure in 2017: € 433,369 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.

Segment reporting

	Order intake		Sales revenue		EBIT	
€ thousands	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Pumps segment	1,473,628	1,386,617	1,444,392	1,428,491	79,891	60,876
Valves segment	343,505	331,182	338,849	360,794	51	8,794
Service segment	448,179	438,756	421,717	416,521	37,303	33,279
Reconciliation to PoC	–	–	–	– 40,154	–	– 14,780
Total	**2,265,312**	**2,156,555**	**2,204,958**	**2,165,652**	**117,245**	**88,169**
				Financial income – Interest and similar income	6,139	6,357
				Financial expense – Interest and similar expenses	– 19,204	– 19,885
				Earnings before income taxes (EBT)	**104,180**	**74,641**

IX. OTHER DISCLOSURES

Contingent liabilities (contingencies and commitments)

Contingent liabilities and collateral

€ thousands	2017	2016
Liabilities from guarantees	4,877	4,481
Liabilities from warranties	482	224
Liabilities from the granting of other security for third-party liabilities and other contingent liabilities	10,696	11,231
	16,055	**15,936**

Other contingent liabilities are expected to include up to € 1,599 thousand (previous year: € 7,380 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 € 7,426 thousand (previous year: € 9,344 thousand). The reported amount is the Group's share of contingent liabilities from joint ventures. Contingent liabilities relating to other investments total € 963 thousand (previous year: € 1,006 thousand). The extent to which these will result in a cash outflow depends on the future business performance of the respective company.

Operating leases

	Minimum lease payments	
€ thousands	2017	2016
Due within 1 year	15,696	16,627
Due between 1 and 5 years	30,069	29,269
Due after more than 5 years	3,941	7,001
	49,706	**52,897**

In the year under review, € 16,627 thousand (previous year: € 17,832 thousand) was spent.

Operating leases relate primarily to vehicles and real estate.

→ Finance leases

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 € 41,844 thousand (previous year: € 56,243 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.

Finance leases

	Minimum lease payments		Present values	
€ thousands	2017	2016	2017	2016
Due within 1 year	359	561	353	501
Due between 1 and 5 years	579	587	574	584
Due after more than 5 years	–	112	–	109
	938	**1,260**	**927**	**1,194**

The aggregate purchase obligation for investments (principally items of property, plant and equipment) amounts to € 12,249 thousand (previous year: € 17,854 thousand). Almost all of the corresponding payments are due in 2018.

Research and development costs

Research and development costs in the year under review amounted to € 47,106 thousand (previous year: € 51,262 thousand). Some of these costs are contract costs under IAS 11.

Related party disclosures

Balances and transactions between KSB SE & Co. KGaA and its subsidiaries, which are 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.

Other related parties include:

Pursuant to section 21(1) of the *WpHG* [*Wertpapierhandelsgesetz* – German Securities Trade Act], **KSB Stiftung** [KSB Foundation], Stuttgart, notified us on 21 May 2008 that its voting interest in KSB SE & Co. KGaA, 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 **Johannes und Jacob Klein GmbH**, Frankenthal. In 2017 the voting interest of Johannes und Jacob Klein GmbH increased to 83.76 %.

Related parties also include the subsidiary companies and joint ventures of Johannes und Jacob Klein GmbH, Frankenthal, as well as the **Kühborth Stiftung GmbH** [Kühborth Foundation], Stuttgart, which holds 1 % of the shares in Johannes und Jacob Klein GmbH. In addition, related parties include the Managing Directors of Johannes und Jacob Klein GmbH, as well as entities controlled or jointly controlled by the Managing Directors of Johannes und Jacob Klein GmbH.

In the reporting period, related parties also included the Supervisory Board and the Board of Management of KSB, which operated under the legal form of a public limited company under German law [*Aktiengesellschaft*] until the end of the financial year.

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

→ Services, receivables and liabilities in dealings with related parties

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”, No. 6 “Trade receivables and PoC as well as other financial and non-financial assets” and No. 10 “Liabilities”, and in Section IX. Other Disclosures – Contingent Liabilities.

The transactions in relation to the parent company Johannes und Jacob Klein GmbH are based on a rental and services agreement. In addition, Johannes und Jacob Klein GmbH received dividend payments.

Transactions with subsidiaries of Johannes und Jacob Klein GmbH comprise transactions with Palatina Versicherungsservice GmbH, Abacus alpha GmbH, Abacus Resale GmbH, Abacus Experten GmbH and Salinnova GmbH (formerly AIM Separation GmbH). There were no transactions with associates or joint ventures of Johannes und Jacob Klein GmbH in the financial year.

A rental and services agreement for insurances is in place between Palatina Versicherungsservice GmbH and KSB SE & Co. KGaA. Abacus Experten GmbH concluded a number of service

Services, receivables and liabilities in dealings with related parties

€ thousands	Sales of goods and services 2017	Sales of goods and services 2016	Purchases of goods and services 2017	Purchases of goods and services 2016	Receivables 31 Dec. 2017	Receivables 31 Dec. 2016	Liabilities 31 Dec. 2017	Liabilities 31 Dec. 2016
KSB Stiftung and Kühborth-Stiftung GmbH	–	–	–	–	–	–	–	–
Johannes und Jacob Klein GmbH (formerly: Klein Pumpen GmbH)	1,708	143	16	35	4	133	16	–
Subsidiaries of Johannes und Jacob Klein GmbH	1,448	75	2,845	765	182	124	774	214
Associates / joint ventures of Johannes und Jabob Klein GmbH	–	483	–	2,172	–	–	–	25
Other related parties (corporate bodies), excluding "Management remuneration"	105	12	16	16	6	1	–	–

agreements with KSB SE & Co. KGaA; there is a framework delivery and service agreement with Abacus Resale GmbH for the purchase of returns and the provision of additional associated services. In addition, products were delivered to the company as part of the normal business activities. KSB SE & Co. KGaA and Abacus alpha GmbH have also concluded service agreements. Our products were delivered to airinotec GmbH and Salinnova GmbH as part of normal business activities. We purchased spare parts from Salinnova GmbH. In the financial year, two Supervisory Board members held an immaterial share of interests in our company.

Transactions with related parties are, as a rule, performed at arm's length. Transactions that initially were not performed at arm's length in the 2017 financial year were compensated in the financial year.

Until the end of the 2017 financial year, the company was granted reimbursements under agreements for the compensation of disadvantages concluded with Johannes und Jacob Klein GmbH as well as related and other parties, amounting to € 2.5 million for rental and services transactions. They were recorded under other operating income. € 0.1 million of these relate to the period from January to April 2017, € 2.1 million to the financial years from 2006 to 2016 and € 0.3 million to cost reimbursements in connection with tax issues. This resulted in tax liabilities including interest amounting to a total of € 5.1 million for the financial years from 2007 to 2016, with a final settlement being agreed with the fiscal authorities. A major share of this amount was already paid in the 2017 financial year. Within the scope of ongoing legal investigations commissioned by the company, further claims of the company exceeding the volume covered by the agreements already made in financial years 2016 and 2017 are being reviewed by an external legal consultancy firm.

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 of KSB, which operated under the legal form of a public limited company under German law [*Aktiengesellschaft*] until the end of the financial year.

Management remuneration

€ thousands	31 Dec. 2017	31 Dec. 2016
Short-term benefits (total remuneration)	1,858	1,250
Post-employment benefits	1,422	1,388
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	**3,280**	**2,638**

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. € 2,934 thousand (previous year: € 5,255 thousand) has been provided for pension obligations to active members of the Board of Management as at 31 Dec. 2017, and € 42,202 thousand (previous year: € 39,309 thousand) to former members of the Board of Management and their surviving dependants; total benefits paid to these persons amounted to € 2,422 thousand in the year under review (previous year: € 2,244 thousand).

The short-term benefits paid to members of the Supervisory Board amount to € 834 thousand for the 2017 financial year (previous year: € 716 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 GmbH Wirtschaftsprüfungsgesellschaft, based in Frankfurt am Main with an office in Mannheim, were appointed as auditors and group auditors for the 2017 financial year at the Annual General Meeting of KSB SE & Co. KGaA on 10 May 2017. Overall, fees (including expenses) amounting to € 1,334 thousand were recognised as expenses. Of this, € 1,086 thousand relates to audit services, € 49 thousand to other assurance services and € 199 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 SE & Co. KGaA and the German subsidiaries included in the consolidated financial statements. The fees for other certification services primarily include attestation services outside of the audit of the annual financial statements. The fees for other services mainly include fees for project-specific consultancy services.

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

Events after the reporting period
The Annual General Meeting of KSB SE & Co. KGaA adopted a resolution on 10 May 2017 on the announced change in the legal form of the company to a partnership limited by shares [*Kommanditgesellschaft auf Aktien* – KGaA]. An entry was made to that effect in the *Handelsregister* [German Commercial Register] on 17 January 2018.

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 Managing Directors and the Supervisory Board of KSB SE & Co. KGa 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] on 21 March 2018. The statement of compliance is published on our web site (www.ksb.com) and has thus been made permanently accessible.

LIST OF SHAREHOLDINGS

Affiliates (national and international)

No.	Name and seat	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	49
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	57
			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 BRASIL LTDA., 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	
35	KSB Limited, Loughborough	United Kingdom	100.00	27

No.	Name and seat	Country	Capital share in %	Held by No.
36	KSB Malaysia Pumps & Valves Sdn. Bhd., Shah Alam	Malaysia	100.00	63
37	KSB Middle East FZE, Dubai	U.A.E.	100.00	27
38	KSB MIL Controls Limited, Annamanada	India	49.00	54
			51.00	
39	KSB Sverige Aktiebolag 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 PHILIPPINES, INC., Makati City	Philippines	100.00	63
45	KSB-Pompa, Armatür Sanayi ve Ticaret A.S., Ankara	Turkey	100.00	27
46	KSB POMPES ET ROBINETTERIES S.à.r.l. d'Associé unique, Casablanca	Morocco	100.00	57
47	KSB Pompy i Armatura Sp. z o.o., Ozarow-Mazowiecki	Poland	100.00	
48	KSB Pump & Valve Technology Service (Tianjin) Co., Ltd, Tianjin	China	100.00	34
49	KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg)	South Africa	84.99	55
50	KSB Pumps and valves L.t.d., Domžale	Slovenia	100.00	
51	KSB Pumps Co. Ltd., Bangkok	Thailand	40.00	
52	KSB Pumps Company Limited, Lahore	Pakistan	58.89	
53	KSB Pumps Inc., Mississauga / Ontario	Canada	100.00	27
54	KSB Pumps Limited, Pimpri (Pune)	India	40.54	11
55	KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg)	South Africa	100.00	27
56	KSB-Pumpy+Armatury s.r.o., koncern, Prague	Czech Republic	100.00	
57	KSB S.A.S., Gennevilliers (Paris)	France	100.00	27
58	KSB Seil Co., Ltd., Busan	South Korea	100.00	
59	KSB Service Belgium S.A./N.V., Bierges-lez-Wavre	Belgium	100.00	20
60	KSB Service EITB-SITELEC S.A.S., Montfavet	France	100.00	57
61	KSB Service Energie S.A.S.U., Rambervillers	France	100.00	57
62	KSB Shanghai Pump Co., Ltd., Shanghai	China	80.00	27
63	KSB Singapore (Asia Pacific) Pte Ltd, Singapore	Singapore	100.00	
64	KSB Szivattyú és Armatura Kft., Budapest	Hungary	100.00	
65	KSB Taiwan Co., Ltd., New Taipei City	Taiwan	100.00	
66	KSB Tech Pvt. Ltd., Pimpri (Pune)	India	100.00	
67	KSB Valves (Changzhou) Co., Ltd., Jiangsu	China	100.00	
68	KSB Verwaltung (Schweiz) AG, Reinach	Switzerland	100.00	27
69	KSB Vietnam Co., Ltd, Long Thanh District	Vietnam	100.00	63
70	KSB (Schweiz) AG, Oftringen	Switzerland	100.00	
71	KSB SERVICE COTUMER S.A.S., Déville lès Rouen	France	100.00	61
72	OOO “KSB“, Moscow	Russia	100.00	3
73	PT. KSB Indonesia, Cibitung	Indonesia	94.10	27
			5.90	
74	PT. KSB Sales Indonesia, Cibitung	Indonesia	99.00	73
			1.00	

No.	Name and seat	Country	Capital share in %	Held by No.
75	PUMPHUSET Sverige AB, Sollentuna	Sweden	100.00	39
76	REEL s.r.l., Ponte di Nanto	Italy	100.00	
77	SISTO Armaturen S.A., Echternach	Luxembourg	52.85	27
78	Smedegaard Pumps Limited, Bridgwater	United Kingdom	100.00	35
79	Société de travaux et Ingénierie Industrielle S.A.S., Déville lès Rouen	France	100.00	71
80	SPI Energie S.A.S., La Ravoire	France	100.00	57
81	Standard Alloys Incorporated, Port Arthur / Texas	USA	100.00	17
82	VM Pumpar AB, Gothenburg	Sweden	100.00	39

Joint ventures (national and international)

No.	Name and seat	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands	
	National						
83	Nikkiso-KSB GmbH, Pegnitz	Germany	50.00		– 455	40	■
	International						
84	KSB MOTOR TEKNOLOJİLERİ SANAYİ VE TİCARET ANONİM ŞİRKETİ, Ankara	Turkey	55.00	45	101	– 5	
85	KSB Pumps Arabia Ltd., Riyadh	Saudi Arabia	50.00	27	15,286	1,192	
86	KSB Service LLC, Abu Dhabi	U.A.E.	49.00		6,715	437	
87	Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai	China	45.00		28,886	977	

Associates (national and international)

No.	Name and seat	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands
	International					
88	Motori Sommersi Riavvolgibili S.r.l., Cedegolo	Italy	25.00		4,661	2,333

* Data according to latest annual financial statements under IFRS

■ Prior-period figures

Companies not consolidated because of immateriality – Affiliates (national and international)

No.	Name and seat	Country	Capital share in %	Held by No.	Equity* € thousands	Net profit / loss for the year* € thousands	
	National						
89	gear-tec GmbH, Eggebek	Germany	51.00		327	– 7	
90	Pumpen Partner Netzwerk UG, Stein	Germany	51.00	4	2	0	
	International						
91	IOOO "KSB BEL", Minsk	Belarus	98.10	72	481	171	
			1.90	3			
92	KSB Algérie Eurl, Bordj el Kifane (Alger)	Algeria	100.00	27	794	318	■
93	KSB Čerpadlá a Armatúry, s.r.o., Bratislava	Slovakia	100.00		332	5	■
94	KSB Colombia SAS, Funza (Cundinamarca)	Colombia	100.00	27	584	7	
95	KSB Ltd., Tokyo	Japan	100.00		– 1,658	– 483	
96	KSB Perú S.A., Lurin	Peru	100.00		1,210	55	■
97	KSB Pumpe i Armature d.o.o. Beograd, Belgrade	Serbia	100.00	50	56	– 3	■
98	KSB pumpe i armature d.o.o., Rakov Potok	Croatia	100.00	50	150	42	■
99	KSB ZAMBIA LIMITED, Kitwe	Zambia	60.00	55	2	4	
100	Techni Pompe Service Maroc (TPSM), Casablanca	Morocco	100.00	46	– 482	– 41	■
101	TOO "KSB Kazakhstan", Almaty	Kazakhstan	100.00	72	137	87	
102	TOV "KSB Ukraine", Kiev	Ukraine	100.00	72	293	112	

* Data according to latest annual financial statements under IFRS
■ Prior-period figures

SUPERVISORY BOARD

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

Dr. Thomas Seeberg, Dipl.-Kfm., Icking[1)]
Former Managing Director of OSRAM GmbH
(Chairman of the Supervisory Board until 28 Feb. 2017)

Dr. Bernd Flohr, Dipl.-Kfm., Dipl.-Soz., Geislingen
Former Executive Board Member of WMF AG
(Chairman of the Supervisory Board since 22 March 2017)

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

Dr. Stella A. Ahlers, Kauffrau, Feusisberg, Switzerland[3)]
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, Mannheim[4)]
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, Freinsheim[5)]
Head of Corporate Unit Pumps
(Member of the Supervisory Board until 14 Sept. 2017)

Oswald Bubel, Dipl.-Betriebswirt, Saarbrücken
Managing Director of Hager Electro GmbH & Co. KG
(Member of the Supervisory Board from 21 March 2017 to 31 Jan. 2018)

Klaus Burchards, Dipl.-Kfm., Stuttgart
Independent Auditor
(Member of the Supervisory Board since 18 April 2017)

Arturo Esquinca, Dipl.-Chemieing., Forch, Switzerland
Coesia Group, Industrial Process Division, Zurich, Switzerland
Head of Business Development
(Member of the Supervisory Board since 26 Feb. 2018)

Dr. Jörg Matthias Großmann, Dipl.-Kfm., Großhesselohe[6)]
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

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 Johannes und Jacob Klein GmbH

Monika Kühborth, Editor, Homburg
Managing Director of Klein, Schanzlin & Becker GmbH
(Member of the Supervisory Board from 21 March 2017 to 31 Jan. 2018)

Birgit Mohme, Industrial Business Management Assistant, Frankenthal[7)]
Trade Union Secretary of IG Metall Ludwigshafen-Frankenthal

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

Prof. Dr.-Ing. Corinna Salander, Stuttgart[8)]
Head of Railway Vehicle Technology, Stuttgart University
(Member of the Supervisory Board since 26 Feb. 2018)

Gabriele Sommer, Dipl.-Geol., Wörthsee[9)]
Global Head of Human Resources TÜV SÜD AG

Dr. Hans-Stefan Wiß, Ludwigshafen
Head of Legal & Compliance, KSB SE & Co. KGaA
(Member of the Supervisory Board since 15 Sept. 2017)

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

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

[8] Supervisory Board, Bombardier Transportation GmbH
Scientific Committee Shift2Rail
Group of publishers of *Eisenbahntechnische Rundschau* (ETR)
Scientific Advisory Council of *ZEVrail*
University bodies
Chair of the Doctoral Candidate Admissions Committee of Faculty 7
Spokesperson of the Centre for Transportation Research of Stuttgart University (FOVUS)
Member of the Research / Young Scientists and Equal Opportunities senate committees
Deputy Equal Opportunities Officer of Stuttgart University

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

LEGAL REPRESENTATIVES

Managing Directors of KSB Management SE (from 17 January 2018, previously: Board of Management of KSB Aktiengesellschaft)

Dr.-Ing. Peter Buthmann, Frankenthal[1] (until 31 Dec. 2017)
Human Resources Director
Technology, Production, Sales, Purchasing, Human Resources and the Pumps and Valves segments

Werner Stegmüller, Mannheim[2] (until 30 May 2017)
Finance and Accounting, Controlling,
Communications, Investor Relations, IT, Patents & Trademarks,
Legal & Compliance, Internal Audits and the Service segment

Dr. Matthias Schmitz, Frankenthal[3] (from 1 June 2017)
Finance, Controlling, Investor Relations, IT, Purchasing

Ralf Kannefass, Regensburg[4] (from 1 July 2017)
Sales, Service

Dr. Stephan Bross, Freinsheim[5] (from 15 Sept. 2017)
Technology, Products, Operations, Digital Transformation

Dr. Stephan Jörg Timmermann, Augsburg (from 13 Nov. 2017)
Sprecher [Chairman]
Strategy, Human Resources, Communications, Legal & Compliance

Mandates of the Managing Directors 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 (until 31 May 2017)
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa (until 31 May 2017)

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

3) 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 (from 7 July 2017)
KSB Pumps Limited, Pimpri (Pune), India (from 25 July 2017)
KSB Shanghai Pump Co., Ltd., Shanghai, China
Shanghai Electric-KSB Nuclear Pumps and Valves Co., Ltd., Shanghai, China
GIW Industries, Inc., Grovetown / Georgia, USA

4) SISTO Armaturen S.A., Echternach, Luxembourg (from 20 Feb. 2018)
KSB Shanghai Pump Co., Ltd., Shanghai, China

5) KSB Pumps Limited, Pimpri (Pune), India
KSB Pumps (S.A.) (Pty) Ltd., Germiston (Johannesburg), South Africa
KSB Pumps and Valves (Pty) Ltd., Germiston (Johannesburg), South Africa
Gate Motor Teknolojileri Sanayi ve Ticaret A.S., Turkey
DP industries B.V., Alphen, The Netherlands (until 31 Dec. 2017)

PROPOSAL ON THE APPROPRIATION OF THE NET RETAINED EARNINGS OF KSB SE & Co. KGaA

We will propose to the Annual General Meeting that the net retained earnings of € 13,359,777.62 of KSB SE & Co. KGaA be appropriated as follows:

Distribution of a dividend of € 7.50 per ordinary no-par-value share	€ 6,649,612.50
and, in accordance with the Articles of Association, € 7.76 per preference no-par-value share	€ 6,710,165.12

Frankenthal, 21 March 2018

KSB Management SE

The Managing Directors

The annual financial statements of KSB SE & Co. KGaA 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.