Annual Report 2016

WILO BRINGS THE FUTURE.

Contents

Wilo Group key indicators

		2016	2015	2014	2013	2012	2011
Net sales	EUR million	1,327.1	1,317.1	1,234.7	1,230.8	1,187.1	1,070.5
Net sales growth	%	0.8/3.9[1]	6.7	0.3	3.7	10.9	4.8
EBIT	EUR million	107.1	121.2	111.2	125.7	119.7	97.6
(as % of net sales)	%	8.1	9.2	9.0	10.2	10.1	9.1
Consolidated net income	EUR million	76.0	80.5	69.8	83.0	78.2	53.4
(as % of net sales)	%	5.7	6.1	5.7	6.7	6.6	5.0
Earnings per ordinary share	EUR	7.88	8.35	7.11	8.12	7.63	5.19
Cash flow from operating activities	EUR million	137.4	132.3	109.8	130.2	120.8	54.4
Cash	EUR million	178.3	165.8	149.1	177.5	176.5	166.0
Capital expenditure	EUR million	109.5	106.4	66.1	63.9	90.0	61.5
R&D expenses[2]	EUR million	65.0	62.4	51.2	43.9	39.2	36.8
(as % of net sales)	%	4.9	4.7	4.1	3.6	3.3	3.4
Equity	EUR million	653.6	560.9	477.1	476.9	458.0	407.2
Equity ratio	%	53.6	49.3	46.4	47.9	46.8	45.8
Employees (annual average)	Number	7,548	7,383	7,425	7,194	6,900	6,708

[1] Adjusted for exchange rate effects
[2] Including capitalised development costs

The Wilo Group has continued its profitable growth course and increased its net sales again. Profitability remains at a high level. Important growth-oriented investments and projects – including for the implementation of the digital transformation and for the location development in Dortmund – have been continued as planned and sustainably strengthen the Group’s future prospects.

Profile

WILO SE is one of the *world's leading premium providers* of pumps and pump systems for the building technology, water and industrial sectors.

Wilo is setting new standards as an innovation leader. We offer our customers tailored products with a high level of system efficiency and maximum energy conservation. *Our goal is to make this as individual as necessary and as efficient as possible.*

With smart solutions that connect people, products and services, the Wilo Group is on the way to becoming the *digital pioneer in the sector.* The company has around 7,600 employees worldwide.

Market segments

Building Services

Energy-efficient concepts for heating technology, air conditioning, water supply and wastewater disposal.

Water Management

Professional solutions for drinking water extraction, water pumping, wastewater transportation and waste-water processing.

Industry

Support applications for processes in the iron and steel industry, mining and power generation.

Editorial by the Executive Board

WILO BRINGS THE FUTURE.
At all levels. From products to processes to the business model.

Dear Ladies and Gentlemen,

We can look back on a successful 2016 in which the Wilo Group once again generated profitable growth. With net sales of EUR 1.33 billion, the previous year's record figure was exceeded again slightly by 0.8 percent. We thus increased our net sales for the seventh time in a row. Adjusted for exchange rate effects, net sales rose by as much as 3.9 percent. Profitability remained at a high level with an EBIT margin of 8.1 percent. We invested heavily in the future, with capital expenditure reaching a new high of almost EUR 110 million. We also sustainably underpinned our goal of setting new standards as an innovation leader and digital pioneer. A total of EUR 65 million was invested in research and development: more than ever before! The Wilo-Stratos MAXO, the world's first smart pump*, is just one example of our successful research and development work. We also took a major step forward with regard to the digital transformation in the medium to long term and launched key projects for the implementation of our digitalisation strategy. With the formulation of Ambition 2020⁺, we also enhanced our successful corporate strategy, adapting it to the changed economic and technological conditions, thereby strengthening our basis for accelerated profitable growth.

On behalf of the entire Executive Board, I would like to take this opportunity to thank all employees of the Wilo Group, without whose commitment, courage and perseverance this success in the 2016 financial year would not have been possible.

* An explanation is given on page 172.

Dr Markus Beukenberg
Chief Technology Officer (CTO)

Eric Lachambre
Chief Operating Officer (COO)

Oliver Hermes
Chairman of the Executive Board & CEO

Mathias Weyers
Chief Financial Officer (CFO)

Carsten Krumm
Chief Operating Officer (COO)

Intensified globalisation

Regional diversification, which reflects our strategy of intensified globalisation, was again an important factor in the Wilo Group's positive economic performance in 2016. We posted strong growth in China, Korea and Russia, in certain emerging economies of Africa and in the Gulf States. In Europe, we sustainably increased our business activities in the German-speaking countries, Scandinavia and the Mediterranean region in particular. Overall, the Wilo Group was well able to compensate for the varying developments in individual countries and markets and the significantly negative exchange rate effects.

Important investments in the Wilo Group's future prospects were made consistently and on schedule. For example, in June last year we opened a new factory and office building in the Moscow region in the presence of the Russian Prime Minister Dmitry Medvedev. With this new building, the Wilo Group is localising its economic activities in Russia to an even greater extent and increasing the depth of its value chain.

The Wilo Group is implementing the biggest location development project in its history at its headquarters in Dortmund. In October 2016, the construction of the new smart factory was officially started with a symbolic ground-breaking ceremony. The foundation stone was laid at the beginning of this year already in the presence of Hannelore Kraft, Minister President of the state of North Rhine-Westphalia. Dortmund will be the Wilo Group's top digital location and will also set benchmarks within Wilo and in the pump industry as a whole in line with our goal.

WILO BRINGS THE FUTURE.

Alongside the difficult geopolitical and macroeconomic developments, the digital transformation is the greatest challenge of our time. Companies must respond to this transformation proactively. In order to survive in a competitive market characterised by technological upheaval, we have defined a clear direction and a shared path as a Group.

In this context, we adapted our successful corporate strategy Ambition 2020 to the changed conditions and developed it into Ambition 2020+ in the 2016 financial year. Our long-term goals still remain valid. In addition to our existing corporate strategy, we have defined eight distinct growth initiatives and incorporated the digital transformation even more specifically in Ambition 2020+. We have therefore explicitly enshrined our goal of being a digital pioneer in the pump sector in Ambition 2020+.

In the 2016 financial year, we took key steps with regard to digitalisation. We know that any company that does not play a leading role here may risk disappearing from the market. The transformation that Wilo is currently undergoing is strongly influenced by this recognition. In 2015, we expanded our corporate strategy with a digitalisation strategy and we are now in the middle of implementing this. 2016 was an important year in this respect.

WILO BRINGS THE FUTURE. This is our guiding principle for becoming the digital pioneer in the pump sector. At the heart of our new digital products, systems and solutions is the Wilo-Stratos MAXO. With the Wilo-Stratos MAXO, we have succeeded in developing another ground-breaking product that will set standards in terms of energy efficiency, installation, customer convenience and ease of use. The Wilo-Stratos MAXO, the world's first smart pump*, will be manufactured at our smart factory in Dortmund. The development of the Stratos MAXO underscores our claim to be a technology leader in our sector as an international premium provider of high-tech pumps and pump systems. At the leading international trade fair ISH in March this year, the Stratos MAXO was already awarded the "Design Plus powered by ISH" distinction. This seal of quality stands for products that combine innovative design with energy-efficient technology.

Think tank established

Wilo is continuing to press ahead with the digital transformation of the Group in 2017. With the establishment of our internal think tank, the Wincubator, at the EUREF-Campus in Berlin, we have taken another important step towards becoming a digital pioneer in the pump sector. The name Wincubator combines the words "Wilo" and "incubator" and describes an incubator for innovative ideas and entrepreneurial commitment in the digital world and the start-up scene.

The world is facing particular challenges, with geopolitical risks growing and nationalist and protectionist tendencies on the rise. All these factors will continue to have a sustained impact on the global economic development. Wilo is countering these tendencies with intensified globalisation, continuing to advance the digital transformation and anticipating new developments and trends in order to stay on a successful track.

We have laid the foundations for accelerated profitable growth in the past and purposefully expanded them in the present. This strong basis gives me confidence that we will continue on our successful path in 2017 despite all the adverse geopolitical conditions. The digital transformation offers an abundance of new opportunities. At Wilo, we are excellently positioned to seize these opportunities: We have a future-oriented strategy, smart products, intelligent solutions and, above all, the right team.

Yours,

Oliver Hermes
Chairman of the Executive Board & CEO

OUR VISION

Wilo, the water solution leader *for a smart and resource-efficient world.*

OUR MISSION

Inventing and managing responsible water solutions *that benefit everyone, everywhere.*

Moving into the *digital era*

The digital transformation is the greatest challenge of our time. It sets out the path to a new era. With the goal, derived from our corporate strategy, of setting new standards as an innovation leader and digital pioneer, Wilo formulated a long-term, sustainable, comprehensive, flexible and dynamic digitalisation strategy at an early stage. This is being promoted systematically in all functional areas.

At Wilo, the digital transformation means more than just Industry 4.0, i.e. examining production processes.

Our digitalisation strategy comprises five key elements referred to as "strategic thrusts".

Digitalisation brings us closer to our customers and partners: Our products and systems in all fields of application are intelligently connected and come with a wide range of communication interfaces. This enables us to achieve a new quality of communication and cooperation.

The digital transformation at our company involves a fundamental realignment of our processes. The focus here is on core processes with which we are redefining our customer relationships and significantly improving customer benefit. At the same time, we are digitalising our procurement, production and logistics processes. Finally, we are optimising our entire product lifecycle management. Digitalisation is thus optimising our processes at all levels. This increases our transparency and efficiency.

Digitalisation creates highly efficient solutions, smart products, future-oriented services and new business models. We have established a business model innovation process that involves identifying new markets and developments in our sector in a structured way in the digital age. In this way, we aim to stay a step ahead of the competition and secure the sustainable growth of the Wilo Group on a long-term basis.

Digitalisation is an important part of our corporate culture: The digital transformation is having a significant impact on our working world. We qualify our employees for future tasks and actively involve them in digital processes. The digital transformation is taking place in stages at Wilo. In this way, the employees are being prepared step by step for innovations and for the transformation.

Data are omnipresent – at Wilo, too, huge quantities of data are generated on a daily basis. The question of how we can use these to increase our company value will play an increasingly important role for us in the future. Digitalisation requires confidence in data security. We handle data in line with the strictest ethical principles and thus comply with maximum standards.

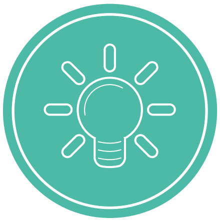
OUR CUSTOMERS AND PARTNERS

Digitalisation brings us even closer to our customers and partners. We are in contact with our customers and partners – always and in real time. In this way, we establish a new form of proximity and cooperation.

OUR PROCESSES

Digitalisation optimises our core and sub-processes worldwide. We are continuously becoming more efficient and transparent.

OUR NEW SOLUTIONS



Digitalisation creates new solutions. We develop smart products, services and new business models.

OUR EMPLOYEES AND OUR CULTURE

Digitalisation is an important part of our corporate culture. We are the digital pioneers in our industry.

OUR DATA

Digitalisation requires confidence in data security. We handle all data in line with the strictest ethical principles and comply with the highest standards.

Wilo-Stratos MAXO

The *smart one*

From system efficiency to connectivity to installation and configuration, the Wilo-Stratos MAXO sets standards and represents a new milestone in pump technology. It is the world's first smart pump.*


Sollwert Förderhöhe
6,5 m
Betriebsdaten
Messwerte
Weitere Einstellungen
wilo

*The Wilo-Stratos MAXO is a ground-breaking product development that marks the beginning of a new era: It is the world's first smart pump.**

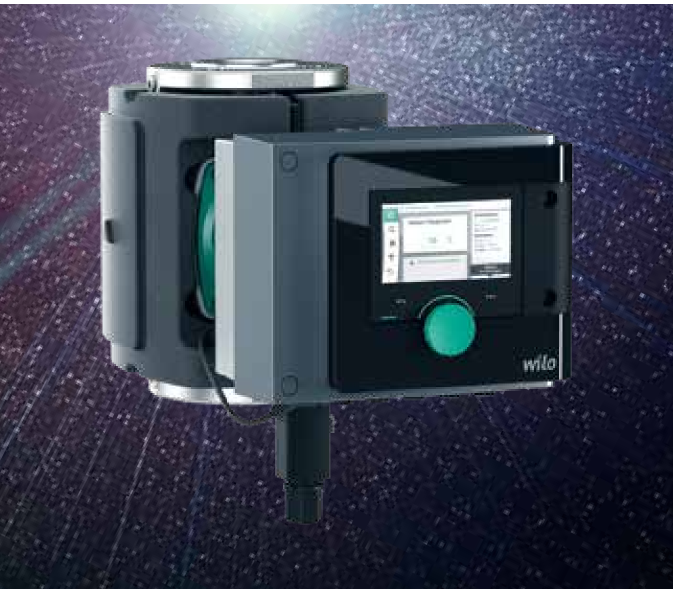
Wilo-Stratos MAXO

The message "WILO BRINGS THE FUTURE." is our guiding principle for becoming the digital pioneer in the pump industry. With the new circulating pump Wilo-Stratos MAXO, we have succeeded in developing another ground-breaking product that will set standards in terms of energy efficiency, installation, customer convenience, connectivity and ease of use. With the successor to the world's first high-efficiency pump, the Wilo-Stratos, we are underscoring our claim to be an international premium provider for high tech in the pumpsegment. We are thereby clearly setting ourselves apart from the competition as an innovation leader. The Wilo-Stratos MAXO marks the beginning of a new era. It is the world's first smart pump*, a new pump category that goes far beyond our high-efficiency pumps. Top efficiency is a basic prerequisite, while the special features are maximum connectivity and extremely easy operation. At this year's ISH, the world's leading trade fair for bathroom, sanitation, building, energy and air-conditioning technology and renewable energies, the pump was awarded the "Design Plus powered by ISH" distinction by the German Design Council. This seal of quality stands for products characterised by what ISH represents as the world's biggest industry gathering: future-oriented products that combine innovative design with energy-efficient technology.

A smart pump means:

- Independent system optimisation
- Convenient adjustment of settings using an app
- Mobile monitoring and control
- Direct online access to operating notifications
- Adjustment of operating modes (e.g. remote maintenance)
- Online configurability & Industry 4.0 capability

More information online at annualreport.wilo.com



What makes the Wilo Group's new flagship product so unique?

——— The Wilo-Stratos MAXO is the pump with the highest level of system efficiency and maximum energy conservation.

——— The product innovation is the best-connected pump. It has a wide range of the latest communication interfaces, such as Bluetooth for connection to mobile devices and direct pump networking using Wilo Net for multi-pump management.

——— The Wilo-Stratos MAXO is the easiest pump to install.

——— It is the easiest pump to configure. The Wilo-Stratos MAXO is the first pump to feature a self-explanatory, intuitive user interface and default settings that perfectly match the relevant intended application. For customers, this means that it is easier to operate than any pump before and extremely user-friendly.

——— The product innovation is the most flexible pump. Several new and intelligent types of control ensure perfect adaptation to all applications and provide optimal system efficiency in building complexes.


wilo
DIE ZUKUNFT IST
JETZT.

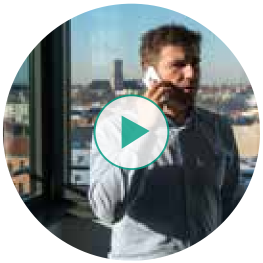
The future is now

Thinking *ahead*

Digitalisation is taking place at many different levels at Wilo. Two current examples are the Wincubator, a think tank in Berlin, and the Wilo Solution Finder, a new, digital customer dialogue.

To enable it to think and develop more freely, the Wincubator was set up in Berlin – the centre for entrepreneurs, innovators and investors in Europe.

The Wincubator



More information online at annualreport.wilo.com

With our Wincubator, we are supporting selected start-ups as well as new and established companies that are developing new digital solutions and technologies for a cleaner, healthier and more sustainable future. Wilo is thereby helping to promote innovative ideas and entrepreneurial commitment in the digital world and the start-up scene. In addition to financing, we also offer start-ups our expertise, coaching and mentoring as needed, as well as access to the international Wilo network.

The Wincubator also looks for innovative and digital business models and is thus an integral part of Wilo's digitalisation strategy and digital transformation. The Wincubator is based at Wilo's new Berlin branch on the EUREF-Campus right at the heart of the city. As a source of ideas for the energy transition, the Campus is the ideal location for the Wincubator, as ecologically and economically sustainable ideas in the relevant market segments for Wilo are exchanged here.

Three questions for Alexander Hain, Head of Wincubator

In brief, what is the main objective of the Wincubator?

The Wincubator will give Wilo access to new markets and digital business models. This will be achieved partly by identifying up-and-coming, fast-growing start-ups. Another thing we will establish in addition to this is a business model innovation process. This involves identifying new markets and developments in our sector in a structured way in the digital age and thereby gaining competitive advantages. By means of investments and joint projects in areas such as product development, marketing and business development, we are establishing long-term cooperations with our partners in the start-up scene.

What are the main focus areas of your investment programme?

The focus is on start-ups that have already successfully placed their product on pilot markets. Due to Wilo's business activities in the three market segments of building services, water management and industry, topic areas relating to smart urban areas are of particular interest to us, as well as new environmental technologies focussing on energy, energy efficiency and water. We see financial support for new companies as a long-term investment. We want to grow with the start-ups and act as a useful entrepreneurial know-how partner to them as well as a financial backer.

You are also planning partnerships and cooperations. What might these be like and what do you hope to gain from them?

In order to be successful all round, the Wincubator needs to have a broad network in the fields of business, politics and research and with other start-up initiatives. New companies can thereby find important expertise and fields of application for the development and market launch of their products. Meanwhile, potential partners gain access to up-and-coming, fast-growing start-ups.

Team performance
Alexander Hain and Amanda Pojanamat have thorough knowledge of the start-up scene and experience as entrepreneurs.

In order to provide optimal and individual support for our customers, we are enhancing our digital communication – with the Wilo Solution Finder. We will use this to help direct our customers to the right solution for their individual requirements online and around the clock.

Wilo Solution Finder

The Wilo Solution Finder will be a key element of the digital interface with our customers. With this tool, Wilo is focusing entirely on digital support for its customers to help them find solutions. The new online tool will enable users to navigate our range of solutions in a simple and targeted way. From an extensive catalogue to application landscapes to an interactive selection advisor, the Wilo Solution Finder offers various different ways of finding the right solution within Wilo's product range.

Integrated engineering expertise for individual requirements

Specific requirements on the customer's part are also met – the products can be individually adapted to the requirements of the application. The engineering expertise required for this has been integrated in the Wilo Solution Finder, resulting in a comprehensive technical offer including the necessary documentation. Because offers generated in this way are based on original engineering information, we will be able to carry out automated offer-to-order conversion in the future.

Real and lasting added value for users

The Wilo Solution Finder will be an integrated part of the Wilo website that is freely available to all users. In addition, the new MyWilo area will offer registered users further exclusive functions. The exclusive area will be the central access point to Wilo's product and service world for our customers. This creates real and lasting added value for users, as they can adapt this area entirely in line with their individual interests and requirements.

Simple and targeted
The Wilo Solution Finder makes it easy for customers to find the right solution for their needs in Wilo's product range.

The universe of smart data

We live in a universe of data that is not only growing in volume day by day, but is also becoming increasingly important. At Wilo, too, huge quantities of data are generated on a daily basis, not to mention the data generated outside of Wilo. We have set ourselves the task of enabling these rapidly growing data streams to be used economically – with our expertise and our know-how. The trick is to generate useful data from the vast quantities of data.

In this way, big data becomes smart data. Information becomes knowledge and this in turn becomes a competitive advantage. Smart data create added value by helping to build bridges between technologies and business activities. The combination of data analyses and smart products enables us to offer our customers innovative services. The universe of smart data will be our future world.

Wilo Smart Factory

Intelligent *production*

Wilo is redesigning production. We are developing digital production technologies and expanding the headquarters in Dortmund into the Wilo world's top digital location.

In Dortmund, we are constructing a state-of-the-art production complex – known as the smart factory – over the coming years.

Factory of the future

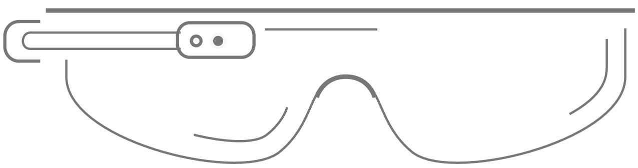
We already supply our customers with the required Wilo products and services quickly and reliably at all times. This is achieved by means of a transparent production network and harmonised processes throughout the Wilo Group worldwide. We optimise the operating excellence of our production locations at the highest possible level.

Wilo's aim is to adopt a pioneering role in terms of production technology and represent the benchmark for quality, costs and delivery times.

Digital transformation and the ground-breaking production technologies associated with Industry 4.0 are giving us the opportunity to fundamentally redesign production and logistics processes. To this end, we are constructing a state-of-the-art production complex – known as the smart factory – at our headquarters in Dortmund over the coming years. Dortmund will be the Wilo Group's top digital location and will set new benchmarks in the pump industry as a whole.

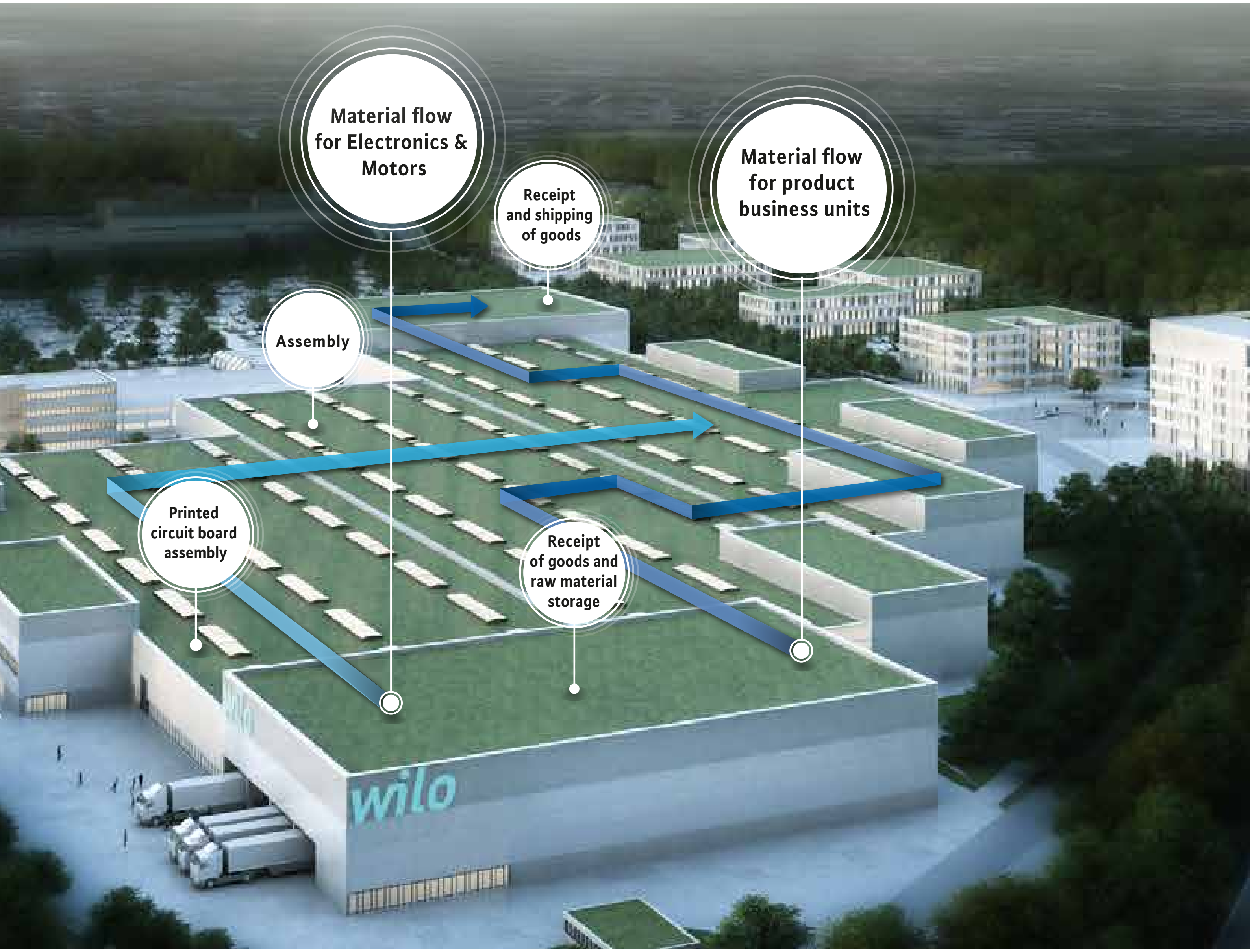
New processes – more efficient and more agile

We will introduce a new production and logistics concept at our factory of the future that will realign all of our processes, from suppliers to customers. On this basis, we have designed an optimal material flow and a corresponding building layout for the future production location.



Augmented reality in production

With Wilo Glasses, technology is used as a training device. The data glasses can replace paper instructions while at the same time providing virtual work instructions that also display complex work steps. The glasses can also check whether work steps have been performed correctly. This not only helps optimise production processes, but also contributes to further improvements in quality.



Shorter paths
The new production layout allows for even more efficient production with shorter distances and a considerably reduced number of production steps.

The main aims are to consistently plan and control customer orders in the digital age, to dynamically chain production and logistics processes and to ensure an even closer relationship between suppliers and Wilo.

More information online at annualreport.wilo.com

Shorter production times, higher productivity

In our intelligent factory of the future, current production and production planning processes are supported digitally. Interconnected machines and products allow real-time verification of process data throughout production. A continuous exchange of data makes it possible to react to short-term changes in demand in a more flexible and needs-based way. The production programme is automatically adapted to new circumstances. This results in smaller material and product inventories, shorter production times and even higher productivity.

A linear network of paths within the new factory makes a significant contribution to increasing transparency and reducing handling expenditure. This brings about a considerable reduction in turnaround times, while also significantly increasing flexibility and establishing the conditions for even more customer individualisation.

Innovation and individuality for our customers

In our new, digital and highly flexible factory, people and machines control production exactly in line with customers' needs. Our customers are increasingly demanding products that are not only innovative but also individual and that incorporate modifications at short notice. Customers will be able to configure the desired products from certain modules online themselves before placing orders directly.

More flexible production
In the factory of the future, people and machines control production flexibly in line with customers' needs.

Products and components use their information to sign on automatically in the relevant processes and communicate their status. In addition, employees at the smart factory are supported with digital tools in their day-to-day work.

The implementation of this flexible and highly varied form of production requires agile processes along the entire supply chain. We also overcome this challenge in a ground-breaking way in our smart factory. We are on our way to becoming the digital pioneer in our sector and want to keep setting new benchmarks in the pump industry in the future, too. At the same time, we want to expand our innovation leadership in the age of digitalisation. This will enable us to keep offering our customers individual, intelligently networked and communicating products that are energy-efficient and easy to use.

Wilo Future Office

Working world *of the future*

New structures for interconnected work processes, space for creativity and concentration – to meet the requirements of the future, Wilo has developed the Future Office concept.

Future Office

In a large-scale cooperation between almost all Wilo departments and the Fraunhofer Institute for Industrial Engineering, we have designed the Wilo Future Office concept. Our aim is to respond optimally to the changing work environment while also further increasing our employees' satisfaction. We are creating a work environment where they can feel at home in a digital world.

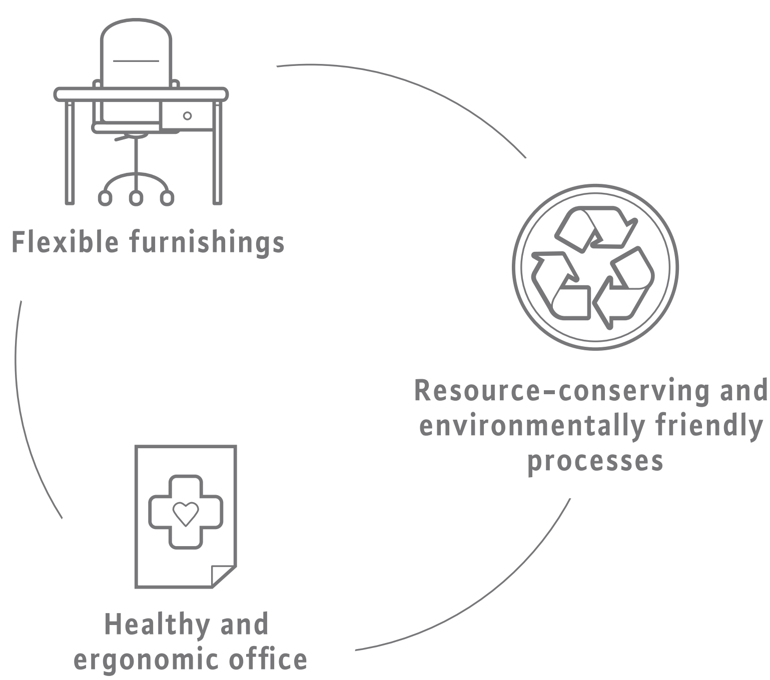
The Wilo Future Office provides space for creativity, encounters and possibilities for spontaneous exchanges, as well as places to withdraw to for concentrated work and quiet places for taking short breaks. The modern office concept takes into account new communication requirements as well as the shift towards flexible, mobile working-time models.

The new, open structures are intended to support the interconnected work processes of the future, which will increasingly be characterised by project work, interdisciplinary tasks and interactive exchange. This also involves the flexibility to adapt to changing tasks quickly and without great effort or expense. The new types of working

More information online at annualreport.wilo.com

world create greater transparency. One aspect of this is that there will be uniform equipment in the future, as well as a standard workstation that meets the highest ergonomic requirements.

The new concepts are already being tested in day-to-day business in two pilot areas and continuously enhanced with the help of employee feedback. This will enable us to apply a fully developed concept in the new building at our Dortmund location.



Interview

The new dimension of digitalisation

An interview with Prof. Oliver Gassmann from the Institute of Technology Management at the University of St. Gallen on business model innovations and why learning fast is crucial.

Mr Gassmann, are we now living in an age of information and innovation?

Gassmann The speed at which new and innovative products, technologies and business models are developed and spread has increased enormously. By 2020 we expect there to be more than 50 billion networked objects that are ever more rapidly developing into intelligent systems with enormous utilisation potential. The acceleration of science, research and technology, together with globalisation, is resulting in continuous exponential growth in knowledge. At the same time, of course, the question of real scientific progress also arises. In his highly regarded book "The End of Science" from 1996, John Horgan claims that there will not be any more major scientific breakthroughs. I suspect that the opposite is true. Science never comes to an end. There are always relevant "how" and "why" questions to be asked. But to answer your question: Yes, we are.

What is actually the driving factor for innovation?

Gassmann It comes from the dynamic technological and social development. This dynamism has increased in virtually all sectors. We have seen this reflected in ever shorter product lifecycles in recent years. Companies that launch a product or service on the market today can expect it to be out-of-date already tomorrow. And companies that are still able to rely

About Oliver Gassmann

Oliver Gassmann, 50, is a Professor of Technology Management and Innovation Management at the University of St. Gallen. Prior to this, he was in charge of research at Schindler Holding AG for a number of years. He has spent research periods at Stanford University, the University of Berkeley and Harvard Business School. Among other topics, Professor Gassmann deals with the question of how digital business model innovations can be implemented successfully.

on the strengths of their business model now will soon find themselves discovering its weaknesses. It is about constantly discovering and strengthening temporary competitive advantages.

So in your view there is effectively a duty to be innovative?

Gassmann Success today is the enemy of success tomorrow. Innovation cycles for products are getting faster and faster, so it is a question of keeping pace with this. If a company rests on its laurels too long and is too preoccupied with its day-to-day business, it will end up falling behind. Companies need to deal with future customer wishes at a sufficiently early stage; it is not enough just to fulfil specifications.

There are a lot of different innovation indices. Is it even possible to measure innovation?

Gassmann Innovation ultimately stands for a company's future performance. At the moment, the trend is generally moving away from input-oriented parameters such as the number of engineers or R&D expenses and towards output-oriented indicators such as patents and innovation rates, i.e. the share of net sales from products that are no older than three years. Measuring is important, since we can only manage things that we can measure. But what Einstein once said also holds true: "Not everything that can be counted counts. And not everything that counts can be counted."

What is the most common stumbling block for innovations?

Gassmann One big problem – particularly in technology-based companies – is over-engineering, or developing technology for its own sake. You then lose sight of the customer benefit – by which I mean not only the direct benefit but especially also latent needs. It is not enough to ask customers what they want. Companies need to anticipate what customers might want with innovative solutions. A truly innovative company will ultimately understand its customers better than they understand themselves.

Has professional use of digitalisation become a strategic competitive factor?

Gassmann "Software eats the world." Value chains are increasingly connected in real time and across several stages. This is based on five layers: sensor technology in products, connectivity, data analytics and new services based on the data. This offers major opportunities for companies to learn from customers in real time as their products are used. As a result of digitalisation, interfaces with customers are becoming more diverse, more open, closer and more direct. At the same time, customer relationship management is becoming more individual and targeted. There is one thing I would like to emphasise in this context. Digitalisation itself is not new, it is simply taking on a new scale.

The technology for sensors, data transmission and data analytics is already available, although huge progress is being made here in terms of costs and performance. But the real choke point is the business model, or in other words the system according to which the new technology is used to create value for customers and part of the value created is secured for the company itself.

Can a good business model be defined according to particular criteria?

Gassmann A good business model represents an integrated response to four questions: Who are our customers? What is the value proposition that we offer them? How is this value proposition implemented? Why is the business profitable? Advancing digitalisation offers major opportunities for companies, including with regard to developing completely new business models. The potential of digitalisation can thus be used to create value in a previously unexplored way. The trick is to manage and continuously improve our day-to-day business while also questioning the fundamental logic of how we operate and developing new business models.

Can you give us a few examples of successful business model innovation?

Gassmann There are many examples of successful business models, such as Skype as the world's biggest telecoms provider without its own network infrastructure, and Uber as the biggest taxi company without its own taxi drivers or vehicles. Other well-known examples include Apple, Google, ebay, Amazon and Alibaba. Many business models are based on digital platforms or added value arising from information. What is interesting is that most breakthroughs have come from outside the sector. But I am also fascinated by the often lesser-known B2B business models with which an established company revolutionises a sector. Examples include a leading tools manufacturer's fleet management, 3M Germany's integrator model, Speedcrete as a solutions provider for LafargeHolcim and Trumpf's integrated, multi-manufacturer platform for Industry 4.0.

How can business model innovation be established successfully within a company?

Accelerating the future
Digitalisation itself is not new – only its scale and speed.

Gassmann It is important to think in terms of value. This means: How can new value be generated successfully for the customer? This requires much more than 'just' the best technologies and engineers. Based on empirical research, we developed the Business Model Navigator, which has since been applied successfully by companies such as ABB, BASF, Bosch and Sennheiser, as well as by several innovative start-ups. It defines four clear steps for business model innovation. Initiation: This involves analysing the current ecosystem, i.e. the business environment. Ideation: In the second step, the company is presented with 55 types of business model as a basis for developing its own approaches for a new business model. Integration: The third step consists of working out the details and checking for consistency. Implementation: This is mainly characterised by gradual, hypothesis-driven experimentation. This focus here is on fast learning, as speed is an essential competitive factor today. Companies will survive only if the speed at which they learn is faster than the pace of change in their environment. The Navigator helps with this.

How would you start developing successful business models?

Gassmann I would take a two-pronged approach. Firstly, you should raise awareness among the entire workforce with regard to new business models, as is already a matter of course for the aspects of quality and innovation. But at the same time, I would also recommend setting up a separate task force that specifically deals with new business models. It is often a good idea to involve people from outside the industry here, too. This team must be proficient in the methods and tools of structured, systematic and process-controlled business model innovation – from development to pilot projects with customers. In this way, competitive advantages and opportunities for strategic differentiation can be achieved. It should also be possible for the new business model to cannibalise current business.

Thank you for this interview, Professor Gassmann.

Looking back

A review of 2016 at Wilo

JANUARY

EMB becomes Wilo Schweiz AG

EMB Pumpen AG has been part of the Wilo Group for more than four decades already. Now the Rheinfelden-based subsidiary is renamed Wilo Schweiz AG. This harmonises the brand profile and enables the Swiss national organisation to act as an all-round provider now after adopting the entire Wilo product range.

MAY

Gold Sponsor of GreenTec Awards

Wilo once again supports Europe's biggest environmental and business prize, the GreenTec Awards, as a Gold Sponsor. "Society needs solutions for a sustainable future. Innovative spirit is our most important raw material for this," says CTO Dr Markus Beukenberg, explaining the reasons for this commitment.

JUNE

New plant opened at Moscow location

Wilo sends a clear signal of its commitment in Russia. With the new plant in Noginsk near Moscow, Wilo is increasing the depth of its value chain and establishing a platform for the entire Eurasian region. Several high-ranking guests take part in the official opening ceremony, including Russian Prime Minister Dmitry Medvedev (on the right in the photo next to CEO Oliver Hermes), who inaugurates the factory.

JUNE

Gold for Wilo

The renowned German Design Council and the German Brand Institute present Wilo with a Gold German Brand Award. This award is the first to recognise companies that are aware of the "importance of branding as a key factor for success" and implement this in a particularly outstanding way. CEO Oliver Hermes accepts the award in Berlin.

JULY

Award for equal opportunities

The TOTAL E-QUALITY Germany initiative, which has been working to promote equal opportunities for men and women at work since 1996, presents Wilo with the TOTAL E-QUALITY Award. This award is conferred in recognition of companies that have successfully established equal opportunities in their personnel and organisational structures.

AUGUST

Silver for Germany

At the Olympic Games in Brazil, the German eight-man team – whose lead sponsor is WILO SE – rows its way to second place in an exciting final on the Lagoa Rodrigo de Freitas. It is beaten only by the brawny team from the UK.

OCTOBER

"Fantastic construction project on a huge scale"

Construction at the Dortmund location begins with a symbolic ground-breaking ceremony. "This is the start of fantastic construction project on a huge scale," says Dr Jochen Opländer. With regard to the corporate strategy, Oliver Hermes emphasises the importance of the new building for the company as a whole: "We want to be the digital pioneer in the pump industry," he says, adding that this also means: "We are building the digital factory of the future!"

DECEMBER

New addition to Executive Board

Mathias Weyers becomes the new CFO of WILO SE. The 46-year-old has been working for Wilo for ten years and previously successfully managed the Finance & Legal department. "In Mr Weyers, a reliable, consistently successful manager is moving up into the Executive Board," says CEO Oliver Hermes.

DECEMBER

The Internet gets greener

Internet giant Google transforms a former paper factory in Hamina, Finland, into one of the world's most energy-efficient data centres. The pump technology comes from Wilo – because it demonstrated impressive efficiency, reliability and durability.

Group management report

In a challenging and uncertain economic environment, the Wilo Group was again able to slightly increase its net sales year on year. Profitability remained high, although the earnings of the previous year were not quite equalled. Important investments in the Wilo Group's future prospects were made consistently and on schedule. Wilo made significant progress on the key issue of digitalisation and the strategic location development project in Dortmund. It increased its market presence in dynamically growing emerging economies and enhanced the product portfolio in a targeted manner. The introduction of innovative products and services reinforced Wilo's position as an innovation and technology leader. Despite difficult external conditions, the foundations for accelerated, profitable growth were thus successfully reinforced.

The 2016 financial year at a glance

NET SALES

EUR 1,327.1 million

The Wilo Group generated net sales of EUR 1,327.1 million in the 2016 financial year, slightly surpassing the previous year's sales record by 0.8 percent. Adjusted for exchange rate effects, net sales increased by 3.9 percent.

EBIT

EUR 107.1 million

CONSOLIDATED NET INCOME

EUR 76.0 million

With EBIT of EUR 107.1 million, an EBIT margin of 8.1 percent and consolidated net income of EUR 76.0 million, profitability remained high but fell compared with the previous year. The decline in profitability was mainly due to expenditure relating to the digital transformation and the location development project in Dortmund, which will promote growth and safeguard the company's future, and a considerable increase in research and development costs.

CASH FLOW

EUR 137.4 million

Cash flow from operating activities reached a new high of EUR 137.4 million. In addition, the structure of the statement of financial position was further improved, with the equity ratio rising significantly from 49.3 percent to 53.6 percent.

CAPITAL EXPENDITURE

EUR 109.5 million

Capital expenditure exceeded the high level of the previous year. EUR 109.5 million was invested, among other things, on new manufacturing technologies and the construction and expansion of new and existing sales and production locations. In October, the construction of the new smart factory at the headquarters in Dortmund was officially started with a symbolic ground-breaking ceremony.

Opening of the new plant in Moscow

In June 2016, a new production site including administrative buildings was opened in Noginsk, near Moscow, in the presence of the Russian Prime Minister Dmitry Medvedev. By investing around EUR 35 million, Wilo is responding to both the expected above-average growth in the medium term and the size and significance of the Russian market.

RESEARCH AND DEVELOPMENT

EUR 65.0 million

Expenses for research and development also reached a new record high of EUR 65.0 million in 2016. An outstanding product of the Wilo Group's research and development work is the Wilo-Stratos MAXO, which is being presented at ISH, the world's leading trade fair, in March 2017. The Wilo-Stratos MAXO is the world's first smart pump and sets new standards in terms of system efficiency, connectivity, communication capabilities and ease of use.

EMPLOYEES

7,600

At the end of the financial year, over 7,600 people were employed in the Wilo Group around the world. This was more than ever before!

Corporate strategy: Ambition 2020+

The successful corporate strategy was revised and adjusted to the altered economic and technological conditions, resulting in "Ambition 2020+". Eight growth initiatives tap into additional potential and will accelerate future profitable growth.

Mergers & Acquisitions

By acquiring GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG, which specialises in the development and production of system technologies and components for biological wastewater treatment, the Wilo Group has augmented its activities in the wastewater sector and increased its application expertise.

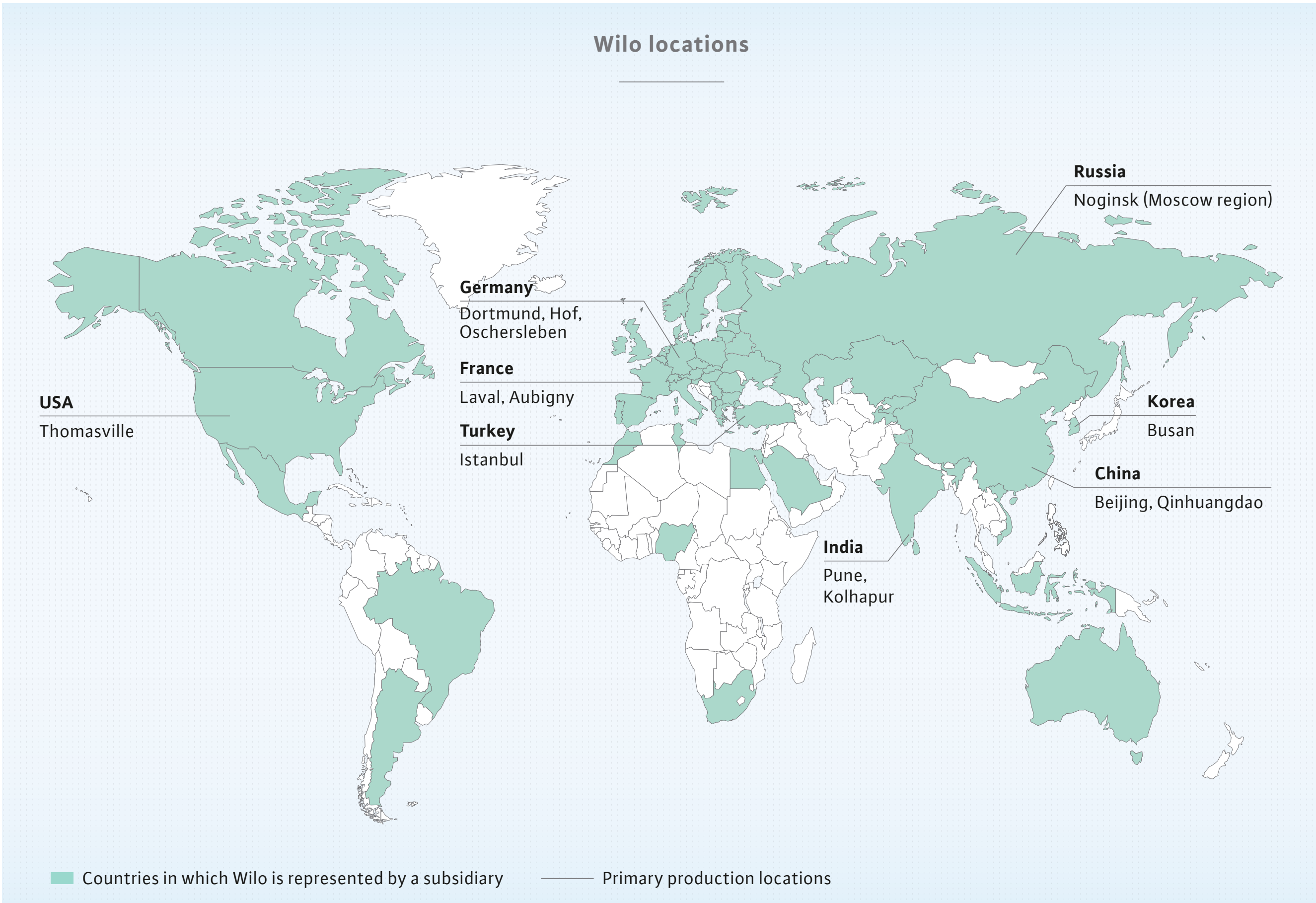
Basic information on the Wilo Group

- Products, system solutions and services for building services, water management and industry
- Global production and distribution network
- Over 7,600 employees in more than 50 countries
- Corporate strategy "Ambition 2020+" and growth initiatives adopted in order to accelerate profitable growth
- Research and development activities remain at a very high level

Customers and products

Wilo is a premium provider of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. The Wilo Group is one of the world's leading manufacturers in these markets. Its portfolio of products, system solutions and services is tailored to meet every need. The extensive product range extends from high-efficiency pumps designed for houses, apartment blocks and commercial buildings, via pumps and agitators for use in water management, through to products and solutions for industrial applications such as large cooling water pumps for power plants.

Meanwhile, the Wilo Group's corporate strategy and the operational focus of its over 7,600 employees are systematically geared towards customers and their specific needs and requirements for products, applications and services. The Wilo Group's market success is based on the close cooperation with OEM partners, planners, specialist retailers and tradesmen as well as general contractors, investors and end users in a spirit of mutual trust. As a premium provider, Wilo aims to develop both leading technology and intelligent solutions that make people's lives noticeably easier every single day. This is the principle behind the claim "Pioneering for You".



The global network of production sites was recategorised and restructured in the year under review on the basis of defined criteria such as location size and vertical integration. With a new production site in Russia coming into operation midway through 2016, the Wilo Group is now manufacturing pumps and pump systems at 13 primary production locations in Europe, Asia and America. In accordance with the global production strategy (GPS), all production sites at these locations constitute the production network in the narrower sense and are coordinated and managed accordingly. Highly specialised products such as water supply and wastewater treatment systems are developed and manufactured at other, smaller locations such as Bari, Minden, Wülfrath and Chemnitz. In addition, products for local markets are assembled at a variety of locations. This ensures that local requirements can be met efficiently with the fastest possible delivery to customers. Overall, the Wilo Group has an efficient, customer-oriented network of more than 60 production and sales companies in over 50 countries. In combination with numerous branches and independent sales and service partners, this ensures that customers' needs and requirements are met at all times and to the highest standards of quality worldwide.

Market segments

The Wilo Group is active in the Building Services, Water Management and Industry market segments and has systematically tailored its portfolio of products, system solutions and services to the needs of customers in these three market segments. With a clear focus, impressive innovative strength and proximity to the customer accompanied by a local presence, the Wilo Group is able to identify varied and changing requirements worldwide at an early stage and adapt quickly and flexibly.

Building Services

Around the world, energy and resource efficiency is becoming significantly more important in all aspects of life due to ecological and, not least, economic reasons. Economic efficiency is also enjoying a far greater focus when it comes to building use. This makes it increasingly necessary to use innovative systems incorporating optimally coordinated components. In the Building Services market segment, Wilo offers the necessary energy-efficient concepts for heating technology and air conditioning as well as water supply and wastewater disposal. Its product and system solutions find applications in houses, apartment blocks, public buildings, industrial and office buildings, hospitals and hotels.

Water Management

Water as a raw material is precious and growing ever scarcer around the world. The safe purification and supply of water is therefore rapidly becoming a global challenge. Wilo offers professional solutions designed to meet the increasingly complex requirements involved in drinking water extraction, water pumping, and wastewater transportation and processing. Wilo Water Management pumps and pump systems set benchmarks worldwide in terms of technical performance, efficiency and sustainability.

Industry

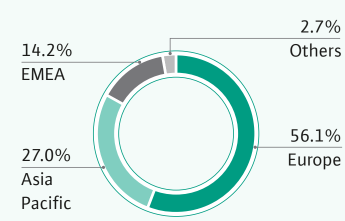
Wilo develops and manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency, which are vital factors for pumps and pump systems in industrial applications. The Wilo Group's strength in the Industry market segment lies in support applications for processes in various industries. For example, Wilo pumps are used around the world for pumping cooling water in power plants or dewatering in the mining industry.

Group structure

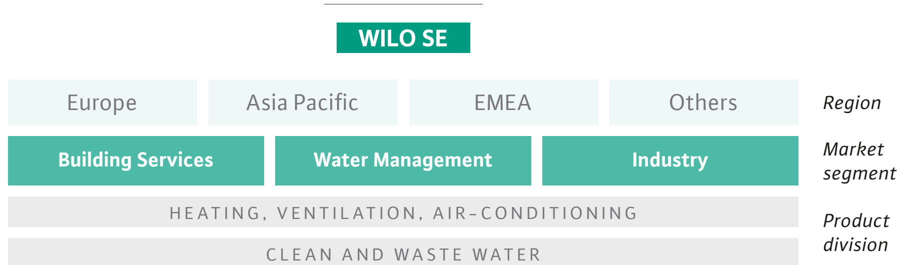
The Wilo Group can look back on a long and successful tradition. The foundations for the company were laid more than 140 years ago. "Kupfer- und Messingwarenfabrik Louis Opländer", founded in Dortmund in 1872, was the predecessor to WILO SE, the parent company of the Wilo Group. The company is domiciled in Dortmund, Germany. WILO SE is a European stock corporation (Societas Europaea). It performs central management activities for the entire Group as well as its own operations. With around 90 percent of the shares in WILO SE, the majority shareholder is the Wilo-Foundation. The issued capital of WILO SE amounts to EUR 26,980 thousand.

As at 31 December 2016, the Wilo Group encompassed WILO SE and more than 60 production and sales companies. WILO SE holds a direct majority interest in most of its subsidiaries. There are only seven Group companies in which WILO SE holds an indirect majority interest. In the 2016 financial year, WILO SE acquired 100 percent of the shares in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG and renamed this company WILO GVA GmbH. The company has its registered office in Wülfrath and a production site in Sangerhausen (Saxony-Anhalt) and specialises in the development and production of system technologies and components for biological wastewater treatment. The acquisition augmented the Wilo Group's activities in the wastewater sector and increased its application expertise.

Net sales by Region in 2016



Organisation and management structure of the Wilo Group



The internal organisational and management structure of the Wilo Group is based on three dimensions: region, market segment and product division. The leading organisational dimension is the region, which also forms the basis for segment reporting. The Europe region is highly important to the Wilo Group, accounting for more than 50 percent of consolidated net sales. The Asia Pacific region accounted for over a quarter of net sales in the year under review, while the EMEA region accounted for around 14 percent.

In the individual regions, the respective regional management works in close cooperation with the heads of the market segments and product divisions. This ensures that the needs of the individual customer groups are met in an optimum manner. The HVAC (Heating, Ventilation, Air-Conditioning) division adopts a targeted focus on heating, air conditioning and cooling applications with an emphasis on the Building Services market segment. The CWW (Clean and Waste Water) division covers clean water, sewage and wastewater applications for the Building Services, Water Management and Industry market segments.

Management and monitoring

The management of the Wilo Group is the responsibility of the Executive Board of WILO SE, which since 1 December 2016 has consisted of five members. The new Executive Board position of CFO was created for tasks relating to finance, internal auditing and IT, for which the CEO previously shared responsibility. The schedule of responsibilities below shows the new allocation of functional responsibilities within the Executive Board.

The Supervisory Board of WILO SE appoints, controls and monitors the Executive Board. The Supervisory Board, which comprises a total of six ordinary members, is appointed by the Annual General Meeting. Two members of the Supervisory Board are employee representatives appointed at the proposal of the European Works Council of WILO SE. Detailed information on the cooperation between the Executive Board and the Supervisory Board can be found in the Report of the Supervisory Board in this Annual Report.

In order to manage the Wilo Group, the Executive Board focuses in particular on the development of net sales and earnings power. Earnings power is based on operating earnings, i.e. earnings before interest and taxes (EBIT), and the EBIT margin. Management at Group level and at the level of the three organisational and management dimensions of the Wilo Group, (regions, market segments and product divisions) is always performed according to these key performance indicators.

Schedule of responsibilities

Chairman of the Executive Board & CEO
Oliver Hermes

- Coordination of Executive Board activities
- Corporate Strategy & Development
- Mergers & Acquisitions
- Corporate Relations & Network
- Group Human Resources & Legal

COO
Eric Lachambre

- Mature Markets
- Heating, Ventilation, Air-Conditioning (HVAC) division
- Group Marketing & Customer Excellence
- Group Service
- Building Services market segment

CTO
Dr Markus Beukenberg

- Group Innovation, Technology & Quality
- Group Production Systems & Technologies
- Group Electronics & Motors
- Group Location Development
- Campus Management

COO
Carsten Krumm

- Emerging Markets
- Clean and Waste Water (CWW) division
- Group Purchasing & Supply Chain Management
- Water Management market segment
- Industry market segment

CFO
Mathias Weyers

- Group Controlling & Accounting
- Group Finance
- Group Information Management
- Group Internal Audit & Compliance

Net sales, EBIT and the EBIT margin are the central performance indicators for the Wilo Group; accordingly, they are included in the analysis of the course of business, the assessment of the position of the Group and the outlook for the purposes of external financial reporting in accordance with GAS 20.

Another key performance indicator at Group level is free cash flow, which reflects the excess liquidity generated. A positive free cash flow at all times serves to ensure the financial independence of the Wilo Group and its liquidity. The main levers for improving free cash flow are increases in net sales and EBIT. The development of free cash flow is also aided by the systematic management of working capital and a coordinated investment policy.

The Wilo Group is also required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. In particular, these include leverage, i.e. the ratio of consolidated net debt to consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), the equity ratio and the interest cover ratio, defined as the ratio of consolidated EBITDA to consolidated interest expenses. These ratios are also regularly reviewed and reported to the Executive Board in order to ensure compliance with the required minimum values at all times. The Wilo Group continued to comply with the agreed financial ratios in the 2016 reporting year.

Furthermore, non-financial aspects also play an important role in the Wilo Group's successful business development. Accordingly, these are fundamentally relevant for the strategic and operational management of the Wilo Group, albeit to a lesser extent than the key financial performance indicators described above.

Further information can be found in the "Non-financial success factors" section on page 69 et seq.

Corporate strategy

As part of the regular strategy review in 2016, the Wilo Group reviewed, honed and adjusted the corporate strategy to new challenges. The successful corporate strategy Ambition 2020 was revised, augmented and enhanced into Ambition 2020⁺. However, the altered economic conditions and new technological developments do not necessitate any radical change of the Wilo Group's long-term targets or its corporate strategy. The core targets remain unchanged.

Wilo intends to remain independent and generate profitable growth. Ambition 2020⁺ still specifies that net sales shall be increased to more than EUR 2 billion and an EBIT margin in excess of 10 percent shall be achieved by 2020. The fundamental strategic directions for each of the three market segments (Building Services, Water Management and Industry) were affirmed. One of the main goals in Building Services remains to extend the Group's market, technology and innovation leadership. The Group's global market presence will be increased further in the Water Management market segment, while the Industry market segment will see a focus on selected industries and applications.

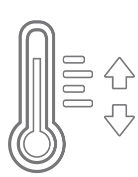
Major changes in connection with Ambition 2020⁺ relate to the issues of growth and digitalisation, which are now more specifically incorporated into the corporate strategy. Eight specific growth initiatives for regions, market segments and divisions were defined in order to implement the strategy. They focus on covering every area of application across all market segments, strengthening the position as a provider of solutions, expanding regionally and developing new business models and markets. The growth initiatives also explicitly address external growth through targeted corporate acquisitions.

Digitalisation as a global megatrend will also be supremely important for Wilo in the years to come. Therefore, digitalisation and technological progress were included in the Wilo trends covered by the 'trend radar'. The latest developments in the field of digitalisation will thus be closely and continuously monitored. On this basis, scenarios will be developed with regard to how future markets in the global pump industry will change. The aim to be a digital pioneer in the pump industry has thus been explicitly enshrined in the corporate strategy as part of its revision and enhancement into Ambition 2020⁺.

Our Ambition 2020⁺

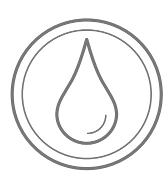
We accelerate our profitable growth as an independent global player

Wilo strengthens its global position as a solution provider.	Wilo accelerates profitable growth beyond 2 billion euros of turnover with an EBIT > 10% in 2020.	Wilo sets new standards as an innovation leader and digital pioneer.	Wilo is an independent, responsible company.	Wilo develops engaged and empowered employees to achieve ultimate customer satisfaction.



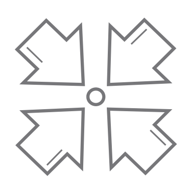
Building Services

We are the global market, innovation and technology leader.



Water Management

We increase our presence as a global market player.

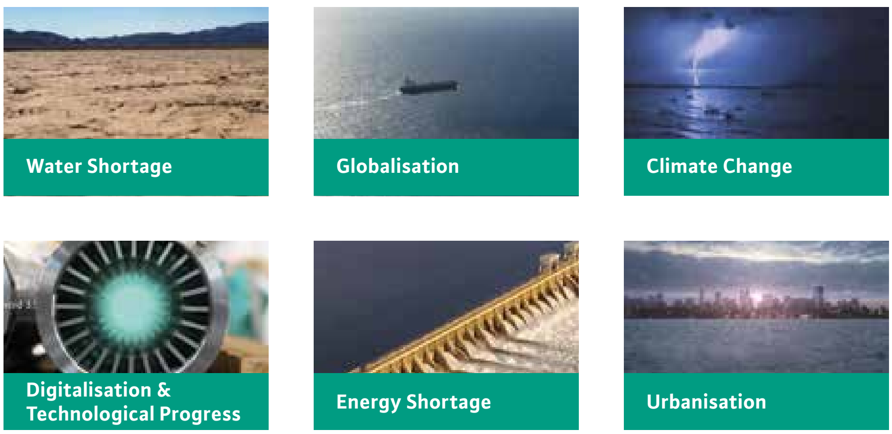


Industry

We focus on selected branches and applications.

The Wilo Megatrends

Thinking 20 Years Ahead



Ambition 2020+ will be implemented from 2017 within the framework of the eight major growth initiatives. These will be led by experienced managers from the second tier of management of the Wilo Group. At the same time, the activities of the previous strategy implementation programme, A2P, will be transferred and systematically integrated into the new initiatives. In addition, the WIN cost initiative has been launched to permanently secure and accelerate profitable growth. As part of this extensive project, significant cost structures and drivers throughout the Group are being analysed and optimised. Digitalisation is being promoted consistently in all processes within the Group as well as for customers via innovative products and services.

In 2016, the Wilo Group formulated an overarching vision and mission, enhanced the existing corporate values and harmonised them with Ambition 2020+. The vision is the guiding objective that the Wilo Group wants to achieve and a confident, clear statement of Wilo's standpoint in a constantly changing world. Wilo is gradually evolving into the leading system provider with tailored, intelligent, and resource-efficient solutions.

On the basis of this vision, the mission describes the main purpose or undertaking that Wilo is pursuing and serves as a set of instructions for meeting the current and future challenges of the market. The Wilo Group wants to use its products and the pertinent solutions and services to make people's lives easier around the world.

Our Vision

Wilo, the water solution leader for a smart and resource efficient world.

Our Mission

Inventing and managing responsible water solutions that benefit everyone, everywhere.

Our Values

Integrity	Fairness	Respect	Passion	Responsibility

Integrity, fairness, respect – in 2016 enhanced by passion and responsibility – are the inviolable values by and with which Wilo works and lives. They form a shared foundation to which each individual commits regardless of their position, duties and responsibilities in the company. In the future just as in the past, the sustainable success of the Wilo Group will largely be based on these shared values.

In the year under review, the Wilo Group developed in line with its strategy and further reinforced its position as an innovative, independent manufacturer of pumps and pump systems internationally. The Group remains on a profitable growth path. Net sales were increased by 0.8 percent in 2016, or 3.9 percent after adjustment for exchange rate effects. With an EBIT margin of 8.1 percent, the Wilo Group fell short of the strategic target corridor of between 9 and 11 percent. Digitalisation projects to promote growth and safeguard the company's future, the strategic location development project in Dortmund and important research and development projects were systematically advanced and reduced profitability accordingly.

Research and development

Strategy and direction

The corporate strategy, enhanced into Ambition 2020⁺ in the financial year, and the business objectives define the primary framework for the Wilo Group's research and development activities. Clear risks and opportunities from the megatrends relevant to Wilo are identified by the corporate foresight process. In line with the Wilo Group's goal of further expanding its leading position in terms of technology, innovation and quality, the following key strategic action areas were derived for research and development: energy and resource efficiency, systems technology and solutions expertise, and digital communication and technology.

The specific implementation of the associated aspects and starting points in research and development is extremely complex. This is especially true of digitalisation, which affects every area of the company. One significant challenge relates to technology and product development, as digitalisation requires entirely new processes and tools. The strategic action areas are addressed in intensive cooperation with outside partners. For this purpose, the Wilo Group has access to a global research and development network to help it conduct the various research projects that are necessary, often in close cooperation with project partners, other industrial companies and increasingly also customers and start-ups. In addition, Wilo also makes use of government grants. Traditionally, the priority was application-related basic issues. However, as a result of digitalisation the focus is increasingly shifting to new business models and complementary services.

The three central research and technology centres in Dortmund carry out all research and technology activities for the whole Group. Key content includes traditional mechanical and hydraulic technologies, microelectronics and software, and production systems and technologies. The new challenges arising from the digital transformation of all areas of the company are thus brought together and tackled as quickly as possible. The reorganisation of the central technology centre for mechanics and hydraulics has resulted in streamlining and accelerating the projects while idea and innovation management has been stepped up. For example, a "speedboat" concept was introduced for the first time for the review of different hypotheses in a development project. In this way, the functionality or economic viability of innovative ideas can be assessed at an early stage of development.

Responsibility for product series development generally lies with the respective local product divisions. This two-tiered structure ensures firstly that innovations and new technologies are prepared and planned and secondly that specific market requirements can be quickly addressed and met in immediate proximity to the customer. Due to the digitalisation strategy, which impacts on all areas of the company, cross-divisional and interdisciplinary project teams are increasingly also being included in product series development. Key projects, methods and technological processes were initiated and continued in the year under review.

Results

As the trend towards efficient, speed-controlled electric motors continues unabated, considerable effort was again made to refine and implement the motor and drive strategy in the year under review. The in-house manufacturing of high-performance permanent magnets, a key component for high-efficiency electric motors, was significantly extended to incorporate additional sizes and greater volumes in 2016. The number of magnets produced surpassed the two million mark for the first time. The advancement of the magnet technology concentrated on the improvement of magnetic and corrosion properties in damp environments in particular. In addition, several publicly subsided research projects on magnet technology were commenced, laying the foundation for the further expansion of the high-efficiency permanent-magnet synchronous motor programme. Motors of this design in the power range of up to 22 kW have already been successfully tested and taken into the field. These motors have the advantage of being particularly compact, extremely efficient and modular. At the same time, new frequency inverter technology in the same power range, likewise characterised by high efficiency and compactness, was also tested.

Structural measures and process improvements were also performed in the area of research and technology. In 2016, the speedboat concept described above was introduced for the rapid qualification and assessment of technologies. The worldwide Wilo-Engineering platform was given a further boost, with the international network now focusing on design and simulation work flows.

In 2016, a key element of product development activities was once again the expansion and renewal of the product portfolio. Work in the year under review focused on maintaining and improving the product range across all product divisions. For example, new mixers were introduced for wastewater treatment with electric motors of the IE4 efficiency class, and fire extinguishing products were certified for new markets.

New product development is focusing on five top development projects for the Group as a whole. These top development projects, defined on a cross-divisional basis, are intended to significantly increase the pace of development and the customer benefit generated. The digitalisation strategy affects product development in particular. Accordingly, the existing definition of interconnected long-term technology, module and product roadmaps was expanded to include this aspect and finalised in 2016. The result of this approach is an enterprise-wide platform and module system that aims to use the results of the various projects across the board, ensure the transfer of technology and thus sustainably reduce development costs. Two of the top development projects are sufficiently advanced for the products to be introduced to the market on schedule in 2017. These products are characterised by a variety of innovations and will consolidate Wilo's position on the market as an innovation leader. For example, the distinguishing features of the Wilo-Stratos MAXO, which is being presented at ISH, the world's leading trade fair, in March 2017, include its unprecedented level of system efficiency, bidirectional connectivity, extreme ease of use and optimum range of applications. The Wilo-Yonos Multi is also being presented – an extremely compact pump that meets the most stringent efficiency criteria and can be adapted to the requirements and demands of OEM customers extremely flexibly.

Employees

With a slightly larger headcount, the employee structure in research and development remained stable in 2016 compared with the previous year. The proportion of women in research and development was over 11 percent. The proportion of highly qualified university graduates was around 70 percent. The proportion of the total workforce accounted for by research and development also remained stable at a high level. The needs-driven recruitment of excellent young candidates in the disciplines of technology and the natural sciences is still a challenge. With its human resources activities, the Wilo Group seeks to be perceived as an employer of choice. In this way, it shall continue to successfully attract and retain highly qualified employees in the future.

Patents and licences

The Wilo Group pursues a patent strategy that is geared towards the current demand for greater customer benefit. New technology and product developments are closely aligned to the patent strategy, ensuring the broad-based, comprehensive protection of expertise. In order to support the Wilo Group's continuing profitable growth going forward, research and development are now supported by a value-based patent process. The number of patents filed again reached the level of previous years. The number of patents held increased slightly year on year, since technically obsolete property rights were cleared out in 2015 as a result of technological change.

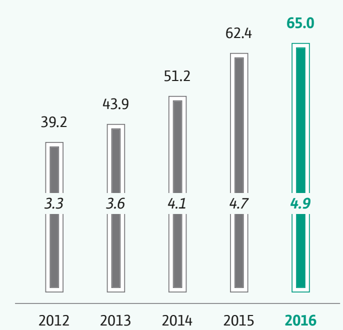
Investment and expenditure

Investment in research and development in 2016 again focused on expanding laboratory and test facilities and building new types of production facility. A significant measure in the year under review was the complete automation of the test benches for long-term testing, where more than 70 percent of the test benches were successfully modernised accordingly. In addition, further progress was made on the global standardisation of the hydraulic test benches.

Total research and development costs including capitalised development costs again increased by 4.1 percent compared to the previous year's record to EUR 65.0 million in 2016, reaching 4.9 percent as a proportion of net sales (previous year: 4.7 percent). This was the highest level of investment in research and development in the Wilo Group's history. Development costs of EUR 18.5 million were capitalised in the 2016 financial year (including borrowing costs). Research and development costs were expensed in the amount of EUR 47.8 million.

Research and development costs*
in EUR million

and in % of net sales



* including capitalised development costs

Business report

- Global economy again grew only moderately in 2016
- Profitable growth continues
- Negative exchange rate effects curb growth in net sales
- Reduced profitability mainly due to implementation of projects to promote growth and safeguard the company's future
- Investments reach new high

General economic conditions

Global economy squeezed by uncertainty

According to the Kiel Institute for the World Economy (IfW) and the International Monetary Fund (IMF), global economic output grew by just 3.1 percent in 2016 (previous year: 3.2 percent). Economic activity around the world was significantly curbed by increased political and economic uncertainty. This was due in particular to the crises in Syria and Turkey, terror attacks in Europe, the British people's unexpected vote to leave the European Union ("Brexit") and the government and banking crisis in Italy. The slower growth in China also had a dampening effect. In contrast, the economy was supported by the expansionary monetary policy of the industrialised nations. After a modest start, the US economy picked up strength and is expected to have grown by 1.6 percent in 2016. Stimulus came from private consumption and a revival in exports despite the strong dollar. According to the IMF, the industrialised nations as whole grew more slowly than before at 1.6 percent in 2016 (previous year: 2.1 percent). In the emerging and developing nations, growth remained high in global terms at 4.1 percent, but it was weaker than in the past.

More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 151.

Economic development in the Europe, Asia Pacific and EMEA regions in 2016 is described below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Solid growth on a broad regional basis in Europe

The economy in the euro area also developed solidly in 2016. Economic activity was chiefly supported by private consumption, increased government spending and a revival in construction activity. However, businesses remained reluctant to invest due to weak export markets and international crises. The Brexit vote caused palpable uncertainty, but did not have a significantly negative impact on the real economy. According to initial data from the statistical office Eurostat, growth in the euro area boasted a robust basic trend of 1.7 percent in 2016.

All euro countries saw growth, even those with structural problems. Italy and Greece achieved moderate growth, while Spain, Portugal and Ireland expanded strongly. France's economic development remained modest. The EU countries in Eastern Europe reported above-average growth rates. The UK's economy grew somewhat more slowly than in the previous year, but still robustly despite the Brexit decision.

Germany's economy benefited from strong domestic demand in 2016's uncertain environment, continuing its expansion. In addition to the private consumption prompted by record employment and increasing incomes, government consumption and investment in construction grew palpably. Industrial activity revived towards the end of the year. According to the German Federal Statistical Office, gross domestic product grew by 1.9 percent in 2016 (previous year: 1.7 percent).

Asia remains global growth driver

Asia is continuing on its path of dynamic growth. According to the IfW, it grew by 6.4 percent (previous year: 6.6 percent) in 2016. However, the previous very high rates are a thing of the past. This is mainly attributable to the Chinese economy. The long-term structural shift from an economy dependent on trade, investment and heavy industry towards a strengthening of domestic demand, services and high-tech is reflected in a trend towards lower growth rates. The government's short-term support stabilised growth in 2016 while exports were weak. According to the National Bureau of Statistics of China (NBS), China's economic growth of 6.7 percent (previous year: 6.9 percent) was therefore in line with the government target.

According to the IMF, the Indian economy grew by 6.6 percent in 2016 (previous year: 7.6 percent). Stimulus was provided by private consumption, high government spending and the service sector. However, there was a decline in investment activity. In addition, the cash reform adopted unexpectedly in November put great strain on private consumption.

In Korea, the growth trajectory continued in 2016 with growth of 2.7 percent (previous year: 2.6 percent), according to the Bank of Korea. Investment in construction, which was the primary factor supporting the domestic economy, grew in double figures. Private consumption remained modest with only a small rise in wages. Fixed capital investment declined as a result of lower capacity utilisation and structuring in the corporate sector. The government countered this with fiscal and monetary policy measures.

The emerging economies of Southeast Asia lacked stimuli for exports to China and the industrialised nations. According to the IMF, growth in the five major ASEAN nations amounted to 4.8 percent in 2016, as in the previous year.

Political crises slow the economy in the EMEA region

Russia's economy continued to suffer in 2016 because oil and gas prices remained low in a long-term comparison. The economic downturn was ameliorated over the course of the year – the central bank cut the benchmark interest rate twice in 2016 – and industrial production stabilised year on year. Nonetheless, the IMF reports that economic output shrank by another 0.6 percent over the year as a whole (previous year: -3.7 percent).

In Turkey, the economy suffered palpably from the impact of even greater political uncertainty resulting from the upheavals following the attempted coup. In addition, economic development was curbed by the persistently high corporate debt. The IfW estimates that the economic growth reached just 1.6 percent in 2016 (previous year: 4.0 percent).

In some cases, oil-exporting countries of the Gulf – especially Iran and Iraq – and North Africa performed better economically in 2016 than in the previous year. This was due to higher production prices and quantities for crude oil. However, the serious conflicts in the region prevented solid economic growth. In major oil-importing countries in the region such as Egypt and Morocco, the rate of expansion faltered in 2016. According to IMF data, the Sub-Saharan region is likely to have seen a palpable slowdown in growth. Nigeria's economy contracted; economic development in South Africa stagnated.

Industry-specific conditions

More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 151.

In addition to the general economic development of individual countries and regions, the economic performance of the Wilo Group is especially influenced by the construction and sanitary industries, among others. Development in these industries in the 2016 financial year is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Growth spurt for the construction industry in Western Europe

According to the latest estimates by the Euroconstruct industry network and the ifo Institute, construction output in Europe grew by 2.0 percent in real terms in 2016. Development in Western Europe was positive with growth of 2.4 percent compared with 1.6 percent in the previous year. In Eastern Europe, construction output fell by 3.3 percent (previous year: +5.5 percent) as a result of lower European Union infrastructure projects. Ireland, Scandinavia and the Netherlands generated very strong growth. France's construction industry expanded again after several years of contraction. Italy, Belgium and Austria saw a revival in growth. Stimuli for the European construction industry came primarily from residential construction with a 3.9 percent increase. New construction posted higher growth rates, and maintenance and modernisation likewise developed very spiritedly. In contrast, commercial construction grew only moderately, and civil engineering declined.

According to data from the German Federal Statistical Office, construction investment in Germany revived substantially in 2016 with real growth of 3.1 percent (previous year: 0.3 percent). According to the IfW, investment in residential and public-sector construction grew very strongly by 4.1 percent and 4.3 percent respectively. Only commercial construction saw a further slight decline of 0.5 percent.

According to estimates by the German Institute for Economic Research, the new residential construction volume increased by 11.2 percent to EUR 64.9 billion in 2016, while construction activity involving existing buildings (conversion, expansion and maintenance) increased by a very robust 3.1 percent to EUR 134.9 billion. Overall, the volume of residential construction increased by 5.6 percent. Commercial and public-sector construction grew again by 2.3 percent to EUR 91.6 billion in 2016 after stagnating in the previous year. Despite the strong revival in new construction, building construction as a whole continues to be dominated by the expansion, conversion, maintenance and modernisation of existing buildings. The volume of this construction is around twice as high as investment in new construction. According to the Association of the German Sanitary Industry and the ifo Institute, the sanitary industry posted its seventh consecutive increase in net sales in this environment. Growth of around 3 percent to EUR 23.7 billion is expected to have been generated in 2016. In heating and air conditioning, the Federal Association of the German Heating Industry reports that modern surface heating and cooling systems in particular are continuing to catch on with sales growth of around 12 percent.

Asia's construction industry still in the ascendant

In 2016, the Chinese construction industry climbed out of its two-year trough. According to the NBS, building investments increased by 3.2 percent in terms of floor space. Around two thirds of the investment volume were attributable to residential buildings, where moderate growth in floor space of 1.9 percent was achieved in new construction. Renovation and redevelopment work also increased. Office properties and commercial buildings also saw high investment growth with growth in floor space of 6.0 percent and 4.5 percent respectively.

After a dynamic start, the growth in Indian construction output slowed to less than 5 percent by the end of 2016. The construction industry was supported by high investment in infrastructure, including water management. Despite a significant housing shortage, there is only low demand for housing as property prices have been rising drastically for some time. The pressure on the property market therefore continued in 2016. In the first half of the year, 8.6 percent fewer homes were completed than in the same period of the previous year.

Korea's construction industry experienced a powerful boom in 2016, fuelled by low interest rates and government construction projects. According to the central bank, construction investment increased by 10.5 percent in real terms (previous year: 3.9 percent).

In Southeast Asia, the construction industry continued to grow on a broad basis in 2016. This was driven by substantial investments in infrastructure in Thailand, Indonesia, Malaysia and the Philippines. Indonesian and Malaysian building construction were exceptions to this rule.

Russian construction now stabilised – Turkey with summer slump

The construction industry in Russia suffered in 2016 from weak domestic demand as a result of the recession, the strained public budget and the difficult financing conditions for private investments. According to Rosstat, the Russian Federal State Statistics Service, construction output fell in the first eleven months of 2016 by 4.3 percent, with a 6.5 percent decline in residential construction. At the end of the year, development stabilised at a low level. According to the Mechanical Engineering Industry Association (VDMA), civil engineering saw particularly sharp declines. In contrast, both building construction with regard to affordable housing and the market for heating, heat and water treatment technology were relatively stable. This development was supported by interest subsidies.

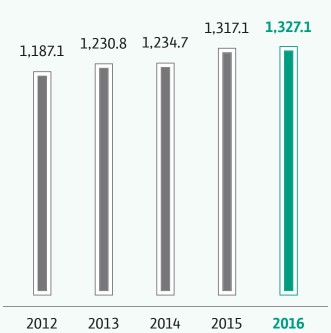
After initially robust development, the construction industry in Turkey weakened as a result of the attempted coup and the subsequent upheavals. According to the Turkish Statistical Institute (TurkStat), the real decline in construction output in the third quarter totalled 4.2 percent, with a 4.7 percent decline in building construction.

In the Middle East and North Africa, political and economic crises frequently cast a shadow over the construction industry. Positive exceptions included private building construction in the Lagos metropolitan area in Nigeria and residential construction in South Africa as a result of continuing urbanisation.

Business performance

With net sales of EUR 1,327.1 million, the Wilo Group slightly exceeded the precious year's record by another 0.8 percent. The company thus increased its net sales for the seventh time in a row. This is all the more remarkable because the depreciation of numerous important currencies for the Wilo Group, the failure of the hoped-for economic recovery to materialise and the increased uncertainty in certain markets put a significant strain on the Wilo Group's business activities. Adjusted for the negative balance of the exchange rate effects, the growth in net sales was 3.9 percent and thus slightly below the increase of up to 5 percent originally anticipated for the year under review.

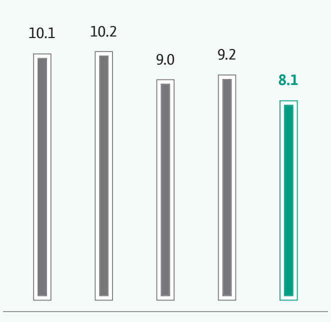
Net sales development
in EUR million



The 2016 financial year was again dominated by an extremely volatile and challenging macroeconomic environment. The Russia-Ukraine crisis is still unresolved and the conflicts in the Middle East linger on. Over the course of the year, the unexpected Brexit vote and the attempted coup in Turkey led to further uncertainty among market participants, which was not without consequences for the global economy and thus for the economic performance of the Wilo Group.

The targeted expansion of the market presence and regional diversification of the Wilo Group in line with the corporate strategy was again an important factor in the company's positive economic performance in the past year. For example, the sometimes substantial variations in regional development and growing risks and uncertainties were squared successfully. The Wilo Group grew solidly and sustainably in Asia and the German-speaking region. Strong growth was achieved for example in China and Korea, in certain emerging economies of Africa and in the Gulf States. In other countries such as Russia and India, local growth was robust but diluted by the depreciation of the local currency against the euro. In the Europe region, the growth in the German-speaking countries, Scandinavia and the Mediterranean region was countered by declines in Eastern Europe, France and the UK. Business in Turkey developed only modestly as a result of the crisis, while net sales in Southeast Asia fell due to a weak industrial sector. While the Southeast Asian subsidiaries performed positively overall, direct business in this region declined. The Wilo Group had no problem absorbing these varying developments in individual countries and markets and negative exchange rate effects in 2016. This is thanks to the broad regional and sectoral positioning of the business. Diversification is a strategic factor for Wilo's success, which successfully minimises risks while providing opportunities in individual markets.

EBIT as % of net sales



With EBIT of EUR 107.1 million and consolidated net income of EUR 76.0 million, the Wilo Group fell short of the good earnings of the previous year. Certain growth-oriented investments and projects to safeguard the Wilo Group's future prospects for the long term were initiated or continued as planned despite macroeconomic and geopolitical uncertainty. This especially relates to projects in connection with the digital transformation and strategic location development in Dortmund. Important research and development projects were likewise carried out as planned. In line with the revised corporate strategy Ambition 2020+, M&A activities were also stepped up.

Similarly, the Wilo Group made systematic investments in long-term growth markets such as Russia, Southeast Asia, Africa and Latin America, thereby reinforcing the basis for accelerated growth outside its established European markets. In addition, shifts in the product sales mix caused profitability (EBIT margin) to fall from 9.2 percent in the previous year to 8.1 percent. Profitability thus remained high. In light of the various influencing factors, the EBIT margin originally targeted for the 2016 financial year of 9.0 percent was nevertheless unattained.

The objective of the Wilo Group's long-term, sustainable investment policy is to allow it to continue the development of its profitable growth in future in line with its corporate strategy. In 2016, EUR 109.5 million was therefore invested in new manufacturing technologies and the construction and expansion of new and existing sales and production locations, among other things. The investment priority was again the strategic location development project at the headquarters in Dortmund. The new production site including administrative buildings in Noginsk in the Moscow region was completed and came into operation in June 2016.

Net sales development in the individual regions was as follows in the 2016 and 2015 financial years:

Net sales development by region

EUR million	**2016**	2015	Change %
Europe	744.0	744.7	-0.1
Asia Pacific	359.6	344.6	4.4
EMEA	187.8	190.1	-1.2
Others	35.7	37.7	-5.3
Total	**1,327.1**	**1,317.1**	**0.8**

The four reportable segments, Europe, Asia Pacific EMEA and Others, consist of the following countries:
– Europe: All European states except Russia, Belarus and Ukraine
– Asia Pacific: India, China, South Korea, Southeast Asian nations, Australia and Oceania
– EMEA: Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations
– Others: Nations of the American continent

EBIT development in the individual regions was as follows in the 2016 and 2015 financial years:

EBIT development by region

EUR million	**2016**	2015	Change %
Europe	80.8	95.1	-15.0
Asia Pacific	15.8	15.6	1.3
EMEA	14.9	15.2	-2.0
Others	-4.4	-4.7	6.4
Total	**107.1**	**121.2**	**-11.6**

Regions

EUROPE The Wilo Group came close to the high level of the previous year in the Europe region with net sales of EUR 744.0 million. The increases in net sales in the German-speaking region, Scandinavia and the Mediterranean countries were countered by declines in Eastern Europe, France and the UK, which were nearly offset. The sharp depreciation of the British pound as a result of the unexpected Brexit vote and the depreciation of the Polish zloty had an adverse effect on the Wilo Group's business activities in the Europe region. Adjusted for exchange rate effects, net sales rose by a moderate 0.9 percent. Meanwhile, developments in specific countries in the region varied widely.

In the German-speaking region, net sales were significantly increased by 4.2 percent as against the previous year. On the German market, which is the Wilo Group's largest individual market, net sales rose by 2.5 percent, with all three market segments generating growth. The Water Management market segment distinguished itself with strong project business. The acquisition of GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG also contributed to the positive business performance. In the Building Services market segment, the very good market position was built upon further.

In Switzerland, the Wilo Group increased its net sales by over 25 percent year on year. This is attributable in particular to growth in project business in the Water Management and Building Services market segments. A harmonised brand presence and the promotion of joint marketing activities as a result of EMB Pumpen AG's renaming as WILO Schweiz AG also supported business activity significantly. After adopting the entire Wilo product range, the Swiss national organisation now acts as an all-round provider. In Austria, too, business activity developed extremely positively due to strong project business in the Building Services market segment.

In the Mediterranean region, net sales increased by 3.3 percent year on year. The economic recovery in the formerly crisis-stricken countries continued. In Greece, market share was acquired in the Building Services market segment, and net sales therefore climbed over 8 percent compared with the previous year. On the Italian market, project business in the Building Services market segment likewise developed extremely positively. For example, Fiumicino Airport in Rome and Generali Tower in Milan were equipped with Wilo products. In addition, a considerable growth contribution was made by the successful restructuring and expansion of the sales organisation. Overall, net sales were increased by 4.1 percent in Italy. In Spain, growth was also achieved in the Building Services and Industry market segments despite the intensified competitive situation. Net sales growth amounted to 3.0 percent here.

On the Scandinavian market and in the Baltic states, an increase in net sales of 4.9 percent was generated in 2016. In Scandinavia, the construction industry continued to develop positively. Significant increases in net sales were achieved in the Building Services and Water Management market segments. Although declines in net sales were reported in the Baltic states, they were more than offset by the growth in Scandinavia. The Baltic market bided its time, as access to subsidies from the European Union – including for infrastructure and energy efficiency measures – was granted only sluggishly.

Altogether, net sales in the UK and Ireland fell by 8.4 percent. This decline is due exclusively to the sharp depreciation of the British pound. Adjusted for exchange rate effects, net sales in these two countries increased by 1.3 percent in total. The expansion of the sales organisation pursued in recent years, its greater concentration and the good construction industry made a significant contribution to this positive development. Growth in project business was achieved in the Water Management market segment.

In France and the Benelux countries, net sales fell slightly by 1.8 percent as against the previous year. The deterioration in the business climate in France continued to adversely affect project business in the Building Services market segment. Although the latest statistical analyses show a slightly positive trend for the construction sector, this has not yet made itself felt in the Wilo Group's business performance. In addition, government infrastructure projects in the Water Management market segment were scaled back. Due to the overall decline in project business in France, competition and therefore price pressure increased. In contrast, the amplification of the ErP Directive (ErP effect) had an extremely positive effect on OEM business in the Building Services market segment. Since 1 August 2015, the Directive has also applied to glandless circulation pumps that are integrated into heat generators and other products (OEM). While a positive quantity effect due to advance demand was already observed in the first half of 2015 in relation to inexpensive models, the growth in 2016 resulted primarily from a positive price effect. In Belgium and the Netherlands, business activity was adversely affected by a low stock turnover rate in wholesale and increasing price pressure in project business.

Net sales in the Eastern European EU countries fell by 9.7 percent. In past financial years, the Wilo Group benefited greatly from the European Union's infrastructure projects in the Water Management market segment. These subsidy programs expired at the end of 2015. The preceding periods were consequently dominated by anticipatory effects. New subsidy measures will be launched from 2017, so many projects were postponed until the next few years. In contrast, the OEM business developed positively, especially as result of the ErP effect. In Poland, the Wilo Group's largest market in Eastern Europe, net sales declined by 7.3 percent. The depreciation of the Polish zloty made a significant contribution to this reduction. Adjusted for exchange rate effects, net sales declined by only 3.3 percent. The difficult political conditions curbed both public and private investment, which had a negative effect on project business. In addition, access to EU subsidies for infrastructure projects was also delayed in Poland, which led to a decline in the Water Management market segment.

Earnings before interest and taxes (EBIT) in the Europe region fell by 15.0 percent or EUR 14.3 million to EUR 80.8 million. The EBIT margin declined from 12.8 percent to 10.9 percent. The fall in the gross margin was due firstly to changes in the product sales mix. In particular, the lower-margin OEM business grew disproportionately strongly. In contrast, the comparatively higher-margin business in the Water Management market segment declined considerably. Secondly, price pressure increased in project business in particular. The growth-oriented and future-proofing expenses relating to digitalisation and the location project in Dortmund, which were intensified as planned, and higher research and non-capitalised development costs likewise reduced EBIT in the Europe region in 2016.

ASIA PACIFIC The Asia Pacific region remained the Wilo Group's primary growth driver in 2016. Net sales increased by 4.4 percent or EUR 15.0 million to EUR 359.6 million. Adjusted for exchange rate effects, net sales increased by 7.3 percent.

On the Chinese market, net sales climbed by 7.0 percent, or as much as 13.2 percent when adjusted for exchange rate effects. Although the growth momentum in the Chinese economy and the construction sector has slowed somewhat on the whole, business activity in China continued its rapid expansion. Strong growth was generated in all market segments. Higher market coverage was achieved by expanding the dealer network. In addition, the Chinese government imposed stricter regulations on the use of coal-fired boilers. In the future, these will have to be replaced by more environmentally friendly electric, gas or oil-fired boilers, which already benefited the OEM business in 2016.

In Korea, net sales fell by 6.9 percent as against the previous year. In local currency, the increase in net sales was 9.4 percent. The more sharply focused sales strategy in the premium and medium product segment made a significant contribution to this very good development. In addition, there was a palpable increase in construction activity in Korea, which benefited the Building Services and Water Management market segments. The sales organisation in the project and exchange business was expanded further in the year under review in order to secure future growth in the long term.

On the Indian market, net sales were increased by 3.4 percent in the local currency. However, the depreciation of the Indian rupee means that there was a slight decline in net sales of 1.3 percent in the Group currency. The strong growth in the Building Services and Water Management market segments were unable to fully offset the declines in the Industry market segment. The business of the Wilo subsidiary in India, which has so far operated primarily in the Industry market segment, was adversely affected by the general weakness of the industrial sector. The oil and gas industry's reduced and temporarily shelved investments due to the low oil price had a particularly negative effect. In India, Wilo continues to focus on a further expansion of the sales organisation in the Building Services and Water Management market segments in order to better compensate for future sector-specific fluctuations and take more market opportunities.

Net sales in Southeast Asia fell by around 11 percent. While the Southeast Asian Wilo subsidiaries performed positively there overall, direct business in this region declined. Here, too, the temporary weakness of the industrial sector – especially in oil and gas – had a considerably negative effect.

Earnings before interest and taxes (EBIT) in the Asia Pacific region improved by 1.5 percent to EUR 15.8 million in the year under review and thus at a slightly lower rate than the growth in net sales. The EBIT margin therefore declined slightly, from 4.5 percent in the previous year to 4.4 percent. This was largely attributable to the slight year-on-year reduction in the gross margin.

EMEA Net sales in the EMEA region were close to the previous year's level at EUR 187.8 million. The slight decline by 1.2 percent or EUR 2.4 million in the Group currency was essentially due to the sharp depreciation of the Russian rouble and the Turkish lira. Adjusted for exchange rate effects, net sales in the EMEA region increased by 6.8 percent year on year. Overall, development in the region was mixed. In Russia, market development increasingly stabilised and provided good opportunities in individual areas. High growth rates were achieved in parts of Africa. In contrast, business in Turkey suffered from the political situation becoming increasingly strained over the course of the year.

In Russia, net sales climbed slightly by 0.7 percent as against the previous year, or by 7.4 percent when adjusted for exchange rate effects. At the same time, business activity in the Building Services and Water Management market segments developed extremely positively despite the ongoing adverse macroeconomic conditions. The subsidiary in Russia acquired significant infrastructure projects in connection with the upcoming World Cup in Russia. The successful opening of the new production site in Noginsk, near Moscow, in 2016 puts the Wilo Group in a good position to serve the local market efficiently and according to requirements and to benefit from the increasing trend towards localisation.

Net sales in Turkey fell by 9.2 percent. This decline is due primarily to the sharp depreciation of the Turkish lira. Adjusted for exchange rate effects, net sales are on a par with the previous year. The strained political situation was exacerbated even further by the attempted coup. The resulting uncertainty among market participants impeded investment, which had an adverse effect on the Wilo Group's business activity in the Turkish market. Overall, the short-term conditions for the pump business have deteriorated following a sharp downturn in construction activity.

Net sales growth of 13.3 percent was achieved on the African continent. The construction sector developed very dynamically in all regions, although business performance in the oil-producing states was negatively affected by the persistently relatively low oil price. In Nigeria and Algeria, for example, many publicly subsidised infrastructure projects in the Water Management market segment were suspended, which curbed business performance there. Overall, however, strong growth was achieved in the Building Services and Water Management market segments in Africa, which more than compensated for the declines in the Industry market segment. In South Africa, the very dynamic growth was curbed by the depreciation of the South African rand. Net sales growth of over 30 percent was generated in local currency. In the Group currency, the increase in net sales was 17.0 percent.

In the Gulf region, the net sales growth was 4.4 percent. The momentum in the construction sector waned somewhat due to the deterioration in the economic environment as a result of the lower oil price. The same was true of the industrial sector. The Wilo Group further expanded and focused the sales organisation in the region as planned. The growth thus achieved in the Building Services and Water Management market segments compensated for the decline in net sales in the Industry market segment.

Earnings before interest and taxes (EBIT) in the EMEA region were kept virtually stable at EUR 14.9 million. EBIT sank slightly by EUR 0.3 million or 1.8 percent, while the EBIT margin likewise declined only slightly from 8.0 percent to 7.9 percent. This decline was due primarily to a lower gross margin. Planned, temporary start-up costs at the new production site in Russia had a negative effect. Profitability there will gradually improve as capacity utilisation increases. The gross margin was also reduced in 2016 by certain large-scale projects in the Water Management market segment with lower margins. In contrast, a positive impact was made by exchange rate gains from operating business.

Market segments

Net sales development in the individual market segments was as follows in the 2016 and 2015 financial years:

Net sales development by market segment

EUR million	**2016**	2015	Change %
Building Services	1,044.7	1,014.6	3.0
Water Management	173.0	164.9	4.9
Industry	109.4	137.6	-20.5
Total	**1,327.1**	**1,317.1**	**0.8**

BUILDING SERVICES In the Building Services market segment, net sales increased by 3.0 percent or EUR 30.1 million to EUR 1,044.7 million. Once again, Asia Pacific accounted for the largest net sales growth of over 8 percent. A clearly focused sales strategy in Korea and the expansion of the dealer network in China contributed to the very positive business development. High growth was also achieved in India. In the Europe region, the 1.4 percent increase in net sales in the Building Services market segment was largely based on an expansion of the OEM business, which was supported primarily by the ErP effect. The EMEA region was again negatively impacted in 2016 by the recession in Russia, the uncertain political situation in Turkey and the depreciation of the currencies of these countries. Nonetheless, net sales in the Building Services market segment in the EMEA region were increased by 3.4 percent. Very strong project business in Russia made a major contribution to this positive development.

In the mature economies, the general public and companies are becoming increasingly conscious of sustainability in practically every area of life and business. Particular emphasis is laid on energy efficiency and the responsible use of natural resources. This long-term trend is being driven by new and more ambitious political objectives and requirements on CO_2 reductions. Against this backdrop, there is steady growth in demand for energy-efficient products and applications.

The Wilo Group can benefit from this thanks to its strong market position and presence. In addition, energy efficiency is also becoming increasingly significant in the dynamic emerging economies. Faced with sometimes massive environmental problems, even emerging economies such as China are now advancing stricter regulatory requirements on CO_2 savings. As heating and energy costs are to rise in the medium and long terms, the savings potential offered by energy-efficient products is a growing priority. This is also amplifying demand for such modern products and solutions.

WATER MANAGEMENT AND INDUSTRY Net sales in the Water Management market segment rose by 4.9 percent or EUR 8.1 million to EUR 173.0 million. At the same time, business activity in the Water Management market segment developed very positively in virtually every market. It was only in the Eastern European EU countries that net sales fell significantly. In the previous year, these countries benefited especially from the continuation of the EU-subsidised water management infrastructure projects. Once these subsidies expired, far fewer projects were implemented in 2016. Moreover, the market bided its time until the realisation of new projects, as the European Union's next subsidy programmes are starting from 2017. By acquiring GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG and renaming it WILO GVA GmbH, the Wilo Group augmented its activities in the wastewater sector and increased its application expertise in the 2016 financial year. WILO GVA GmbH specialises in the development and production of system technologies and components for biological wastewater treatment.

In the Industry market segment, net sales fell by 20.5 percent or EUR 28.2 million to EUR 109.4 million in the 2016 financial year. The business performance suffered from weak industrial activity in 2016. Net sales declined in nearly every market in the year under review, in some cases sharply. The oil and gas industry in particular went through a phase of economic weakness as a consequence of the low oil price and significantly scaled back its investment activity accordingly. This mainly affected the Wilo activities in India and Russia. Business performance in Russia was also negatively affected by the recession and the depreciation of the Russian rouble.

Results of operations

In the 2016 financial year, the Wilo Group increased its consolidated net sales by 0.8 percent year on year. At the same time, the depreciation of numerous currencies had a significant negative impact on the development of net sales. Adjusted for exchange rate effects, net sales were improved by 3.9 percent. Earnings before interest and taxes (EBIT) fell by EUR 14.1 million to EUR 107.1 million. The ratio of EBIT to net sales (EBIT margin) declined from 9.2 percent in the previous year to 8.1 percent.

The development of earnings is presented below.

Results of operations

EUR million	2016	2015	Change %
Net sales	**1,327.1**	**1,317.1**	**0.8**
Cost of sales	–828.0	–815.1	1.6
Gross profit	**499.1**	**502.0**	**–0.6**
Selling and administrative expenses	–355.0	–341.0	4.1
Research and non-capitalised development costs	–47.8	–43.1	10.9
Other operating income	10.8	3.3	> 100
Earnings before interest and taxes (EBIT)	**107.1**	**121.2**	**–11.6**
Net finance costs and net income from investments carried at equity	–4.1	–8.1	49.4
Income taxes	–27.0	–32.6	–17.2
Consolidated net income	**76.0**	**80.5**	**–5.6**
EBIT as a % of net sales (EBIT margin)	**8.1 %**	**9.2 %**	
Earnings per ordinary share (EUR)	**7.88**	**8.35**	

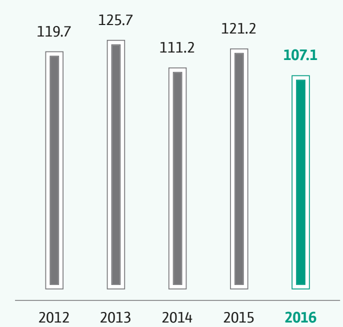
The gross margin, i.e. the ratio of gross profit to net sales, declined from 38.1 percent in the previous year to 37.6 percent in 2016. This was due to a change in the product sales mix with a larger share of low-margin products. Firstly, the lower-margin OEM business grew disproportionately strongly. Secondly, business activity in the Water Management market segment declined in the higher-margin regions, while growth was generated overwhelmingly in countries with lower margins. Intensified price competition in some markets also contributed to the reduction in the gross margin.

Selling and administrative expenses climbed by 4.1 percent year on year to EUR 355.0 million. The Executive Board anticipated the in some cases substantial volatility on the currency markets, the increased geopolitical risks and the resulting weaker development of net sales and took suitable measures at an early stage. For example, planned cost increases were adjusted in line with actual business development. Certain growth-oriented investments and projects to strengthen the Wilo Group's future prospects for the long term were nevertheless initiated or continued as planned. This especially relates to projects in connection with the digital transformation, the strategic location development in Dortmund and corporate acquisitions.

Research and development plays a central role at Wilo. Total spending on research and development, i.e. all research and development costs including capitalised development costs, was increased by 4.1 percent to EUR 65.0 million in the 2016 financial year. At 4.9 percent of net sales (previous year: 4.7 percent), it remains very high. At EUR 47.8 million, research and non-capitalised development costs exceeded the prior-year figure of EUR 43.1 million by a considerable 10.9 percent.

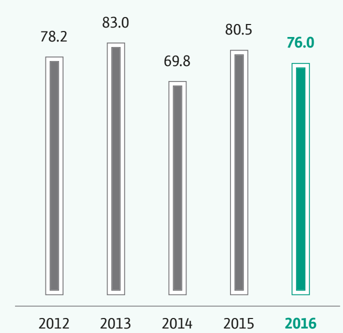
Other operating income increased by EUR 7.4 million year on year to EUR 10.8 million. This improvement resulted primarily from a EUR 6.8 million increase in net foreign-currency income from operating activities. Net foreign-currency income includes, firstly, realised gains and losses from exchange rate changes between the inception and settlement of intragroup and external foreign-currency receivables and liabilities and, secondly, as yet unrealised gains resulting from the measurement of intragroup and external foreign-currency receivables and liabilities at the exchange rate as at the end of the reporting period. In addition, the income from the sale of the old production site in China of EUR 2.2 million is included in other operating income.

EBIT in EUR million



The net finance costs of the Wilo Group (including net income from investments carried at equity) improved significantly by EUR 4.0 million, from EUR 8.1 million in the previous year to EUR 4.1 million in the year under review. This was due firstly to the EUR 2.4 million improvement in net interest costs. For example, interest expenses fell by EUR 2.0 million. This was primarily attributable to the fact that a senior note of USD 40.0 million was repaid on schedule in March 2016. Secondly, interest income from cash investment was increased by EUR 0.4 million. Adjusted for the prior-year hedge accounting effects from the senior note redeemed in the year under review and the corresponding cross-currency interest rate swap, net income from the utilisation and remeasurement of derivative financial instruments improved by EUR 2.1 million.

Consolidated net income
in EUR million



Consolidated net income declined by a total of 5.6 percent or EUR 4.5 million to EUR 76.0 million after taxes. Accordingly, earnings per ordinary share also fell from EUR 8.35 in the previous year to EUR 7.88. The return on sales, which describes the ratio of consolidated net income to net sales, decreased from 6.1 percent in the previous year to 5.7 percent in the 2016 financial year.

Capital expenditure and cash flows

Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment increased by EUR 3.1 million year on year to EUR 109.5 million, thereby reaching a new record high. In accordance with the strategic objective of long-term profitable growth, capital expenditure was again primarily aimed at the enhancement of capacity and structures in manufacturing and sales and the implementation of new technologies. Core aspects in the year under review were the targeted expansion and ongoing modernisation of production capacity, the establishment of structures as part of the digital transformation, new production technologies and new and expanded sales and production locations.

In the year under review, a large part of the investment activity again related to the modernisation and expansion of production capacities at key European locations in Germany and France. As part of the strategic location development project, a state-of-the-art smart factory incorporating significant elements of the Industry 4.0 vision will be realised at the Wilo Group's headquarters in Dortmund over the coming years, among other things. For this purpose, additional land was acquired and the preparatory construction measures were continued in the year under review. In October 2016, the construction of the new smart factory was officially started with a symbolic ground-breaking ceremony.

Capital expenditure in EUR million

In addition to the investments in the location development project, investments were made in adjusting production capacities to current and future changes in the product portfolio. For example, an investment was made for new, modern production facilities for the innovative pump Wilo-Stratos MAXO. In addition, a large portion of the investments went on the expansion of IT infrastructure as part of the digital transformation. Development costs including borrowing costs were capitalised in the amount of EUR 18.5 million.

After hefty investment in emerging economies in previous years, capital expenditure on property, plant and equipment and intangible assets including capitalised development costs at the locations in Germany and France totalled EUR 86.9 million in 2016. This corresponds to nearly 80 percent of the Wilo Group's total capital expenditure in the year under review and reflects the importance of the Group's Western European locations in terms of its strategic focus. With these future-oriented investments, the Group is seeking to actively strengthen these locations even further.

Another portion of these investments related to the construction of new production sites including sales and administrative buildings in Russia. EUR 6.5 million was spent on this in 2016, thus completing the planned construction at this location. The total investment volume in Russia including production machinery and resources was around EUR 35 million. In June 2016, the new branch near Moscow commenced operations. This investment is Wilo's response to the expected above-average growth in the medium to long term, as well as the size and significance of the Russian market. Adequate measures have been taken to reduce the risk of possible political influence, which could have a negative impact on future business.

In recent years, the Wilo Group has expanded sales and production locations in the high-growth markets of Korea, China, India, Turkey and now Russia in order to lay the necessary groundwork for taking a share in the substantial growth potential in these markets. In 2016, further investments were made in the sales infrastructures in Southeast Asia, Africa and Latin America, further expanding the foundations for accelerated growth outside of the Group's established markets in Europe.

Capital expenditure on intangible assets (excluding goodwill) and property, plant and equipment broke down as follows in the 2016 and 2015 financial years:

Capital expenditure on intangible assets and property, plant and equipment

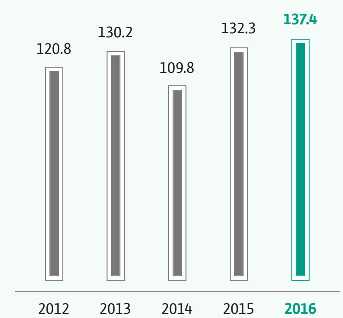
EUR million	2016	2015	Change
Capital expenditure on intangible assets	**31.6**	**25.3**	**6.3**
Land and buildings	18.5	17.7	0.8
Technical equipment and machinery	7.6	8.9	-1.3
Operating and office equipment	22.4	20.7	1.7
Advance payments made and assets under construction	29.4	33.8	-4.4
Capital expenditure on property, plant and equipment	**77.9**	**81.1**	**-3.2**
Total	**109.5**	**106.4**	**3.1**

In addition to the capital expenditure on intangible assets and property, plant and equipment, WILO SE acquired all of the shares in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG at cost amounting to EUR 3.5 million in 2016 and renamed this company WILO GVA GmbH. The acquisition resulted in derivative goodwill of EUR 1.2 million. The acquisition improved the Wilo Group's position in the wastewater sector and increased its application expertise.

Cash flow and liquidity

In the 2016 financial year, the positive cash flow from operating activities increased by EUR 5.1 million to EUR 137.4 million, likewise reaching a new high. The previous year's operating cash flow figure was strongly negatively influenced by a considerable cash decrease in advance payments on account of orders and by a decline in other liabilities. In contrast, the balance of other assets and liabilities improved slightly in 2016. The EUR 2.2 million reduction in income tax payments and negative exchange rate effects, which were eliminated in operating cash flow, likewise contributed to the improvement of cash flow from operating activities.

Cash flow from operating activities
in EUR million



Net cash used in investing activities in the 2016 financial year increased by EUR 2.6 million year on year to EUR 107.6 million. In the year under review, purchases of property, plant and equipment decreased slightly by EUR 3.1 million, while purchases of intangible assets increased by EUR 5.6 million. In addition, the acquisition of GVA Gesellschaft für Verfahren der Abwasser-technik mbH & Co. KG resulted in cash outflow of EUR 3.5 million.

Net cash used in financing activities increased by EUR 8.2 million year on year to EUR 18.6 million. This was primarily due to the repayment of the senior note of USD 40.0 million redeemed in the year under review. Furthermore, dividends of EUR 4.0 thousand were paid in 2016, while there was no distribution in the previous year. The sale of treasury shares increased liquidity with incoming payments of EUR 21.2 million. In addition, net interest expense improved by EUR 1.7 million to EUR 5.6 million.

The individual cash flows for the 2016 and 2015 financial years were as follows:

Cash flows

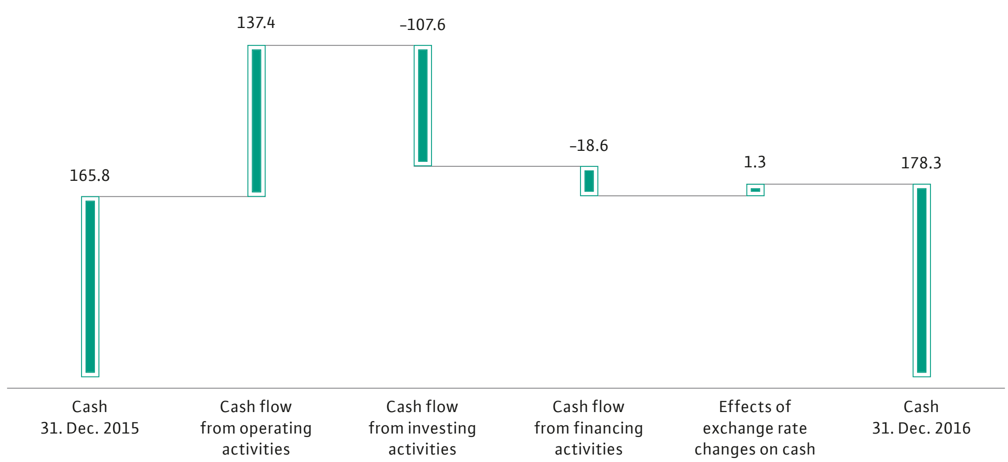
EUR million	**2016**	2015	Change
Cash flow from operating activities	137.4	132.3	5.1
Cash flow from investing activities	-107.6	-105.0	-2.6
Cash flow from financing activities	-18.6	-10.4	-8.2
Change in cash	**11.2**	**16.9**	**-5.7**
Cash at the end of the financial year	178.3	165.8	12.5
Free cash flow	24.2	19.9	4.3

Despite the increase in investment to record levels, the Wilo Group again generated a positive free cash flow of EUR 24.2 million in the 2016 financial year, calculated as the difference between the cash flows from operating and investing activities including interest income and expenses and dividends received. The funds generated are available to the Wilo Group for servicing providers of capital. The Wilo Group therefore retains its very high capacity for self-financing.

Including positive exchange rate effects of EUR 1.3 million, cash increased by EUR 12.5 million to EUR 178.3 million as at 31 December 2016.

Change in cash

in EUR million



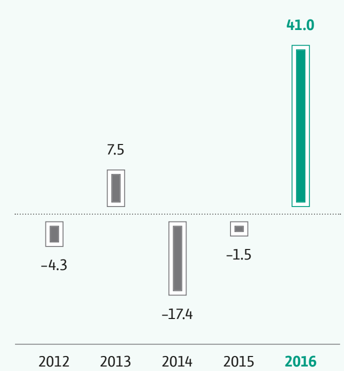
Financial management

The goal of financial management is to maintain the financial independence of the company, ensure liquidity at all times and support the operating activities of the Wilo Group. In addition to its operating cash flow, the Wilo Group still has sufficient financing facilities from international banks for this purpose, consisting of short and medium-term cash credit facilities of more than EUR 200 million as previously. This includes a syndicated loan agreement of EUR 120.0 million with a term of five years that was concluded in 2013 and adapted to reflect the Group's requirements and future challenges. EUR 15.3 million of the cash credit facilities had been utilised as at 31 December 2016. The Wilo Group operates active portfolio management with regard to the origin, type and maturity structure of its borrowings. Financing policy focuses primarily on both return and security targets.

The Wilo Group repaid scheduled financial liabilities of EUR 39.2 million in the 2016 financial year. This related to the redemption of a senior note of USD 40.0 million and the annual repayment of existing promissory note loans. All repayments were primarily financed from the operating cash flow of the year under review.

The Wilo Group's financial liabilities therefore fell by EUR 30 million to EUR 137.3 million as at 31 December 2016. They primarily comprise senior notes of EUR 75.0 million and EUR 37.0 million. The senior notes were issued by WILO SE in the context of US private placements in 2011 and 2013. They mature in 2021 and 2023 and were issued as part of a private shelf facility (non-binding debt commitment). The private shelf facility of USD 150.0 million has been utilised in full. The Group also has a promissory note loan with a volume of EUR 25.0 million, which was taken out in 2011 and will be repaid in instalments until 2020. This promissory note loan had a carrying amount of EUR 10.0 million as at 31 December 2016 (previous year: EUR 12.5 million). The Group also had short-term current account liabilities with a volume of EUR 15.3 million (previous year: EUR 6.1 million).

Net financial position in EUR million



WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans on maturity from its budgeted cash flows from operations, as well as through refinancing measures as required. It has no knowledge of whether the uncertainty affecting the global economic and financial market environment will have any material negative impact on the Wilo Group's financing activities. As at 31 December 2016, cash amounted to EUR 178.3 million (previous year: EUR 165.8 million). The Wilo Group therefore reported its net financial position (financial liabilities less cash) as excess liquidity of EUR 41.0 million and was thus free of net debt. The Wilo Group's leverage, which describes the ratio of the net financial position to consolidated EBITDA, decreased from 0.01 at the end of the previous year to –0.26 as at 31 December 2016.

More detailed information on the financing structure can be found in note (9.12) to the consolidated financial statements on page 144.

Financial position

The total assets of the Wilo Group as at 31 December 2016 climbed by 7.3 percent or EUR 83.4 million year on year to EUR 1,220.1 million. Non-current assets increased by 14.5 percent or EUR 69.0 million to EUR 545.3 million. This was due in particular to capital expenditure on intangible assets and property, plant and equipment in the amount of EUR 109.5 million. Investments in property, plant and equipment in the amount of EUR 77.9 million primarily related to measures for new manufacturing technologies and the construction and expansion of new and existing sales and production locations. A further EUR 31.6 million was invested in intangible assets, of which EUR 17.2 million relates to capitalised development costs plus capitalised borrowing costs of EUR 1.3 million. In addition, WILO SE's acquisition of the shares in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG resulted in cash outflow of EUR 3.5 million. The acquisition resulted in derivative goodwill of EUR 1.2 million. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 51.0 million in the year under review. Positive exchange rate effects also resulted from the remeasurement of intangible assets and property, plant and equipment originally held in foreign currency in the amount of EUR 2.7 million. Intangible assets and property, plant and equipment increased by EUR 61.9 million in net terms.

Equity ratio in %

The carrying amount of current assets rose by EUR 14.4 million year on year to EUR 674.8 million as at 31 December 2016. The slight increase in business activities meant that inventories increased by 4.2 percent to EUR 208.5 million, while current trade receivables rose by 2.9 percent to EUR 262.0 million. Working capital increased by 2.9 percent to a total of EUR 332.9 million. Cash amounted to EUR 178.3 million as at 31 December 2016 and was thus EUR 12.5 million higher than at the end of the previous year.

The Wilo Group's equity increased by 16.5 percent or EUR 92.7 million year on year to EUR 653.6 million as at 31 December 2016. This increase was mainly due to the consolidated net income of EUR 76.0 million for the 2016 financial year. The sale of treasury shares worth EUR 21.2 million and the positive effects from the translation of subsidiaries' separate financial statements prepared in local currencies amounting to EUR 5.1 million also had a positive impact on equity. The contrary effects included the increase in actuarial losses from pension obligations after deferred taxes of EUR 5.6 million and the scheduled dividend distribution to shareholders of WILO SE of EUR 4.0 million for the previous year. The equity ratio improved substantially from 49.3 percent to 53.6 percent.

As at 31 December 2016, non-current liabilities primarily consisted of financial liabilities in the amount of EUR 119.2 million and pension and similar obligations of EUR 85.0 million. Pension obligations increased by EUR 8.9 million in the year under review, largely as a result of the decrease in the discount rate from 2.32 percent to 1.67 percent as at 31 December 2016. Deferred tax liabilities likewise increased, rising by EUR 8.9 million to EUR 35.7 million. This was primarily due to capitalised development costs, for which corresponding deferred taxes were recognised.

The carrying amount of current liabilities rose by EUR 24.2 million year on year to EUR 315.1 million as at 31 December 2016. This was primarily due to lower current financial liabilities, which fell by EUR 27.6 million to EUR 18.1 million. The reason for this was the scheduled redemption of the senior note of USD 40.0 million, which matured in 2016.

The net assets of the Wilo Group were as follows as at 31 December 2016 and 2015:

Financial position

EUR million	2016	%	2015	%
Non-current assets	545.3	44.7	476.3	41.9
Inventories	208.5	17.1	200.1	17.6
Current trade receivables	262.0	21.5	254.7	22.4
Cash	178.3	14.6	165.8	14.6
Other current assets	26.0	2.1	39.8	3.5
Total assets	**1,220.1**	**100.0**	**1,136.7**	**100.0**
Equity	653.6	53.6	560.9	49.3
Non-current liabilities	251.4	20.6	236.5	20.8
Current trade payables	142.2	11.6	139.8	12.3
Other current liabilities	172.9	14.2	199.5	17.6
Total equity and liabilities	**1,220.1**	**100.0**	**1,136.7**	**100.0**

Non-financial success factors

In addition to financial performance indicators (for further information please see the section “Basic information on the Wilo Group – Management and control”), other non-financial success factors are relevant to the strategic and operational management of the Wilo Group. These include employees, efficient production processes, integrated procurement management, quality, resource efficiency and corporate compliance.

Employees

The Wilo Group stands for technologically advanced products and system solutions for the efficient use of water as a resource. The employees around the world are the basis and the driving force for sustainable economic success. Their readiness to innovate and their high degree of commitment and technological expertise serve to secure company’s future prospects. The Wilo Group’s engineers, technicians and commercial employees contribute their various strengths and competencies every single day with passion and pioneering spirit.

The focal points of HR work are selected and realised on the basis of the Group-wide corporate strategy. The HR strategy is influenced both by social and human resources developments and by long-term trends, which are accounted for accordingly in the HR work. The following HR activities are assigned special significance in order to ensure that the Wilo Group remains competitive on the labour market as an attractive employer in the long term.

MANAGEMENT IN THE DIGITAL AGE Digitalisation and the accompanying technological progress are increasingly necessitating a broader management spectrum. In order to help the Wilo Group's managers to perform their management duties in the digital age, Group-wide management guidelines have been defined in cross-border cooperation between more than 50 international managers and the global management development pools. Designated as "Leadership Principles", they are derived from the enhanced corporate strategy Ambition 2020^{+}, the digitalisation strategy enshrined therein and the Wilo Group's corporate values.

In the context of digital transformation, the Leadership Principles serve as a guide for the management of employees. In times of increasing digitalisation, innovation and top performance are promoted in line with the premise that humans must always be the focus. Alongside the incorporation of the Leadership Principles into existing global processes and procedures, mandatory global manager training, called Leadership Lab 4.0, was developed to communicate the management guidelines to the Wilo Group's international top management and established as significant management training in the Wilo Group.

DIVERSITY MANAGEMENT Meanwhile, globalisation and the growing diversity of the workforce are also presenting the Wilo Group with a wide range of opportunities in terms of cooperation and resource utilisation. Diversity leads to opportunities and new tasks that are addressed as part of HR management. Intercultural exchange is promoted and new working conditions are created to this end.

The key principle of diversity management at the Wilo Group is to turn the individual differences between employees into a factor for business success. The HR policy and HR processes are designed to motivate employees to contribute their potential for the benefit of the organisation.

In addition to establishing heterogeneous teams and enforcing and promoting equality of opportunity irrespective of gender, age, religion, ethnicity, sexual orientation, disability or nationality, global training events are held at Wilo at regular intervals. This reinforces the key principle of diversity management among the workforce. By signing the "Diversity Charter" in 2016, a business initiative for the global promotion of diversity in companies and institutions, the Wilo Executive Board underscored its commitment to recognising, appreciating and promoting diversity in the Wilo Group.

TALENT MANAGEMENT The optimum deployment of employees and the use and ongoing development of skills are key activities in HR management that make a significant contribution to the Wilo Group's competitive capability.

With the established international management development pools, the Wilo Group focuses on the emergence of young managers from its own ranks. A large number of participants again entered further professional development within the Group in the year under review. In addition, it became apparent that these programmes substantially support the retention of talented young managers within the company. As a complement to the successful and long-term international management development pools, the Wilo Group shifted focus to regional development programmes in the year under review.

SUCCESSION PLANNING Structured succession planning is carried out at the Wilo Group to ensure that key functions in the Wilo Group can be filled in good time and in line with requirements as soon as the previous holder of the respective function leaves the company entirely or the division as a result of internal changes. This guarantees a stable and steady course of business at all times. For targeted HR planning and development at team and departmental level, the performance and development potential of the individual employees is determined and potential succession arrangements are agreed accordingly. Individual staff development measures and career paths ensure that employees are deployed in line with the respective requirements at all times.

REMUNERATION Appropriate employee remuneration is an important component of HR policy at the Wilo Group. The remuneration of employees under collective agreements in Germany is based on the applicable regional collective agreement regulations. In addition to their basic salary, employees not covered by collective agreements receive a bonus linked to both company goals and the achievement of personal targets. The basis of remuneration is formed by clearly documented job descriptions that are formulated uniformly throughout the Group. The remuneration of employees at subsidiaries is also based on these job descriptions, taking into account local practices, country-specific regulations and guidelines. The Wilo Group assists its employees in their pension provision and offers pension benefits in line with the specific circumstances and regulations of individual countries.

The Wilo Group had an average of around 7,548 employees worldwide in the 2016 financial year. The number of employees as at 31 December 2016 was 7,615.

On average over the year, the number of employees in the regions developed as follows:

Number of employees by region

	2016	2015	Change %
Europe	4,778	4,686	2.0
Asia Pacific	2,133	2,104	1.4
EMEA	517	477	8.3
Others	120	116	3.2
Total	**7,548**	**7,383**	**2.2**

Production

The Wilo Group's global production strategy (GPS) sets out design principles to be followed by all production locations and subsidiaries. The aim is to ensure that customers worldwide are supplied with the right products and services quickly and efficiently. This is based on detailed knowledge of the market and a transparent production network. Strategic decisions such as volume allocations and investments are coordinated systematically. The Wilo Group thereby harmonises its production processes worldwide. In the year under review, 13 new primary production locations were defined on the basis of specific criteria such as location size and vertical integration. The production sites at these locations constitute the production network in the narrower sense and are closely coordinated and managed accordingly.

Wilo is committed to permanently maintaining the operating efficiency of its global production locations at the highest possible level while adopting a pioneering role in terms of production technology. Global production technology management was established in order to achieve these goals. It develops the Group's production technology focus based on its corporate strategy, competitive situation and technological core competencies. The optimum production technology solutions are identified for each production location and their planned deployment is ensured. In addition, current trends and developments such as Industry 4.0 and additive production processes are investigated intensively. In this way, potential can be identified at an early stage and made usable for the Wilo Group.

The principles and methods of streamlined production systems are firmly established in the Wilo Group in the form of the Wilo Production System (WPS). The WPS sets out binding requirements for the design, implementation, control and improvement of production processes at all production locations. They are adapted to reflect the company-specific and local conditions in each location and region.

In line with the Wilo Group's corporate philosophy and strategy, the goal of the WPS is to safeguard and promote a culture of continuous improvement by involving all employees. The focus is on value added from a customer perspective. All the value streams in the Wilo production network are therefore geared towards customer requirements. The individual value added processes are designed efficiently and flexibly. Clearly defined methods and standards enable the individual operating divisions and production locations to achieve their ambitious standards in terms of quality, costs and delivery times. Key elements of the WPS include the standardisation of processes, avoiding waste, value stream design and the integration of additional relevant lean principles into product and process development.

The corporate strategy and the annual divisional and plant targets derived on this basis provide the framework and direction for continuous improvement activities and the targeted use of WPS methods. To this end, each of the operating organisational units defines an annual policy deployment process with the support of the Group-wide Production Systems function. This process is broken down incrementally at the level of the individual departments.

Controlling rounds ensure the ongoing monitoring, coordination and communication of all WPS activities across all departments and check them against the priority objectives. Annual audits review the degree of implementation and the targeted use of WPS methods in line with goal planning. To ensure waste-free processes, the WPS philosophies are already firmly established and provide orientation for the concept design and planning of new locations.

In Dortmund, the Wilo Group's headquarters, activities include investment in a new production complex (smart factory) on the basis of the requirements in terms of growth, infrastructure and modernisation. Production is being fundamentally redesigned in order to lay a milestone in terms of digital transformation and Industry 4.0 and to underline Dortmund's importance as a high-tech location.

To this end, the future-oriented production and logistics concept for versatile, low-waste production was developed as part of this strategic location development project. It includes optimum material flow, an appropriate building layout and further steps for the implementation of the future production location. The successful process of transformation into a factory of the future is taking place on the basis of five overarching projects along the entire supply chain. The objective is to establish efficient and stable processes. The main aims are to consistently plan and control customer orders, meaningfully link production processes, improve logistics processes, systematically integrate suppliers and implement comprehensive change management that ensures the involvement of all employees in the transformation process.

The organisational structure was expanded by two additional sub-projects in the year under review. They focus on securing stable production processes and the quality of deliveries and developing concepts with regard to the future requirements of the smart factory in terms of working hours and remuneration systems. All sub-projects are accompanied by dedicated project management that specifically manages the digital transformation of all production and logistics processes. Extensive programme management also ensures that all measures and targets of the future production and logistics concept of the smart factory are implemented purposefully and on schedule.

As part of the digitalisation strategy, the relevance and focus of new IT tools for production in Dortmund were specified in 2016. New technologies such as smart robotics and augmented reality promise easier working conditions for employees in the future. Interconnected machines and products allow real-time verification of process data throughout production. Besides effective IT infrastructure, the integration of these technologies and the use of their potential primarily require stable processes, which are ensured by the implementation of the future production and logistics concept.

Procurement

As a manufacturing technology company, Wilo is dependent on the development of material costs to a large extent. In addition, the performance of partners along the entire supply chain can already permanently influence the success and quality of Wilo's products.

Against this backdrop, the Wilo Group's efficient, integrated procurement and supplier management is a significant factor when it comes to successfully achieving the defined business targets, particularly with regard to the acceleration of profitable growth. All procurement activities are geared towards achieving a permanent balance between quality, innovation, flexible and secure supply structures, and competitive costs and prices.

To achieve this objective, the Group Purchasing & Supply Chain Management function has established a clearly structured product group management system with corresponding product-group-specific strategies as well as an international partner and supplier network. Group-wide commodity and material management is continuously being enhanced and optimised in order to achieve greater synergy. Efficient, standardised procurement processes are important when it comes to achieving high reliability and substantial economic efficiency. In the Wilo Group's two procurement departments, production materials and non-production materials & services, the purchasing and procurement processes as well as the necessary tools and methods are therefore being continuously developed.

The Wilo Group has efficient supplier relationship management (SRM), which is constantly advancing the standardisation and automation of the corresponding business processes. Process times in the company are significantly reduced using the WILO Purchasing Collaboration Portal (WPC), the powerful electronic procurement system. By way of the electronic data exchange introduced in the previous year between Wilo and its suppliers via EDI (electronic data exchange) and web-based EDI connections and the use of system-based request and query processes, additional efficiency improvements were generated in procurement in 2016.

In connection with the digital transformation and in order to sustainably optimise process costs, a new supplier management system was also planned in the year under review. This system includes supplier portfolio management, which will cover all phases of supplier relations in the future. For example, this includes separate online registration of potential suppliers including corresponding information on the components and services offered by the supplier and available certification. The Wilo Group's supplier management aims to generate cost savings through the further optimisation of the supplier structure while maintaining maximum quality and reliability of supply. The digitalisation-related acceleration of the automation and standardisation of procurement processes is making an important contribution to achieving this aim. The Wilo Group strives to ensure long-term, fair partnerships with its suppliers based on the highest possible degree of commitment, capability and motivation on both sides.

The procurement department for non-production materials & services continued the expansion of internationalisation and the accompanying implementation of product-group-specific processes in the 2016 financial year. For this purpose, cross-functional intragroup cooperation was optimised and made more professional, creating greater potential for cost optimisation. In addition, the degree of business process automation was continuously increased and the integration of individual applications was optimised. For example, the electronic procurement system was enhanced in 2016 in order to relieve procurement staff of routine tasks and to make communication flows more efficient. As a matter of principle, process modelling and optimisation adopts a particularly pronounced focus on sustainable and energy-conscious workflows.

The concept of Suppliers' Days established in recent years was continued in 2016 with a successful event in Korea. Topic Days were also implemented. This focused and intensive format allows solutions to specific questions and technologies to be developed together with international suppliers in cross-functional teams. Technology, know-how and the innovative potential of the Wilo Group's partners can thus be ideally integrated into products at an early stage.

Quality

As a premium provider, the Wilo Group sets itself the highest standards when it comes to ensuring the reliably high quality of its products and services along the entire value chain. Quality assurance is therefore a core task at the company. It begins with the development of products and sourcing of products and extends from production to customer service. Customers, their specific requirements and their satisfaction with the services offered by the Wilo Group are at the very heart of this approach.

Group Quality ensures systematic quality management throughout the Group, thereby making a significant contribution to the strategic corporate objective of profitable growth. Quality management is organised by way of the House of Quality, with its four pillars/processes of preventive quality, production quality, customer quality and supplier quality. The House of Quality builds on the areas of system quality, HSE (Health, Safety, Environment) and IPC (International Product Compliance). The House of Quality is being expanded continuously. The individual processes are subject to permanent development, resulting in a shift in focus away from reactive quality management towards preventive quality management. As part of this process, a forward-looking or preventive quality mindset is to be firmly established in the attitudes and actions of employees through all processes of the House of Quality.

The preventive quality activities are aimed at identifying potential product risks early in the development phase of new products and preventing them by way of suitable measures and the optimum design of production processes. This will enable positive effects to be generated both for the entire value chain and in terms of the Wilo Group's aspiration to satisfy ever increasing customer requirements to the best possible extent. In addition to the further development of already established structures and processes, preventive quality activities centre on the definition and monitoring of strategic performance indicators. These indicators shall be used to make the performance of the preventive quality measures, methods and tools measurable in the development processes. To this end, the technical risk coverage rate was defined as a strategic parameter, for which relevant technical risks are identified and reviewed on a monthly basis to determine the extent to which they are covered or manageable. This indicator shall be applied to all top development projects in the future.

The role of the production quality pillar is to support the production processes methodically in order to ensure reliably production quality through higher process stability. Quality indicators are regularly coordinated with all locations in the "quality hour". In this way, standard processes are harmonised throughout the Group and a uniform management system is guaranteed. In 2016, the optimisation project initiated in the previous year reduced reject and reworking costs by another 15 percent year on year. The method was further refined so that reject costs for selected production locations can now be broken down into individual production stages. This makes the transparency of the indicators many times greater and therefore significantly supports the reduction of reject and reworking costs.

The aim of customer quality activities is to further enhance customer satisfaction by reducing or avoiding warranty costs and complaint rates. These activities are focused on the global collection and evaluation of complaint data and regular close contact with the subsidiaries in the form of monthly field return calls. Top quality topics are derived on the basis of this information. The Wilo Group's subsidiaries receive structured information on the causes of identified quality deficiencies and measures and repairs in the form of quality updates so that they can permanently rectify the deficiencies. Another ten top quality topics were addressed in 2016, bringing the total number of quality updates to 61. Standardised reporting structures for global complaint data allow professional tracking of the effectiveness of these optimisation measures. In addition to this tracking based on monthly statistics, the effectiveness of the quality updates is also ensured by rigorous communication with international subsidiaries. To help establish the preventive quality mindset, early-warning quality updates were introduced this year. Any quality problems can thus be remedies as early as possible and their solutions communicated. Customer quality activities reduced warranty costs by 12 percent compared to 2015.

The fourth pillar in the House of Quality, supplier quality management is used to control supplier quality throughout the entire product life cycle systematically and in close cooperation with procurement and production. The quality costs caused by deficiencies in purchased parts are thus kept as low as possible, and reliable supplier quality is ensured. In the year under review, selected supplier improvement programmes were carried out, resulting in a high average reduction of the PPM indicators. To strengthen the preventive quality mindset in this process, supplier development programmes were also introduced in 2016. Here, the supplier is already developed according to the Wilo Group's quality requirements before series production in order to ensure a smooth production process later.

The integrated management system for QHSEE (Quality, Health, Safety, Environment, Energy) defines standards and methods for ensuring compliance with all internal and external requirements in terms of quality, the environment and occupational health and safety. In order to make this permanent throughout the Group, central management system tools such as process and document management have been digitalised. Wilo has thus reinforced the foundations for a standardised management system at Group level while meeting the requirements for the ISO audit. At the Wilo locations in Germany, the certification of the energy management system in accordance with DIN ISO EN 50001:2011 was completed successfully. Activities in the area of health, safety and environment (HSE) focused on the development and implementation of Group-wide reporting to improve transparency and ensure continuous improvement. The goal is the implementation of Vision Zero, i.e. the pursuit of a zero-fault target with regard to work accidents and environmental incidents.

The International Product Compliance (IPC) unit analyses and evaluates heightened statutory requirements in terms of their technical provisions, particularly in non-EU countries. Country-specific guidelines and legislation are prepared in terms of the resulting technical standards and the relevant expertise is provided for the Wilo Group's subsidiaries. This is intended to ensure continuity of sales and remove barriers to harnessing new market potential while achieving a high degree of customer satisfaction. The product-related regulatory intelligence process defines the collection and preparation of country-specific technical provisions and their systematic, organisation-wide communication. Since the year under review, the results of this analysis and consolidation processes have been provided throughout the Group in the comprehensive product compliance knowledge database.

Resource efficiency

The megatrend of globalisation and the resulting scarcity of resources, which is becoming more pronounced worldwide, require an increasingly systematic focus on achieving outstanding efficiency when it comes to handling and using resources. This challenge is particularly relevant for the Wilo Group. Accordingly, resource efficiency has been a firmly established objective of the Wilo Group for a number of years, and one which it pursues systematically and effectively. For example, the company has set international efficiency-related technology and product standards in the market with a number of its product innovations.

The Wilo Group has also optimised its logistics structures in Europe. Improved utilisation and the leveraging of synergy effects between inbound and outbound freight resulted in significant resource savings, reduced delivery times and the stabilisation of logistical delivery performance. More than 500 fewer trucks a year are now being used as a result, saving several hundred tons of CO_2 every year. Another project completed in 2016, namely to optimise product packaging, is likewise contributing to the conservation of resources.

Product recycling is another key starting point for resource efficiency. In the long term, the aim is the best possible conservation of resources at the end of a product's life. The aim is for old products that have been removed from the market to be separated to the greatest possible extent and recycled. There are areas for tackling resource efficiency even in the early phases of the product life cycle. Building on Ecodesign specifications, Wilo uses recycling-appropriate construction taking into account the aspects of disassembly and reuse as well as the necessary recycling-appropriate production processes for every new product developed. In this way, the conditions for a product that can be effectively and efficiently recycled at the end of its life cycle are put in place at an early stage. The potential recycling rate for a Wilo pump has now been improved to nearly 100 percent. In addition, magnets with resource-critical rare earth elements have been returned to Wilo's production process to a large extent since 2012.

A state-of-the-art recycling centre is operated at the Dortmund location under the management of the Quality Group function. Group-wide recycling standards are also developed here under the motto "prevention through use before recycling and disposal". Among other things, these standards are aimed at leveraging potential in the areas of production and product returns. For example, an IT-based process enables the plants' own customer service teams to use certain spare parts directly from returns processing in a targeted manner. The recycling processes introduced in the previous year were optimised further in 2016, increasing recycling income again. The plan for the next step is to increase the quantities currently available by voluntarily withdrawing old products from the market.

The Recycling function also supports product development by formulating precise requirements for recycling-friendly product design. In addition, the recycling centre analyses the existing processes on a Group-wide basis and establishes suitable performance indicators with a view to enabling the evaluation and prioritisation of recycling activities. The primary objective is to design and coordinate recycling activities so that they are beneficial both ecologically and economically.

The Wilo Group has set itself high ecological standards for all new production and administrative buildings. As a matter of principle, buildings worldwide are planned, constructed and operated in accordance with building standards that are geared towards sustainability and low environmental impact. Gold LEED certification was achieved for the new buildings completed by Wilo in Korea, China, India and Turkey in recent years. The new production location that opened in Russia in June 2016 was certified by the Russian Green Building Council and awarded the highest rating, namely a Green Zoom Platinum certificate. The aim is also to acquire gold LEED certification. LEED (Leadership in Energy and Environmental Design) is an ecological building standard developed by the US Green Building Council that lays down stringent standards for environmentally friendly, resource-conserving and sustainable construction. The planned, state-of-the-art production and administrative buildings at the Dortmund location are also being designed and implemented with high standards for resource efficiency.

Corporate compliance

The sustainable success of the Wilo Group is largely based on shared concepts of values and ethical principles that guide employees in their daily activities. The Executive Board of the Wilo Group therefore acknowledges the fundamental Wilo values of integrity, fairness, respect, passion and responsibility as the starting point for a common system of principles and values across all cultural groups. The “Acting Responsibly” code of conduct is based on this and defines Wilo principles as binding standards for the actions of all executives and employees of the Wilo Group.

Central Wilo principles include:

- adherence to basic social principles such as respecting human rights, equal treatment and equal opportunities,
- compliance with international and national laws, regulations and standards,
- sustainable corporate development taking into account economy, ecology and social issues,
- a commitment to fair competitive practices,
- compliance with laws and regulations in dealings with our business partners,
- a commitment to fair working conditions and the trusting treatment of employees.

Corporate compliance is firmly established in the organisation of the Wilo Group and safeguarded by the compliance director and the compliance office. In this function, the compliance director reports directly to the CEO on issues relevant to compliance. Among other things, the compliance office is responsible for the Wilo Business Keeper Monitoring System (BKMS®). This certified whistle-blower system is available to employees and third parties for confidential and anonymous tips on violations of the code of conduct. In addition to the Executive Board, the Audit Committee also receives regular and ad hoc reports on issues relevant to compliance.

A Group-wide e-learning initiative was launched in the year under review in order to reinforce the compliance culture and knowledge of relevant compliance regulations among all executives and employees. It is initially focusing on the topics of corruption prevention and competition law. Additional topics are planned in subsequent years. In addition, internal rules are successively enhanced in order to make the existing Group-wide code of conduct even more specific and to adapt it more closely to local conditions.

These activities are part of the continuous development and refinement of the existing compliance management system (CMS), including to meet the recommendations of ISO 19600:2014 "Compliance Management Systems". In the medium term, the Wilo Group is seeking to obtain certification for its CMS in accordance with Audit Standard 980 "Principles for the Proper Audit of Compliance Management Systems" promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW).

Statement by the Executive Board on the economic situation

2016 was a turbulent year, dominated by sometimes surprising geopolitical and economic trends and events. Nationalist and protectionist tendencies increased worldwide. The UK's decision to leave the European Union and the course for economic policy announced after the surprising election outcome in the USA are just two examples of this worrying trend. Moreover, the conflicts in the Middle East remain unresolved, the attempted coup in Turkey plunged the country into a deep crisis, and the extension of the sanctions against Russia mean that the tension in this region is not going to lift any time soon. In Europe, some of the major countries are facing elections with uncertain outcomes, while Italy suffered under the government and banking crisis. In this confusion of different strains and risks, uncertainty among market participants palpably increased. As a result, investment activity in industrialised nations remained low, and growth momentum in the emerging economies flattened. The foreign exchange markets were extremely volatile; numerous currencies depreciated against the euro. The economic revival expected by most at the start of the year failed to materialise. These various influences also had a sometimes markedly negative impact on the development of individual markets that are important for the Wilo Group.

Taking this difficult, uncertain political and macroeconomic environment into account, the Wilo Group's Executive Board rates the business performance in 2016 as generally good. The Wilo Group reacted flexibly to these challenges with accelerated sales measures and cost adjustments and grew profitably again – for the seventh year in a row. Adjusted for exchange rate effects, the growth in net sales was 3.9 percent and thus slightly below the increase of up to 5 percent originally anticipated for the year under review, which was based on the assumption of an economic recovery and stable currency conditions. The depreciation of numerous important currencies for the Wilo Group reduced the growth in net sales in the Group currency to 0.8 percent.

The Asia Pacific region was again the Wilo Group's growth driver. Net sales in the Group currency grew by 4.4 percent here. Business activity was significantly increased in China and Korea. This more than offset the declines in net sales in India and Southeast Asia, which were chiefly due to the weakness of the industrial sector.

The picture in Europe was also varied. Net sales here were roughly on a par with the previous year. Growth in the German-speaking countries, the Mediterranean region and Scandinavia nearly compensated for the decline in net sales in France, the Eastern European countries and, as a result of currency effects, also the UK.

The EMEA region is crisis-stricken, but the Wilo Group's economic performance in Russia in particular was thoroughly positive. The good market position was further improved and high net sales growth was generated in local currency. Business activity in Turkey was on a par with the previous year in local currency despite adverse conditions.

The Wilo Group's profitability, measured on the basis of the EBIT margin, fell short of expectations from the start of 2016 and declined from 9.2 percent to 8.1 percent. However, this is primarily attributable to the consistent, anti-cyclical initiation or continuation of strategically important, growth-oriented, future-proofing investments and projects. The objective is to secure the targeted acceleration of profitable growth in the medium and long terms. In addition, the margin was reduced by shifts in the product sales mix. In this respect, the profitability achieved is still considered good.

Strategically, the targeted expansion of international market presence is of great importance to the Wilo Group. With wide-ranging regional diversification, the company intends to balance out the different trends, fluctuations and risks in individual countries and regions, while taking advantage of the resulting opportunities in a targeted manner. This is a key factor in the Group's success particularly in a climate of major economic challenges, escalating crises and steadily growing uncertainty. The business performance in the year under review is clear evidence that this strategic approach is highly appropriate. The net sales performance in the individual regions demonstrates the Wilo Group's ability to limit the impact of adverse developments and risks in individual countries thanks to a strong local market presence and to offset these effects with strong growth in other countries.

Another strategic aim of the Wilo Group is to strengthen its innovation and technology leadership in order to secure its sustainable, profitable growth in the future. Total research and development costs including capitalised development costs increased slightly in 2016 compared to the previous year. At EUR 65.0 million, they amounted to 4.9 percent of net sales. This was the highest level of investment in research and development in the Wilo Group's history. Important new products were again developed to market maturity in 2016. One example is the Wilo-Stratos MAXO, which is being presented at ISH, the world's leading trade fair, in March 2017 and sets new standards in terms of system efficiency, communication capabilities, connectivity and ease of use.

Regardless of short-term economic fluctuations, the Wilo Group is counting on relevant, long-term megatrends. Investments that are guided by these megatrends and secure the strategic target of sustainable, profitable growth continue to be made in difficult times – including the year under review, when capital expenditure broke the record set in the previous financial year. The Wilo Group invested EUR 109.5 million in 2016. Capital expenditure was primarily aimed at the advancement of new manufacturing technologies and the construction and expansion of new and existing sales and production locations. As part of the strategic location development project, Wilo will construct a state-of-the-art factory at its headquarters in Dortmund over the coming years, among other things. Production is being fundamentally redesigned in order to lay a milestone in terms of digital transformation and Industry 4.0. Wilo is thus underlining Dortmund's importance as a high-tech location.

Despite the increased expenses for research and development and the higher capital expenditure, significantly positive free cash flow of EUR 24.2 million was generated again in the year under review, surpassing the previous year's figure. This demonstrates the company's capacity for self-financing. In addition, the structure of the statement of financial position was further improved, with the equity ratio rising from 49.3 percent to 53.6 percent. This also demonstrates the successful implementation of the Wilo Group's strategy and its high degree of flexibility.

In addition to organic growth, Wilo is also counting on M&A transactions to strengthen the company and further advance both growth and profitability going forward. By acquiring GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG, Wilo augmented its activities in the wastewater sector and increased its application expertise in 2016.

The Executive Board set the course for a successful future by overhauling the corporate strategy to create "Ambition 2020+". Wilo intends to remain independent and generate faster profitable growth. The issues of growth and digitalisation were more closely and specifically incorporated into the corporate strategy in 2016. To this end, the Executive Board defined eight growth initiatives and already got them off the ground in 2016. In addition, the Executive Board formulated its clear ambition to lead Wilo on the journey to becoming a digital pioneer in the pump industry. The Wilo Group hopes to achieve this both by being its customers' go-to partner and problem solver with innovative digital products and by setting standards with the digitalisation of its value chain. The Wilo Group made tangible progress towards this aim in 2016. This is demonstrated by the advances in the company's digital transformation and the market success of innovative concepts and products. The Wilo Group will use the Wilo-Stratos MAXO to further substantiate its claim to be the digital pioneer in the pump industry.

The Executive Board considers the economic situation of the Wilo Group to be highly stable and sustainable. This assessment is based on the results in the consolidated financial statements and the separate financial statements of WILO SE for 2016 and takes into account business performance up until the preparation of the 2016 Group management report. At the time of this Group management report being prepared, business performance in early 2017 is in line with the Executive Board's expectations.

Report on risks and opportunities

- Integrated risk management system ensures transparency and security
- No discernible risks to the Group's continued existence
- Systematic identification and realisation of operational and strategic opportunities
- Overall risk situation largely unchanged year on year

Risk and opportunities policy

The business policy of the Wilo Group is aimed at ensuring the independence of the company, profitable growth and increasing enterprise value in the long term. As an enterprise with global operations, the Wilo Group is exposed to various risks. At the same time, however, this also gives rise to numerous opportunities. In this respect, business activity requires the careful monitoring of all relevant risks and opportunities. As a matter of principle, the Executive Board makes its strategic and operational decisions on the basis of a systematic analysis and assessment of identified risks and opportunities with regard to the income and liquidity situation of the Wilo Group in addition to future development. Risks that could jeopardise the future of the company as a going concern, or that are inappropriately high or unclear, are categorically not entered into.

Fixed components of the corporate strategy include the comprehensive and systematic risk management system that is installed throughout the entire Wilo Group and the procedure for managing opportunities.

Opportunities management

In order to promote and ensure the intended profitable growth, the systematic identification and realisation of operational and strategic opportunities is essential.

Opportunities management is not directly integrated into the risk management system. Opportunities are therefore not assessed in line with the methodology prescribed by risk management.

Operational opportunities at the Wilo Group are primarily identified and assessed in the regions, market segments and central functions. This is achieved by closely observing and analysing the respective markets. This allows trends and developments to be recognised at an early stage and any potential opportunities to be deduced. The individual opportunities are then analysed and assessed in detail as part of the planning process and incorporated directly into medium-term planning via scenario calculations. Resources are coordinated and allocated at Group level.

Opportunities of elevated strategic significance, such as acquisitions, partnerships or even changes in strategy, are analysed, assessed and implemented at Executive Board level with the support of Corporate Development. The risks and the opportunities potentially arising from global megatrends and the accompanying implications for the Wilo Group are derived and analysed in the corporate foresight process, meaning that the corresponding opportunities are systematically included in the ongoing development of the corporate strategy.

Risk management system

The Wilo Group has a state-of-the-art, integrated, globally available risk management system. It ensures that business risks are identified at an early stage and effective countermeasures are initiated promptly. The monitoring of the measures initiated and their consistent implementation is a key component of the system. This is based on the following central principle – once identified, risks are assessed, managed as far as possible, and monitored at all times. The risk management system is audited annually by Internal Audit on the basis of Audit Standard No. 2 promulgated by Deutsches Institut für Interne Revision (DIIR).

Risk management at the Wilo Group is organised on a decentralised basis. Level-two managers throughout the Group are responsible for risk tracking and reporting. They act as risk management officers, work closely with the Group risk manager and are aided by Controlling. Throughout the entire company, uniform risk assessment and procedural compatibility are guaranteed through the use of checklists and risk classification. The relevant communication and information platform is provided by software in line with Group requirements.

The Executive Board bears overall responsibility for risk management and defines the risk strategy for the Wilo Group. Risk strategy is implemented throughout the Group using uniform guidelines and processes.

Integral components of the risk management system are:

- the Risk Management Directive
- the risk atlas
- the Group risk manager
- risk management officers in the regions, product divisions and central functions
- regular risk reporting
- ad hoc risk reporting

The Risk Management Directive of the Wilo Group sets out the principles for handling risks. In addition, it stipulates the requirements of risk reporting, procedures for the measurement of risk and compulsory reporting thresholds. The Directive also defines the duties and authorisations of persons involved in the risk management process.

The risk atlas sets out uniform categories to be used for the structuring of risk identification. To ensure that all relevant risk areas are always tracked, the risk atlas is checked for completeness on an ongoing basis and adjusted as required.

The Group risk manager coordinates the risk management process and, in this function, reports regularly to the WILO SE Executive Board on a quarterly basis and on an ad hoc basis as necessary. The respective risk management officers of the Wilo Group ensure that risks are tracked and controlled in the divisions for which they are responsible. In this way, specific risks are identified and reported on for the individual sales regions, product divisions and central functions.

As part of risk identification, information on customers and suppliers is analysed and market and competition analyses are prepared. Furthermore, risks emerging from the political and overall economic environment are monitored and assessed.

The risks identified are analysed using a uniform methodology set out by the Risk Management Directive. The probability of occurrence (in the next twelve months), gross and net risk are calculated for each identified risk. The net risk takes into account measures to prevent or mitigate risk. The aim of these measures is to reduce the potential loss or the probability of occurrence. Where possible and economically feasible, risks are limited by insurance policies or, for financial risks, by the use of suitable derivative financial instruments. The Risk Management Directive defines reporting thresholds. It stipulates that the risk management officers must report every risk for which the net potential loss exceeds a defined value regardless of the probability of occurrence.

The risks reported by the divisions are also aggregated at Group level in the risk management system. The Executive Board receives quarterly and, if necessary in individual cases, immediate reports on the findings of risk analyses. In addition, the Supervisory Board and the Audit Committee it appoints are comprehensively and constantly informed of the status and development of the risk management system.

The basic aim of this controlling system is to keep the Wilo Group's overall risk exposure transparent and within acceptable limits.

Risk classification and risk assessment

The sections below describe the key risks to the Wilo Group. Suitable countermeasures, hedges and the general conditions are taken into account in calculating the respective probability of occurrence and potential loss.

The risks, their probabilities of occurrence and their possible financial impact on EBIT are measured and classified as follows:

Probability of occurrence		Potential negative impact on EBIT	
Unlikely	≤ 20%	Low	≤ 10%
Possible	> 20% ≤ 50%	Medium	> 10% ≤ 50%
Likely	> 50%	High	> 50%

If the probability of occurrence of a potential risk is between 20 percent and 50 percent, the corresponding risk is classed as possible. A potential risk is considered likely if the possibility of this risk actually occurring is higher than 50 percent.

In the event of the assumed occurrence of a risk, the possible financial impact on EBIT that can be derived is classified into one of three groups (low, medium, high) based on the forecast percentage deterioration of EBIT. An EBIT deterioration of between 10 percent and 50 percent is considered a medium earnings impairment. An earnings reduction that is feasible but considered low would therefore have an estimated negative effect on EBIT of up to 10 percent and a high financial impact would be a negative effect of more than 50 percent.

Overview of business risks

	Probability of occurrence	Potential negative impact on EBIT
General risks		
Economic environment	Possible	Medium
Extraordinary external disruptions	Unlikely	Medium
Legal and regulatory environment	Possible	Medium
Industry-specific risks		
Competition	Possible	Medium
Company-specific risks		
Research and development	Possible	Low
Production	Unlikely	Medium
Human resources	Possible	Low
Information technology	Unlikely	Medium
Acquisitions and strategic partnerships	Possible	Medium
Financial risks		
Exchange rates	Likely	Low
Interest rates*	Possible	None
Commodities	Possible	Low
Defaults	Possible	Low
Financing and liquidity	Unlikely	Low

* The possible impact of interest rate risk relates to net financial costs and is classed as low. More detailed information can be found in section “Financial risks and opportunities” of the Group management report.

General risks and opportunities

Economic environment

Economic and market risks can arise due to general economic, political and social trends. The specific development of the construction sector and the sanitary industry in the respective countries and regions is considered particularly important in terms of industries. The Wilo Group is dependent on these developments to a significant extent. However, the broad international presence of the Wilo Group also helps to balance risk between activities in individual regions.

The Wilo Group carefully monitors and constantly analyses developments and expectations for the economy as a whole, politics and customers’ industry developments on account of uncertainty and risks. If necessary, appropriate countermeasures can thus be taken early in order to safeguard the current and planned economic situation of the Wilo Group as well as possible. Special attention is paid in this context to individual country risks, and targeted countermeasures have been defined to minimise them. Although the conditions on the global markets remain extremely uncertain and expectations for the future are therefore risky, selected Asian, Latin American and African markets offer very good growth opportunities, though these markets also have elevated risks. The Wilo Group reduces its risk potential considerably by adopting targeted organisational changes, expanding and optimising the utilisation of local production capacity and leveraging synergies.

In 2016, the global economy saw moderate growth similar to that of the previous years. Growth remained modest in the industrialised nations, and major emerging economies were curbed by still relatively low energy and commodity prices as well as structural deficits. The prospects for 2017 are only a little more positive. The expected continuation of the growth slowdown in China and a foreseeable rise in US interest rates could further curb economic development in the emerging and developing nations. In contrast, a return to an upward tendency in oil and commodity prices will relieve some of the pressure on oil-producing nations. Geopolitical risks remain. In addition, the uncertainty connected with factors that could slow down economic performance remains high. These include potential policy changes in the USA and in the EU after the elections coming in 2017. Moreover, protectionist tendencies are increasing worldwide. Similarly, the lengthy Brexit negotiations and the risk of burgeoning new government financing and banking problems in the euro area are adding to the uncertainty. The Wilo Group is closely monitoring these developments and, if necessary, will selectively adjust business policy decisions in a timely manner in order to limit the financial risks to the Group and reassess the opportunities. All in all, the Wilo Group considers the potential negative impact of the economic environment on the company's results of operations to be moderate (medium earnings impact according to risk classification).

Extraordinary external disruptions

As a globally operating group of companies, Wilo is exposed to various external risks. Natural disasters, terror attacks, fire or political unrest can potentially impair business activity at the location in question. The Wilo Group classifies the probability of occurrence of extraordinary disruptions as unlikely, though political unrest is considered possible. Targeted measures have been taken to minimise the potential impact of the current geopolitical crises in individual countries and regions and the relevant forecast risks for the Wilo Group's business. In the event of a further escalation, additional steps will be taken to limit the risk to which the Group is exposed. To the extent possible and reasonable, the Wilo Group is also adequately insured against operational shutdowns and property damage. In addition, and appropriate emergency plans and preventive measures have been developed and implemented to minimise the potential negative effects. The Wilo Group classes the earnings effect of extraordinary external disruptions as moderate (medium earnings impact according to risk classification).

Legal and regulatory environment

Material changes in legal conditions and the regulatory environment (e.g. restrictions on trade, tax legislation, product quality and safety standards) can have a negative or positive effect on the business activities of the Wilo Group.

On the one hand, restrictions on trade could make commodity procurement more difficult or more expensive and the sale of products in certain markets or regions may be restricted. Recently, there has been a global rise in protectionist tendencies and the rejection of free trade and globalisation. It is currently uncertain whether these movements will gain the upper hand and actually translate into restrictive measures.

Heightened requirements as a result of product quality or safety standards may lead to increased production or research and development costs. At the same time, changes in legal conditions and the regulatory environment can also give rise to opportunities. For example, the introduction or tightening of energy efficiency directives could lead to increased demand for energy-efficient products (further information can be found in the “Energy shortage and the Ecodesign Directive” section of this report on risks and opportunities).

With its broad range of high efficiency pumps, the Wilo Group is in an ideal position to serve the respective markets quickly and comprehensively. The legal conditions and the regulatory environment in all of its key markets are continuously observed in order to ensure that it can identify potential problem areas or opportunities at an early stage and quickly adapt its business activities accordingly. The occurrence of risks arising from the legal or regulatory environment is possible. The impact on the Wilo Group’s results of operations is considered to be moderate (medium earnings impact according to risk classification).

Urbanisation

The rapid growth of the world’s population is unabated; population explosions are being seen in Asia and Africa in particular. The United Nations (UN) expects the Earth will be home to nearly ten billion people in 2050. At the same time, the proportion of the population living in urban conurbations is increasingly rapidly worldwide. Over half of all people currently live in cities. The UN estimates that it will be 66 percent in 2050. In addition to the existing, constantly growing cities and metropolitan regions, other entirely new cities will be built. According to analyses by Strategy&, more than USD 350 trillion will be invested in urban and infrastructure development worldwide over the next 30 years. The emerging economies, particularly in the Asia Pacific region, will account for much of this. This megatrend is the source of considerable long-term growth potential for the Building Services and Water Management market segments. The Wilo Group is taking advantage of these long-term opportunities with targeted investments.

Water shortages
Water is a scarce resource. According to estimates from the World Health Organisation (WHO) and UNICEF, around 660 million people around the world currently have no access to clean drinking water. Around 2.4 billion people live without basic sanitation. In future, it will therefore be all the more important to use the available resources efficiently and to utilise intelligent technologies for water extraction and purification. Wilo has responded to this megatrend with its products and system solutions in the Water Management market segment and provides professional solutions for the complex requirements in drinking water extraction, water pumping and wastewater transportation and processing, giving rise to substantial growth opportunities in the EMEA and Asia Pacific regions in particular.

Climate change
Man-made climate change is becoming increasingly visible and tangible thanks to global warming and the growing incidence of extreme weather conditions. The continued melting of the polar ice caps, rising sea levels and the clustering of droughts and storms are just a few of the expected and already relevant effects of climate change. Drastic action is required worldwide to stop, or at least limit, climate change and its consequences. One important measure is the reduction of greenhouse gases. The Climate Change Conference in Paris in 2015 could be the trigger for the future intensification of protective measures at a government level around the world. In addition to the increased use of renewable energies, the focus is on developing and using more energy-efficient processes and technologies.

The megatrend of climate change gives rise to substantial growth opportunities for all three of the Wilo Group's market segments in all of the regions in which the company has a presence. Demand for forward-looking, resource-conserving products and system solutions will also increase as a result of the tightening of minimum legal standards. Wilo products already offer customers greater energy efficiency throughout the entire operation phase. High-efficiency pumps reduce power consumption by up to 90 percent compared with older, unregulated pumps. The stated aims of the Wilo Group are to shape the future as an innovation and technology leader and to promote innovations in order to reduce energy consumption and hence lessen the impact of CO_2 on the environment.

Digitalisation
The digital transformation of society, trade and industry is ever-present. The fundamental changes driven by the establishment of new technologies are affecting almost everything. Modern information and communication technologies are finding their way into all areas of life and commerce. New digital technologies are changing traditional production methods and business processes. Companies' complete value chains are being affected by the digital transformation. Established business models are being called into question and new, innovative business models are emerging. The process of digitalisation presents significant opportunities

for the Wilo Group. In addition to efficiency and productivity improvements and the corresponding optimisation of existing business processes, it also opens up the possibility of new and innovative business models for the pump industry. Digitalising the company and taking advantage of the resulting opportunities requires a fundamental and sustainable reorganisation of the value chain and business processes. To this end, Wilo has developed a digitalisation strategy that is a fixed component of the wider corporate strategy. An interdisciplinary internal group of experts has also been formed and tasked with pressing ahead with the Wilo Group's digital transformation.

Wilo expects the implementation of digitalisation in the company to have a positive impact on its business activities in the medium to long term. However, the effects on the Group's earnings and liquidity are difficult to estimate at present. Accordingly, they are not yet included in the Wilo Group's specific earnings and financial planning.

Industry-specific risks and opportunities

Competition

Competition risk remained largely unchanged compared with the previous year. Although the growing price competition for major projects involves uncertainties, the Wilo Group mainly mitigates these risks by making increased use of product lines with unique selling propositions. It also ensures a high level of competitive capability through its technological edge, particularly in the area of energy efficiency, and through its outstanding product quality and extensive global network. The occurrence of competition risks is possible. Wilo rates the risk of earnings effects for the Group that emerge from the competitive environment and differ from corporate planning as moderate (medium earnings impact according to risk classification).

Energy shortage and the Ecodesign Directive

The Ecodesign or Energy-related Products Directive sets the framework for defining uniform regulations on the environmentally sound design of energy-related products in the European Union (EU). The specific product requirements are stipulated in implementing measures for the individual product groups and enacted by regulations in the individual member states.

Regulation (EU) No 547/2012 stipulates the requirements for the environmentally sound design of water pumps. In contrast to the regulation on glandless circulation pumps, the efficiency of the pump section is the only determining factor. The relevant requirement is the minimum efficiency index (MEI), which may not be lower than 0.40. The reference MEI for water pumps with the highest efficiency is ≥ 0.70. Regulation (EU) No. 547/2012 is currently being revised by the European Commission with respect to an overall efficiency indicator. The Wilo Group expects this to result in more stringent requirements and an expanded scope of application in the medium term.

In addition, the drive part of water pumps are governed by Regulation (EC) No 640/2009, amended by Regulation (EU) No 4/2014, which defines minimum efficiency classes for motors. Motors with a rated output of between 7.5 kW and 375 kW have to comply with a minimum efficiency class of IE3, or IE2 if the motor is fitted with a frequency converter. From 1 January 2017, motors from 0.75 kW to 7.5 kW will also have to comply with these requirements.

The Wilo Group has been committed to energy-efficient products for many years, meaning that it was well positioned to adapt to these fundamental changes in legislation at an early stage. The Wilo Group's high-efficiency pumps and particularly the products in the Wilo-Stratos GIGA and Wilo-Helix EXCEL series and the High Efficiency Drive (HED) meet or even exceed the current strict requirements for the European single market. This gives the Wilo Group additional market opportunities in the Europe region. Tightened energy efficiency legislation in the EU often also serves as a beacon for markets outside Europe. However, it is presently hard to assess the extent to which the forecast positive effects will take hold in the expected period.

Technological progress in building management

Manufacturers and consumers are increasingly focusing on smart living. In smart homes, everyday devices and systems in private households are electronically integrated in order to combine higher energy efficiency with greater convenience, economic efficiency, flexibility and safety. The devices and systems are controlled and accessed centrally and also remotely. Smart homes offer additional growth opportunities for the Building Services market segment. The strategic investment, topped up in 2016, in iEXERGY GmbH, which focuses on the development of smart home solutions, gives the Wilo Group systems and solutions expertise in this area. The opportunities arising from this can positively influence the business activities of the Wilo Group in the medium to long term. It is currently still difficult to estimate the effects on earnings and liquidity, and they can therefore not yet be included in the specific earnings and financial planning of the Wilo Group.

Company-specific risks and opportunities

Research and development

Wilo is firmly committed to technological progress. The company continuously invests in the development of new technologies and products to strengthen its market position. In 2016, research and development costs including capitalised development costs amounted to 4.9 percent of consolidated net sales. Wilo conducts regular technology screening and maintains continuous dialogue with universities and research institutions in order to identify the opportunities of new technologies at an early stage. The risk of paying insufficient attention to customer requirements in the development process is limited with customer surveys, trend analyses and targeted market tests.

The effectiveness and target conformity of all development activities are examined continuously. The purpose of this is to minimise qualitative, time and financial risks in development projects. Professional project management and regular deviation analyses ensure a constant focus on customer requirements. Binding Group-wide standards and guidelines are applied here. The occurrence of risks from research and development is possible, but the impact on the results of operations of the Wilo Group is considered low.

Production

Quality risk is mitigated by uniform Group-wide standards in production (Wilo Production System) and comprehensive quality management. This risk is classed as unlikely on the whole. The risk of production stoppages is strictly limited through the use of state-of-the-art production plants and professional control systems. The Wilo Group counters procurement risks by way of integrated procurement and supplier management. Supply bottlenecks are primarily prevented by ensuring the availability of second-source suppliers. Insurance is also taken out to offset the financial consequences of business risks of this kind. If such risks occur despite this, the company estimates that this could entail a medium earnings effect for the Wilo Group.

Human resources

The Wilo Group's success is built on its qualified employees and their expertise, commitment and motivation. The loss of qualified personnel in strategic positions constitutes a risk that can lead to the loss of company-specific knowledge, capacity bottlenecks or decreased productivity. The Wilo Group counters this risk with methods such as coordinated demographic management, which includes active succession planning and the development of new staff as part of Group-wide talent management. The occurrence of HR risks is generally possible. However, the impact on EBIT is classified as low.

Information technology

All important business processes for the Wilo Group are integrated into IT systems. In extreme circumstances, the failure of key systems or substantial data losses could lead to business interruptions. WILO SE mitigates these IT risks with daily backups of all critical business data. To this end, the business database aiding production, materials management, order processing, financial accounting and cost accounting in particular conforms to top security standards. WILO SE runs its critical business applications in two separate, certified and highly powerful data centres. Certified processes and business recovery plans are also in place for the event of disasters. An annual monitoring audit is performed to maintain the certificate. System downtime is further minimised by targeted utilisation of an in-house support team and outside service providers. Given these measures, the occurrence of IT risks is unlikely and the earnings effects have been limited to a medium level.

Acquisitions and strategic partnerships

In order to expand its technological spectrum and geographical presence, the Wilo Group also provides for the realisation of external growth opportunities as part of the corporate strategy. Company acquisitions are considered only if they appear beneficial from both a strategic and economic perspective. The opportunities arising from acquisitions and strategic partnerships are varied. Acquisitions and strategic partnerships offer additional potential for growth and efficiency. In addition, they can provide access to new sales channels and markets. With regard to research and development in particular, the Wilo Group enters into strategic partnerships in order to advance joint technology projects. It cooperates with prominent universities and research institutes in this area.

In addition to the opportunities resulting, among other things, from the expected synergies, company acquisitions also entail risks. Accordingly, each investment decision is preceded by a careful assessment and analysis of the commercial, technical, legal, tax and financial conditions (due diligence) in order to identify, quantify and limit the risks associated with the acquisition. In addition, an individual strategy for integration into the Wilo Group is developed for each acquisition and corresponding measures are planned and implemented.

However careful this examination may be, risks may emerge after an acquisition that were not identified during the due diligence process, not considered to be material or not accurately quantified. In addition, the identified benefits and synergies may not occur to the expected extent, within the expected timeframe, or at all. The integration process may be more difficult and cost-intensive than expected, thereby jeopardising the realisation of the planned goals and synergies. If business fails to develop as expected, the necessary goodwill impairment may have an impact on earnings.

The occurrence of risks arising from acquisitions and strategic partnerships is generally possible. The Wilo Group considers the corresponding impact on its earnings to be moderate (medium earnings impact according to risk classification).

Financial risks and opportunities

Exchange rates

The Wilo Group's global presence makes it important to manage changes in exchange rates. Currency risk for the Wilo Group primarily results from its operating and financing activities. The currency risk that largely relates to the supply of goods and services to Group companies is limited with same-currency offsetting transactions and derivative financial instruments.

The occurrence of exchange rate risks from the operating activities of Group companies with third-party customers and suppliers is probable, but the Wilo Group rates the associated earnings impact as low. These activities are predominantly transacted in local currency.

Currency risk from financing activities results in particular from foreign-currency borrowing from third-party lenders. There is also foreign-currency lending to Group companies for financing purposes. Such currency risks are reduced by the use of derivative financial instruments.

To prepare the consolidated financial statements, the annual financial statements of the subsidiaries that are based outside the euro area, or whose functional currency is not the euro, are translated into the reporting currency (euro). Changes in the average exchange rate of a currency can therefore notionally influence both net sales and income as a result of translation. However, this translation risk is not associated with any effects on the cash flows in local currency.

Further information on currency risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in section (13) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 156 et seq.

Overall, the occurrence of currency risks is considered likely, but the Wilo Group classes the associated impact on earnings as low.

Interest

The interest rate risk mainly results from floating rate financial liabilities and the investment of cash. Both rises and falls in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. The occurrence of interest rate risk is considered possible, and the impact on net finance costs is rated as low as most financial liabilities have fixed long-term interest rates. By contrast, favourable interest rate developments could have a positive effect on net interest income. Group Treasury monitors and analyses developments on the financial markets in order to optimise the balance between liquidity retention and the investment of cash in term money with a maximum time horizon of up to twelve months.

Further information on interest rate risks in accordance with IFRS 7 can be found in section (13) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 158.

Commodities

The Wilo Group is mainly exposed to commodity price risk as a result of price fluctuations on the global markets for copper, aluminium, stainless steel and their alloys. The Wilo Group uses commodity derivatives in a targeted manner to minimise commodity price risk. They are used if the effect on earnings from the change in commodity prices is significant to the Wilo Group and corresponding financial instruments are available and can also be used efficiently. In addition, the development of prices and supply of rare earth elements is monitored extremely closely.

The prices for most of the copper procurement volume for the 2017 financial year have already been determined in order to minimise the impact on earnings from the change in copper prices for the Wilo Group.

In contrast, the prices for the procurement volume for stainless steels and their alloys are not hedged, because the available financial instruments are not suitable for effectively minimising the risk of price changes for these commodities. According to current information, the Wilo Group's results of operations could primarily be affected by price fluctuations on the global markets for copper and aluminium from the 2018 financial year.

Further information on commodity price risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in section (13) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 158 et seq.

The Wilo Group regards the commodity price risk arising from the procurement of rare earth elements as low at this time. Despite this risk classification and given the lack of corresponding derivative financial instruments to hedge this commodity price risk, the Wilo Group is taking pains to use appropriate substitutes and to identify further suppliers for these commodities. As things stand, the future price development of rare earth elements can continue to affect the Wilo Group's results of operations both positively and negatively.

Commodity price risks are possible, but the Wilo Group classes the associated impact on earnings as low.

Defaults

The Wilo Group counters customer credit risk with a uniform and effective Group-wide system. It encompasses systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited as the Group does not generate more than 10 percent of its total net sales with any one customer. The Wilo Group did not experience any significant negative influence from its customers' payment practices in the past financial year. The possible effect on earnings of default is currently also considered low for 2017.

There is also a risk of default with regard to the banks with which investments are conducted, at which credit facilities are held, or with which hedges are concluded. The potential default of these partners would have a negative impact on the Wilo Group's financial position and results of operations. All in all, however, the occurrence of this risk is considered to be unlikely as Wilo enters into such transactions only with those banks that have good to very good credit ratings. Group Treasury permanently monitors the credit ratings of these banks and takes appropriate measures as required.

Financing and liquidity

Liquidity risk stems from a potential lack of cash for paying due liabilities in full and on time in the agreed currency. In addition, there is a risk of having to accept unfavourable financing terms in the event of liquidity bottlenecks and volatility on the international financial and capital markets. To minimise these liquidity and financing risks, and thereby to make a valuable contribution to the profitable growth of the Wilo Group, the Wilo Group aims to ensure long-term, cost-effective coverage of liquidity and capital requirements at all times. Various financing instruments are used for this purpose.

These include committed cash credit facilities for the parent company and subsidiaries of more than EUR 200.0 million with international banks of good to very good credit standing. EUR 15.3 million of the cash credit facilities had been utilised as at 31 December 2016. Furthermore, as at 31 December 2016, there were also promissory note loans of EUR 10.0 million and senior notes of EUR 112.0 million that were issued in US private placements.

At 31 December 2016, the Wilo Group reported its net financial position (financial liabilities less cash) as excess liquidity of EUR 41.0 million and was thus free of net debt. The ratio of net financial liabilities to EBITDA (leverage) improved from 0.01 to -0.26.

In order to achieve a needs-driven supply of cash with matching maturities and the optimum allocation of cash within the Group, the Wilo Group prepares corresponding liquidity and finance plans based on the budget planning and strategic five-year planning process in addition to the year-to-date forecast. Rolling three-month liquidity planning is also prepared on a monthly basis for each Group company. The cash directly available to the Wilo Group over the course of 2016, including committed cash credit facilities, was at all times higher than the minimum reserve of EUR 100.0 million defined by the Executive Board of WILO SE.

The Wilo Group uses cash pooling, netting and borrowing arrangements to the extent advisable and permitted under local commercial and tax regulations. At Group level, all financial transactions are tracked by central treasury software and monitored by WILO SE, enabling risks to be balanced between the individual companies of the Group.

The Wilo Group is required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. If it falls short of certain minimum values, the lenders are entitled to demand early repayment, among other things. As such, a failure to meet the agreed minimum values would potentially have a substantial financial impact. These figures are regularly reviewed, planned and reported to the Executive Board of WILO SE in order to ensure compliance with the required minimum values at all times and to enable suitable countermeasures to be initiated at an early stage as necessary. Due to its strong equity base and profitability, the Wilo Group still expects to comply with its financial covenants throughout the term of the existing financing agreements.

More detailed information on the use of derivative financial instruments can be found in note (12) on page 152 et seq. and note (13) on page 156 et seq. of the notes to the consolidated financial statements.

The Wilo Group believes that liquidity and financing risks are unlikely to arise on account of the cash and credit facilities available, the financing structure and the business model. The financial impact on the Group is therefore rated as low.

Overall assessment

The risk situation of the Wilo Group is largely unchanged as against the previous year. The integrated risk management system ensures that all identified risks are managed at all times. According to the Executive Board, there are currently no discernible risks or combinations of risks that could jeopardise the company as a going concern. Combined with the largely medium- and long-term attractive opportunities, the Wilo Group has a balanced, forward-looking risk and opportunity profile that will allow it to continue to record profitable growth in line with the corporate strategy.

Events after the balance sheet date

Information on significant organisational, economic, socio-political, company law, or financing-related changes that occurred after the end of the financial year and that could have a material impact on the operating activities of the Wilo Group in the opinion of the management is provided in note (14.6) to the consolidated financial statements.

Outlook

- Pace of global economic growth expected to increase in 2017
- Crises and political uncertainties harbour substantial risks
- Moderate net sales and profitability within strategic target corridor expected
- Location development project in Dortmund enters construction phase

General economic conditions

Improved growth opportunities alongside greater risks for the global economy

Economic researchers expect the global economy in 2017 to walk a tightrope between an improved economic environment and crisis-driven uncertainty. It will thus remain precarious for the foreseeable future. Monetary policies in the industrialised nations are likely to drift further apart. Interest rates are expected to rise around the world, so currency movements and turbulence on the financial markets cannot be ruled out. Nonetheless, the recent acceleration of production growth in the industrialised nations is set to continue and provide stimulus for the emerging economies. In contrast, the political imponderables are growing ever larger. Nationalism and protectionism are gaining popularity around the world, the direction of the new US government is still unclear and the European Union is facing a major challenge to preserve its stability. In addition, the crisis in the Middle East is still unresolved. Provided these risk factors remain limited, the IMF anticipates a global economic recovery to growth of 3.4 percent (IfW: 3.5 percent).

The USA is set to continue on its now established trajectory of economic growth. The new government has announced an expansionary economic policy that could provide additional growth stimulus in the short term. According to the IMF, the US economy is expected to grow by 2.3 percent in 2017, i.e. more dynamically than has recently been the case. Other regions are also likely to benefit from this. The IMF therefore anticipates a revival in growth to 1.9 percent in 2017 in the industrialised nations as a whole. Despite the structural problems, prospects for the emerging and developing economies are expected to brighten, supported by rising commodity prices. For 2017, the IMF expects economic growth to accelerate to 4.5 percent here.

More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 151.

The expected economic development in the Europe, Asia Pacific and EMEA regions in 2017 is described below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Steady, moderate growth in Europe

Europe is facing major political challenges in 2017, which could also have a substantial impact on economic development. For example, the negotiations for the UK's exit from the European Union are about to begin. New governments are to be elected in important countries such as France, Germany and the Netherlands, which could strengthen EU-sceptic tendencies. In addition, the structural problems in Southern Europe have not yet been overcome. Italy especially is under particular pressure to act because of its serious banking problems. In contrast, Europe's economy is being supported by higher government spending and the European Central Bank's expansionary course. Private consumption is likely to benefit from the ongoing improvement on the labour market. Investments are expected to pick up again, partly as a result of a need to catch up. In the euro area, economic researchers again expect moderate growth in 2017. The IMF anticipates growth of 1.6 percent (IfW: 1.7 percent). Strong growth is in the offing for Ireland, Spain, the Netherlands and Eastern Europe. France and Italy are expected to continue growing weakly at 1.2 percent and 0.8 percent respectively. Growth in the UK is likely to slow down.

Economic researchers estimate that the German economy will remain on a path of expansion in 2017. The IMF forecasts growth of 1.5 percent. The IfW anticipates 1.7 percent, or 2.0 percent adjusted for calendar effects. The upturn is expected to be driven by the domestic economy. Private consumption is likely to benefit from the good labour market and high government transfers. However, the momentum of private consumption is expected to be slowed by higher energy and fuel costs. The high demand for housing and advantageous financing conditions are set to boost investments in construction. It is also anticipated that equipment investments will gradually see stronger growth. This is indicated by the persistently low interest rates, export growth and already high capacity utilisation.

Asia remains the engine of the global economy despite structural growth slowdown

In China, the rate of expansion is likely to be further reduced by the restructuring of the economy, but it will remain above average in global terms. The government is endeavouring to eliminate inefficiencies such as overcapacity in basic industries and real estate bubbles in megacities with incremental reforms and other interventions. At the same time, it is regularly stimulating the overall economy, including with infrastructure investments. The poor capital allocation and high corporate and regional authority debt could increasingly have a negative structural effect. The IMF expects China's growth to slow further to 6.5 percent in 2017. Although Asia's economy will tend to expand more slowly with growth of 6.3 percent according to the IfW forecast, the region is nevertheless likely to remain, alongside the USA, the main driver of the global economy in the future.

Investment activity in India has faltered recently. At the end of 2016, a strict cash reform was imposed unexpectedly in order to combat the black market and corruption. This has cast a further shadow over the country's prospects for the time being, as private consumption there is largely transacted in cash. International banks therefore expect temporary losses of up to one percentage point compared to the originally expected trajectory of expansion and growth rates of 7.6 percent to 7.9 percent. The IMF forecasts economic growth of 7.2 percent in 2017.

The Korean economy is currently lacking momentum because of comparatively weak domestic demand. Restructuring in the corporate sector, especially in shipbuilding, is depressing the labour market. In connection with higher inflation, the development of private consumption is expected to be subdued. At the turn of the year, the Korean government lowered its 2017 growth forecast to 2.5 percent.

The countries of Southeast Asia are set to benefit from the consolidated upturn in the industrialised nations. The IMF expects the five major ASEAN nations to see a slight increase in growth to 4.9 percent in 2017.

Varied environment with political risks in the EMEA region

The Russian economy is showing initial tendencies towards recovery. The subsidy cut adopted by the OPEC member states is likely to prop up the Russian economy and relieve pressure on the national budget. In addition, the recent high rate of inflation is falling. On the other hand, the economic sanctions against Russia have been extended. The corporate debt, predominantly financed in US dollar, and foreign policy remain risk factors. In a baseline scenario for 2017, the Russian central bank anticipates economic growth of between 0.5 percent and 1.0 percent with a sharp rise in oil prices to as much as 1.7 percent. Private consumption and fixed capital investment are initially expected to grow again. The IMF estimates the growth in Russia in 2017 at 1.1 percent.

Massive uncertainty is currently casting a shadow over the Turkish economy. As a reaction to the failed coup attempt and the continuing terror activity, the government is intervening extensively in society and the economy. The central bank had to increase interest rates at the end of 2016 in order to stabilise the currency. As a countermeasure, the government is planning to support the economy with spending. The IfW expects growth to slow to 1.2 percent in 2017.

Development in Africa and the Middle East remains difficult. Although the long-term prospects are very good in some cases, war, terror, structural deficits and legal and political uncertainties are substantial risk factors in the short term. Overall, the region is very varied and requires a selective view. The Middle East and parts of North Africa are dominated be geopolitical crises. Nonetheless, the oil-exporting countries are likely to benefit from a recovery in crude oil prices. Other countries such as Morocco or Tunisia are closely linked to the economy in Europe and comparatively stable. The IMF expects an economic downturn to 3.1 percent in the Middle East and North Africa in 2017. South of the Sahara, the economy is set to revive in many places, with higher growth in Nigeria and South Africa.

Industry-specific conditions

More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 151.

In addition to the general economic development of individual countries and regions, the economic performance of the Wilo Group is influenced in particular by the construction and sanitary industries. The expected future development in these industries is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Continued, broad upturn in the European construction industry

The ifo Institute and the Euroconstruct industry network still assess the prospects for the European construction industry positively, but more conservatively than before. This is due to the uncertainty revolving around the UK's decision to leave the European Union, rising interest rates and imponderables in the banking sector. Real growth of European construction output of 2.1 percent is now forecast for 2017 (previously 2.7 percent). At 2.1 percent, growth in Western Europe is expected to slow, while the construction industry is set to expand everywhere apart from the UK. A revival is expected in France, Spain and Italy. Supported by EU-funded projects, the construction industry in Eastern Europe is likely to grow by 3.5 percent. Up to and including 2019, the forecast assumes positive growth rates across Europe in residential and commercial construction, civil engineering and building modernisation and maintenance. In the medium term, there will probably be further government measures to promote CO_2 savings. This is likely to support investments in heat insulation and the modernisation of heating and air conditioning systems.

The order situation in the German main construction sector improved at the end of 2016. According to the German Federal Statistical Office, building permits in building construction increased at a rate well into the double figures, both for residential (new buildings and conversions) and commercial construction. However, mitigating the housing shortage in conurbations will require substantially higher investments in residential construction. The IfW expects construction investment to grow dynamically in 2017 with a 3.1 percent increase in real terms, while commercial construction will virtually stagnate. Public-sector construction is likely to provide palpable stimulus again with an estimated growth rate of 3.5 percent. The dominant segment, residential construction, will remain the most significant driver of construction activity with estimated growth of 4.4 percent.

The ifo Institute and the industry association VDS expect further, albeit moderate growth in the German sanitary industry of a good 1 percent to over EUR 24 billion in 2017. The heating industry likewise has a positive outlook. Due to the high average age of heating systems, the majority of the demand going forward is set to continue to consist of demand for replacements. According to the Federal Association of the German Heating Industry, 67 percent of the 21 million heat generators are not efficient. Since August 2016, new measures to promote the modernisation of heating systems have been in place in Germany: the replacement of two million pumps and the optimisation of 200,000 heating systems are to be supported every year until 2020. The costs for this are to be subsidised at a maximum rate of 30 percent.

Infrastructure investments stimulate the construction industry in Asia

In light of the population growth and unchecked urbanisation, China is facing an immense, long-term challenge to create housing and jobs. In addition, the severe environmental pollution necessitates high investment, including in climate and water management. The German Federal Ministry for Economic Affairs and Energy (BMWi) estimates that around EUR 37 billion a year is invested in China's water management alone. Ambitious environmental protection targets have been enshrined in the five-year plan (2016–2020), which assumes population growth of 45 million in the next five years. Among other things, water consumption has to be reduced by 23 percent in relation to gross domestic product. This requires efficient technologies and provides huge potential for foreign suppliers of filters, valves and pumps. In this area, the prospects for 2017 and beyond are positive. In contrast, residential construction is likely to remain problematic in 2017.

For the Indian construction industry, the signs are pointing to growth in the long term. Urbanisation continues; 40 percent of the population are expected to live in cities by 2030 (compared to 32 percent today). The state has launched projects to mitigate the housing shortage and create affordable housing. There is also a plan to establish 100 smart cities. In addition, India is looking to substantially modernise its infrastructure. There are currently 20 ongoing, large-scale projects just for fresh drinking water and wastewater treatment. Demand is immense, the infrastructure dilapidated: half of all drinking water is lost on the way to the consumer; only 10 percent of wastewater is treated. Nonetheless, the construction industry is initially likely to suffer from the cash reform in 2017. In the past, very large quantities of cash used to flow into the property market.

After the Korean construction industry boomed last year, the pace of growth is expected to slow in 2017. In addition to high vacancy rates in office buildings, the residential construction sector is also threatened with overcapacity thanks to the recent boom. High private debt is also likely to slow this trend down. The central bank estimates that the growth in construction investment will slow to 4.3 percent in 2017.

The large countries of Southeast Asia are pushing the expansion of infrastructure. Indonesia has continued to ramp up the development plan for energy, water and maritime transport. In Malaysia, government investments are driving the construction sector, although activity in building construction is flagging. With its 2022 infrastructure programme, Thailand is providing strong, long-term stimuli for the transport sector. In addition, sustainable and energy-efficient building guided by the US LEED certification is gaining in importance there. The Philippines are also investing massively in infrastructure, and increasingly in water management. The long-term prospects for the construction sector in Southeast Asia therefore remain positive.

Construction industry in Russia set to recover slightly

The environment for Russia's construction industry is likely to remain difficult in 2017 as a result of the sanctions. The worst could be over, however, especially as government revenue is set to increase thanks to rising oil and gas prices. The central bank has announced a relaxation of the restrictive monetary policy provided the recently decreased inflation rate stays at 4 percent. This could tend to improve conditions for mortgage borrowing. The construction industry is expected to be supported firstly by large-scale government projects, such as the pipeline construction and the World Cup. Secondly, direct investments from foreign companies are likely to rise sharply as a result of the policy of import substitution and promotion of domestic production.

In Turkey, the outlook for 2017, including for the construction industry, is extremely uncertain due to the political situation. However, development could be more robust in this sector than in others. Despite a drastic slump in the confidence index for the Turkish economy as at December 2016, the construction sub-index remained stable. In addition, the number of building permits had exceeded the low level of the previous year by the end of September, namely by 5.0 percent in terms of buildings and 8.1 percent in terms of homes.

In Africa, the environment remains risky and uncertain in 2017. Due to the very strong population growth and pronounced urbanisation, which necessitate huge investments in residential construction, individual countries and selected projects offer attractive opportunities in the long term. The immense backlog in terms of infrastructure, especially drinking water and wastewater management, is likely to be another driver.

Outlook for the Wilo Group

Future orientation

The 2016 financial year was characterised by only weak growth in the global economy, numerous crises, and political and economic imponderables. As things stand, considerable uncertainties are also casting a shadow over the generally improved economic prospects for 2017. For example, the economy of the USA could stimulate the global economy with its recently consolidated upturn. The rate of expansion in the emerging economies as a whole could also regain momentum despite the structural slowdown of Chinese growth. However, the turnaround in US interest rate policy and structural deficits in many countries remain economic risks. Above all, the conflicts in Syria, Turkey, Russia and Ukraine as well as the uncertain political direction of the USA and, increasingly, major countries of the euro area could also do harm to the global economy. Rising tendencies towards protectionism and nationalism are another major factor creating uncertainty. The Brexit process starting in 2017 has the potential to be particularly explosive. The economic outlook for 2017 is good overall, but fragile and very uncertain.

It is therefore all the more important for Wilo to implement its business policy in a clear, sustainable and forward-looking manner and to balance risk within the business. The Wilo Group will therefore continue to count on successful customer orientation, strong innovation with the continuous development of new technologies, great international market presence and diversification in terms of regions and market and product segments. Other important success factors include high entrepreneurial flexibility and fast adaptability to altered trends and conditions. These are especially important in crisis situations. The many years of profitable corporate growth and the growing workforce illustrate the Wilo Group's adaptability and the company's stronger position compared with its global competitors. Regardless of the short-term deterioration in conditions as a result of macroeconomic and political uncertainty, the capacity for innovation has been ramped up.

The company will retain this successful core focus. With the eight growth initiatives clearly defined in Ambition 2020+, Wilo will tap into additional potential for profitable growth regionally, in all product and service divisions and along the value chain from 2017. In addition, corporate acquisitions to promote growth will play a greater role in the future, provided they make good strategic and economic sense. Focusing on core competencies in heating, air conditioning and cooling as well as water supply and wastewater disposal, the Wilo Group will further expand its product portfolio in order to become an innovative and solution-oriented full-service provider.

Another basic principle of Wilo's corporate governance is and shall remain quickly analysing different market developments, devising alternative scenarios and initiating countermeasures at short notice. A great deal of importance is attached to effective crisis management in case of considerable volatility on the international financial and currency markets and the intensification of geopolitical crises with a corresponding negative impact on the real economy. When necessary, the Wilo Group will continue to initiate appropriate and prompt countermeasures from this position of strength in future.

The management also has its sights firmly set on the megatrends that will change and shape Wilo's markets in the decades to come. They are one of the cornerstones in the definition of the corporate strategy – regardless of short-term crises and fluctuations in demand. The megatrend of digitalisation and technological advancement is incredibly important, and is already necessitating extensive business initiatives in order to take the resulting opportunities and to avoid future disadvantages for the company. To this end, Wilo is continuing on the path it has struck for its own digital transformation. Its own value chain and existing business processes are being fundamentally and sustainably reorganised with high levels of investment – especially at the Dortmund location. This centres on the intelligent, digital networking of production methods, products and logistics. It is sustainably improving the Wilo Group's competitiveness while generating direct benefits for customers, including in terms of quality standards, punctual deliveries and optimised service. In addition, Wilo is purposefully targeting its innovative capacity at providing customers with intelligent, networkable solutions.

Outlook for the regions

EUROPE The economic research institutes anticipate robust economic growth for Europe in 2017, but it will be exposed to various political risks. 2017 may well decide the fate of the European Union and the euro area. If Eurosceptic voices win out in the elections in France, the Netherlands and Germany, this could be a crucial test unlike anything the community has experienced before.

In addition, various banks have not yet bounced back from the crisis, especially in Italy, and the budget situation in Italy and Greece remains strained. The lengthy process of negotiations until the UK actually leaves the EU will also add fuel to the fire of uncertainty. Growth is expected to slow down in the UK in 2017, with negative effects also for other nations' exports to the country. Nonetheless, all countries in the region are set to boast positive growth rates in 2017. Europe's construction industry is forecast to grow on a broad regional basis and at a faster rate than the overall economy in 2017.

There is high demand for energy-saving and, environmentally friendly heating and air conditioning systems. Because existing systems are largely outdated and environmental protection requirements are becoming ever stricter, there will be a tendency for demand to rise in both the construction of new buildings and the modernisation of existing ones. Governments can also be expected to launch further energy-efficiency incentive programmes in line with the EU's ambitious climate targets – similar to the heating optimisation programme initiated by the German Federal Ministry of Economics in 2016. The good financing conditions at present are boosting investments in climate-efficient and economically beneficial heating and air conditioning systems and in the modernisation of water and wastewater plants. Therefore, the Wilo Group expects demand for high-quality energy-efficient pumps to continue to grow throughout Europe over the coming years.

This means that conditions for the Wilo Group's business activities in the Europe region will remain good in 2017. Driven by the rapid pace of new residential construction and robust demand in commercial building construction and generally for the renovation and modernisation of existing buildings, the Wilo Group expects the brisk growth in net sales to continue in the German-speaking countries. The economic revival is also likely to stimulate demand in the other EU countries, especially in Eastern Europe. In this respect, Wilo also expects net sales to increase here.

The expansion of the Wilo Group's activities as a systems and solutions provider for building technology will pay off for the Building Services market segment. In previous years, the Wilo Group laid the foundations for efficient production and increased flexibility and proximity to the customer, and therefore for sustainable growth, with substantial investments in Germany and France.

All in all, the Wilo Group expects to be able to generate slight net sales growth in the Europe region in 2017, even if it is below the Group average.

ASIA PACIFIC The Asia Pacific region is characterised by high momentum. The growth forecasts for the region for 2017 are positive. In addition, the structural drivers relevant to the Wilo Group's business activities are intact: strong population growth, persistent urbanisation and thus immense, even growing demand for the enhancement of functional urban infrastructure. Substantial investment is required to establish and ensure a powerful drinking water supply and wastewater disposal network. In addition, governments are stepping up measures to reduce CO_2 emissions, especially in China, in response to sometimes considerable environmental pollution.

The Wilo Group assumes that demand in the Asia Pacific region will continue to grow in building construction and above all in the water management segment in 2017. The property market in China's megacities and other Asian conurbations is slowing down in the high-end segment. However, most countries in the region have programmes for affordable housing. Commercial construction is also providing stimulus. The planned establishment of 100 smart cities in India, which in the wake of digitalisation will require state-of-the-art, networkable products and solutions, is also an interesting prospect. The Wilo Group's business activities in Asia Pacific are driven to a significant extent by the high investments in all countries of the region to build up or modernise their often dilapidated water management infrastructure. Overall, the Wilo Group therefore has very good growth opportunities in 2017 for all three market segments in Asia Pacific.

The Wilo Group expects the very positive business performance in the Asia Pacific region to continue in 2017. Asia Pacific region will remain the Wilo Group's growth driver in 2017. The net sales growth in the region is therefore expected to once again surpass the growth of consolidated net sales in 2017.

EMEA The EMEA region is extremely heterogeneous both politically and economically. This is also reflected in the outlook for the Wilo Group's business activity in the individual countries in 2017.

In Russia, the prospects for at least robust development of construction activity are gradually brightening. The government's policy of import substitution by promoting domestic production is now also leading to a palpable increase in direct investments from foreign firms. By opening its own production site at a new location near Moscow in 2016, the Wilo Group laid the required groundwork to benefit from these trends. In this respect, the Wilo Group anticipates rising net sales in Russia in 2017.

In Turkey, the short-term economic conditions have deteriorated due to the unstable political situation. Key data such as the sentiment indicator for the construction industry and building permits are currently signalling a comparatively resilient development in residential construction. However, a decline cannot be ruled out in light of the high degree of uncertainty. This environment will require high flexibility and a selective approach in 2017. The same applies to business activity in the countries of the Middle East and North Africa. Positive economic demand stimulus is expected from the oil-importing countries and certain countries south of the Sahara.

All in all, the Wilo Group expects business in the EMEA region to pick up again in 2017, provided the crises there do not escalate. The net sales growth generated in the region is set to be somewhat lower than the average increase in consolidated net sales expected in 2017.

Statement by the Executive Board on forecast development

In all likelihood, 2017 will continue to be dominated by difficult macroeconomic conditions and present major challenges for companies with international operations. While there are positive signals of a broader economic recovery, uncertain political developments could slow down the global economy again and lead to volatility – both on the foreign exchange and capital markets and in the real economy. Besides numerous unresolved crises, causes for concern include the increasing tendency towards protectionism and the as yet unpredictable changes in political direction in Europe in connection with Brexit and the elections in several major countries. Even more than in previous years, this particularly precarious and sensitive environment requires anticipatory, risk-conscious and flexible company management. The Wilo Group has implemented corresponding structures and processes. In addition, the broad regional diversification of the business reduces the overall risk for the Wilo Group in individual countries. Provided the impacts of these risks remain limited, the positive basic economic trend should win out with brisker demand in most of the countries of importance to the Wilo Group.

The net sales and cost planning for 2017 takes the described uncertainties into account. In addition, current developments are continuously observed and new trends are anticipated, analysed and evaluated in a timely manner. This means the Wilo Group is well prepared to leverage the growth potential in regions and countries that are enjoying positive development on a targeted basis, as well as implementing additional risk mitigation measures in regions and markets that could be affected by potential setbacks. The Executive Board of the Wilo Group is confident that the company will enjoy successful further development in line with its corporate strategy in spite of this difficult environment.

On the basis of the expected regional business development described above, the Executive Board anticipates growth in the Wilo Group's net sales of up to 4 percent in the 2017 financial year. The expectation for net sales in 2017 is based on the assumptions that the world economy will develop as forecast and largely free of disruption and that there will be no major upheaval on the currency markets.

In 2017, the EBIT margin is expected to improve to around 9 percent, thereby falling within the strategic target corridor of between 9 and 11 percent once again. To achieve this, the consistent cost management – supplemented by the WIN cost initiative launched at the end of 2016 – will be continued and promptly and flexibly adjusted as necessary. The continued and streamlined management of working capital and the targeted implementation of strategic measures will also help to safeguard the Wilo Group's high earnings power.

The Wilo Group systematically aligns its activities in research and development with the medium-term and long-term corporate strategy. The primary objective is to remain independent and generate profitable growth. Among other things, this requires a consistently high degree of innovative strength, irrespective of short-term market uncertainty. Research and development continues to play an important role. The Wilo Group stands for future-oriented, innovative products and system solutions. Accordingly, expenditure for research and development will again reach a high level in 2017. This is driven particularly by the digitalisation of internal processes and of products and services.

The high levels of investment in recent years provide the foundations for the Wilo Group's growth. This approach will continue to be pursued, as a modern, effective corporate infrastructure that promotes growth is an essential requirement for sustainable growth and high profitability. Investments shall again be significantly increased in the 2017 financial year. For example, the strategic location development project at the headquarters in Dortmund will continue as planned. In addition, there will be greater investment in manufacturing technologies and the expansion of the existing sales and production locations. The implementation of projects for the digital transformation of the Group will remain a point of focus in 2017. Moreover, corporate acquisitions will be pursued to a greater extent in the future, provided that they appear beneficial from both a strategic and economic perspective.

The long-term financing structure, the extremely high equity ratio of over 50 percent, cash of around EUR 180 million and the net-debt-free financial position constitute a solid basis for the long-term profitable growth of the Wilo Group. Under the terms of the long-term financing instruments in place as at 31 December 2016, WILO SE is required to comply with certain standard financial ratios, or covenants. WILO SE fully complied with these covenants in the 2015 and 2016 financial years and there are currently no indications that it will be unable to comply with them in future.

Overall, the risks and the impact of any possible forecasting inaccuracies regarding the development of the sales and procurement markets, and the currency markets in particular, are considered to be especially high in the 2017 financial year. This means the net sales and EBIT forecasts of the Wilo Group are subject to greater uncertainty. The global orientation of the Wilo Group means that regional economic fluctuations can be partially offset. However, a slowdown in global economic momentum – likewise massive changes in the relevant exchange rates, the escalation of political crises or a drastic deterioration of international trade relationships – could substantially influence the growth targets of the Wilo Group.

The business targets for 2017 are embedded in the corporate strategy with "Ambition 2020^{+}". They are based on a professional and detailed planning process and take into account information on and knowledge of internal and external factors that were available at the time of this management report being prepared. Future unforeseeable developments and events may lead to changes in expectations and deviations from forecasts. All estimates compared with the previous year are based on an unchanged basis of consolidation and unchanged exchange rates.

Consolidated financial statements

Consolidated income statement

for the period 1 January to 31 December 2016

EUR thousand	Note	2016	2015
Net sales	(8.1)	1,327,090	1,317,126
Cost of sales	(8.2)	–828,002	–815,104
Gross profit		**499,088**	**502,022**
Selling expenses	(8.3)	–254,748	–251,959
Administrative expenses	(8.4)	–100,224	–89,044
Research and non-capitalised development costs	(8.5)	–47,778	–43,147
Other operating income	(8.6)	21,547	21,683
Other operating expenses	(8.7)	–10,797	–18,368
Earnings before interest and taxes (EBIT)	(8.10)	**107,088**	**121,187**
Net income from investments carried at equity	(9.4)	–616	–154
Net finance costs	(8.8)	–3,514	–7,992
Consolidated net income before taxes	(8.10)	**102,958**	**113,041**
Income taxes	(8.9)	–26,982	–32,560
Consolidated net income	(8.10)	**75,976**	**80,481**
of which: attributable to non-controlling interests		5	4
of which: attributable to shareholders of WILO SE		75,971	80,477
Basic and diluted earnings per share amount to EUR 7.88 (previous year: EUR 8.35) per ordinary share.	(8.11)		

The notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2016

EUR thousand	2016	2015
Consolidated net income	**75,976**	**80,481**
Items not reclassified to profit or loss		
Remeasurement of pension obligation and plan assets	–7,644	6,587
Income taxes	2,027	–2,016
	–5,617	**4,571**
Items that may be reclassified to profit or loss		
Currency translation differences	5,108	–1,215
	5,108	**–1,215**
Other comprehensive income	**–509**	**3,356**
Total comprehensive income	**75,467**	**83,837**
of which: attributable to non-controlling interests	5	7
of which: attributable to shareholders of WILO SE	75,462	83,830

Consolidated statement of financial position

as at 31 December 2016

Assets

EUR thousand	Note	2016	2015
Non-current assets			
Intangible assets	(9.1)	129,310	102,380
Property, plant and equipment	(9.2)	341,794	306,808
Investments carried at equity	(9.4)	6,106	5,471
Trade receivables	(9.6)	4,804	9,505
Other financial assets	(9.7)	4,217	4,618
Other receivables and assets	(9.8)	20,253	18,737
Deferred tax assets	(8.9)	38,811	28,743
		545,295	**476,262**
Current assets			
Inventories	(9.5)	208,540	200,082
Trade receivables	(9.6)	261,966	254,685
Other financial assets	(9.7)	4,747	8,527
Other receivables and assets	(9.8)	21,307	30,223
Cash	(9.9)	178,274	165,797
Assets held for sale	(9.10)	0	1,127
		674,834	**660,441**
Total assets		**1,220,129**	**1,136,703**

Equity and liabilities

EUR thousand	Note	2016	2015
Equity	(9.11)		
Issued capital		26,980	26,980
./. Nominal amount of treasury shares		-1,477	-1,916
Subscribed capital		25,503	25,064
Capital reserves		26,161	14,527
Other reserves		631,623	560,228
Treasury share reserve		-29,766	-38,933
Equity attributable to shareholders of WILO SE		653,521	560,886
Non-controlling interests		61	56
		653,582	**560,942**
Non-current liabilities			
Financial liabilities	(9.12)	119,222	121,514
Trade payables	(9.13)	228	1,251
Other financial liabilities	(9.14)	6,451	6,556
Other liabilities	(9.15)	986	882
Provisions for pensions and similar obligations	(9.16)	85,013	76,069
Other provisions	(9.17)	3,894	3,422
Deferred tax liabilities	(8.9)	35,646	26,767
		251,440	**236,461**
Current liabilities			
Financial liabilities	(9.12)	18,116	45,753
Trade payables	(9.13)	142,180	139,783
Other financial liabilities	(9.14)	35,811	36,322
Other liabilities	(9.15)	75,680	75,936
Other provisions	(9.17)	43,320	41,506
		315,107	**339,300**
Total equity and liabilities		**1,220,129**	**1,136,703**

Consolidated statement of cash flows

for the period 1 January to 31 December 2016

EUR thousand	2016	2015	Change
Earnings before interest and taxes (EBIT)	**107,088**	**121,187**	**–14,099**
Depreciation and amortisation of intangible assets and property, plant and equipment	51,001	50,302	699
Increase in provisions	2,581	2,542	39
Gains/losses on the derecognition of property, plant and equipment	–1,967	46	–2,013
Increase in inventories	–6,528	–9,430	2,902
Increase in trade receivables	–5,649	–25,903	20,254
Increase in trade payables	2,422	29,597	–27,175
Increase/decrease in other assets/liabilities not attributable to investing or financing activities	2,624	–14,189	16,813
Other non-cash expenses and income	3,961	–1,488	5,449
Operating cash flow before income taxes	**155,533**	**152,664**	**2,869**
Income taxes paid	–18,114	–20,339	2,225
Cash flow from operating activities	**137,419**	**132,325**	**5,094**
Purchases of intangible assets	–30,298	–24,667	–5,631
Disposals of property, plant and equipment	4,667	924	3,743
Purchases of property, plant and equipment	–77,937	–81,012	3,075
Purchases of consolidated companies	–3,452	0	–3,452
Other purchases attributable to investing activities	–550	–224	–326
Cash flow from investing activities	**–107,570**	**–104,979**	**–2,591**
Dividend payment	–4,049	0	–4,049
Proceeds from assuming financial liabilities	6,078	1,564	4,514
Repayment of financial liabilities	–36,250	–4,576	–31,674
Proceeds from sales of treasury shares	21,240	0	21,240
Interest payments received	1,577	1,256	321
Interest payments made	–7,207	–8,658	1,451
Cash flow from financing activities	**–18,611**	**–10,414**	**–8,197**
Change in cash	11,238	16,932	–5,694
Effects of exchange rate changes on cash	1,239	–208	1,447
Cash at beginning of period	165,797	149,073	16,724
Cash at end of period	**178,274**	**165,797**	**12,477**

Detailed information can be found in note (10).

Consolidated statement of changes in equity

for the period 1 January 2015 to 31 December 2016

	Subscribed capital			Other reserves						
EUR thousand	Issued capital	Nominal amount of treasury shares	Capital reserves	Retained earnings	Currency translation reserve	Reserve for remeasure-ment of pensions	Treasury share reserve	Equity attrib-utable to shareholders of WILO SE	Non-controlling interests	**Equity**
1 January 2015	**26,980**	**-1,916**	**14,527**	**526,714**	**-26,656**	**-23,644**	**-38,933**	**477,072**	**49**	**477,121**
Consolidated net income 2015	0	0	0	80,477	0	0	0	80,477	4	80,481
Other comprehensive income	0	0	0	0	-1,218	4,571	0	3,353	3	3,356
Other changes	0	0	0	-16	0	0	0	-16	0	-16
31 December 2015	**26,980**	**-1,916**	**14,527**	**607,175**	**-27,874**	**-19,073**	**-38,933**	**560,886**	**56**	**560,942**
1 January 2016	**26,980**	**-1,916**	**14,527**	**607,175**	**-27,874**	**-19,073**	**-38,933**	**560,886**	**56**	**560,942**
Consolidated net income 2016	0	0	0	75,971	0	0	0	75,971	5	75,976
Other comprehensive income	0	0	0	0	5,108	-5,617	0	-509	0	-509
Dividend payments	0	0	0	-4,049	0	0	0	-4,049	0	-4,049
Sale of treasury shares	0	439	11,634	0	0	0	9,167	21,240	0	21,240
Other changes	0	0	0	-18	0	0	0	-18	0	-18
31 December 2016	**26,980**	**-1,477**	**26,161**	**679,079**	**-22,766**	**-24,690**	**-29,766**	**653,521**	**61**	**653,582**

Detailed information can be found in note (7) and note (9.11).

Notes to the consolidated financial statements

(1.) General information

WILO SE ("the company"), based in Dortmund, Germany, is registered with the Dortmund Local Court in section B no. 21356 and is the parent company of the Wilo Group. The Group's core business is the production and worldwide sale of machinery, notably liquid pumps and appliances. The Wilo Group develops, manufactures and markets pumps and building technology systems, primarily for heating, refrigeration, air conditioning and ventilation systems, for water supply and for sewage and effluent disposal.

(2.) Basis of preparation

The consolidated financial statements of WILO SE as at 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with all interpretations of the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee, IFRIC) applicable for the 2016 financial year. WILO SE exercises the option provided for in section 315a (3) of the Handelsgesetzbuch (HGB – German Commercial Code) and is therefore not required to prepare consolidated financial statements in accordance with German commercial law. To ensure equivalence with consolidated financial statements prepared in accordance with German commercial law, the disclosure requirements of section 315a (1) HGB are met in addition to the IFRS disclosure requirements. The consolidated financial statements are in compliance with IFRS as endorsed in the EU and present a true and fair view of the Group's economic situation.

A number of items of the income statement and statement of financial position have been combined for clarity of presentation. These items are reported and explained separately in the notes. The consolidated income statement has been prepared using the cost-of-sales method. All amounts in tables are in thousands of euro (EUR thousand).

(3.) Adoption of new and amended IFRS

The following standards, interpretations and amendments to existing standards were adopted for the first time in the 2016 financial year, but had no or no material effect on the consolidated financial statements of WILO SE:

- Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception
- IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 "Presentation of Financial Statements" – Disclosure Initiative
- IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants
- Amendment to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements
- Various amendments as part of the "Improvements to International Financial Reporting Standards 2012–2014"

The following standards, amendments to existing standards and interpretations issued by the IASB and the IFRS Interpretations Committee are not yet effective in the 2016 financial year or have not yet been endorsed by the European Union. WILO SE is not planning early adoption of these standards, interpretations or amendments to existing standards or interpretations:

- IFRS 9 "Financial Instruments" – Classification of Financial Assets and Financial Liabilities and subsequent amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures, Hedge Accounting
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- IFRS 15 “Revenue from Contracts with Customers”
- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 2 “Share-based Payment”
- Amendments to IFRS 4 “Insurance Contracts”
- Amendments to IAS 40 “Investment Property”
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
- IFRS 16 “Leases”
- Various amendments as part of the “Improvements to International Financial Reporting Standards 2014–2016”

IFRS 15 “Revenue from Contracts with Customers” specifies an extensive framework for determining whether, when and in what amount to recognise revenue. It replaces existing guidelines on the recognition of revenue, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. IFRS 15 is applicable for the first time to financial years beginning on or after 1 January 2018. Early application is permitted, but not intended. No material effect on revenue is expected on the first-time application of IFRS 15 “Revenue from Contracts with Customers”, as the Group neither has nor is currently planning any significant “construction contracts” according to IAS 11 or significant “customer loyalty programmes” according to IFRIC 13. Moreover, an impact analysis has shown that revenue from sales is not expected to have any material impact compared to current practice under IAS 18.

IFRS 9, which was issued in July 2014, replaces the existing guidelines in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new model of expected credit losses for calculating the impairment of financial assets and new general requirements for hedge accounting. It also carries over the guidelines for recognising and derecognising financial instruments from IAS 39. IFRS 9 is applicable for the first time in financial years beginning on or after 1 January 2018. Early application is permitted, but not intended. The new model for recognising credit losses is not expected to result in significantly higher impairment.

The effects of the first-time adoption of IFRS 16 are currently still being investigated. IFRS 16 replaces the existing guidelines on leases, including IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”. Subject to adoption into EU law, the standard is applicable for the first time in the first reporting period of a financial year beginning on or after 1 January 2019. Early application is permissible for entities that already apply IFRS 15 “Revenue from Contracts with Customers” on or before the date of the first-time application of IFRS 16. The Group has begun to evaluate the potential impact of the application of IFRS 16 on its consolidated financial statements. However, the effects cannot be precisely quantified at present.

The first-time adoption of the other standards, interpretations and amendments to existing standards listed above are not expected to have an effect on the consolidated financial statements of WILO SE.

(4.) Basis of consolidation

The consolidated financial statements include WILO SE and all significant companies that WILO SE controls directly or indirectly. WILO SE controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is achieved until it ends and fully consolidated in accordance with IFRS 10.

In addition to WILO SE, the consolidated financial statements as at 31 December 2016 include eight (previous year: seven) German entities and 56 (previous year: 55) foreign subsidiaries. In addition, one associate (previous year: one) and one joint venture (previous year: one) are included in the consolidated financial statements using the equity method.

One German subsidiary, which was acquired in March 2016, and one foreign subsidiary, which was immaterial in the previous year, were consolidated for the first time. A list of all of WILO SE's direct and indirect shareholdings can be found in the annex to the notes to the consolidated financial statements.

ACQUISITIONS In March 2016, WILO SE acquired 100 percent of the shares in GVA Gesellschaft für Verfahren der Abwassertechnik mbH & Co. KG. The company specialises in the development, design and production of system technologies and components for biological wastewater treatment. The acquisition expands the Wilo Group's existing areas of application in wastewater treatment on national and international markets. The company is not material for the consolidated financial statements.

(5.) Consolidation methods

The financial statements of the German and foreign companies included in the consolidated financial statements were prepared using uniform accounting policies.

Business combinations are accounted for using the acquisition method in accordance with IFRS 3, with all hidden assets and liabilities disclosed. The assets, liabilities and contingent liabilities of the acquiree identified in accordance with IFRS 3 are measured at fair value at the acquisition date and offset against the purchase price of the acquisition in capital consolidation. The fair value of any assets and liabilities not acquired is reported under non-controlling interests.

Any excess of the purchase price over the value of acquired, remeasured equity is capitalised as goodwill and tested for impairment annually at the level of the cash-generating unit to which the goodwill is allocated. If the acquired equity exceeds the purchase price, the difference is reassessed and recognised in profit or loss. Intangible assets are recognised separately from goodwill if they can be separated from the company or result from a contractual or other right.

An increase in the shareholding in a controlled and thereby fully consolidated company is treated as a transaction between owners under IFRS 10 in the consolidated financial statements. Any resulting difference is recognised directly in retained earnings and allocated to the shareholders of WILO SE.

Intragroup sales, income, expenses, receivables, payables and contingent liabilities are eliminated. Profits and losses resulting from intragroup trading and recognised in inventories are eliminated. Any temporary differences arising on consolidation are accounted for by recognising deferred tax items as appropriate.

(6.) Currency translation

Foreign-currency transactions in the separate financial statements of WILO SE and consolidated subsidiaries are translated into functional currency at the transaction date exchange rate. Foreign-currency monetary assets and liabilities are translated at the average rate as at the end of the reporting period and any exchange gains or losses are recognised in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the transaction date exchange rate. Non-monetary items measured at fair value are translated at the measurement date exchange rate.

Items in the separate financial statements of consolidated entities are measured in the currency of the primary economic environment (functional currency).

Financial statements prepared in functional currencies other than the euro are translated into euro for consolidation. The reporting currency used in the consolidated financial statements is the euro. All assets and liabilities are translated at the exchange rate as at the end of the reporting period. Consolidated income statement items are translated for inclusion in the consolidated financial statements at annual average rates that appropriately approximate the transaction date exchange rates. Translation differences are accounted for as a separate component of consolidated equity until a subsidiary is disposed of.

The main exchange rates used in currency translation are as follows:

Exchange rates

		Annual average rate		Rate as at 31 December	
	1 Euro =	**2016**	2015	**2016**	2015
Pound sterling	GBP	0.8227	0.7236	0.8581	0.7350
Chinese renminbi (yuan)	CNY	7.3488	6.9434	7.3443	7.0724
Indian rupee	INR	74.3119	70.9623	71.8220	72.3087
Polish zloty	PLN	4.3638	4.1810	4.4180	4.2636
Russian rouble	RUB	73.1804	68.6566	64.7667	80.4168
Swedish krona	SEK	9.4761	9.3339	9.5656	9.1831
Swiss franc	CHF	1.0894	1.0631	1.0754	1.0822
South Korean won	KRW	1,279.9034	1,250.6113	1,276.2370	1,277.0284
Turkish lira	TRY	3.3394	3.0361	3.7288	3.1815
US dollar	USD	1.1040	1.1039	1.0568	1.0892

(7.) Accounting policies

The accounting policies applied in the previous year have been retained. Notes on the first-time adoption of new or amended standards and interpretations can be found in note (3). Items presented in the statement of financial position are broken down into current and non-current items. An asset or liability is classified as current if it is expected to be realised within twelve months of the end of the reporting period.

ESTIMATES AND ASSUMPTIONS Preparation of consolidated financial statements in line with IASB standards requires management to make estimates and assumptions that affect the amounts and reporting of recognised assets and liabilities, income and expenses and contingent assets and liabilities.

Essentially the following matters are affected by estimates and assumptions:

- assessment of impairment on goodwill
- assessment of impairment on capitalised development costs
- measurement of intangible assets and items of property, plant and equipment
- assessment of impairment on trade receivables
- recognition and measurement of provisions for pensions and similar obligations
- recognition and measurement of other provisions

In goodwill impairment testing, the recoverable amount of cash-generating units is measured as the higher of fair value less costs to sell and value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of a cash-generating unit in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from continuing use of a cash-generating unit.

The Wilo Group uses the value in use as calculated using the discounted cash flow method in impairment testing for goodwill. The discounted cash flows are based on the strategic planning for a period of five years.

The cash flows forecasts take into account past experience and are based on the best estimate of future development by the company's management. Cash flows after the planning period are extrapolated using growth rates specific to the business area.

The most important assumptions on which the calculation of value in use is based include discounted cash flows, estimated growth rates, the weighted average cost of capital and tax rates. These estimates and the underlying method can have a significant influence on the respective values and ultimately on the amount of possible goodwill impairment. The Wilo Group reported goodwill of EUR 64,336 thousand as at the end of the reporting period (previous year: EUR 62,962 thousand). Further information can be found in "Intangible assets" and "Impairment of assets" (note (7)) and note (9.1).

For intangible assets and items of property, plant and equipment, the useful lives used consistently throughout the Group are based on management estimates. Moreover, if necessary, impairment tests determine the recoverable amount of an asset or the cash-generating unit assigned to the asset as the higher of fair value less costs to sell or the value in use.

Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. The discounted future cash flow of the asset in question must be determined to calculate its value in use. The estimate of discounted future cash flows includes significant assumptions, e.g. the discount rate. Although the management presumes that its assumptions of general economic conditions, estimates of discounted future cash flow and of relevant expected useful lives are appropriate, a change in assumptions or circumstances could require a change in analysis. This could result in additional impairment losses in the future if the trends identified by the management reverse or if its assumptions or estimates prove to be incorrect. The Wilo Group reported property, plant and equipment of EUR 341,794 thousand as at the end of the reporting period (previous year: EUR 306,808 thousand).

Further information can be found in "Intangible assets", "Property, plant and equipment" and "Impairment of assets" (note (7)) and under notes (9.1) and (9.2).

Credit risks and risks of default can arise for trade receivables to the extent that customers do not meet their payment obligations and asset losses occur as a result. The necessary write-downs are calculated taking into account the credit rating of the respective customer, any collateral and experience of historical default rates.

The actual default on payment by the customer can differ from the expected default on account of the underlying factors. The Wilo Group recognised total write-downs on trade receivables of EUR 20,721 thousand (previous year: EUR 17,018 thousand) as at the end of the reporting period. Further information can be found in "Financial assets" (note (7)) and note (9.6).

The amount and probability of utilisation are estimated for the recognition and measurement of other provisions. The measurement is based on the most likely settlement amount or the expected settlement amount if there are equal probabilities. The amount of actual utilisation can differ from estimates. The Wilo Group essentially reported provisions for possible warranty claims and provisions for bonuses and customer rebates under other provisions. In total, other provisions of EUR 47,214 thousand (previous year: EUR 44,928 thousand) were reported as at the end of the reporting period. Further information can be found in "Other provisions" (note (7)) and note (9.17).

The calculation of provisions for pensions and similar post-employment obligations is based on key premises, such as the discounting rates, salary trends, life expectancies and assumptions regarding trends in healthcare. The discounting rates used are determined on the basis of the returns on government bonds of the same term and currency as at the end of the reporting period. Actual developments may differ from the premises assumed on account of the fluctuating market and economic situation. This can have a significant effect on the obligations for pensions and similar post-employment benefits. The resulting differences are recognised in other comprehensive income. Further information can be found in "Pensions and similar obligations" (note (7)) and note (9.16).

The assumptions and estimates are based on current knowledge and the data currently available. Actual developments can differ from estimates. If the actual amounts differ from those estimated, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

JUDGEMENTS Judgements must be made in the application of accounting policies. In particular, this applies to the following:

- Financial assets must be assigned to the categories "financial assets at fair value through profit and loss", "financial assets held to maturity", "loans and receivables" and "financial assets available-for-sale".
- The cash-generating units for goodwill impairment testing are formed and defined by products and applications and are subject to management judgement.
- When using derivatives to minimise the financial risks of hedged items, it must be decided whether hedge accounting is to be used within the meaning of IAS 39.

EXPENSE AND REVENUE RECOGNITION Revenue is normally recognised when service is rendered or goods are delivered and the associated risks and rewards are substantially transferred to customers. Net sales are presented net of trade discounts and rebates. Cost includes all direct costs and overheads incurred in generating net sales, including depreciation on production machinery. This item also includes amounts recognised for guarantee provisions. Operating expenses are recognised in profit or loss when service is rendered or the expenses incurred. Interest income and interest expenses are recognised on an accrual basis.

ADMINISTRATIVE EXPENSES AND SELLING EXPENSES
Administrative expenses and selling expenses include attributable labour and material costs plus depreciation applicable to each functional area.

RESEARCH AND DEVELOPMENT COSTS Development costs are capitalised as intangible assets at cost and amortised over their useful lives, provided the capitalisation criteria described in IAS 38 are met. Development costs that do not meet the capitalisation criteria in accordance with IAS 38 and research costs are reported as a separate line item in the income statement. In the year under review, development costs were capitalised in the amount of EUR 18,510 thousand (previous year: EUR 19,970 thousand), including EUR 1,290 thousand in capitalised borrowing costs (previous year: EUR 675 thousand).

BORROWING COSTS Borrowing costs are recognised in profit or loss, provided they do not relate directly to the acquisition, development or production of qualifying assets.

If this is the case, these direct borrowing costs are capitalised as incidental costs of acquisition of the qualified asset. Qualifying assets are assets which require a substantial period of time to bring them to a condition suitable for use or sale. In the 2016 financial year, borrowing costs were capitalised in the amount of EUR 1,290 thousand (previous year: 675). This figure related solely to capitalised development costs. The borrowing cost rate, which forms the basis for determining the capitalisable borrowing costs, was 3.42 percent in the year under review (previous year: 3.77 percent).

INTANGIBLE ASSETS Acquired intangible assets with a finite useful life are capitalised at cost and amortised on a straight-line basis over their useful lives (three to five years in the Wilo Group).

The amortisation for the financial year is allocated to the corresponding functional areas. In accordance with IFRS 3 and IAS 38 in conjunction with IAS 36, goodwill is not amortised but instead tested for impairment annually and whenever there is an indication that it has become impaired. If impairment testing of goodwill shows the goodwill to be impaired, the impairment loss is recognised under other operating expenses.

If the conditions of IAS 38 are met, development costs with a finite useful life are capitalised and amortised on a straight-line basis over their useful lives (ten years in the Wilo Group).

PROPERTY, PLANT AND EQUIPMENT Physical assets used in the business for longer than one year are measured at cost less straight-line depreciation. Cost comprises the purchase price plus all directly attributable costs incurred in bringing an asset to the location and condition necessary for it to be capable of operating. Useful lives are based on the standard depreciation of the assets.

The estimated useful life of a building is between 10 and 60 years; leasehold improvements and buildings on third-party land are depreciated over the shorter of the lease term or their useful life. The useful lives for technical equipment and machinery are up to 14 years. Operating and office equipment subject to normal use are depreciated over 3 to 13 years. Significant parts of an asset that meet the criteria set out in IAS 16 are accounted for using the component approach. The depreciation for the financial year is allocated to the corresponding functional areas.

ASSETS HELD FOR SALE Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable. Assets held for sale are no longer written down, and are instead measured at the lower of fair value less costs to sell and carrying amount.

LEASES Wilo does not lease out any items itself, instead acting as a lessee only. Leases that meet the classification criteria for finance leases under IAS 17 are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. If it is not reasonably certain that the lessee will obtain ownership by the end of the lease term, the leased asset is fully depreciated on a straight-line basis over the shorter of the lease term and its useful life. In such a case, the useful life is taken as a basis. On first-time recognition of finance leases under IAS 17, the capitalised amount and the liability are identical. Leased property is returned to the lessor at the end of the lease term.

Where consolidated companies are lessees under operating leases, lease payments are recognised on a straight-line basis over the term of the lease in profit or loss.

IMPAIRMENT OF ASSETS At the end of each reporting period it is assessed whether there is any indication that an asset may be impaired. Depreciable assets are tested for impairment if there is an indication that their carrying amount may exceed their recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Goodwill is tested for impairment once per financial year when the annual financial statements are prepared at the end of the reporting period and whenever there are indications that it may have become impaired. In impairment testing, the recoverable amount of cash-generating units is measured as the higher of fair value less costs to sell and value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of a cash-generating unit in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.

The recoverable amount is measured using the discounted cash flow method on the basis of approved planning over a strategic planning horizon of five years. An appropriate, unit-specific growth factor is applied. The plans are based on past experience and projected market development. The product divisions of the Wilo Group are broken down by product groups and applications to form the cash-generating units. The cash-generating units at the Wilo Group are the *Heating, Ventilation, Air-Conditioning* and *Clean and Waste Water* product divisions.

The impairment test for goodwill performed in the 2016 financial year showed that there was no need for recognising an impairment loss.

In impairment testing, goodwill and all other assets are allocated to cash-generating units and compared to the value in use of the respective cash-generating unit. If the value in use of a cash-generating unit is lower than the total carrying amount of the goodwill and all other assets allocated to it, an impairment loss must be recognised in profit or loss. An impairment loss is deducted from the goodwill allocated to the cash-generating unit and then pro rata from the other assets in the unit. Impairment losses are reported in other operating expenses in profit and loss.

The Wilo Group uses the value in use of each division as its recoverable amount for the purposes of goodwill impairment testing. Goodwill is also recoverable if the key parameters, in particular the discount rate before tax and the long-term growth rate, are implemented in a sensitivity analysis.

The main assumptions used to determine the value in use of each division for goodwill impairment testing are shown below:

The discount rate used in annual impairment testing of cash-generating units is determined on the basis of market data. A rate of 11.6 or 12.3 percent before income taxes was used for the cash-generating units in the 2016 financial year (previous year: 11.4 percent or 12.1 percent before income taxes). As in the previous year, the long-term growth factor for the cash-generating units is 0.1 percent or 0.7 percent.

2016 financial year

Divisional structure	Goodwill in EUR thousand	Long-term growth factor in %	Discount rate before income taxes in %
Heating, Ventilation, Air-Conditioning	7,640	0.1	12.3
Clean and Waste Water	56,696	0.7	11.6

The impairment test for capitalised development costs performed in the 2016 financial year also did not result in any need for impairment.

INVESTMENTS CARRIED AT EQUITY Investments in associates and joint ventures are reported in investments carried at equity.

Associates are those entities in which the Wilo Group has significant influence, but not control or joint control, over the financial and operating policies.

Joint ventures are based on joint arrangements whereby the Wilo Group and a third party have joint control of the arrangement and rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method. They are recognised at cost at the acquisition date. Cost includes transaction costs directly attributable to the acquisition. At subsequent reporting dates, the carrying amount is increased or reduced by the changes in equity attributable to the Wilo Group's equity interest. There were no significant intragroup profits or losses from transactions between Group companies and investments carried at equity in the past financial year.

FINANCIAL ASSETS The Wilo Group's financial assets comprise loans and receivables, acquired equity and debt securities, cash and derivative financial instruments that are assets. Within the Wilo Group, these financial assets are reported under trade receivables, other financial assets and cash.

Financial assets are recognised and measured in line with IAS 32, IAS 39 and IFRS 13. In accordance with IAS 32, financial assets are reported in the consolidated statement of financial position if the Wilo Group has a contractual right to receive cash or other financial assets from another party.

Purchases and sales of non-derivative financial assets are accounted for on the settlement date, i.e. the date of delivery and transfer of ownership. Derivative financial instruments are accounted for at the trade date. A financial asset is initially recognised at fair value. For financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition are also taken into account. Non-interest-bearing receivables or receivables subject to low interest rates with a term of more than one year are carried at the present value of the expected future cash flows on first-time recognition. For financial assets with a remaining term of less than one year, the fair value is assumed to be the same as the nominal value.

Subsequent measurement is in line with the classification of financial assets into the following categories in accordance with IAS 39, each of which is subject to different measurement rules:

- *Financial assets at fair value through profit and loss and financial assets held for trading* comprise financial assets held for trading. Any changes in the fair value of financial assets in this category are recognised in profit or loss at the time their value increases or decreases. Only derivative financial instruments not used as hedge accounting instruments are allocated to this category in the Wilo Group.

- *Loans and receivables* are non-derivative financial assets that are not quoted on an active market whose payments are fixed or determinable and that were not allocated to a different category on initial recognition. Subsequent measurement is at amortised cost. This category includes trade receivables in addition to receivables and loans classified as other financial assets. The interest income from items in this category is calculated using the effective interest method, provided they are not current receivables and the effect of discounting is immaterial.

- *Held-to-maturity investments* are non-derivative financial assets that are quoted on an active market with fixed or determinable payments and a fixed maturity to which they are held. These are measured at amortised cost using the effective interest method. No financial assets of this category were reported by the Wilo Group as at 31 December 2016 or 2015.

- *Available-for-sale financial assets* comprise non-derivative financial assets that are not classified in one of the above categories. These include in particular equity securities (e.g. shares and other interests in companies) which are contained in other financial assets.

  Available-for-sale financial assets are measured at fair value. If there is no quoted price and the fair value cannot be determined with sufficient reliability, they are measured at amortised cost. Any changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. This does not apply in the case of permanent or significant impairment losses or for currency-related changes in the value of debt instruments, which are recognised in profit or loss. The cumulative gains and losses from fair value measurement recognised in other comprehensive income are not taken to profit or loss until the financial assets are derecognised. In cases where the fair value of equity and debt securities can be determined, this is recognised as fair value. If no quoted market price exists and no reliable estimate of fair value can be made, these financial assets are measured at cost less impairment losses.

  Available-for-sale financial assets in the Wilo Group consist mainly of investments in companies for which no quoted market price exists and no reliable estimate of fair value can be made. These comprise shares in unconsolidated subsidiaries and associated companies not accounted for at equity.

No financial instruments were reclassified to a different measurement category in the year under review or the previous year.

If financial assets measured at amortised cost show objective, substantial indications of impairment, they are tested to see if the carrying amount of the asset exceeds the present value of the expected future cash flows discounted using the original effective interest rate; an impairment loss is recognised if this is the case. The difference is deducted from the carrying amount of the financial asset in profit or loss either directly or by way of an allowance account. For equity securities classified as available-for-sale, an impairment loss is recognised if major, adverse changes have taken place in the issuer's environment or the fair value of the equity security is substantially below cost over a longer period. The loss is calculated as the difference between the current fair value and the carrying amount of the financial instrument. Indications of impairment include several years of operating losses in a company, a reduction in market value, material deterioration of credit rating, significant defaults on payment, particular breaches of contract, the high probability of insolvency or other forms of financial restructuring on the part of the debtor or the disappearance of an active market.

If the reasons for impairment losses recognised in the past no longer apply, they are reversed as appropriate to the maximum of the amortised cost. Impairment losses on equity securities classified as available-for-sale are reversed in other comprehensive income.

Financial assets are derecognised if the contractual rights to payments from the financial assets no longer exist or the financial assets are transferred with all material risks and rewards.

INVENTORIES Raw materials and supplies and merchandise are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Work in progress and finished goods are carried at cost. This includes all costs directly attributable to production and appropriate portions of production overheads. Production overheads include production-related depreciation, pro rata administration costs and pro rata social security costs. Cost does not include borrowing costs. Discounts are recognised on raw materials and supplies and merchandise for quality and functional defects and for risks of failure to sell. Inventories are measured as at the end of the reporting period at the lower of cost and net realisable value.

DERIVATIVES AND HEDGING The Wilo Group uses derivatives solely to reduce exchange rate, interest rate and commodity price risk. These instruments are hedges from an economic perspective, but do not meet the requirements of IAS 39 for hedge accounting. The Wilo Group therefore does not use hedge accounting as defined by IAS 39 for derivatives.

Measurement is performed using standard measurement methods based on market parameters specific to each instrument. The fair value of forward exchange contracts and cross-currency interest rate swaps is calculated using net present value models, while the fair value of options is calculated using option pricing models. Where possible, the relevant market prices and interest rates at the end of the reporting period are used as the input parameters for these models.

The fair value of forward exchange contracts is determined using the middle spot exchange rate as at the end of the reporting period and taking into account the forward premiums and discounts for the remaining contract term with respect to the agreed forward exchange rate. The fair value of cross-currency interest rate swaps is determined by discounting the expected cash flows using applicable market rates with the same term as at the reporting date. Commodity futures are measured on the basis of current quoted market prices, taking corresponding forward premiums and discounts into account. In contrast, currency and commodity options are measured using option pricing models. The fair value of derivative financial instruments is calculated by banks.

Changes in the fair value of derivatives as at the end of the reporting period are taken directly to profit and loss under other net finance costs. Income and expenses from the realisation of derivatives are disclosed in the income statement in the item in which the effects of hedged items are reported. Income or expenses from the realisation of currency derivatives are recognised under other operating income or expenses, provided the hedged item is assigned to the operating area and the income and expenses from the measurement of this item were recognised accordingly in the same item. If the item relates to financial activity, the realised income and expenses from the currency forward or currency option are reported in other net financial income. Income or expenses from the realisation of cross-currency interest rate swaps are reported in net interest income. Income or expenses from the realisation of commodity derivatives without physical delivery are reported in cost of sales.

OTHER RECEIVABLES AND ASSETS Other receivables and assets primarily include tax receivables, advance payments, employer pension liability assets, deferrals and receivables from employees that are not financial assets. These other receivables and assets are measured at amortised cost.

DEFERRED TAXES Deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 for all temporary differences between the carrying amount of an asset or liability in the IFRS financial statements and its tax base.

Deferred tax assets are also recognised in respect of the expected utilisation of unused tax loss carryforwards in subsequent years provided the tax loss carryforwards are sufficiently likely to be utilised. Deferred tax assets are tested for impairment as at the end of the reporting period. The Wilo Group also recognises deferred tax liabilities for the tax expenses to arise on the expected profit distributions by the consolidated subsidiaries to WILO SE in 2017.

Deferred tax assets and liabilities are measured at the tax rates that apply or that are expected to apply at the realisation date according to the current legal situation in the individual countries.

Deferred tax assets are only offset against deferred tax liabilities if they relate to the same taxation authority and have matching terms. Information on the deferred taxes as at 31 December 2016 is provided in note (8.9).

GOVERNMENT GRANTS In accordance with IAS 20, a government grant is only recognised if there is reasonable assurance of compliance with the conditions attached to it and that the grant will be received. Research and investment grants received by the Wilo Group are recognised in profit or loss over the periods necessary to match them to the costs they are intended to compensate. They are recognised as deferred income and reversed to profit and loss over the term of the subsidised assets.

EQUITY Treasury shares are measured at cost and reported separately as a deduction from equity. Treasury shares in the notional amount of EUR 1,477 thousand (previous year: EUR 1,916 thousand) are openly deducted from issued capital.

FINANCIAL LIABILITIES Financial liabilities comprise primary liabilities and derivative financial instruments with negative fair values. Derivative liabilities are classified as financial liabilities at fair value through profit and loss or financial liabilities held for trading in accordance with IAS 39. In the Wilo Group, financial liabilities consist of liabilities due to banks, trade payables and liabilities reported under other financial liabilities.

In accordance with IAS 32, primary liabilities are recognised in the consolidated statement of financial position if the Wilo Group has a contractual obligation to transfer cash or other financial assets to another party. Primary liabilities are measured at the cost of consideration or the cash received on first-time recognition. Non-interest-bearing and low-interest liabilities with a term of more than one year are discounted if the time value of money is not immaterial. For liabilities with a term of less than one year, the fair value is assumed to be the same as the settlement amount. Transaction costs that are directly attributable are also recognised for all financial liabilities not subsequently measured at fair value and then amortised over their term using the effective interest method.

In subsequent measurement, finance lease liabilities are carried at the present value of the lease payments. All other financial liabilities classified as financial liabilities measured at amortised cost are carried at their settlement amount or amortised cost using the effective interest method.

Financial liabilities are derecognised if the contractual obligations are discharged, cancelled or expire.

Financial assets and financial liabilities are generally reported without offsetting.

OTHER LIABILITIES Other liabilities mainly comprise tax liabilities, advance payments received, deferrals and liabilities to employees that are not financial liabilities as defined by IAS 32. These are measured at amortised cost.

PENSIONS AND SIMILAR OBLIGATIONS Provisions are recognised for uncertain liabilities from pension obligations and other post-employment benefits. In accordance with IAS 19, pension obligations for defined benefit commitments are calculated using the internationally recognised projected unit credit method. The calculations are based on actuarial appraisals and biometric parameters.

Actuarial gains and losses and gains and losses from the remeasurement of plan assets are recognised in full in other comprehensive income.

The expense relating to pension obligations, with the exception of the interest portion reported in net finance costs, is allocated to the relevant functional areas. The amount of pension obligations is determined using actuarial methods, for which estimates are essential. The calculations for pension obligations use the following parameters, shown here on a weighted-average basis:

Calculation parameters for pension obligations

Figures in %	**31 Dec. 2016**	31 Dec. 2015
Discount rate	1.67	2.32
Pension adjustment	2.00	2.00
Salary increase	3.00	3.15

The net interest expense is calculated by multiplying the net pension liability by the discount rate of 1.67 percent (previous year: 2.32 percent).

The actuarial present value of pension obligations calculated using the projected unit credit method is reduced by the amount of the corresponding assets at the third-party pension provider if the requirements of IAS 19 for plan assets are met.

OTHER PROVISIONS Provisions for taxes include current income tax liabilities. Other provisions are recognised in accordance with IAS 37 when there is a present obligation to a third party resulting from a past event, settling the obligation will probably require an outflow of resources and the amount of the obligation can be reliably estimated.

Non-current provisions for obligations not expected to result in an outflow of resources in the next year are recognised at the net present value of the expected outflow of resources. The discount rate is based on market interest rates.

The settlement amount includes expected cost increases. Provisions are remeasured as at the end of each reporting period. Provisions are not offset against rights of recourse.

(8.) Notes to the consolidated income statement

(8.1) Net sales

Net sales break down according to the following regions:

Net sales

	2016		2015	
	EUR thousand	**%**	EUR thousand	%
Europe	743,981	56.1	744,672	56.5
Asia Pacific	359,556	27.0	344,557	26.2
EMEA	187,821	14.2	190,165	14.4
Others	35,732	2.7	37,732	2.9
Total	**1,327,090**	**100.0**	**1,317,126**	**100.0**

Net sales include revenue from the sale of goods of EUR 1,226,209 thousand (previous year: EUR 1,233,433 thousand) and service income of EUR 100,881 thousand (previous year: EUR 83,693 thousand).

(8.2) Cost of sales

This item consists of costs of the products and merchandise sold.

Cost of sales

EUR thousand	2016	2015
Cost of materials	-575,606	-574,196
Staff costs	-143,376	-135,430
Depreciation and amortisation of intangible assets and property, plant and equipment	-33,138	-33,422
Other staff costs including personnel leasing	-14,623	-13,781
Purchased services	-10,645	-11,131
Third-party maintenance	-9,187	-9,243
Rental payments	-5,231	-4,253
Travel and entertainment expenses	-2,697	-2,716
Other	-33,499	-30,932
Total	**-828,002**	**-815,104**

(8.3) Selling expenses

Selling expenses

EUR thousand	2016	2015
Staff costs	-133,615	-130,958
Outgoing freight	-24,728	-24,664
Advertising costs	-20,506	-21,706
Sales force costs	-18,815	-19,140
Purchased services	-10,275	-7,114
Rental payments	-9,923	-10,475
Depreciation and amortisation of intangible assets and property, plant and equipment	-6,169	-6,380
Other staff costs including personnel leasing	-4,274	-3,895
Legal and consulting costs	-3,523	-2,651
Write-downs on trade receivables (net)	-2,680	-2,826
Communication costs	-2,417	-2,470
Defaults	-2,026	-2,255
Other	-15,797	-17,425
Total	**-254,748**	**-251,959**

(8.4) Administrative expenses

Administrative expenses

EUR thousand	2016	2015
Staff costs	-54,181	-51,568
Legal and consulting costs	-10,535	-8,194
Depreciation and amortisation of intangible assets and property, plant and equipment	-8,563	-7,623
Purchased services	-6,597	-5,007
Rental payments	-6,080	-5,185
Other staff costs including personnel leasing	-3,867	-3,220
Travel and entertainment expenses	-3,506	-2,932
Communication costs	-2,294	-2,120
Other	-4,601	-3,195
Total	**-100,224**	**-89,044**

(8.5) Research and non-capitalised development costs

Research and non-capitalised development costs

EUR thousand	2016	2015
Staff costs	-37,382	-37,222
Purchased services	-7,186	-5,228
Depreciation and amortisation of intangible assets and property, plant and equipment	-3,131	-2,876
Other staff costs including personnel leasing	-2,104	-1,980
Third-party maintenance	-1,366	-1,319
Legal and consulting costs	-855	-896
Other	-12,974	-12,921
	-64,998	**-62,442**
Capitalised development costs	17,220	19,295
Total	**-47,778**	**-43,147**

(8.6) Other operating income

Other operating income

EUR thousand	2016	2015
Foreign-currency gains from operating activities	10,504	12,544
Income from disposals of intangible assets and property, plant and equipment	3,240	630
Government grants	2,382	2,372
Insurance compensation	244	152
Rental income	23	155
Other	5,154	5,830
Total	**21,547**	**21,683**

The foreign-currency gains from operating activities of EUR 10,504 thousand (previous year: EUR 12,544 thousand) mainly consist of gains due to exchange rate changes between the inception and settlement of foreign-currency receivables and liabilities, and foreign-currency gains resulting from measurement at the exchange rate as at the end of the reporting period. Foreign-currency losses of EUR 7,398 thousand (previous year: EUR 16,250 thousand) from these items are reported under other operating expenses (see note (8.7)). As subsidiaries mostly trade with customers and suppliers in local currency, these foreign-currency gains and losses mainly arise on intra-group transactions.

(8.7) Other operating expenses

Other operating expenses

EUR thousand	2016	2015
Foreign-currency losses from operating activities	-7,398	-16,250
Losses on disposals of intangible assets and property, plant and equipment	-1,273	-676
Other	-2,126	-1,442
Total	**-10,797**	**-18,368**

(8.8) Net finance costs

Net finance costs break down as follows:

Net finance costs

EUR thousand	2016	2015
Net interest costs	-4,340	-6,726
Other net finance income	826	-1,266
Total	**-3,514**	**-7,992**

Net interest costs consist of the following interest income and expenses:

Net interest costs

EUR thousand	2016	2015
Interest income on cash and on loans granted	1,463	1,028
Settlement of derivative financial instruments	114	229
Interest income	**1,577**	**1,257**
Interest expenses on financial liabilities	-6,953	-8,396
Interest on finance leases	-254	-262
Capitalised borrowing costs	1,290	675
Interest expenses	**-5,917**	**-7,983**
Total	**-4,340**	**-6,726**

Other net finance income break down as follows:

Other net finance income

EUR thousand	2016	2015
Gains on derivative financial instruments	3,407	5,585
Foreign-currency gains from financing activities	95	603
Other	30	0
Other financial income	**3,532**	**6,188**
Losses on derivative financial instruments	-754	-1,302
Foreign-currency losses from financing activities	-508	-4,806
Interest rate effects from pensions, non-current liabilities and receivables	-1,444	-1,345
Other	0	-1
Other financial expenses	**-2,706**	**-7,454**
Total	**826**	**-1,266**

The foreign currency gains and losses from financing activities result from the translation of intragroup foreign-currency loans. In the previous year, the foreign currency losses from financing activities included a loss of EUR 3,815 thousand from the translation of a senior note of USD 40.0 million. The senior note was repaid on schedule in March 2016.

The cross-currency interest rate swap that hedged the senior note against currency risks therefore expired in March 2016. In the previous year, a gain on the remeasurement of this cross-currency interest rate swap of EUR 3,766 thousand was reported under gains on derivative financial instruments. In the current financial year, the gains and losses on derivative financial instruments resulted primarily from positive and negative utilisation and measurement effects of commodity derivatives used to hedge prices for commodities within the Wilo Group. In the 2016 financial year, the net utilisation and measurement of commodity derivatives increased net other financial income by EUR 2,667 thousand (previous year: EUR 22 thousand).

(8.9) Income taxes

The income tax expense contained in consolidated net income is composed as follows:

Income taxes

EUR thousand	2016	2015
Current tax expenses/income		
– reporting year	-25,043	-25,707
– adjustments for prior periods	-1,101	-625
Current income taxes	**-26,144**	**-26,332**
Deferred tax income/expense		
– from unutilised loss carryforwards	7,498	-809
– from changes in tax rates	-13	19
– from the creation and reversal of temporary differences	-8,331	-5,419
– from write-downs and reversals of write-downs on deferred tax assets	8	-19
Deferred tax expense	**-838**	**-6,228**
Income taxes	**-26,982**	**-32,560**

The calculation of current income taxes in Germany for 2016 is based on a combined statutory tax rate of 15.8 percent for corporation tax and the solidarity surcharge plus trade tax approximating 15.0 percent as expected tax rates (previous year: combined tax rate of 30.8 percent). As in the previous year, foreign entities are subject to local income tax rates ranging from 10.0 percent to 40.0 percent.

Deferred taxes are also measured using the German combined tax rate of 30.8 percent (previous year: 30.8 percent) consisting of corporation tax, solidarity surcharge and trade tax.

Deferred taxes by balance sheet item

Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

Deferred taxes by balance sheet item

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	**2016**	2015	**2016**	2015
Intangible assets	225	122	15,888	9,846
Property, plant and equipment	931	1,486	8,735	6,300
Inventories	4,415	4,498	290	276
Receivables and other assets	4,315	3,197	1,400	1,525
	9,886	**9,303**	**26,313**	**17,947**
Financial liabilities	0	1,220	174	508
Trade payables	175	576	117	6
Pensions and similar obligations	15,608	12,842	0	0
Other provisions and liabilities	5,435	4,938	9,346	8,956
Tax loss carryforwards	8,011	514	0	0
	29,229	**20,090**	**9,637**	**9,470**
Offsetting of deferred tax assets and liabilities	-304	-650	-304	-650
Carrying amount	**38,811**	**28,743**	**35,646**	**26,767**

The change in deferred tax assets and liabilities in the reporting year was as follows:

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2015	Recognised in profit or loss	Recognised in other comprehensive income	**Net amount of deferred tax assets/liabilities as at 31 Dec. 2016**
Intangible assets	-9,724	-5,940	0	-15,664
Property, plant and equipment	-4,814	-2,709	-281	-7,804
Inventories	4,222	-47	-51	4,124
Receivables and other assets	1,672	1,256	-13	2,915
Financial liabilities	712	-886	0	-174
Trade payables	570	-540	27	57
Pensions and similar obligations	12,842	446	2,319	15,608
Other provisions and liabilities	-4,018	84	26	-3,908
Tax loss carryforwards	514	7,498	0	8,011
Total	**1,976**	**-838**	**2,027**	**3,165**

The change in deferred tax assets and liabilities in the previous year was as follows:

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2014	Recognised in profit or loss	Recognised in other comprehensive income	Net amount of deferred tax assets/liabilities as at 31 Dec. 2015
Intangible assets	–3,315	–6,409	0	–9,724
Property, plant and equipment	–4,344	–470	0	–4,814
Inventories	4,114	108	0	4,222
Receivables and other assets	1,854	–182	0	1,672
Financial liabilities	–554	1,266	0	712
Trade payables	440	130	0	570
Pensions and similar obligations	14,867	–9	–2,016	12,842
Other provisions and liabilities	–4,165	147	0	–4,018
Tax loss carryforwards	1,323	–809	0	514
Total	**10,220**	**–6,228**	**–2,016**	**1,976**

EUR 2,319 thousand of the deferred tax expenses recognised in other comprehensive income relate to the actuarial changes of the present value of the pension obligations and the remeasurement of the related plan assets. Relevant deferred tax assets total EUR 13,206 thousand (previous year: EUR 10,887 thousand). The amount of EUR –292 thousand relates to currency differences.

Unutilised tax loss carryforwards amounted to EUR 99,517 thousand (previous year: EUR 68,479 thousand) as at the end of the reporting period, EUR 34,823 thousand of which (previous year: EUR 7,428 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 64,694 thousand (previous year: EUR 61,051 thousand) and can be carried forward between 5 and 20 years.

Applying local income tax rates, the deferred tax assets on loss carryforwards would amount to EUR 33,803 thousand (previous year: EUR 24,195 thousand). EUR 25,792 thousand (previous year: EUR 23,681 thousand) of this total was not recognised as at the end of the reporting period as it was not sufficiently likely that they will be utilised in future.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, deferred tax liabilities of EUR 3,423 thousand (previous year: EUR 3,174 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 138,832 thousand at subsidiaries as at 31 December 2016 (previous year: EUR 115,899 thousand) intended for long-term investment, for which no deferred tax liabilities were therefore recognised.

RECONCILIATION OF INCOME TAXES The combined statutory tax rate of 15.8 percent consisting of corporation tax and the solidarity surcharge plus the trade tax of approximately 15.0 percent (previous year's total: 30.8 percent) was used to calculate deferred taxes in Germany for the 2016 financial year. The Wilo Group reported tax expenses of EUR 26,982 thousand (previous year: EUR 32,560 thousand) in its consolidated income statement for 2016. This is EUR 4,729 thousand lower (previous year: EUR 2,257 thousand lower) than the expected tax expense of EUR 31,711 thousand (previous year: EUR 34,817 thousand) that results from applying the domestic rate of 30.8 percent (previous year: 30.8 percent) at Group level.

The difference is attributable to the following causes:

Tax reconciliation

EUR thousand	2016	2015
Consolidated net income before taxes	102,958	113,041
Expected tax expense	**-31,711**	**-34,817**
Tax rate changes	-13	19
Difference from foreign tax rates	6,995	5,019
Temporary differences arising on consolidation	407	-172
Other permanent differences	-4,376	-3,508
Tax-free income	5,535	4,781
Change in unrecognised deferred taxes on loss carryforwards	-1,975	-1,164
Withholding tax	-1,482	-1,556
Prior-period taxes	-1,293	-625
Other	931	-537
Current tax expense	**-26,982**	**-32,560**

(8.10) Consolidated net income

Consolidated net income

EUR thousand	2016	2015
Earnings before interest and taxes (EBIT)	**107,088**	**121,187**
Net income from investments carried at equity	-616	-154
Net finance costs	-3,514	-7,992
Consolidated net income before taxes	**102,958**	**113,041**
Income taxes	-26,982	-32,560
Consolidated net income	**75,976**	**80,481**

EBIT is reported before net income from investments carried at equity, net finance costs and income taxes. EBIT and consolidated net income are determined from the income and expense items in the consolidated income statement. Net interest income is included in the consolidated income statement in net finance costs.

(8.11) Earnings per share

Earnings per share are determined by dividing consolidated net income attributable to WILO SE shareholders by the weighted average number of shares outstanding in the financial year. Both basic and diluted earnings per ordinary share amount to EUR 7.88 (previous year: EUR 8.35), which was calculated after deducting income attributable to non-controlling interests. There are no outstanding preferred shares.

Earnings per share

	2016	2015
Consolidated net income in EUR thousand	75,976	80,481
of which: attributable to non-controlling interests	5	4
of which: attributable to shareholders of WILO SE	75,971	80,477
Number of ordinary shares as at 31 Dec.	9,808,760	9,640,000
Weighted average number of ordinary shares outstanding	9,645,157	9,640,000
Earnings per ordinary share (EUR)	**7.88**	**8.35**

(9.) Notes to the consolidated statement of financial position

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2016 and 2015:

Intangible assets

EUR thousand	Patents and property rights	Goodwill	Capitalised development costs	Advance payments	Total
Cumulative cost					
As at 1 January 2015	41,981	68,431	7,342	1,185	118,939
Currency translation	273	292	0	-31	534
Additions	4,240	0	19,970	1,132	25,342
Disposals	-377	-91	0	0	-468
Reclassifications	1,170	0	0	-1,170	0
As at 31 December 2015	**47,287**	**68,632**	**27,312**	**1,116**	**144,347**
As at 1 January 2016	47,287	68,632	27,312	1,116	144,347
Currency translation	29	145	0	0	174
Additions	5,253	0	18,510	7,825	31,588
Additions from business combinations	413	1,245	0	0	1,658
Disposals	-313	0	0	0	-313
Reclassifications	1,898	0	0	-1,898	0
As at 31 December 2016	**54,567**	**70,022**	**45,822**	**7,043**	**177,454**
Cumulative depreciation					
As at 1 January 2015	31,107	5,769	0	0	36,876
Currency translation	163	-8	0	0	155
Depreciation in the financial year	5,398	0	0	0	5,398
Disposals	-371	-91	0	0	-462
As at 31 December 2015	**36,297**	**5,670**	**0**	**0**	**41,967**
As at 1 January 2016	36,297	5,670	0	0	41,967
Currency translation	-20	16	0	0	-4
Depreciation in the financial year	6,088	0	0	0	6,088
Change due to business combinations	406	0	0	0	406
Disposals	-313	0	0	0	-313
As at 31 December 2016	**42,458**	**5,686**	**0**	**0**	**48,144**
Residual carrying amounts					
As at 1 January 2015	10,874	62,662	7,342	1,185	82,063
As at 31 December 2015	**10,990**	**62,962**	**27,312**	**1,116**	**102,380**
As at 1 January 2016	10,990	62,962	27,312	1,116	102,380
As at 31 December 2016	**12,109**	**64,336**	**45,822**	**7,043**	**129,310**

The additions to patents and property rights mainly relate to software purchases. Software has a finite useful life and is amortised over a period of between three and five years.

Goodwill is tested for impairment at least annually. Detailed information on impairment testing is provided in note (7).

Goodwill allocated to the product divisions developed as follows in the 2016 financial year:

Development of goodwill by division

EUR thousand	1 Jan. 2016	Additions	Currency translation	**31 Dec. 2016**
Division				
Heating, Ventilation, Air-Conditioning	7,640	0	0	7,640
Clean and Waste Water	55,322	1,245	129	56,696
Total	**62,962**	**1,245**	**129**	**64,336**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2016 and 2015 financial years:

Property, plant and equipment

EUR thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments made and assets under construction	**Total**
Cumulative cost					
As at 1 January 2015	169,505	189,090	249,669	18,328	626,592
Currency translation	2,127	2,586	1,068	–763	5,018
Additions	17,653	8,853	20,697	33,809	81,012
Reclassifications	3,268	4,344	8,059	–15,671	0
Disposals	–1,228	–2,665	–8,438	–370	–12,701
As at 31 December 2015	**191,325**	**202,208**	**271,055**	**35,333**	**699,921**
As at 1 January 2016	191,325	202,208	271,055	35,333	699,921
Currency translation	–1,172	–273	126	4,360	3,041
Additions	18,536	7,635	22,407	29,359	77,937
Additions from business combinations	806	45	540	0	1,391
Reclassifications	21,764	5,740	8,182	–35,686	0
Disposals	–2,914	–5,080	–8,276	–27	–16,297
As at 31 December 2016	**228,345**	**210,275**	**294,034**	**33,339**	**765,993**
Cumulative depreciation					
As at 1 January 2015	52,049	124,661	180,355	0	357,065
Currency translation	831	1,368	610	0	2,809
Depreciation in the financial year	5,519	13,384	26,001	0	44,904
Reclassifications	40	121	–161	0	0
Disposals	–1,070	–2,507	–8,088	0	–11,665
As at 31 December 2015	**57,369**	**137,027**	**198,717**	**0**	**393,113**
As at 1 January 2016	57,369	137,027	198,717	0	393,113
Currency translation	–196	–34	372	0	142
Depreciation in the financial year	7,384	12,917	24,612	0	44,913
Change due to business combinations	240	45	470	0	755
Reclassifications	–23	0	23	0	0
Disposals	–2,448	–4,467	–7,809	0	–14,724
As at 31 December 2016	**62,326**	**145,488**	**216,385**	**0**	**424,199**
Residual carrying amounts					
As at 1 January 2015	117,456	64,429	69,314	18,328	269,527
As at 31 December 2015	**133,956**	**65,181**	**72,338**	**35,333**	**306,808**
As at 1 January 2016	133,956	65,181	72,338	35,333	306,808
As at 31 December 2016	**166,019**	**64,787**	**77,649**	**33,339**	**341,794**

Property, plant and equipment includes leased assets in the amount of EUR 5,435 thousand (previous year: EUR 5,292 thousand) classified as finance leases under IAS 17 and of which the Group holds beneficial ownership.

The net carrying amounts are as follows:

Net carrying amounts of finance leases

EUR thousand	31 Dec. 2016	31 Dec. 2015
Buildings	699	812
Operating and office equipment	4,736	4,480
Total	**5,435**	**5,292**

The total future minimum lease payments and the reconciliation to their present value are shown in the table below. The carrying amount of the corresponding liabilities as at the end of the reporting period was EUR 4,981 thousand (previous year: EUR 4,946 thousand).

Minimum lease payments

EUR thousand	31 Dec. 2016	31 Dec. 2015
Total minimum lease payments	5,363	5,326
Interest portion	-382	-380
Present value	**4,981**	**4,946**
Due within one year	2,001	2,016
Due in one to five years	2,980	2,930

(9.3) Operating leases

Total future minimum lease payments on operating leases are shown in the table below:

Operating leases

EUR thousand	31 Dec. 2016	31 Dec. 2015
Total minimum lease payments	57,389	49,138
Due within one year	18,053	14,816
Due in one to five years	32,158	28,155
Due after five years	7,178	6,167

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 21,675 thousand (previous year: EUR 20,248 thousand) were recognised in profit or loss in the year under review.

(9.4) Investments carried at equity

Investments carried at equity consist of the shares in the joint venture WILO Middle East LLC i.L., Riyadh, Saudi Arabia, and the shares in iEXERGY GmbH, Münster, Germany, over which WILO SE exercises a significant influence.

WILO Middle East has not had any operating activities since November 2008. The official liquidation process for this company was opened in the 2011 financial year and is expected to be concluded in 2017.

WILO SE increased its minority interest in iEXERGY in 2016. Its voting rights increased accordingly to 22.5 percent. WILO SE is considered to exercise significant influence as it is entitled to appoint a member of management or, respectively, the advisory board.

The carrying amount of the shares and WILO SE's proportionate interest in profit or loss are shown below:

Investments carried at equity

EUR thousand	31 Dec. 2016	31 Dec. 2015
Carrying amount of shares in investments carried at equity	6,106	5,471
Interest in net loss for the year	-616	-154

WILO SE's interest in the net loss reported by the associates for the year is reported in the income statement under net income from investments carried at equity.

(9.5) Inventories

Inventories

EUR thousand	31 Dec. 2016	31 Dec. 2015
Raw materials and supplies	73,122	73,450
Work in progress	16,949	17,031
Finished goods and goods for resale	118,042	109,028
Advance payments	427	573
Total	**208,540**	**200,082**

The write-down on inventories results from the difference between the lower of cost and the net realisable value. As at 31 December 2016, the write-down on inventories amounted to EUR 23,576 thousand (previous year: EUR 23,489 thousand) with a gross carrying amount of EUR 232,116 thousand (previous year: EUR 223,571 thousand). Inventories are not subject to any restrictions on title beyond the suppliers' customary retention of title.

(9.6) Trade receivables

The trade receivables result from normal goods and services transactions of the Wilo Group. Current trade receivables of EUR 261,966 thousand (previous year: EUR 254,685 thousand) are due in the 2017 financial year. Non-current trade receivables of EUR 4,804 thousand (previous year: EUR 9,505 thousand) are due after more than one year. There are no restrictions on title on trade receivables.

The Executive Board is of the opinion that the carrying amounts of trade receivables are approximately equal to their fair values. Adequate provision is made for default risk by write-downs in the form of specific and general valuation allowances. Specific valuation allowances are recognised on the basis of information available in a specific case as at the end of the reporting period. Specific valuation allowances are recognised in an appropriate amount in relation to any legal, collection or insolvency proceedings against debtors, overdue payments, complaints, third-party collateral, changes in agreed terms of payment and all other transactions or information affecting the collectability of trade receivables.

General valuation allowances are recognised on the basis of past experience as to the general credit risk and country risk of debtors. Specific and general valuation allowances are reported in separate adjustment accounts. Objectively uncollectable receivables are derecognised.

Specific and general valuation allowances on trade receivables changed as follows in the 2016 and 2015 financial years:

Specific valuation allowances

EUR thousand	2016	2015
As at 1 January	13,759	11,163
Additions	5,207	3,784
Utilisation	-908	-585
Reversals	-600	-603
As at 31 December	**17,458**	**13,759**

General valuation allowances

EUR thousand	2016	2015
As at 1 January	3,259	3,029
Additions	1,049	2,685
Utilisation	-366	-1,669
Reversals	-679	-786
As at 31 December	**3,263**	**3,259**

Income and expenses from valuation allowances, recoveries and the derecognition of trade receivables are recognised in note (8.3) Selling expenses.

(9.7) Other financial assets

Other financial assets break down as follows as at 31 December 2016 and 2015:

Other financial assets

EUR thousand	31 Dec. 2016 of which with a remaining term Total	Less than 1 year	More than 1 year	31 Dec. 2015 of which with a remaining term Total	Less than 1 year	More than 1 year
Receivables from unconsolidated subsidiaries, jointly controlled entities and associates	167	167	0	187	187	0
Receivables from derivative financial instruments	2,110	2,103	7	3,630	3,630	0
Loans	15	0	15	487	0	487
Available-for-sale financial assets	218	0	218	266	0	266
Other financial receivables	6,454	2,477	3,977	8,575	4,710	3,865
Total	**8,964**	**4,747**	**4,217**	**13,145**	**8,527**	**4,618**

Available-for-sale financial assets include equity securities of EUR 211 thousand (previous year: EUR 259 thousand) whose fair value could not be derived from stock exchange or market prices, or from discounting reliably determined future cash flows. These equity securities were measured at amortised cost. The carrying amounts of other financial assets are approximately equal to their fair values. There are no restrictions on other financial assets.

(9.8) Other receivables and assets

Other receivables and assets are composed as follows as at 31 December 2016 and 2015:

Other receivables and assets

EUR thousand	31 Dec. 2016 of which with a remaining term Total	Less than 1 year	More than 1 year	31 Dec. 2015 of which with a remaining term Total	Less than 1 year	More than 1 year
Tax assets	28,952	11,751	17,201	35,513	19,944	15,569
Advance payments	6,345	6,331	14	8,194	8,179	15
Employer pension liability assets	2,929	0	2,929	3,147	0	3,147
Deferred expenses	2,681	2,572	109	1,447	1,441	6
Claims for damages	0	0	0	7	7	0
Employee receivables	653	653	0	652	652	0
Total	**41,560**	**21,307**	**20,253**	**48,960**	**30,223**	**18,737**

(9.9) Cash

The cash of EUR 178,274 thousand (previous year: EUR 165,797 thousand) mainly comprises cash and sight deposits at banks. There are restrictions on title of EUR 552 thousand (previous year: EUR 274 thousand).

(9.10) Assets held for sale

There were no assets held for sale as at 31 December 2016 (previous year: EUR 1,127 thousand).

(9.11) Equity

ISSUED CAPITAL As in the previous year, the issued capital of WILO SE amounted to EUR 26,980 thousand as at the end of the reporting period and is fully paid in. It is divided into 10,117,331 no-par-value ordinary registered shares and 259,418 no-par-value preferred registered shares without voting rights. There were 9,808,760 ordinary shares (previous year: 9,640,000) and, as in the previous year, no preferred shares in circulation as at 31 December 2016.

Treasury shares in the notional amount of EUR 1,477 thousand (previous year: EUR 1,916 thousand) are openly deducted from issued capital.

CAPITAL RESERVES The capital reserves of EUR 26,161 thousand (previous year: EUR 14,527 thousand) result from the capital increase implemented in the 2011 financial year of EUR 15,507 thousand, EUR 14,527 thousand of which was appropriated to the capital reserves of WILO SE. The increase in the 2016 financial year resulted from the sale of ordinary shares in the amount of EUR 21,240 thousand, EUR 11,634 thousand of which was added to the capital reserves.

OTHER RESERVES In addition to retained earnings, other reserves include differences from the translation of the foreign-currency financial statements of the companies included in the consolidated financial statements, the actuarial gains and losses from pension obligations and the gains and losses from the revaluation of plan assets. The legal reserve in retained earnings in accordance with section 150 (2) of the Aktiengesetz (AktG – German Stock Corporation Act) amounts to 10.0 percent of the issued capital of WILO SE.

Other reserves developed as follows in the financial years 2016 and 2015:

Other reserves

EUR thousand	2016	2015
As at 1 January	560,228	476,414
WILO SE shareholders' interest in:		
Consolidated net income	75,971	80,477
Other comprehensive income	-509	3,353
Dividend payment	-4,049	0
Other changes	-18	-16
As at 31 December	**631,623**	**560,228**

TREASURY SHARES In December 2016, WILO SE sold 168,760 ordinary shares, equating to 1.6 percent of the share capital, at a price of EUR 125.86 per share. As at 31 December, the company therefore held 567,989 treasury shares, or 5.5 percent of the share capital. As at 31 December 2016, the company reported 308,571 ordinary shares (previous year: 477,331) and 259,418 preference shares (previous year: 259,418) as treasury shares.

NON-CONTROLLING INTERESTS Non-controlling interests relate to shareholders of WILO Mather and Platt Pumps Private Ltd., Pune, India, in the amount of 0.1 percent.

DIVIDENDS The Annual General Meeting on 14 March 2016 resolved to distribute EUR 4,049 thousand from the unappropriated surplus as at 31 December 2015 (previous year: EUR 0 thousand). This corresponds to a dividend per ordinary share of EUR 0.42.

CAPITAL MANAGEMENT A business objective of the Wilo Group is to sustain the strongest possible equity base in order to foster confidence in all key stakeholders and promote the Group's onward development. A sound equity base is also a key factor in ensuring a stable risk rating with lenders, which is important for obtaining acceptable borrowing terms for the Wilo Group. The Executive Board, the Supervisory Board and the shareholders of WILO SE ensure a responsible dividend policy and an appropriate return on invested capital to promote value growth and safeguard the company's future.

The Executive Board of WILO SE is kept informed about the equity position of the Wilo Group as part of monthly reporting. The equity positions of consolidated subsidiaries are also reviewed at regular intervals and on an ad hoc basis. Measures are implemented as necessary, taking the tax and legal frameworks into account, to sustain an appropriate capital base that enables each subsidiary to attain its operating targets and the Wilo Group to meet its strategic goals.

The total equity of the Wilo Group as at 31 December 2016 was EUR 653,582 thousand (previous year: EUR 560,942 thousand). This is mostly accounted for by EUR 676,381 thousand (previous year: EUR 604,477 thousand) in freely disposable retained earnings. The freely disposable retained earnings do not include the legal reserve of WILO SE of EUR 2,698 thousand (previous year: EUR 2,698 thousand). Taken together, the freely disposable retained earnings and the legal reserve make up the Group's retained earnings of EUR 679,079 thousand (previous year: EUR 607,175 thousand).

In the context of the borrowing of senior notes and promissory note loans, WILO SE is required to report a minimum equity ratio. The company satisfied this requirement in full in the 2016 and 2015 financial years. More detailed information on these senior notes and promissory note loans can be found in note (9.12).

(9.12) Financial liabilities

Financial liabilities break down as follows as at 31 December 2016 and 2015:

Financial liabilities

EUR thousand	31 Dec. 2016	31 Dec. 2015
Non-current financial liabilities		
with a remaining term		
of between one and five years	82,240	9,550
of more than five years	36,982	111,964
Total	**119,222**	**121,514**
Current financial liabilities		
with a remaining term		
of less than one year	18,116	45,753

WILO SE reported the following material financing agreements as at 31 December 2016:

- **USPP 2023 & USPP 2021** In March 2013 and February 2011, WILO SE issued senior notes of EUR 37.0 million and EUR 75.0 million as US private placements. Both placements were implemented as part of a private shelf facility (non-binding debt commitment) in the amount of USD 150.0 million, which was thus fully utilised. The senior notes were both borrowed in euro and are not secured against real property or financial assets of the company. The senior note of EUR 37.0 million (“USPP 2023”) matures in 2023 and bears interest at 3.1125 percent p.a. The senior note of EUR 75.0 million (“USPP 2021”) matures in 2021 and has an interest coupon of 4.50 percent p.a.

- **PROMISSORY NOTE LOAN 2020** In January 2011, WILO SE placed a promissory note loan (“promissory note loan 2020”) in the amount of EUR 25.0 million, maturing in 2020, repayable semi-annually from 2011 in the amount of around EUR 1.25 million and bearing interest at 4.08 percent p.a. The promissory note loan had a carrying amount of EUR 10.0 million (previous year: EUR 12.5 million) as at the end of the reporting period and is not secured against real property or financial assets of the company.

The second tranche (“USPP 2016”) of the senior notes borrowed in 2006, issued as part of a US private placement, was repaid on schedule in the past financial year. The senior notes had a total amount of originally EUR 67.5 million (USD 80.0 million, in two tranches of USD 40.0 million each) maturing in 2013 and 2016 and fixed annual interest of 5.28 percent and 5.33 percent respectively and were not secured against real property or financial assets of the company. The first tranche of USD 40.0 million was repaid on schedule in 2013. The second tranche of the senior notes had a carrying amount of EUR 36.7 million as at 31 December 2015.

The company is required to satisfy certain standard financial ratios (ratio of consolidated EBITDA to consolidated interest expenses (interest cover ratio), ratio of consolidated net debt to consolidated EBITDA (leverage) and the equity ratio) for the senior notes and promissory note loans it has issued. WILO SE fully complied with this obligation in the 2016 and 2015 financial years. The agreements also include a number of standard grounds for termination.

Incidental costs were incurred in connection with these financing arrangements that are deducted from the financial liabilities and reported in profit or loss over the term of the financing arrangements using the effective interest method. The incidental costs of acquisition outstanding as at the end of the reporting period amounted to EUR 491 thousand (previous year: EUR 690 thousand).

The fair value of the financial liabilities calculated using net present value models was EUR 157,283 thousand as at 31 December 2016 (previous year: EUR 186,125 thousand).

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2017 financial year.

MATURITY STRUCTURE OF FINANCIAL LIABILITIES The following table shows the maturity structure of all financial liabilities of the Wilo Group as at 31 December 2016 and 2015:

Maturity structure of financial liabilities

As at 31 December 2016

EUR million	Nominal amount	Carrying amount	Maturity structure 2017	2018	2019	2020	2021	2022	2023	Total
USPP 2023	EUR 37.0 million	37.0	0.0	0.0	0.0	0.0	0.0	0.0	37.0	37.0
USPP 2021	EUR 75.0 million	75.0	0.0	0.0	0.0	0.0	75.0	0.0	0.0	75.0
Promissory note loan 2020	EUR 25.0 million	10.0	2.5	2.5	2.5	2.5	0.0	0.0	0.0	10.0
		122.0	**2.5**	**2.5**	**2.5**	**2.5**	**75.0**	**0.0**	**37.0**	**122.0**
Overdraft		15.3	15.3	0.0	0.0	0.0	0.0	0.0	0.0	15.3
Financial liabilities		**137.3**	**17.8**	**2.5**	**2.5**	**2.5**	**75.0**	**0.0**	**37.0**	**137.3**

As at 31 December 2015

EUR million	Nominal amount	Carrying amount	Maturity structure 2016	2017	2018	2019	2020	2021–22	2023	Total
USPP 2023	EUR 37.0 million	37.0	0.0	0.0	0.0	0.0	0.0	0.0	37.0	37.0
USPP 2021	EUR 75.0 million	75.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	75.0
USPP 2016	USD 40.0 million	36.7	36.7	0.0	0.0	0.0	0.0	0.0	0.0	36.7
Promissory note loan 2020	EUR 25.0 million	12.5	2.5	2.5	2.5	2.5	2.5	0.0	0.0	12.5
		161.2	**39.2**	**2.5**	**2.5**	**2.5**	**2.5**	**75.0**	**37.0**	**161.2**
Overdraft		6.1	6.1	0.0	0.0	0.0	0.0	0.0	0.0	6.1
Financial liabilities		**167.3**	**45.3**	**2.5**	**2.5**	**2.5**	**2.5**	**75.0**	**37.0**	**167.3**

(9.13) Trade payables

Trade payables break down as follows as at 31 December 2016 and 2015:

Trade payables

EUR thousand	**31 Dec. 2016**	31 Dec. 2015
Trade payables		
with a remaining term		
of between one and five years	228	1,251
of less than one year	142,180	139,783
Total	**142,408**	**141,034**

Trade payables consist of outstanding obligations to suppliers. The Executive Board assumes that the carrying amounts of non-current trade payables are approximately equal to their fair values.

(9.14) Other financial liabilities

Other financial liabilities break down as follows as at 31 December 2016 and 2015:

Other financial liabilities

EUR thousand	31 Dec. 2016	31 Dec. 2015
Non-current other financial liabilities		
of which		
Finance lease liabilities		
with a remaining term of between one and five years	2,980	2,930
Miscellaneous financial liabilities		
with a remaining term of between one and five years	3,471	3,626
Total	**6,451**	**6,556**
Current other financial liabilities		
of which		
Bills payable	12,518	11,987
Liabilities to unconsolidated subsidiaries, jointly controlled entities and associates	2,696	2,691
Finance lease liabilities	2,001	2,016
Liabilities from derivative financial instruments	141	1,314
Miscellaneous financial liabilities	18,455	18,314
Total	**35,811**	**36,322**

Current other financial liabilities have a remaining term of less than one year. Miscellaneous other financial liabilities include charges for tax consulting services, annual financial statements, commissions, del credere commissions and other financial obligations to third-party companies. The Executive Board assumes that the carrying amounts of other financial liabilities are approximately equal to their fair values.

(9.15) Other liabilities

Other liabilities as at 31 December 2016 and 2015 break down as follows:

Other liabilities

EUR thousand	31 Dec. 2016	31 Dec. 2015
Non-current other liabilities		
Deferred income	986	882
Total	**986**	**882**
Current other liabilities		
Tax liabilities	30,284	29,616
Staff liabilities	29,361	27,604
Advance payments received	9,441	8,850
Social security liabilities	4,409	5,890
Deferred income	18	13
Miscellaneous other liabilities	2,167	3,963
Total	**75,680**	**75,936**

Non-current other liabilities have a remaining term of between one and five years. Current other liabilities have a remaining term of less than one year.

Staff liabilities include accumulated holiday pay, management bonuses and gratuities, outstanding salaries, employer's liability insurance contributions and severance pay.

(9.16) Provisions for pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2016 and 2015:

Provisions for pensions and similar obligations

EUR thousand	31 Dec. 2016	31 Dec. 2015
Provisions for pensions	80,945	72,289
Similar obligations	4,068	3,780
Total	**85,013**	**76,069**

Provisions for pensions are composed as follows:

Provisions for pensions

EUR thousand	31 Dec. 2016	31 Dec. 2015
Present value of the pension obligation	91,907	82,464
Fair value of plan assets	–10,962	–10,175
Provisions for pensions	**80,945**	**72,289**

Pension obligations are recognised for accrued entitlements and current benefits under defined benefit plans for eligible active and former employees of the Wilo Group and their surviving dependants.

The benefit amount depends on country-specific circumstances and is generally based on years of service and pay level. The beneficiaries predominantly receive benefits in the form of lifetime old age, disability and surviving dependants' pensions. Benefits are granted to a smaller extent in the form of lump-sum payments on retirement.

The corresponding provisions are recognised on the basis of annual actuarial assessments of existing pension obligations.

Defined benefit obligations are recognised in accordance with the actuarial assessment over the service life of employees and consist of staff cost and interest cost. The staff costs are allocated to the relevant functional areas. The interest expense is reported in other net finance costs after netting against the interest income from plan assets. Actuarial gains and losses and the effects of the revaluation of plan assets are recognised in full in other comprehensive income.

WILO SE's defined benefit plan was discontinued on 31 December 2005. A defined contribution plan has been set up in its place for WILO SE employees for whom a pension obligation has existed from 1 January 2006. An expense of EUR 2,509 thousand (previous year: EUR 2,781 thousand) was recognised in the reporting year for defined contribution plans in the Wilo Group.

In the previous year, pension plans for the employees of two companies of the Wilo Group were discontinued and wound up in accordance with the corresponding regulations of the pension agreements. The pension claims of employees were settled and the amounts recognised as provisions were derecognised as well as the associated plan assets.

The present value of the pension obligation developed as follows:

Present value of the pension obligation

EUR thousand	2016	2015
As at 1 January	**82,464**	**87,895**
Current service cost	2,986	3,141
Past service cost	43	–80
Interest expense	1,655	1,703
Remeasurement		
Actuarial gains/losses from the change in demographic assumptions	241	–555
Actuarial gains/losses from the change in financial assumptions	7,668	–6,269
Actuarial gains/losses from experience adjustments	–62	41
Pension payments	–2,925	–3,402
Currency effects and other changes	–163	–10
As at 31 December	**91,907**	**82,464**

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 50,357 thousand (previous year: EUR 44,714 thousand)
- Deferred members: EUR 7,840 thousand (previous year: EUR 6,711 thousand)
- Pensioners: EUR 33,710 thousand (previous year: EUR 31,039 thousand)

The measurement of pension obligations is based on actuarial assumptions. Accordingly, the Wilo Group is exposed to certain actuarial risks. In particular, these include interest risks, risks of rising pensions, salary risks and longevity risks.

Changes in the significant actuarial assumptions would have affected the present value of pension obligations as follows:

Sensitivity analysis

		Present value of the pension obligation Change in %	
		2016	2015
Discount rate	+0.5%	-7.2	-7.3
	-0.5%	8.1	8.3
Pension factor	+0.25%	2.5	2.4
	-0.25%	-2.4	-2.3
Salary factor	+0.25%	0.7	0.7
	-0.25%	-0.7	-0.6
Life expectancy	+10%	6.2	5.9

Sensitivities are calculated assuming a change in just one individual factor with the other actuarial assumptions remaining constant. The assumed deviations are realistic assumptions based on past experience and future market forecasts.

As at 31 December 2016, the weighted average duration of the defined benefit obligation was 17.4 years (previous year: 16.7 years).

73.4 percent of the pension obligations of EUR 91,907 thousand (previous year: EUR 82,464 thousand) relate to Germany (previous year: 73.7 percent).

The fair value of plan assets changed as follows:

Fair value of plan assets

EUR thousand	2016	2015
As at 1 January	**10,175**	**9,546**
Interest income	203	288
Remeasurement		
Loss on plan assets (excluding interest income)	-105	-126
Payments	-439	-632
Amounts paid in by employer	1,551	892
Currency effects and other changes	-423	207
As at 31 December	**10,962**	**10,175**

Plan assets comprise the following:

Plan assets break down

EUR thousand	2016	2015
Cash	8,999	7,884
Qualifying insurance policies	1,588	1,924
Investment funds	375	367
As at 31 December	**10,962**	**10,175**

Furthermore, there are employee pension liability policies to cover provision-funded pension obligations in the amount of EUR 2,373 thousand (previous year: EUR 2,337 thousand) though these do not satisfy the requirements for classification as plan assets under IAS 19.

The company is not currently assuming any further payments into plan assets in the coming years.

SIMILAR OBLIGATIONS Similar obligations for post-employment benefits amount to EUR 4,068 thousand for 2016 (previous year: EUR 3,780 thousand). They include gross obligations for WILO SE of EUR 2,971 thousand (previous year: EUR 2,843 thousand).

The EUR 2,048 thousand (previous year: EUR 1,962 thousand) fair value of plan assets as at the end of the reporting period is deducted insofar as it relates to obligations under the partial retirement scheme. The remaining plan assets of EUR 556 thousand (previous year: EUR 810 thousand) not attributable to obligations under the partial retirement scheme are reported under employer pension liability assets in non-current other assets. The present value of the obligations under the partial retirement scheme at 31 December 2016 was determined using a discount rate of 1.30 percent (previous year: 2.30 percent). Furthermore, an annual wage and salary increase of 1.50 percent was assumed (previous year: 1.50 percent).

(9.17) Other provisions

Non-current and current provisions for guarantees are recognised for potential warranty claims on the basis of past experience and planned measures.

The provision for bonuses and rebates mainly relates to customer reimbursement for the 2016 financial year. The Wilo Group expects that the corresponding repayments of EUR 19,514 thousand (previous year: EUR 18,869 thousand) will be almost fully paid to customers by the middle of 2017.

Other provisions

EUR thousand	1 Jan. 2016	Currency translation	Utilisation	Reversal	Additions	31 Dec. 2016
Non-current						
Guarantees	3,422	-33	302	94	901	3,894
Current						
Guarantees	15,261	-83	2,396	723	3,982	16,041
Bonuses and rebates	18,869	-642	13,298	2,119	16,704	19,514
Other	7,376	-93	3,473	2,688	6,643	7,765
Total	**41,506**	**-818**	**19,167**	**5,530**	**27,329**	**43,320**

(10.) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is broken down according to cash flows from operating, investing and financing activities. Cash flows from operating activities are calculated using the indirect method and reported after adjustment for currencies. The effects of exchange rate changes and changes in the composition of the consolidated group on cash are shown separately. Cash as at 31 December 2016 consisted of EUR 178,274 thousand (previous year: EUR 165,797 thousand) in cash and sight deposits with banks, EUR 552 thousand (previous year: EUR 274 thousand) of which was subject to restrictions on title.

The consolidated statement of cash flows starts with earnings before interest and taxes (EBIT) derived from the income statement (see note (8.10)). The changes in cash due to exchange rate changes of EUR 1,239 thousand (previous year: EUR -208 thousand) relate to the effect of translating foreign-currency items of cash into the reporting currency. Detailed information on the consolidated statement of cash flows can be found under "Financial position" in the Group management report. Purchases of intangible assets include payments in connection with capitalised development costs of EUR 18,510 thousand (previous year: EUR 19,970 thousand).

Interest received, like interest paid, is allocated to net cash flow from financing activities because the interest received mainly includes payments in connection with the short-term reinvestment of funds borrowed but not yet required.

(11.) Segment reporting

The Wilo Group's segment reporting is prepared, in line with IFRS 8 Operating Segments, according to the internal organisation and management structure as well as the monthly reports to the Executive Board and Supervisory Board of WILO SE. On the basis of a matrix-like organisation within the Wilo Group, regional managers work together with the managers of the product divisions and market segments. The reports to the Executive Board and the Supervisory Board are also organised accordingly. Management decisions and measures by the WILO SE Executive Board are made and implemented mainly on the basis of the regional financial performance indicators of revenue and EBIT. Thus, the regions represent the operating segments within segment reporting.

The four reportable segments comprise the following countries or groups of countries:

- *Europe:* All European states except Russia, Belarus and Ukraine
- *Asia Pacific:* India, China, South Korea, Southeast Asian nations, Australia and Oceania
- *EMEA:* Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations
- *Others:* Nations of the American continent

Segment information is prepared in accordance with the accounting policies used for the underlying consolidated financial statements. Segment figures are stated after consolidation of intra-segment and inter-segment transactions as they are not a component of internal monthly reporting within the Wilo Group.

Net sales by segment show transactions with third parties and with companies not included in the consolidated financial statements in which the Wilo Group has an interest, and are allocated by customer domicile. In Germany, net sales of EUR 238,810 thousand (previous year: EUR 233,004 thousand) were generated with external customers in the 2016 financial year.

Segment EBIT shows earnings before interest and taxes including any amounts attributable to non-controlling interests.

Segment assets and sales between reportable operating segments are not shown as they are not a component of internal monthly reporting within the Wilo Group.

Segment information according to the sales structure for the 2016 and 2015 financial years is as follows:

Segment information

2016

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**743,981**	**359,556**	**187,821**	**35,732**	**1,327,090**
Segment EBIT	**80,755**	**15,843**	**14,927**	**-4,437**	**107,088**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	29,241	13,272	6,731	1,757	51,001
of which non-cash expenses	22,141	7,994	1,791	1,062	32,988

2015

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**744,672**	**344,557**	**190,165**	**37,732**	**1,317,126**
Segment EBIT	**95,056**	**15,615**	**15,198**	**-4,682**	**121,187**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	29,864	12,502	6,136	1,800	50,302
of which non-cash expenses	26,425	7,149	872	523	34,969

EBIT in the Group is reconciled to net income as follows:

Earnings before interest and taxes (EBIT)

EUR thousand	2016	2015
Earnings before interest and taxes (EBIT)	**107,088**	**121,187**
Net income from investments carried at equity	–616	–154
Net finance costs	–3,514	–7,992
Consolidated net income before taxes	**102,958**	**113,041**
Income taxes	–26,982	–32,560
Consolidated net income	**75,976**	**80,481**

Net sales break down as follows among the market segments:

Net sales by market segment

EUR thousand	2016	2015
Building Services	1,044,717	1,014,594
Water Management & Industry	282,373	302,532
Total	**1,327,090**	**1,317,126**

(12.) Disclosures on financial instruments

(12.1) Derivative financial instruments

The following table shows the fair values of derivative financial instruments as at 31 December 2016 and the changes as against the previous year:

Derivative financial instruments

	Fair value				Nominal amount	
	Maturity from 31 Dec. 2016					
EUR thousand	Less than 1 year	Between 1 and 5 years	Previous year	Total change	31 Dec. 2016	31 Dec. 2015
Forward exchange contracts	576	7	580	3	21,436	17,398
Cross-currency interest rate swaps	0	0	3,017	–3,017	0	33,750
Commodity derivatives	1,386	0	–1,281	–2,667	9,786	9,463

Net finance costs include gains of EUR 3,407 thousand (previous year: EUR 5,585 thousand) and losses of EUR 754 thousand (previous year: EUR 1,302 thousand) (see note (8.8)).

(12.2) Disclosures on the carrying amounts and fair values of financial instruments

The following tables show the financial assets and liabilities with their carrying amounts as at 31 December 2016 and 2015 per measurement category under IAS 39 or statement of financial position category. Finance lease liabilities have also been included, even though they are not assigned to an IAS 39 measurement category.

Financial assets and liabilities as at 31 December 2016

		Carrying amount under IAS 39			
EUR thousand	Measurement category under IAS 39	Amortised cost	Fair value	Carrying amount under IAS 17	**Carrying amount as at 31 Dec. 2016**
Current and non-current financial assets					
Trade receivables	Loans and receivables	266,770			266,770
Other financial assets					
Receivables from subsidiaries, jointly controlled entities and associates	Loans and receivables	167			167
Receivables from derivative financial instruments	Financial assets held for trading		2,110		2,110
Loans	Loans and receivables	15			15
Available-for-sale financial assets	Available for sale	211	7		218
Miscellaneous financial receivables	Loans and receivables	6,454			6,454
Cash	Loans and receivables	178,274			178,274
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	137,338			137,338
Trade payables	Financial liabilities at amortised cost	142,408			142,408
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	12,518			12,518
Liabilities to subsidiaries, jointly controlled entities and associates	Financial liabilities at amortised cost	2,696			2,696
Finance lease liabilities	n/a			4,981	4,981
Liabilities from derivative financial instruments	Financial liabilities held for trading		141		141
Miscellaneous financial liabilities	Financial liabilities at amortised cost	21,926			21,926
of which aggregated by measurement category under IAS 39					
Loans and receivables		451,680			451,680
Available for sale		211	7		218
Financial assets held for trading			2,110		2,110
Financial liabilities measured at amortised cost		316,886			316,886
Financial liabilities held for trading			141		141

Financial assets and liabilities as at 31 December 2015

EUR thousand	Measurement category under IAS 39	Carrying amount under IAS 39: Amortised cost	Carrying amount under IAS 39: Fair value	Carrying amount under IAS 17	**Carrying amount as at 31 Dec. 2015**
Current and non-current financial assets					
Trade receivables	Loans and receivables	264,190			264,190
Other financial assets					
Receivables from subsidiaries, jointly controlled entities and associates	Loans and receivables	187			187
Receivables from derivative financial instruments	Financial assets held for trading		3,630		3,630
Loans	Loans and receivables	487			487
Available-for-sale financial assets	Available for sale	259	7		266
Miscellaneous financial receivables	Loans and receivables	8,575			8,575
Cash	Loans and receivables	165,797			165,797
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	167,267			167,267
Trade payables	Financial liabilities at amortised cost	141,034			141,034
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	11,987			11,987
Liabilities to subsidiaries, jointly controlled entities and associates	Financial liabilities at amortised cost	2,691			2,691
Finance lease liabilities	n/a			4,946	4,946
Liabilities from derivative financial instruments	Financial liabilities held for trading		1,314		1,314
Miscellaneous financial liabilities	Financial liabilities at amortised cost	21,940			21,940
of which aggregated by measurement category under IAS 39					
Loans and receivables		439,236			439,236
Available for sale		259	7		266
Financial assets held for trading			3,630		3,630
Financial liabilities measured at amortised cost		344,919			344,919
Financial liabilities held for trading			1,314		1,314

The carrying amounts of the financial assets and liabilities in the scope of IFRS 7 are the same as their fair value per class. This is not the case only for financial liabilities, which have a carrying amount of EUR 137,338 thousand (previous year: EUR 167,297 thousand) and a fair value of EUR 157,283 thousand (previous year: EUR 186,125 thousand). The fair values of financial liabilities were calculated using net present value methods.

The financial assets in the available-for-sale category of EUR 211 thousand as at 31 December 2016 (previous year: EUR 259 thousand) are measured at amortised cost and essentially relate to companies in which WILO SE directly or indirectly holds 100 percent of the shares and which have not been consolidated for reasons of materiality.

The fair values of these other financial assets, which are carried at amortised cost, cannot be reliably determined as they are shares in companies for which there are no quoted or other market prices. It would only be possible to reliably determine their fair value as part of concrete negotiations on their disposal. There are currently no plans to dispose of these companies.

The fair values of assets in the available-for-sale category of EUR 7 thousand (previous year: EUR 7 thousand) are derived directly or indirectly from market and quoted prices as at the end of the reporting period. The calculation of the fair values of the receivables and liabilities from derivative financial instruments, which are assigned to the financial assets held for trading and the financial liabilities held for trading categories, of EUR 2,110 thousand (previous year: EUR 3,630 thousand) and EUR 141 thousand (previous year: EUR 1,314 thousand) respectively, is shown under note (7).

(12.3) Net gains and losses by measurement category

The table below shows the net earnings reported under profit and loss for the 2016 and 2015 financial years in line with IFRS 7, consisting of interest, dividends, changes in fair value, impairment, impairment reversals and the effects of currency translation on each measurement category of financial assets and liabilities. This does not include the earnings effects of finance leases as finance leases do not belong to any IAS 39 measurement category.

Net gains and losses

Measurement category EUR thousand	Carrying amount as at 31 Dec.	Interest and dividends	Change in fair value	Impairments	Impairment reversals	Effects of currency translation	Net gains/losses
2016 financial year							
Loans and receivables	451,680	1,463		-6,256	1,279	1,825	-1,689
Available for sale	218	0					0
Financial assets/liabilities held for trading	1,969	114	2,653				2,767
Financial liabilities at amortised cost	-316,886	-5,663				868	-4,795
Total		**-4,086**	**2,653**	**-6,256**	**1,279**	**2,693**	**-3,717**
2015 financial year							
Loans and receivables	439,236	1,028		-6,469	1,389	-2,076	-6,128
Available for sale	266	0					0
Financial assets/liabilities held for trading	2,316	229	4,283				4,512
Financial liabilities at amortised cost	-344,919	-7,721				-5,833	-13,554
Total		**-6,464**	**4,283**	**-6,469**	**1,389**	**-7,909**	**-15,170**

(12.4) Fair value hierarchy of financial assets and liabilities

Financial assets and liabilities accounted for at fair value are divided into the following three levels in accordance with IFRS 13 on the basis of the measurement of their fair value:

Level 1: The fair value for an asset or liability is calculated using quoted market prices on active markets for identical assets and liabilities.

Level 2: The fair value for an asset or liability is based on value factors for this asset or liability that are observed directly or indirectly on a market.

Level 3: The fair value for an asset or liability is based on value factors for this asset or liability that do not refer to observable market data.

The following table shows the allocation of financial assets and liabilities that existed within the Wilo Group as at 31 December 2016 and 2015 that were recognised at fair value or for which the fair value was disclosed.

Fair value hierarchy

EUR thousand	**31 Dec. 2016 Level 2**	31 Dec. 2015 Level 2
Available-for-sale financial assets	7	7
Receivables from derivative financial instruments (financial assets held for trading)	2,110	3,630
Liabilities from derivative financial instruments (financial liabilities held for trading)	141	1,314
Financial liabilities (loans and receivables)	157,283	186,125

The Wilo Group did not report any financial assets or liabilities classified as level 1 or 3 based on the method by which their fair value was determined as at 31 December 2016 and 2015.

If reclassifications to another level in the valuation hierarchy are required, these are made to the end of the financial year in which the event occurs which results in reclassification being required.

(13.) Risk management and derivative financial instruments

RISK MANAGEMENT PRINCIPLES Due to the international nature of its business activities, the assets, liabilities and planned transactions of the Wilo Group are subject to market risks from changes in exchange rates, interest rates and commodity prices in particular. The objective of financial risk management is to mitigate this risk from operating and financial activities. This is achieved using derivative and primary hedging instruments selected according to estimated risk. Derivative financial instruments are solely used to hedge risk. They are not used for trading or other speculative purposes. The general credit risk on these derivative financial instruments is low because they are only entered into with banks of excellent credit standing. The Group is also subject to credit and default risk and liquidity risk.

The basic principles of financial policy and strategy are determined by the Executive Board and monitored by the Supervisory Board. Responsibility for implementing financial policy and strategy lies with Group Treasury. Further information on risks and risk management can be found in the opportunities and risk report section of the Group management report.

CURRENCY RISK The Wilo Group faces currency risk primarily in its financing and operating activities. Currency risk in financing activities relates to foreign-currency borrowing from external lenders and foreign-currency lending to finance Group companies. Currency risk in operating activities mainly relates to the supply of goods and provision of services to Group companies. Currency risk exposure on such transactions is countered by the use of same-currency offsetting transactions and derivative financial instruments. The currency risk on operating business between Group companies and external customers and suppliers is estimated to be low as most of such business is transacted in the functional currency of the Group companies.

The following table shows the foreign-currency risk position of the Wilo Group as at 31 December 2016 and 2015 in the respective foreign currency. This consists of foreign-currency transactions in operating activities and foreign-currency financing activities up to 31 December 2016 and 2015, as well as expected foreign-currency transactions in operating activities in 2017 and 2016. This analysis does not take into account the effects of the translation of the financial statements of subsidiaries into reporting currency (translation risk).

Foreign currency risk position as at 31 December 2016

in million	EUR	USD	GBP	PLN	RON	RUB	SEK
Cash	7.4	2.6	1.3	0.1	0.0	0.0	3.7
Trade and other receivables	9.8	5.8	0.0	0.0	0.0	0.1	0.0
Receivables from affiliated companies	2.5	13.9	0.8	6.4	10.1	75.6	17.8
Trade and other payables	-1.9	-3.9	0.0	0.0	0.0	0.0	0.0
Liabilities due to affiliated companies	-15.5	-6.5	-0.6	-0.1	0.0	-2.7	0.0
Financial liabilities	-2.7	-1.4	0.0	0.0	0.0	-2.7	0.0
Currency risk from assets and liabilities (gross)	**-0.4**	**10.5**	**1.5**	**6.4**	**10.1**	**70.3**	**21.5**
Expected sales in 2017	64.5	50.2	15.5	85.8	43.3	3,320.0	71.0
Expected acquisitions in 2017	-100.4	-66.2	-0.1	0.0	0.0	-17.2	0.0
Currency risk from expected transactions in operating activities in 2017 (gross)	**-35.9**	**-16.0**	**15.4**	**85.8**	**43.3**	**3,302.8**	**71.0**
Hedging	0.0	0.6	-7.0	-3.0	-3.0	-30.0	-24.0
Currency risk (net)	**-36.3**	**-4.9**	**9.9**	**89.2**	**50.4**	**3,343.1**	**68.5**

Foreign currency risk position as at 31 December 2015

in million	EUR	USD	GBP	PLN	RON	RUB	SEK
Cash	4.9	5.7	1.6	0.0	0.0	0.0	5.9
Trade and other receivables	9.7	5.7	0.0	0.0	0.0	0.0	0.0
Receivables from affiliated companies	3.3	21.5	1.2	7.2	16.6	51.6	32.8
Trade and other payables	-2.5	-4.5	-0.1	0.0	0.0	0.0	0.0
Liabilities due to affiliated companies	-21.1	-19.8	-0.1	-0.1	0.0	-1.3	0.0
Financial liabilities	0.0	-41.3	0.0	0.0	0.0	0.0	0.0
Currency risk from assets and liabilities (gross)	**-5.7**	**-32.7**	**2.6**	**7.1**	**16.6**	**50.3**	**38.7**
Expected sales in 2016	70.6	65.2	14.8	96.0	49.9	3,045.3	70.0
Expected acquisitions in 2016	-102.9	-80.1	-0.5	-0.1	0.0	-20.6	0.0
Currency risk from expected transactions in operating activities in 2016 (gross)	**-32.3**	**-14.9**	**14.3**	**95.9**	**49.9**	**3,024.7**	**70.0**
Hedging	0.0	42.2	-5.0	-1.0	-3.0	0.0	-12.0
Currency risk (net)	-38.0	-5.4	11.9	102.0	63.5	3,075.0	96.7

The foreign-currency receivables and liabilities, expected foreign-currency transactions and derivative financial instruments in the form of cross-currency interest rate swaps and forward exchange contracts have certain sensitivities to currency fluctuations. A 10.0 percent appreciation or depreciation in the respective currency compared with the other currencies as at 31 December would have the following hypothetical impact on earnings.

Sensitivity analysis

	2016		2015	
EUR million	**+10%**	**-10%**	+10%	-10%
EUR	-4.2	3.4	-4.2	3.5
USD	-0.8	0.6	-0.6	0.5
GBP	1.3	-1.0	1.8	-1.5
PLN	2.2	-1.8	2.7	-2.2
RON	1.2	-1.0	1.6	-1.3
RUB	5.7	-4.7	4.2	-3.5
SEK	0.8	-0.7	1.2	-1.0

The sensitivity analysis assumes that all other factors influencing value remain constant and that the figures at the reporting date are representative for the year as a whole. There would be no impact on other comprehensive income as the Wilo Group does not use hedge accounting.

INTEREST RATE RISK The Wilo Group faces interest rate risk mainly on floating rate financial liabilities and on invested cash. Both a rise and a fall in the yield curve result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. Interest rate risk as defined in IFRS 7 is considered to be low as most financial liabilities have long-term fixed interest rates.

An increase of the interest level by 100 basis points would improve net interest costs from the investment of cash by approximately EUR 250 thousand (previous year: EUR 250 thousand). If interest rates declined with the consequence of negative interest rates on deposits, Wilo would align its investment strategy accordingly in order to minimise the negative impact on net interest costs.

COMMODITY PRICE RISK The Wilo Group is subject to commodity price risk primarily from price fluctuations on the global markets for copper and aluminium and their alloys. The Wilo Group uses commodity derivatives in a targeted manner to control this risk. The prices for most of the copper procurement volume for the 2017 financial year have already been fixed. Currently, the Wilo Group's result of operations would be influenced by price fluctuations on the global markets for copper and aluminium and their alloys from the 2018 financial year onwards.

In accordance with IFRS 7, commodity price risks are shown using sensitivity analyses to present the effects of changes in commodity prices. A 10 percent increase (decrease) in the price of copper and aluminium as at 31 December would have the following hypothetical impact on earnings.

Sensitivity analysis

	Copper		Aluminium		Total	
EUR thousand	**2016**	2015	**2016**	2015	**2016**	2015
Price increase (10%)						
Impact on earnings	-536	-521	-455	-467	-991	-988
Price decrease (10%)						
Impact on earnings	536	521	455	467	991	988

The calculation takes into account all copper and aluminium derivatives at the reporting date and the planned procurement volume for the next year in each case. There would be no impact on other comprehensive income as the Wilo Group does not use hedge accounting.

CREDIT RISK Customer credit risk is countered with a uniform and effective Group-wide system for systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited because Wilo does not generate more than 10.0 percent of its total revenues with any one customer.

The maximum credit risk is equal to the carrying amount of financial instruments. The table below shows the maximum credit risk on and the age structure of financial assets classified as loans and receivables as at 31 December 2016 and 2015. Current and non-current items have been combined.

Credit risk

EUR thousand	Carrying amount	of which neither past due nor impaired	of which past due in stated time band (days), but not yet impaired				
			up to 30	31 – 60	61 – 90	91 – 180	more than 180
31 Dec. 2016							
Trade receivables	266,770	211,206	26,060	5,856	2,753	3,399	3,707
Other financial assets*	6,636	6,636	0	0	0	0	0

EUR thousand	Carrying amount	of which neither past due nor impaired	of which past due in stated time band (days), but not yet impaired				
			up to 30	31 – 60	61 – 90	91 – 180	more than 180
31 Dec. 2015							
Trade receivables	264,190	221,638	23,798	6,053	1,559	2,096	2,336
Other financial assets*	9,249	9,249	0	0	0	0	0

* The other financial assets are shown without receivables from derivative financial instruments and without available-for-sale financial assets.

Trade receivables are secured with retentions of title. The fair value of these retentions of title is equal to the carrying amount of trade receivables. The carrying amount of trade receivables before write-downs is EUR 287,491 thousand (previous year: EUR 281,208 thousand). As at 31 December 2015, EUR 17,457 thousand (previous year: EUR 13,759 thousand) in specific write-downs was recognised on past due trade receivables of EUR 34,594 thousand (previous year: EUR 23,728 thousand). A further EUR 3,263 thousand (previous year: EUR 3,259 thousand) in general write-downs on trade receivables was recognised as at the end of the reporting period for country-specific credit risk. The write-downs were recognised for various, standard reasons.

In addition, there is a maximum credit risk of EUR 218 thousand (previous year: EUR 266 thousand) on available-for-sale financial assets and of EUR 2,110 thousand (previous year: EUR 3,630 thousand) on financial assets held for trading, which consist exclusively of derivative financial instruments. With regard to other financial assets that are neither impaired nor past due, there are no indications as at the end of the reporting period that debtors will fail to make payment. As in the previous year, no impairment was recognised on other financial assets as at 31 December 2016.

Master agreements for financial futures have been concluded with various globally operating banks. Among other things, these agreements state that amounts in the same currency payable between parties on the same date are offset and therefore only the remaining net amount is paid by one party to the other. They also stipulate that, under certain circumstances, such as a party's default, all transactions still outstanding are cancelled. In the event of this happening, all transactions still outstanding will be offset.

These agreements do not satisfy the criteria for the netting of the corresponding assets and liabilities in the statement of financial position as they did not give rise to a legal right to offset the respective assets and liabilities at the current time. This right will only exist on the occurrence of future events, such as the default of one of the two parties.

The following financial assets and liabilities were reported in the statement of financial position without netting as the criteria of IAS 32.42 required to offset them were not met. However, they are subject to the agreements described above that allow offsetting given certain future events.

Offsetting financial assets and liabilities

EUR thousand	Carrying amount	Assets/liabilities with a right of set-off that do not however meet the criteria for offsetting in the statement of financial position	Net values
31 December 2016			
Receivables from derivative financial instruments	2,110	-80	2,030
Liabilities from derivative financial instruments	-141	80	-61
31 December 2015			
Receivables from derivative financial instruments	3,630	-33	3,597
Liabilities from derivative financial instruments	-1,314	33	-1,281

LIQUIDITY RISK The Wilo Group strives to cover its financial requirements for the operating business of its Group companies at all times and at low cost. Various instruments available on the financial market are used for these purposes. These instruments include committed and non-committed credit facilities from various national and international reputable banks with maturities of up to five years. The credit facilities of more than EUR 200 million had been utilised in the amount of EUR 15.3 million as at 31 December 2016 (previous year: EUR 6.1 million). In addition, WILO SE has secured its long-term financial requirements by issuing promissory note loans, which were also placed with financially sound, reputable financial partners (see note (9.12)).

As a result of existing short- and medium-term credit facilities with various prominent banks, the long-term coverage of financial requirements with the promissory note loans and other refinancing options, the Wilo Group is not currently exposed to material credit, concentration or liquidity risk. There are also cash pooling and financing arrangements with Group companies where appropriate and permitted under local commercial and tax law.

The following table shows the remaining contractual maturities and corresponding cash outflows, including estimated interest payments, for financial liabilities as at 31 December 2016 and 2015:

Cash outflows for financial liabilities as at 31 Dec. 2016

31 Dec. 2016	Carrying amount	Agreed payments	Maturities Less than 1 year	Maturities Between 1 and 5 years	Maturities More than 5 years
Financial liabilities					
Non-current	119,222	–141,250	–4,915	–97,939	–38,396
Current	18,116	–18,116	–18,116	0	0
Trade payables	142,408	–142,408	–142,180	–228	0
Finance lease liabilities	4,981	–5,363	–2,196	–3,167	0
Other financial liabilities	37,140	–37,140	–33,669	–3,471	0
Derivative financial instruments	141	–141	–141	0	0
Total	**322,008**	**–344,418**	**–201,217**	**–104,805**	**–38,396**

Cash outflows for financial liabilities as at 31 Dec. 2015

31 Dec. 2015	Carrying amount	Agreed payments	Maturities Less than 1 year	Maturities Between 1 and 5 years	Maturities More than 5 years
Financial liabilities					
Non-current	121,514	–147,108	–5,322	–27,575	–114,211
Current	45,753	–45,753	–45,753	0	0
Trade payables	141,034	–141,034	–139,783	–1,251	0
Finance lease liabilities	4,946	–5,326	–2,189	–3,137	0
Other financial liabilities	36,618	–36,618	–32,992	–3,626	0
Derivative financial instruments	1,314	–1,200	–1,200	0	0
Total	**351,179**	**–377,039**	**–227,239**	**–35,589**	**–114,211**

(14.) Other disclosures

(14.1) Waiver of disclosure

The following Group companies waived disclosure in accordance with section 264 (3) HGB: WILO-Mitarbeiter-Beteiligungs-gesellschaft mbH, Dortmund, WILO Nord Amerika GmbH, Dortmund, WILO Financial Services GmbH, Dortmund, WILO IndustrieSysteme GmbH, Chemnitz, and WILO-Mitarbeiter Invest GmbH, Dortmund.

(14.2) Contingent liabilities and other financial obligations

The company reported contingent liabilities from warranties of EUR 3,273 thousand as at 31 December 2016 (previous year: EUR 3,752 thousand). No provisions have been recognised for contingent liabilities carried at nominal amount as the probability of the risk is estimated as low.

The contingent liabilities from warranties essentially result from operating activities with the customers and suppliers of the Wilo Group. Warranties with a nominal obligation of EUR 1,100 thousand (previous year: EUR 891 thousand) had an agreed remaining term of less than one year as at 31 December 2016, while nominal obligations of EUR 303 thousand (previous year: EUR 622 thousand) with an agreed remaining term of more than one year have been contractually stipulated. There are also indefinite guarantees with a nominal obligation of EUR 1,870 thousand (previous year: EUR 2,239 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amounted to EUR 24,324 thousand as at 31 December 2016 (previous year: EUR 12,499 thousand). The Group still has another financial obligation of EUR 4,200 thousand relating to the acquisition of a property at the Dortmund location in 2019. It is not practicable to disclose estimates of the financial effect of contingent liabilities, the uncertainties relating to the amount or timing of any outflows or the possibility of any reimbursement.

(14.3) Average number of employees over the year

Average employee numbers for the year were as follows:

Employees

	2016	2015
Production	4,280	4,182
Sales and administration	3,268	3,201
Total	**7,548**	**7,383**
Germany	2,677	2,636
Other countries	4,871	4,747
Total	**7,548**	**7,383**

The average number of employees rose by 2.2 percent year on year (previous year: decrease of 0.6 percent).

(14.4) Staff costs

Staff costs according to section 315a in conjunction with section §314 (1) no. 4 HGB of the financial year break down as follows:

Staff costs

EUR thousand	2016	2015
Wages and salaries	298,518	288,442
Social security contributions and expenses for retirement benefits	70,036	66,736
of which for retirement benefits EUR 9,516 thousand (previous year: 7,735)		
Total	**368,554**	**355,178**

(14.5) Proposal for the appropriation of profits

At the proposal of the Executive Board, the Annual General Meeting of WILO SE on 21 March 2017 shall resolve the payment of a dividend of EUR 1.76 per ordinary share, with the remaining unappropriated surplus of WILO SE being carried forward to new account.

(14.6) Events after the end of the reporting period

The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 16 February 2017. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

(14.7) Related party disclosures

All business transactions consisting solely of the provision of goods and services to non-consolidated subsidiaries, jointly controlled entities and associates of WILO SE are settled at standard market conditions. The outstanding trade receivables from these companies amounted to EUR 167 thousand (previous year: EUR 187 thousand). Liabilities to these companies amounted to EUR 2,696 thousand at the reporting date (previous year: EUR 2,691 thousand), of which EUR 2,650 thousand related to joint ventures (previous year: EUR 2,650 thousand). Sales and services passed on to these companies amounted to EUR 662 thousand (previous year: EUR 575 thousand). All legal transactions are based on standard market conditions. The balances outstanding at the end of the financial year are unsecured, do not bear interest and will be settled via payment.

Members of the Supervisory Board control or influence companies that provide consultancy services for WILO SE. WILO SE generated net sales totalling EUR 1,783 thousand (previous year: EUR 1,440 thousand) from these companies in the 2016 financial year. All services were remunerated at standard market conditions in the year under review.

One of the shareholders owns a heating and air conditioning installation company that purchases standard quantities of pumps from the reporting entity. The same company installs and maintains the heating and air conditioning systems of the reporting entity. These services are remunerated at standard market conditions. Revenues of EUR 97 thousand (previous year: EUR 236 thousand) were generated with the heating and air conditioning installation company in the 2016 financial year. There were receivables from this company of EUR 1 thousand as at 31 December 2016 (previous year: EUR 0 thousand). At the same time, the Wilo Group procured goods and services in the amount of EUR 292 thousand (previous year: EUR 578 thousand) from this company. There were no liabilities to this company as at 31 December 2016 (previous year: EUR 1 thousand).

A plot of land with a standing building, which was owned by shareholders, was acquired in the 2016 financial year as part of the campus project. The purchase price and additional cost reimbursements amounted to EUR 3,403 thousand.

There are also leases relating to land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 923 thousand were made to these shareholders in 2016 (previous year: EUR 898 thousand). The rent was agreed in line with market conditions.

The Wilo-Foundation holds the majority of ordinary shares in WILO SE. There is a service agreement between WILO SE and the Foundation for administrative work. WILO SE generated income of EUR 61 thousand from this service agreement in 2016 (previous year: EUR 61 thousand). There were receivables from the Foundation of EUR 91 thousand as at 31 December 2016 (previous year: EUR 0 thousand).

(14.8) Auditor's fees

The following fees were recognised as an expense in the 2016 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

Auditor's fees

EUR thousand	2016	2015
Audits of financial statements of which for the previous year: EUR 6 thousand (2015: EUR 8 thousand)	407	416
Other assurance services of which for the previous year: EUR 26 thousand (2015: EUR 36 thousand)	111	106
Other services of which for the previous year: EUR 127 thousand (2015: EUR 35 thousand)	417	275
Total	**935**	**797**

(14.9) Remuneration of the Executive Board and the Supervisory Board

The total remuneration of the Executive Board amounted to EUR 5.7 million for the 2016 financial year (previous year: EUR 4.0 million). EUR 1.7 million (previous year: EUR 1.7 million) of this total relates to fixed remuneration and EUR 1.4 million (previous year: EUR 1.5 million) to variable remuneration, EUR 0.7 million (previous year: EUR 0.2 million) of which was reported as a liability as at the end of the reporting period and will not be paid out until the approval of the consolidated financial statements in the subsequent financial year. In addition, the total remuneration includes payments for defined contribution pension plans for members of the Executive Board of EUR 2.6 million (previous year: EUR 0.8 million).

The Supervisory Board has established a virtual management participation model for the members of the Executive Board of WILO SE under which the participating members contractually receive virtual shares entitling them to participate in the company's positive performance. This does not make them shareholders of the company with corresponding shareholders' rights (e.g. rights of information, voting rights at the Annual General Meeting, right to receive dividends). A total of 228,290 virtual shares were granted in the 2014 financial year, another 103,768 in the 2015 financial year, and a further 51,884 in the 2016 financial year. A total of 383,942 virtual shares have thus been granted to the Executive Board. As a matter of principle, the term of the individual virtual participation is unlimited. A participant's virtual participation ends automatically when he or she steps down from the respective management position on the Executive Board. The ordinary termination of the virtual participation ahead of schedule is excluded. The potential benefit earned by the participants of the management participation programme is calculated as the difference between the cost and the retransfer value of the virtual shares. Payment is made within a defined period after participation ends. The fair value (retransfer value) of the provisions recognised in connection with the virtual shares was calculated on the basis of historical averages. As at 31 December 2016, a provision of EUR 250 thousand was reported under other provisions (previous year: 605).

The total remuneration paid to former members of the Executive Board amounted to EUR 1.0 million in the 2016 financial year (previous year: EUR 1.0 million). As at the end of the reporting period, a pension provision of EUR 9.2 million (previous year: EUR 8.8 million) was recognised for former members of executive bodies, some of whom are also related parties.

The remuneration of the Supervisory Board amounted to EUR 0.5 million (previous year: EUR 0.5 million) in the 2016 financial year.

(14.10) Executive bodies of the company

SUPERVISORY BOARD

Prof. Dr Norbert Wieselhuber
– Chairman –
Managing Director of Dr Wieselhuber & Partner GmbH
Management Consultancy
Planegg

Prof. Dr Hans-Jörg Bullinger
– Deputy Chairman –
Former President of the Fraunhofer-Gesellschaft
Stuttgart

Jean-Francois Germerie
European Works Council
Laval, France

Dr Hinrich Mählmann
Personally liable partner and
Managing Director of Otto Fuchs KG
Wiehl

Daniela Mohr
European Works Council
Dortmund

Felix Opländer (until 5 September 2016)
Businessman
Verden/Aller

Lars Roßner (from 13 December 2016)
Partner at Buse Heberer Fromm,
Rechtsanwälte · Steuerberater PartG mbB
Dusseldorf

Dr Ing. h.c. Jochen Opländer
is the Honorary Chairman of the Supervisory Board.

EXECUTIVE BOARD

Oliver Hermes
– Chairman –
Essen

Eric Lachambre
Dusseldorf

Dr Markus Beukenberg
Mülheim/Ruhr

Carsten Krumm
Dortmund

Mathias Weyers (from 1 December 2016)
Essen

Dortmund, 16 February 2017

The Executive Board

Oliver Hermes	Eric Lachambre	Dr Markus Beukenberg	Carsten Krumm	Mathias Weyers

Shareholdings

Shareholdings of WILO SE as of 31 December 2016

	Shareholding in %
Bombas WILO-SALMSON Portugal – Sistemas Hidráulicos, Lda., Porto/Portugal	100.0
Circulating Pumps Ltd., King's Lynn, Norfolk/Great Britain	100.0
EMU I.D.F. S.A.R.L., Ste. Geneviève-des-Bois/France**	50.0
iEXERGY GmbH, Münster/Germany****	22.5
OL Objekt Leasing Verwaltungs GmbH, Dortmund/Germany*	100.0
PT. WILO Pumps Indonesia, Jakarta/Indonesia	100.0
S.E.S.E.M. S.A.S., Saint-Denis/France	100.0
STEMMA S.R.L., Trissino/Italy	100.0
WILO (Singapore) Pte. Ltd, Singapore/Singapore	100.0
WILO (UK) Ltd., Burton-on-Trent/Great Britain	100.0
WILO Adriatic d.o.o., Ljubljana/Slovenia	100.0
WILO Australia PTY Ltd, Brisbane City QLD/Australia	100.0
WILO Baltic SIA, Riga/Latvia	100.0
WILO Bel o.o.o., Minsk/Belarus	100.0
WILO Beograd d.o.o., Belgrade/Serbia	100.0
WILO Bulgaria EOOD, Sofia/Bulgaria	100.0
WILO Canada Inc., Calgary/Canada	100.0
WILO Caspian LLC, Baku/Azerbaijan	100.0
WILO Central Asia TOO, Almaty/Kazakhstan	100.0
WILO China Ltd., Beijing/China	100.0
WILO CS s.r.o., Prague/Czech Republic	100.0
WILO Danmark A/S, Karlslunde/Denmark	100.0
WILO Eesti OÜ, Tallinn/Estonia*	100.0
WILO Egypt LLC, Cairo/Egypt*	100.0
WILO Egypt for Import LLC, Cairo/Egypt*	100.0
WILO ELEC China Ltd., Qinhuangdao/China	100.0
WILO EMU Anlagenbau GmbH, Roth/Germany	100.0
WILO Engineering Ltd t/a Wilo Ireland, Limerick/Ireland	100.0
WILO Financial Services GmbH, Dortmund/Germany	100.0
WILO Finland OY, Espoo/Finland	100.0
WILO GVA GmbH, Wülfrath/Germany	100.0
WILO Hellas A.B.E.E., Athens/Greece	100.0
WILO Hrvatska d.o.o., Zagreb/Croatia	100.0
WILO Ibérica S.A., Alcalá de Henares/Spain	100.0
WILO Indústria, Comércio e Importação LTDA, City of São Paulo/Brazil	100.0
WILO Industriebeteiligungen GmbH, Dortmund/Germany	100.0
WILO IndustrieSysteme GmbH, Chemnitz/Germany	100.0
WILO Intec S.A.S., Aubigny/France	100.0

Shareholdings of WILO SE as of 31 December 2016

	Shareholding in %
WILO Italia s.r.l., Peschiera Borromeo (Milan)/Italy	100.0
WILO Lebanon S.A.R.L., Beirut/Lebanon	100.0
WILO Lietuva UAB, Vilnius/Lithuania	100.0
WILO Magyarország Kft., Törökbálint/Hungary	100.0
WILO Maroc S.A.R.L., Casablanca/Morocco	100.0
WILO Mather and Platt Pumps Private Ltd., Pune/India	99.9
WILO Mexico Bombas Centrifugas, S.A. de C.V., Querétaro/Mexico	100.0
WILO Middle East FZE, Dubai/United Arab Emirates	100.0
WILO Middle East LLC i.L., Riad/Saudi Arabia***	50.0
WILO Mitarbeiter Invest GmbH, Dortmund/Germany	100.0
WILO N.V./S.A., Ganshoren (Brussels)/Belgium	100.0
WILO Nederland b.v., Westzaan/Netherlands	100.0
WILO Nord Amerika GmbH, Dortmund/Germany	100.0
WILO Nordic AB, Växjö/Sweden	100.0
WILO Norge AS, Oslo/Norway	100.0
WILO Polska Sp. z o.o., Lesznowola/Poland	100.0
WILO Pompa Sistemleri San. Ve Tic. A.S., Istanbul/Turkey	100.0
WILO Pumpen Österreich GmbH, Wiener Neudorf/Austria	100.0
WILO Pumps Ltd., Busan/Korea	100.0
WILO Pumps Ltd., Limerick/Ireland	100.0
WILO Pumps Nigeria Ltd., Gbagada/Nigeria	100.0
WILO PUMPS SA (PTY) LTD, Johannesburg/South Africa	100.0
WILO Romania s.r.l., Bucharest/Romania	100.0
WILO Rus o.o.o., Moscow/Russia	100.0
WILO SALMSON Argentina S.A., Buenos Aires/Argentina	100.0
WILO Saudi Arabia Ltd., Riyad/Saudi Arabia*	100.0
WILO Schweiz AG, Rheinfelden/Switzerland	100.0
WILO SYSTEMS ITALIA S.R.L., Bari/Italy	100.0
WILO Taiwan Company Ltd., New Taipei/Taiwan	100.0
WILO Tunisia SUARL, Tunis/Tunisia*	49.0
WILO Ukrainia t.o.w., Kiev/Ukraine	100.0
WILO USA LLC, Rosemont, IL/USA	100.0
WILO Vietnam Co. Ltd., Ho Chi Minh City/Vietnam	100.0
WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund/Germany	100.0
WILO-SALMSON France S.A.S., Chatou/France	100.0

* These companies were not included in the 2016 consolidated financial statements.
** This is an associate accounted for at cost.
*** This is a joint venture accounted for using the equity method.
**** This is an associate accounted for using the equity method.

Auditor's report

The issued our unqualified auditor's report as follows:

We audited the consolidated financial statements prepared by WILO SE, Dortmund – consisting of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements – and the Group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the European Union, and the additional regulations of the German Commercial Code (HGB) pursuant to section 315a (1) HGB are the responsibility of the Executive Board of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Essen, 17 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer
Wirtschaftsprüfer

Huperz
Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board monitored the work of the Executive Board on an ongoing basis while providing intensive support and advice throughout the 2016 financial year. At regular meetings, the Supervisory Board was kept fully informed about the development of the Wilo Group's business and all factors affecting it. Members of the Supervisory Board received regular written reports from the Executive Board on the current business situation and on current and planned Group activities. Measures requiring the approval of the Supervisory Board were discussed at length and submitted to the Supervisory Board for resolution. In addition, there was a direct exchange of information between the Chairman of the Supervisory Board and the CEO on important matters arising between the meetings.

The Supervisory Board held a total of four meetings in person and one meeting by way of correspondence in 2016.

The Supervisory Board meeting on 14 March 2016 focused on the annual financial statements and the consolidated financial statements as at 31 December 2015. The business performance of the Wilo Group in light of the global economic situation was discussed in detail. In addition, the emerging developments and how the Wilo Group is handling increasing digitalisation were discussed under the heading "Industry 4.0". Another key topic at the meeting was the status of the location development project in Dortmund.

At its meeting on 28 June 2016, which was held at the Russian location in the Moscow region, the Supervisory Board mainly discussed the business situation, development and M&A strategy of the Wilo Group. This meeting also addressed the location development project in Dortmund.

The Supervisory Board meeting held by way of correspondence in August 2016 dealt with strategic decisions on foreign production sites and holdings.

On 20 October 2016, the Supervisory Board dealt in particular with the economic situation of the Wilo Group, which was presented and illuminated on the basis of the development of individual regions. The location development project was also addressed at this meeting. Furthermore, the Supervisory Board had an intensive discussion on current M&A activities and personnel matters.

On 14 December 2016, the Supervisory Board dealt in depth with the integrated planning 2017–2021 and the issues of product and location development. In addition, the results of the annual, international executive conference were presented.

Throughout the year, the Supervisory Board supported the ongoing development of the Wilo Group's business policy and strategic orientation, notably with regard to new manufacturing technologies, the focus of the product portfolio and human resources planning.

Both the consolidated financial statements with the management report for the 2016 financial year presented with the annual report and the separate financial statements of WILO SE for the 2016 financial year, each comprising an income statement, statement of financial position and notes to the financial statements, have been audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, Germany. The auditor also ascertained that the internal control system (ICS) established by the Executive Board, the internal audit system and the compliance system are adequate and capable in their design and use of recognising developments that would jeopardise the company's continued existence in good time.

The above documents were submitted to the Supervisory Board for examination in good time and subjected to comprehensive scrutiny. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements in the meeting of the Audit Committee on 20 March 2017 in order to report on key audit findings and provide comprehensive supplementary information.

The Audit Committee performed preparatory work for the Supervisory Board and, in particular, also appraised the findings of the risk management system and the internal control system. In the period under review, the Audit Committee comprised Mr Felix Opländer, Prof. Dr Bullinger and Dr Hinrich Mählmann. After the departure of Mr Felix Opländer, Prof. Dr Norbert Wieselhuber was appointed to the Audit Committee on an interim basis. With effect from 15 December 2016, he was replaced on the Audit Committee by Mr Lars Roßner.

There are no other committees.

After thorough examination and discussion of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board endorsed the opinion of the auditor and approved the annual financial statements and the consolidated financial statements prepared by the Executive Board in its meeting on 21 March 2017, which was also attended by the auditor. The annual financial statements were thereby adopted. The Supervisory Board also approved the proposal for appropriation of the net profit of WILO SE.

The following personnel changes took place on the Supervisory and Executive Boards in the year under review:

The member of the Supervisory Board and Chairman of the Audit Committee, Mr Felix Opländer, died on 5 September 2016. Mr Lars Roßner was appointed to the Supervisory Board at the Extraordinary General Meeting on 13 December 2016.

On 20 October 2016, the Supervisory Board appointed Mr Mathias Weyers as an additional member of the WILO SE Executive Board with effect from 1 December 2016.

Mr Weyers' duties and responsibilities include the Group functions of Controlling & Accounting, Finance, Internal Audit & Compliance and Group Information Management.

The Supervisory Board wishes Mr Weyers good luck and every success in his new role.

In the interests of good, responsible corporate governance, WILO SE and its executive bodies voluntarily comply with the current version of the German Corporate Governance Code. There are departures from the Code relating to the specific nature of the company (primarily as to the preparation and holding of Annual General Meetings, the publication of reports, Supervisory Board committees) on the one hand and the individual disclosure of Executive Board and Supervisory Board remuneration on the other, in which connection the statutory provisions are complied with. Detailed information on the few departures from the Code has again been compiled in full for banks and institutional partners in a declaration of compliance in line with section 161 of the German Stock Corporation Act.

Subject to the above qualification, WILO SE intends to continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code in future.

Taking into consideration the difficult and uncertain political and general economic conditions, 2016 was a good financial year for the Wilo Group. The Wilo Group continued its profitable and sustainable growth course.

The Supervisory Board wishes to thank the members of the Executive Board, the employees and employee representatives of the Wilo Group for their work and tremendous loyalty, which played a key part in this success.

Dortmund, March 2017

The Supervisory Board
Prof. Dr Norbert Wieselhuber
Chairman

Glossary

Asia Pacific
The Asia Pacific segment comprises the following countries/regions: India, China, South Korea, the Southeast Asian nations, Australia and Oceania.

Business Keeper Monitoring System (BKMS®)
Internet-based electronic whistle-blower system for providing information on violations of the law or code of conduct.

Cash flow
Net inflow of cash generated from business activities.

Cash pooling
Instrument for optimisation of liquidity management. Daily liquidity equalisation is performed within the Group by the parent company, whereby excess liquidity is siphoned from Group companies to cover liquidity shortages.

Corporate foresight process
In the corporate foresight process, both risks and opportunities are derived and analysed from forecast future developments with respect to the global megatrends, and hence systematically taken into account in the ongoing development of corporate strategy.

EBIT/EBIT margin
EBIT is earnings before net income from investments carried at equity, net finance costs and income taxes. The EBIT margin describes the ratio of EBIT to net sales.

EBITDA
EBITDA is earnings before net income from investments carried at equity, net finance costs, income taxes and depreciation and amortisation.

EMEA
The EMEA segment comprises the following countries/regions: Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations.

Equity method
Method of accounting for investments in entities over which the investor has a significant influence. Changes in equity at these companies influence the corresponding carrying amounts of the investments.

ErP directive
The ErP Directive is entitled “Ecodesign Requirements for Energy-Related Products” and aims to increase awareness of energy use during the entire life-cycle of a product, from its manufacture to its disposal.

Europe
The Europe segment comprises the following countries/regions: all European states except Russia, Belarus and Ukraine.

Glandless pumps
In this design, the rotating part of the electric motor is located in the pumped fluid. Glandless pumps are largely maintenance-free and quiet in operation.

IFRS (International Financial Reporting Standards)
Collective term for all rules and interpretations of international financial reporting standards relevant to the Wilo Group: IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), SIC rulings (Standing Interpretations Committee) and the interpretations of the IFRS Interpretations Committee.

Industry 4.0
The Industry 4.0 future project is part of the German government's high-tech strategy. Industry 4.0 stands for the fourth industrial revolution, in which the intelligent networking of machinery, products and storage systems finds its way into industrial value added. They exchange information autonomously, trigger actions and control each other independently. This allows the fundamental improvement of industrial processes in production and logistics.

Megatrend
This term describes far-reaching, long-lasting trends that have a significant impact on society, the economy, the environment and technology. Megatrends are long-term, i.e. observable over a period of decades, and tend to have a global effect. As part of our strategic management process, megatrends enable us to take a systematic view of the future and also help us identify opportunities and risks which inform the overall strategy.

Netting
Offsetting of receivables and liabilities between two or more partners. Payment, foreign currency, credit or liquidity risks between partners can be reduced by way of netting agreements.

Others
The Others segment comprises the countries of North and South America.

Second-source suppliers
In the materials management and manufacturing sector, the term second-source supplier (secondary supplier) is used to describe one or more alternative suppliers of a product that is structurally identical and therefore interchangeable or compatible with another product.

Smart home
This umbrella term refers to the intelligent networking of housing technology (heating, lighting, air conditioning, safety and security technology, etc.) and household appliances and the networking of consumer electronics components (audio/video). Intelligent management of these components using the internet and/or mobile devices can bring about significant efficiency gains in day-to-day life and increase comfort and safety.

* We understand a smart-pump as a new category of pumps, which goes far beyond our high-efficiency pumps or pumps with pump intelligence. Only the combination of the latest sensor technology and innovative control functions (e.g. Dynamic Adapt plus and Multi-Flow Adaptation), bidirectional connectivity (e.g. Bluetooth, integrated analogue inputs, binary inputs and outputs, Wilo Net interface), software updates and excellent usability (e.g. thanks to the Setup Guide, the preview principle for predictive navigation and the tried and tested Green Button Technology) make this pump a smart-pump.

Imprint

Publisher
WILO SE
Nortkirchenstr. 100
44263 Dortmund
Germany

Concept and design
KorteMaerzWolff Kommunikation, Hamburg
Wilo Corporate Communications

Typesetting/reproduction
delta E GmbH, Munich
Hirte GmbH & Co. KG, Hamburg

Translation
EVS Translations GmbH, Offenbach

Printing
druckpartner, Druck- und Medienhaus GmbH, Essen

Picture credits
Michael Danner (page 15)
Andreas Fechner (pages 12, 13, 17, 18, 19,
21 bottom, 23, 24, 25, 26, 27)
iStockphoto (pages 5, 14)
Sebastian Vollmert (pages 2, 42)
shutterstock: (cover)
WILO SE: all the rest of pictures

This Annual Report was published on
24 March 2017 in German and English.
Both versions can be downloaded at www.wilo.de.

FSC® www.fsc.org
MIX
Paper from responsible sources
FSC® C017894

Wilo uses FSC®-certified paper to produce its print products, thereby supporting sustainable forest management. This report was printed using a carbon-neutral process.

BLUEGREEN PRINT

Print CO_2 compensated
Id-No. 1763562
www.bvdm-online.de

WILO SE

Nortkirchenstr. 100
D-44263 Dortmund, Germany
T +49 231 4102-0
F +49 231 4102-7363
www.wilo.com