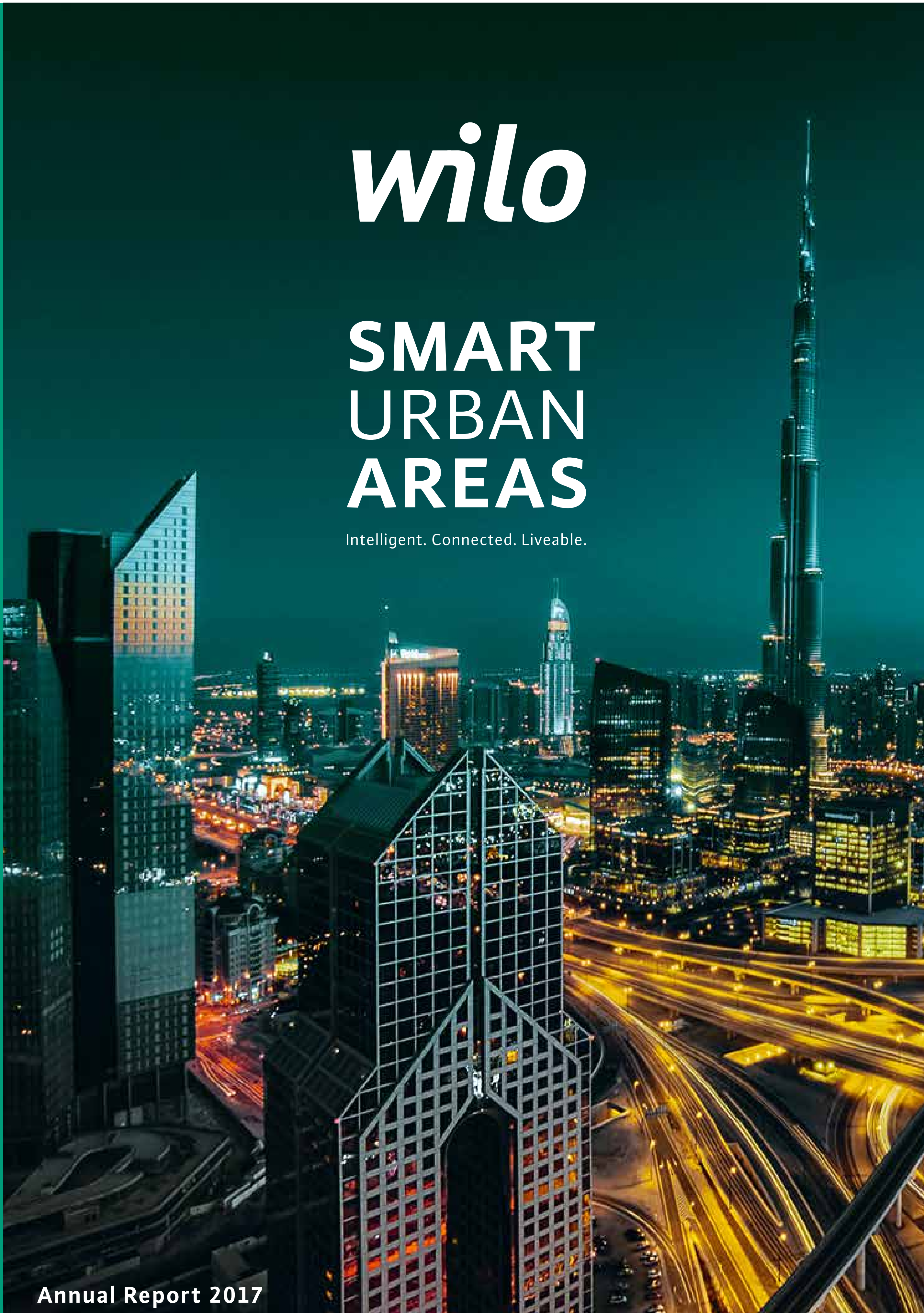


SMART URBAN AREAS

Intelligent. Connected. Liveable.

Annual Report 2017

WILO PROFILE

The WILO Group 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 7,700 employees.

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.

Wilo Group key indicators

		2017	2016	2015	2014	2013	2012
Net sales	EUR million	**1,424.8**	1,327.1	1,317.1	1,234.7	1,230.8	1,187.1
Net sales growth	%	7.4	0.8	6.7	0.3	3.7	10.9
EBIT	EUR million	106.3	107.1	121.2	111.2	125.7	119.7
(as % of net sales)	%	7.5	8.1	9.2	9.0	10.2	10.1
Consolidated net income	EUR million	**85.9**	76.0	80.5	69.8	83.0	78.2
(as % of net sales)	%	6.0	5.7	6.1	5.7	6.7	6.6
Earnings per ordinary share	EUR	8.76	7.88	8.35	7.11	8.12	7.63
Cash flow from operating activities	EUR million	**140.4**	137.4	132.3	109.8	130.2	120.8
Cash	EUR million	161.8	178.3	165.8	149.1	177.5	176.5
Capital expenditure	EUR million	**124.8**	109.5	106.4	66.1	63.9	90.0
R&D expenses[1)]	EUR million	63.6	65.0	62.4	51.2	43.9	39.2
(as % of net sales)	%	4.5	4.9	4.7	4.1	3.6	3.3
Equity	EUR million	707.0	653.6	560.9	477.1	476.9	458.0
Equity ratio	%	51.6	53.6	49.3	46.4	47.9	46.8
Employees (annual average)	Number	7,726	7,548	7,383	7,425	7,194	6,900

[1)] Including capitalised development costs.

Net sales of EUR 1.42 billion

With strong net sales growth of 7.4 percent, the Wilo Group continued its sustainable and profitable course.

Capital expenditure of EUR 124.8 million

Wilo continued to invest heavily in the future. Capital expenditure exceeded the already high level of the previous year.

Cash flow of EUR 140,4 million

In the 2017 financial year, cash flow from operating activities increased to EUR 140.4 million, likewise reaching a new record.

Consolidated net income of EUR 85.9 million

With growth of 13.0 percent, consolidated net income reached a historic high of EUR 85.9 million.

7,700 employees

An annual average of more than 7,700 people were employed in the Wilo Group around the world. This was more than ever before.

CONTENTS

INTELLIGENT.
CONNECTED.
LIVEABLE.

Well over half of all people already live in cities – and this figure is rising. This has a wide range of effects on the economy, the environment, infrastructure and logistics. Cities need to be developed in a new way in the future: integrated, sustainable and more efficient.

All around the world, big cities and the surrounding areas are coming together to form smart urban areas – urban areas that use state-of-the-art digital information and communication technologies to tackle the challenges of growing agglomerations and thus make the lives of their residents safer, more convenient and more pleasant. These interconnected urban centres offer major growth opportunities for Wilo. They are the future markets in which urban infrastructure and many areas of life will be connected with one another digitally and intelligently. As a digital pioneer in the pump industry, Wilo is also developing resource-conserving, energy-efficient and smart solutions for these requirements – with the aim of providing a better quality of life and greater sustainability.

01_Oliver Hermes
Chairman of the Executive Board & Chief Executive Officer (CEO)

02_Georg Weber
Chief Technology Officer (CTO)

03_Mathias Weyers
Chief Financial Officer (CFO)

04_Carsten Krumm
Chief Sales Officer (CSO)

EDITORIAL BY THE EXECUTIVE BOARD

Oliver Hermes

wilo.com/annual-report-2017

Dear Ladies and Gentlemen,

Looking back at a successful and eventful financial year, I once again have very good results to report to you: Wilo developed profitably again in 2017, as confirmed impressively by the figures for the year under review. Net sales climbed by 7.4 percent to reach another record of more than EUR 1.4 billion. They thus increased significantly for the eighth time in a row. Consolidated net income achieved a new record of EUR 85.9 million. EBIT remained stable at EUR 106.3 million. A new record was also set with cash flow from operating activities of EUR 140.4 million. The consistently strong cash flow forms a solid basis for the great financial strength and high financial flexibility of the Wilo Group.

In the past financial year, we once again invested heavily in our future: in modern and efficient corporate infrastructure, in research and development, in new manufacturing technologies, in the establishment and expansion of sales and production locations and in Wilo's digital transformation. At EUR 124.8 million, capital expenditure marked a new historic high. We stepped up our globalisation strategy with a corporate acquisition in the USA and investments in emerging economies. Particularly high growth rates were generated in the markets of China, India and Korea.

For years, Wilo has been developing extremely dynamically and can claim to be an innovation and technology leader as an international premium provider of high-tech in the pump segment. We repeatedly set new standards in the pump industry. Our top position is attributable to a number of different success factors that we combine in an intelligent way. First and foremost are our employees. Their commitment is the driving force behind the Wilo Group's high productivity, its innovations, its economic success and ultimately also its competitiveness. Also on behalf of my colleagues on the Executive Board, I would like to thank the entire Wilo team for their excellent work and great achievements.

Georg Weber

Carsten Krumm

There are a few special aspects, events and topics from the 2017 financial year that I would like to describe to you in a little more detail in this editorial:

WILO strengthens its presence in Russia

For Wilo, Russia is one of the world's most important individual markets with high potential. According to projections by the German Committee on Eastern European Economic Relations, German-Russian trade is steadily increasing. The German Federal Statistical Office calculates that German exports to Russia were up by more than 20 percent in 2017. In opening our new plant in Moscow in June 2016, we sent a clear signal for our Russian location. In October 2017, the Wilo Group concluded a special investment contract at a meeting with Russian president Vladimir Putin. This gives Wilo the status of a local manufacturer in Russia. As part of our localisation strategy, we will continue to invest in the Russian location, press ahead with the digital transformation locally and thereby further strengthen our competitive position in Russia and the Eurasian region.

Wilo in Germany's top 3 "Most sustainable large companies"

Wilo was recently presented with the renowned German Sustainability Award 2018 as one of the top 3 of "Germany's most sustainable large companies". In explaining its choice, the high-calibre jury under the auspices of German Federal President Dr Frank-Walter Steinmeier emphasised our high-efficiency products and our comprehensive approach to sustainability. This award gives us added motivation in our efforts to provide innovative products that also help mitigate against ecological megatrends such as climate change and water shortages.

"We4Europe" as a commitment

For over 50 years, companies and employees in Europe have benefited from peace, freedom and partnership. A stable Europe forms the basis for our economic prosperity and our quality of life. It is important to protect and future-proof this basis. This is why Wilo, along with many other international companies, is pledging a shared commitment to an open, united and strong Europe. In joining the "We4Europe" initiative organised by German businesses, the Wilo Group wants to bring the benefits of European integration back to the centre of public debate. We support all those who actively and constructively work for the future of a stable Europe. We are convinced that a united and resolute Europe is a key stability factor for dealing with global challenges.

Growth area of the future: smart urban areas

One of the areas where I see major growth opportunities for Wilo is interconnected urban centres, or "smart urban areas". These are future markets in which urban infrastructure and different areas of life will be connected with one another digitally and intelligently. All around the world, our cities are getting smarter. Smart cities represent a new form of urban development with the aim of making urban areas greener, more resource-efficient, more pleasant and more liveable on the basis of technological progress. Rapid growth of cities will result in smart cities growing or merging to form smart urban areas in many cases. These areas will combine all of the challenges for which Wilo can offer and develop smart, efficient solutions. 50 percent of the world's current population of seven billion already live in megacities, and by 2050 this figure is expected to reach almost 70 percent of an estimated ten billion people. Pumps will be needed everywhere, resulting in a big market for Wilo.

Host of the "#GoDigital 2017" strategy summit

Digitalisation was also the main topic at the two-day "#GoDigital 2017" strategy summit at the end of last year. At this event in Berlin, high-profile speakers from business and research took up Wilo's invitation to hold specialist talks and a panel discussion presenting a comprehensive picture of the dynamic developments. Digitalisation has led to changes for all different industries. Companies have to react to this and adjust their strategic positioning accordingly. It is a matter of developing innovative sales processes and digital business models on the basis of new technologies in order to move even closer to customers. Using digitalisation and individualised products, for example, Wilo is developing a new dimension of customer proximity that has never been seen before in the pump sector. In this way, we are significantly increasing the benefit for customers.

Continued growth

Ladies and gentlemen, Wilo is excellently positioned and remains on a growth trajectory. We are therefore optimistic for the future, which is becoming increasingly complex in a globalised world full of challenges. Day by day, we work to successfully implement our ambitious goals and make Wilo a pioneer in the pump sector in the digital era. We invite you to accompany us on this exciting journey.

Yours,

Oliver Hermes
Chairman of the Executive Board &
Chief Executive Officer (CEO)

Mathias Weyers

SMART URBAN AREAS

Intelligent. Connected. Liveable.

CITYSCAPES OF THE FUTURE

The world's population is growing. More than half of people already live in cities. They generate over 60 per-cent of economic output and are responsible for more than 70 percent of greenhouse gases. In the years ahead, these trends will intensify and urbanisation will see huge increases. Cities will become city-scapes, partly due to the growing expansion of individual megacities, but primarily because previously separate cities will merge to form urban regions. The widespread introduction of information and communication technology and smart applications in these urban regions will be one of the biggest challenges of the future. This will give rise to smart urban areas where the majority of people will live in the future.

RECREATIONAL

This zone covers all areas that serve recreational purposes, including a large part of the tourism infrastructure. Smart applications such as park benches equipped with sensors can constantly measure parameters such as the air quality.

AGRICULTURAL

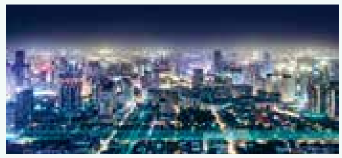
Growing smart urban areas will result in an increase in agricultural processes taking place within urbanised areas. Green roofs, vertical farms and inner-city plots of land used for agriculture will improve the food supply and the climate in urban areas.

HOUSING & LIVING

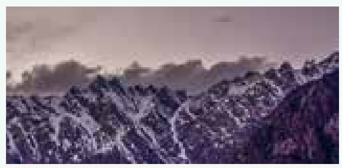
In residential development, whether in the form of detached houses or apartment blocks, smart home technologies ranging from intelligent heating and air conditioning systems to adaptive domestic electrical equipment to household robots will make housing both more environmentally friendly and more convenient.

MEGATRENDS – the bases of our strategy

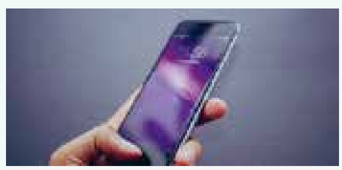

Globalisation


Urbanisation

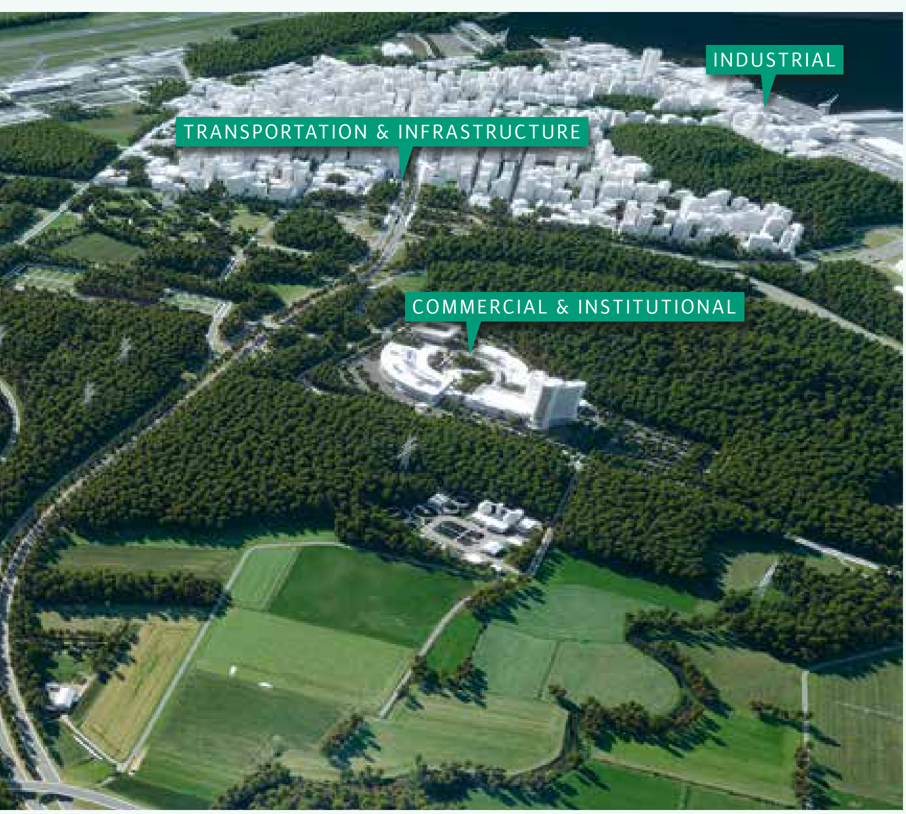

Energy shortage


Climate change


Water shortage


Digital transformation

As part of its long-term strategic planning, Wilo has defined six megatrends that are particularly important for the Group's current and future business. Globalisation, urbanisation, climate change and water and energy shortages are worldwide developments that will significantly influence people's lives and societies in the coming decades. The digital transformation is the megatrend that will meet the challenges of the first five.



INDUSTRIAL

Interconnected production facilities can respond faster and more flexibly to changes in demand. Predictive maintenance and digitalised manufacturing processes supported by robots also result in greater efficiency and reduce consumption of resources.

TRANSPORTATION & INFRASTRUCTURE

This zone includes all transport infrastructure facilities, distribution systems for electricity and water, and communication systems. Autonomous transport, smart energy and water systems and sensor networks will fundamentally change the way cities currently look and work.

COMMERCIAL & INSTITUTIONAL

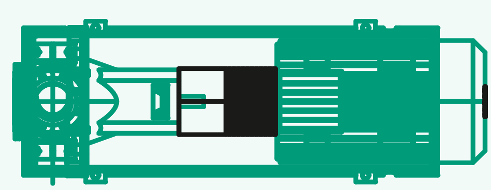
In the zone of office and administrative buildings, smart office concepts will make working life more pleasant and resource-efficient. Intelligent packaging systems and digitalised logistics will speed up retail and wholesale business and make it more flexible. Robots will take over operations in hospitals and virtual universities will no longer be tied to a particular location.

RECYCLING WATER

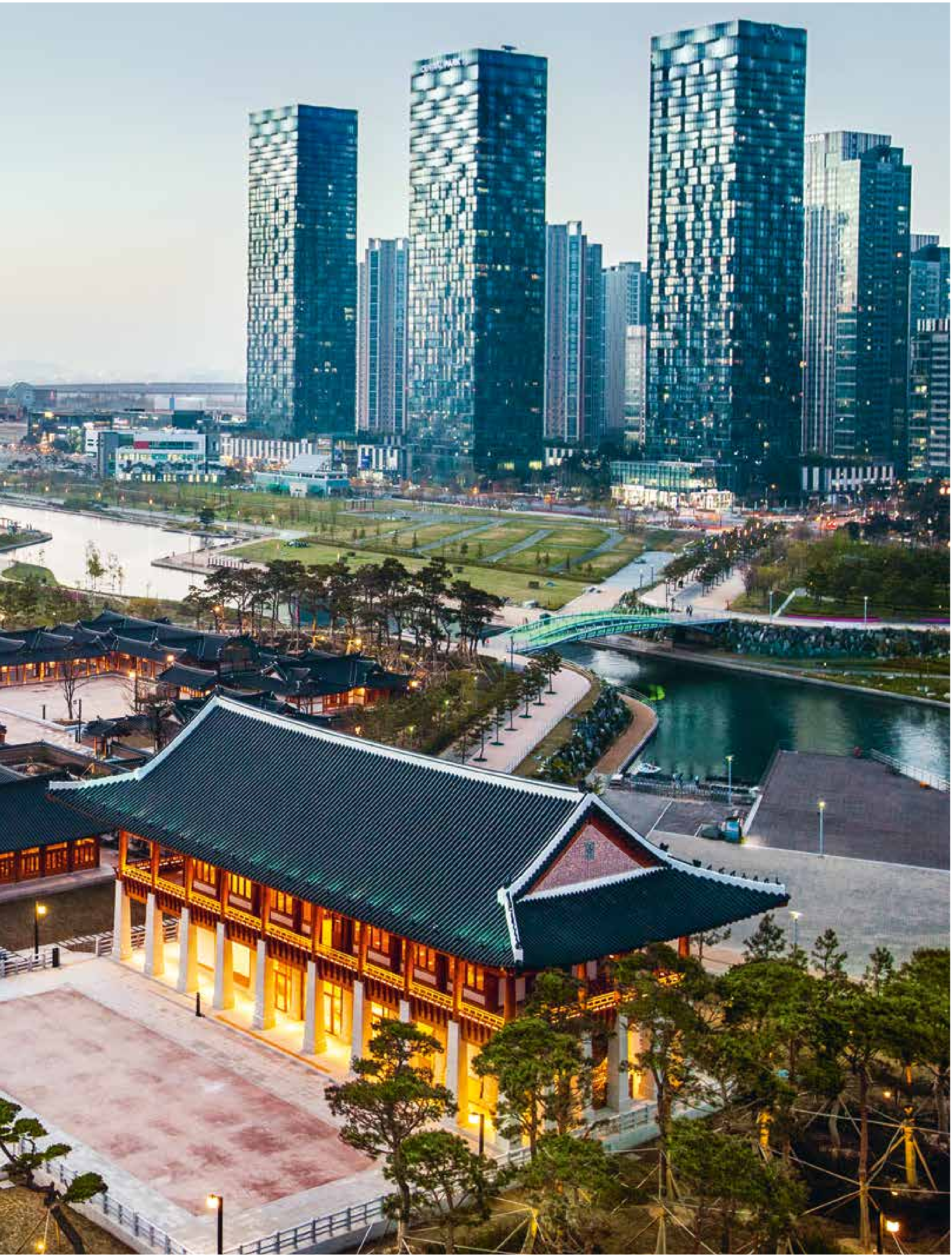
In intelligent cities, resources are used responsibly.

Since 2003, a pioneering urban concept has been implemented in South Korea: Songdo. The aim is to offer the up to 70,000 residents of this urban centre a better than average quality of life, while also reducing resource consumption by around a third compared to conventional cities. To this end, technology such as comprehensive smart city infrastructure, pneumatic waste disposal and state-of-the-art water recycling systems has been installed.

Conservation of resources is a key goal in the smart city concept of the planned city Songdo. In order to achieve this, efficient components and systems are essential – for example, in the treatment of sewage and industrial water. The submersible mixer Wilo-EMU TRE 312 satisfies these requirements with a highly efficient motor and low-wearing materials adapted to the harsh operational environment.



Various different Wilo products are used for reprocessing industrial water, for recycling water and in sewage treatment plants.



GATHERING DATA

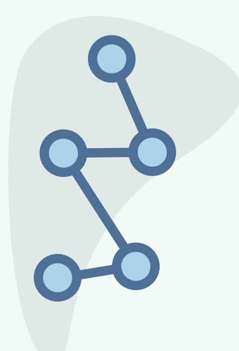
Informative data form
the basis for smart planning.

Chicago is the third-biggest city in the USA, an important business centre and the headquarters of several multi-national corporations – and can claim to be a pioneer among the country's smart urban areas. In this context the city, which is home to millions of people, particularly relies on smart data. An interactive network of sensors gathers a variety of data ranging from the air quality to the traffic-related noise level to water levels, thus providing the basis for optimising the city management.

A high population density means very built-up space. In order to make cities like this liveable, intelligent infrastructure systems need to be used. Such systems are based on converting big data into smart data. The Wilo-Stratos MAXO is not only the frontrunner with regard to system performance and efficiency, but also in terms of connectivity and communication capabilities. With the documented and processed data, the Stratos MAXO thus helps optimise infrastructure systems.

The Wilo-Stratos MAXO is the first smart pump in the world.*

CONNECTING CITIES

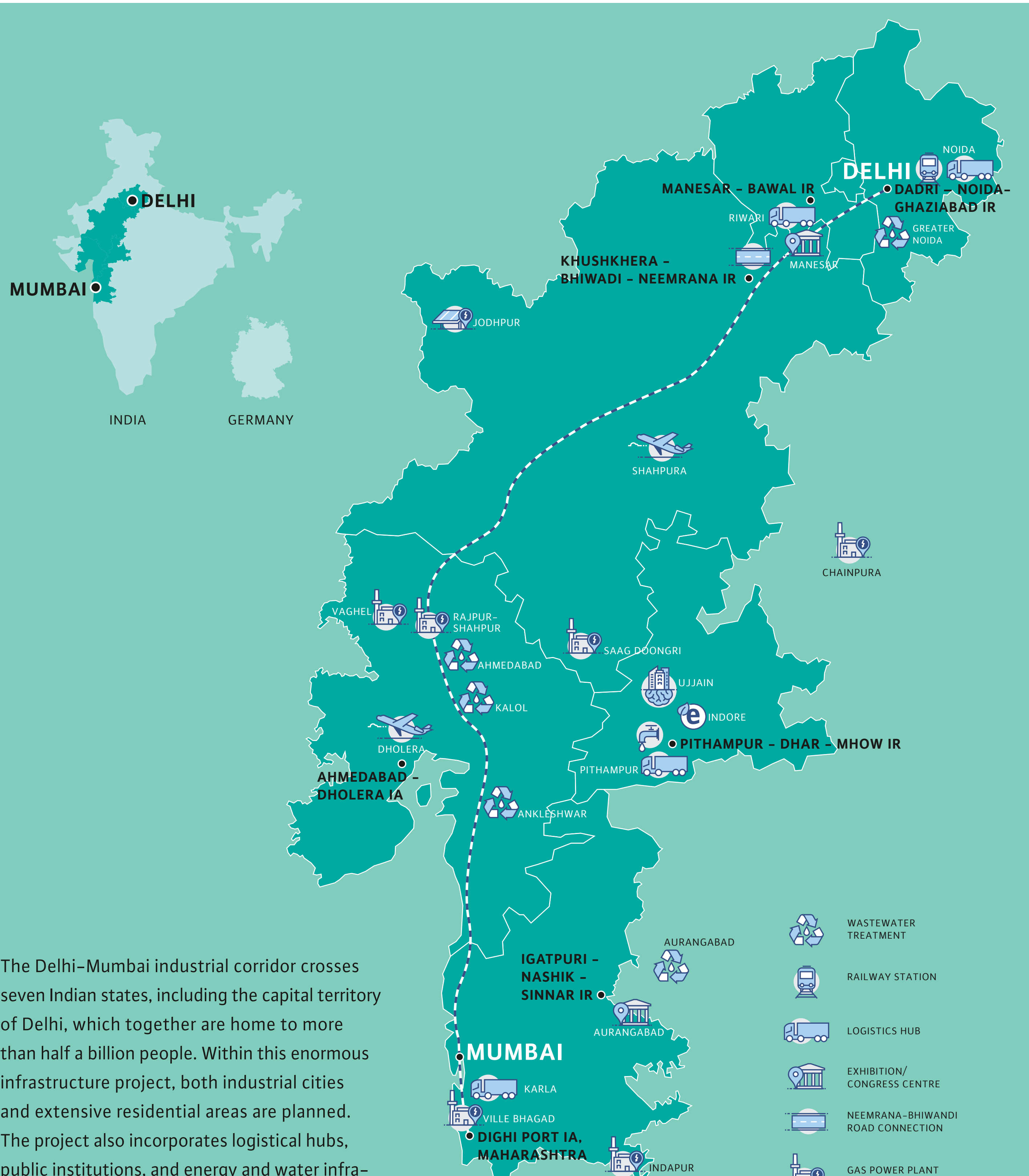


Higher efficiency activates sustainable growth.

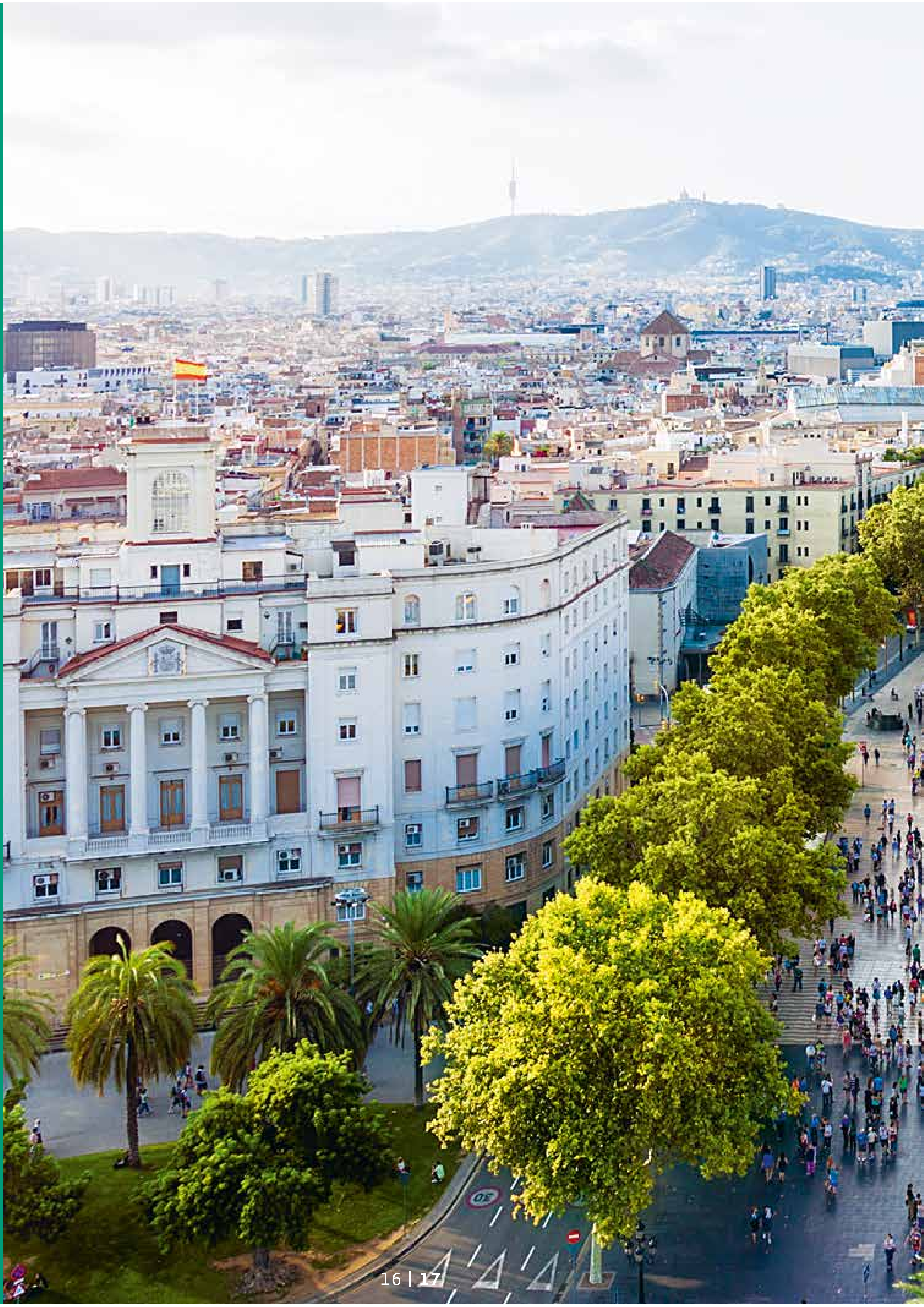
Between India's capital Delhi and its financial centre Mumbai, one of the biggest smart urban areas in the world is emerging: the Delhi–Mumbai industrial corridor. Its back-bone is a 1,500-kilometre railway line that will also connect two international airport and eight smart cities. Alongside this pioneering mobility concept, intelligent energy grids and water systems will ensure sustainable growth.

People are at the heart of smart urban districts in particular. All systems must serve their needs and simplify and improve their lives. Resilient and secure networks are essential here, whether for data, transport or water infrastructure. In order to secure these on a sustainable long-term basis, Wilo is represented locally in more than 90 countries worldwide and supports its customers and partners – starting with system advice and commissioning and going on to include training, regular maintenance and product repairs.

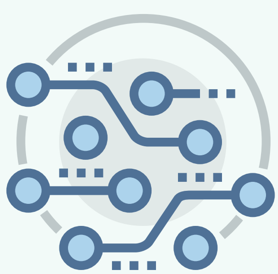
Support and service – available locally all around the world.



The Delhi–Mumbai industrial corridor crosses seven Indian states, including the capital territory of Delhi, which together are home to more than half a billion people. Within this enormous infrastructure project, both industrial cities and extensive residential areas are planned. The project also incorporates logistical hubs, public institutions, and energy and water infrastructure. In Pithampur, for example, a large-scale expansion of water pumping and distribution with an investment volume of around three billion euros is planned. In addition, numerous decentralised projects for water extraction, supply and treatment are planned as parts of smart urban area concepts within the overarching investment plan.



REDUCING CONSUMPTION

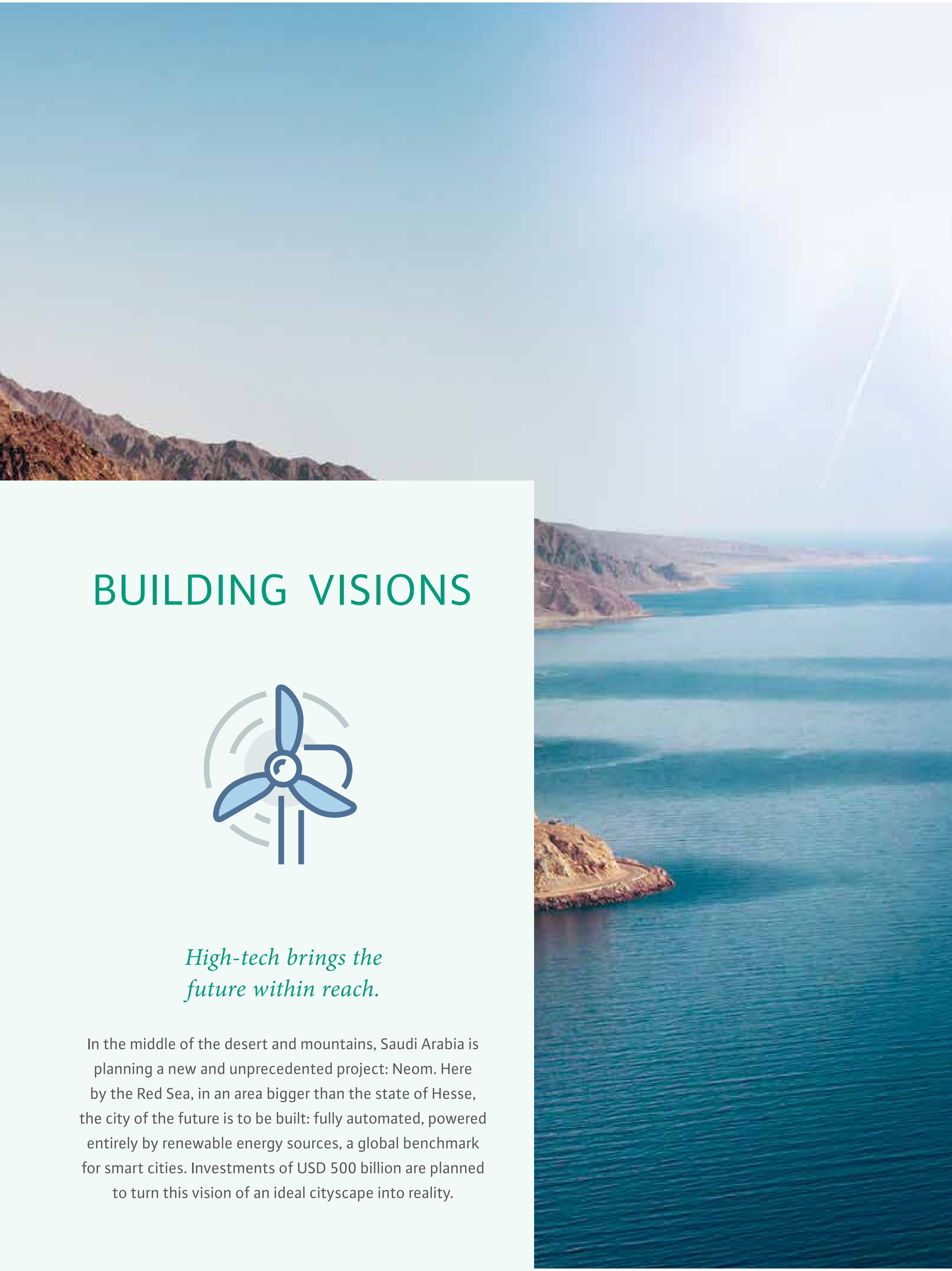


Optimised technology secures supply on a long-term basis.

Barcelona started introducing innovative urban technologies at an earlier stage than many other cities. A key criterion for the administration of the Catalan metropolis is that the innovations must offer clear benefits for the residents. In addition to improving urban services, this also includes intelligent irrigation systems. These reduce consumption and secure the long-term supply in the Mediterranean city, where water is scarce in the summer in particular.

With more than 15,000 inhabitants per km^2, Barcelona is one of the most densely populated cities in the world, which accordingly results in significant challenges for the water supply. Ensuring a secure supply is thus a technical task, not only in terms of reliability but also with regard to the growing quantities of water. The Wilo Split Case Pump is used wherever large quantities of water need to be moved and absolute reliability and constant efficiency are required – for example, in irrigation or in municipal systems.

Extremely resilient, highly efficient, reliable and low-maintenance.



BUILDING VISIONS

High-tech brings the future within reach.

In the middle of the desert and mountains, Saudi Arabia is planning a new and unprecedented project: Neom. Here by the Red Sea, in an area bigger than the state of Hesse, the city of the future is to be built: fully automated, powered entirely by renewable energy sources, a global benchmark for smart cities. Investments of USD 500 billion are planned to turn this vision of an ideal cityscape into reality.

Our pumps achieve outstanding efficiency in commercial applications, too.

Self-sufficient generation and efficient use of energy from renewable sources forms the basis for sustainable conservation of resources all around the world, in both rural and urban regions. The Wilo Actun Opti is the most efficient borehole pump currently on the market, with a hydraulic efficiency level of 84 percent. In addition, the pump can be supplied with electricity independently using a solar module. This not only makes it more environmentally friendly, but also means it is particularly well-suited for sunny regions.

GROWING TOGETHER

Shared concepts open up new opportunities.

The Ruhr region has the potential to become Europe's biggest smart urban area. In line with the decentralised structure of the region, many individual projects have already been initiated in order to develop in this direction. They are intended to give rise to overarching communication and transport solutions and water and energy concepts – thus enabling the digital transformation to be implemented systematically.

Efficient, intelligent, agile – Wilo stands for operational excellence.

We are expanding the headquarters in Dortmund into the Wilo world's top digital location.

On a site of more than 190,000 square metres at its headquarters in Dortmund, Wilo is implementing the production of the future with a smart factory and creating new working worlds that meet the requirements of the future with the Wilo Campus.

The master plan for the new headquarters in Dortmund involves the biggest location development program in the company's history. The entire Wilo site is being completely replanned and brought forward into the digital future. The campus will take on an important role as a reference for and part of the resulting smart urban area. Production, administration, product development and customer service will be combined in a single location in the Ruhr region again. The central plaza will be the "Wiloop" connecting the northern campus, where the state-of-the-art smart factory will be located, with the southern campus. In addition to administrative facilities designed on the basis of the Wilo future office concept, the southern campus will also include an innovation centre for sustainable product development, a customer centre and an employee centre.

Efficient, intelligent, agile – Wilo stands for operational excellence.

Alanus von Radecki is the head of Urban Governance Innovation at Fraunhofer IAO and head of the “Morgenstadt: City Insights” innovation network.

“DIGITALISATION ENABLES US TO THINK ABOUT CITIES IN A COMPLETELY DIFFE-RENT WAY.”

New mobility concepts, decentral-ised energy supply, urban farming – the city of the future needs innovative ideas.

GUEST ARTICLE

The age of the metropolises has long since begun. To cope with the onslaught of millions of new residents, cities will have to reinvent themselves. What will the ideal city of the future be like?

There is no such thing as the “ideal city of the future”. Each city is unique in terms of its people, its history, its geography and its economy and must therefore find local answers to global challenges. However, there are tools and solutions that can help all cities to do so. In addition to several action areas, for example in relation to urban planning, infrastructure, public participation, mobility technologies or digitalisation, it is primarily agility that will help cities tackle the challenges of the future. Agility can be interpreted in many different ways: To me, it means the ability to think up innovations and incorporate them in planning while also maintaining a systematic, comprehensive overview of the city at all times. It means the ability to cooperate closely with business, research and civil society. And the ability to keep reinventing themselves based on their own strengths.

More and more people want to live within a limited space. Is it possible to solve these immense urban challenges – environmentally, socially and in terms of infrastructure?

Digitalisation in particular enables us to think about cities in a completely different way while also utilising efficiency potential that we could not access before. Does every city resident really need a car of their own? No. With digital integration of local public transport, sharing systems and flexible offers for the last mile, we can provide the greatest possible individual mobility for all city residents while also saving space, resources and emissions. Does the food supply for a city of millions really require huge industrial areas in the country? No. With vertical farms, all residents can be supplied with fruit and vegetables while reducing transportation costs, pesticides and up to 95 percent of the water required.

Does an urban energy system have to be dependent on centralised fossil fuel power plants? No. Digitally networked decentralised solutions are increasingly reconciling energy consumption with the provision of renewable energies, allowing us to ensure a base-load-capable supply of electricity from solar and wind power, power-to-gas, geothermal power, biomass and hydroelectric power for districts and cities. →

Are there already corresponding pilot projects and innovative solutions in urban planning?

There are now a large number of pioneering pilot projects around the world. Many of these were launched as part of our Morgenstadt initiative. For example, we are creating a district with a self-sufficient energy supply in central Manchester. In Munich, Vienna and Lyon, energy-efficient buildings, charging infrastructure for electric vehicles and intelligent infrastructure in street lamps are being developed and connected with one another in the "Smarter Together" project. In Reutlingen and Chemnitz, we are trialling the development of digital services via a large number of sensors in public spaces in the "Smart Urban Services" project. The list goes on and on.

Which cities are already particularly future-oriented?

As a result of programs such as the EU research program "Smart Cities and Communities", more than 50 European cities are already developing or implementing future-oriented "smart city" strategies. In addition to well-known pioneers such as Amsterdam, Barcelona and London, in my opinion the most exciting approaches are currently coming from Eindhoven. Here, pioneering approaches have been used to intertwine the needs of the city with the options arising from new technologies. Each project in Eindhoven contributes to a broader goal that is pursued both by the government and by the city administration, citizens and companies. Eindhoven's success is also attributable to a two-year restructuring of its administrative organisation. A second, very good example is the city of Karlsruhe, which occupies the top spot in our Morgenstadt index and has become a pioneer in urban digital transformation with its own office for digitalisation.

MOVING FORWARD TO THE CITY OF THE FUTURE

The number of city residents worldwide will double by 2050 – to around seven billion people. It is clear that their resource consumption, CO_2 emissions and waste production cannot be allowed to double in step with this increase. New urban concepts are virtually essential for survival. In light of this, the Fraunhofer-Gesellschaft is examining how cities can be made fit for the future. The name of the project is "Morgenstadt – City of the Future".

www.morgenstadt.de

Each year, around sixty million people move from the country to the city. Whereas in 1950 New York was still the only metropolis with more than ten million residents, there are now 25 megacities that exceed this figure – and New York is by no means the biggest of them anymore. Cities worldwide are growing, sometimes at a very fast pace and even in regions where it would hardly be considered possible. For example, the Saudi Arabian capital Riyadh will soon join the group of cities with over ten million residents – even though it is situated in the middle of the desert.

Along with the expected doubling of urban populations by 2050, the space taken up by cities will also double. However, the challenge has less to do with the amount of urban space than with the fact that – at present – cities consume far more resources than is sustainable in the long term. For example, London needs roughly 125 times its area to supply the city with the absolute essentials. Cities consume a large proportion of resources, emit huge quantities of CO_2 and discharge around two million tons of unrecycled and untreated waste, including chemicals and household refuse, into rivers and streams – every day.

In view of these challenges, the Fraunhofer Gesellschaft – Europe's biggest organisation for applied research – launched the Morgenstadt initiative, in which scientists from a range of disciplines join forces with municipal and industrial partners to consider what intelligent urban concepts of the future should be like. Alongside energy, the topic of water also plays a particularly important role within these concepts. Many major cities are already facing an acute risk of water shortages, including Sao Paolo, Cape Town, Beijing, Mexico City, Istanbul and Bangalore – to name just a few. The causes vary: sometimes it is excessively high consumption, sometimes dilapidated distribution systems, sometimes pollution. But what they have in common is that their water supply is ever more rapidly approaching a critical limit.

The United Nations Environment Report forecasts that by 2025 the number of people living in regions with major water shortages will be around 1.8 billion and rising. Whereas in the twentieth century oil was the most fought-over commodity, in the twenty-first century it will be water. In order to overcome the challenges relating to the water supply, we need to focus on the whole water cycle, from drinking water extraction to distribution to reprocessing and wastewater treatment. Digitalisation will play an important role here. With precise data, connected concepts and learning systems, it will be possible to achieve efficiency levels that were unimaginable until recently.

Innovative solutions will transform the cities we live in and make them fit for the future.

OUR YEAR AT A GLANCE

FEBRUARY

Laying the foundations for the digital future

With the official ground-breaking ceremony for the “Smart Factory”, the Wilo Group heralds the next stage of its “Wilo Campus Dortmund” location development project. “There are enough examples of manufacturing companies leaving the Ruhr region. We have deliberately chosen to buck this trend,” says CEO Oliver Hermes. The guests from the worlds of business, politics, science, culture and sport also included the then Minister President of North Rhine-Westphalia, Hannelore Kraft, and Dortmund’s mayor Ullrich Sierau. “This is the start of fantastic construction project on a huge scale,” says Dr Jochen Opländer, Honorary Chairman of the Supervisory Board.

MARCH

Acquisitions in the USA

Wilo acquires the operating business of the pump manufacturers Weil Pump Company, Inc. and Scot Pump Company as well as of Karak Machine Corporation in an asset deal. The acquired manufacturing capacity enables the company to meet the needs of customers on the US market in a prompt and targeted manner and to offer a wider range of high-quality products made in the USA.

MARCH

Design Plus award for the Stratos MAXO

The Wilo-Stratos MAXO not only sets new standards in terms of connectivity, efficiency and flexibility – the high-efficiency pump also features an impressive design. It is therefore awarded the “Design Plus” seal of quality. The Stratos MAXO perfectly combines form and function. As well as looking good, it is also particularly easy to operate and install.

MARCH

Strong performance

"Wilo brings the future" – this is the motto with which Wilo presents itself at the sector's leading global trade fair ISH in Frankfurt. In our booth covering 1,200 m², we demonstrate our claim to be in the lead in the digital era by presenting our smart products and innovative solutions. For us, innovation leadership means always staying a step ahead technologically and being the first to launch innovations on the market. The highlight of Wilo's appearance is the Wilo-Stratos MAXO, the world's first smart pump*.

SEPTEMBER

Double success in the Brand Awards

This year, WILO SE is presented with two German Brand Awards by the renowned German Design Council in Berlin: Both the digital customer interface and an employer branding project for young target groups impress the high-calibre jury.

SEPTEMBER

Working together for a strong Europe

Wilo joins the initiative "We4Europe". Under this slogan, several well-known German companies and institutions have come together to send a clear signal against right-wing populism and protectionism and in support of diversity, democracy and free trade in a free world.

OCTOBER

Further expansion of market presence in Russia

Wilo reaches another milestone in tapping the Russian market and implementing its localisation strategy when it concludes a special investment contract with the Russian Federation. The implementation of this contract gives Wilo the status of a local manufacturer in Russia. For Wilo, Russia is one of the world's most important individual markets with enormous growth potential. For this reason, Wilo has also made targeted investments in its own location here and increased the local value added.

Left to right: Dr Carsten Voigtländer, CEO of the Vaillant Group; Oliver Hermes, CEO of WILO SE; Dr Thomas Schlenker, Head of Global Engineering & Digital Lab at Schüco International KG

NOVEMBER

Wilo welcomes industry leaders at strategy summit

At Wilo's invitation, many prominent representatives from the worlds of business, science, politics, culture and sport meet in Berlin for the two-day strategy summit #GoDigital2017. Various different aspects of digitalisation are examined in 13 presentations and discussion rounds. According to host and CEO Oliver Hermes, the event is just a start and will be held again in future as a dialogue and information summit.

DECEMBER

Federal President's German Sustainibility Award

Wilo is presented with the renowned German Sustainability Award 2018 in Düsseldorf as one of the top 3 of "Germany's most sustainable large companies". In explaining its choice, the jury under the auspices of German Federal President Dr Frank-Walter Steinmeier emphasised Wilo's resource-conserving high-efficiency products and its comprehensive approach to sustainability.

More information on sustainability at Wilo can be found online at wilo.com/en/csr

GROUP MANAGEMENT REPORT 2017

In the past financial year, the Wilo Group further reinforced its foundations for accelerated and profitable growth. Net sales increased substantially for the eighth time in a row. Consolidated net income also set a new record in 2017. Important projects and measures to secure the Wilo Group's future prospects for the long term were initiated or continued. In addition, the Wilo Group invested a considerable amount in modern and efficient corporate infrastructure. Its international market presence was intensified and its regional diversification further increased through a successful corporate acquisition in the USA and targeted investments in emerging economies.

THE 2017 FINANCIAL YEAR AT A GLANCE

NET SALES

EUR **1,424.8** million

With strong net sales growth of 7.4 percent, the Wilo Group continued its sustainable and profitable growth course. Net sales rose to EUR 1,424.8 million. Adjusted for exchange rate effects, net sales were actually increased by 8.5 percent. Organic net sales growth, i.e. growth adjusted for exchange rate and acquisition effects, was 6.0 percent.

Realignment of the organisational structure

The Wilo Group carried out an extensive realignment of its organisational structure in the year under review. The new organisation is clearly and fully aligned to function and enables a significant reduction in the complexity of corporate management. All production- and development-related areas are managed by the Chief Production and Technology Officer (CTO). The Wilo Group's sales activities worldwide are pooled under the sole management and coordination of the Chief Sales Officer (CSO). Group Marketing was newly assigned to the Chief Executive Officer (CEO). The focus here is on the continuing enhancement and strengthening of the brand and the intensification of strategic brand management.

CONSOLIDATED NET INCOME

EUR **85.9** million

EBIT

EUR **106.3** million

Consolidated net income reached a historic high of EUR 85.9 million. Compared to the previous year, it was increased by a substantial 13.0 percent or EUR 9.9 million. EBIT remained largely stable at EUR 106.3 million. Non-recurring expenses in connection with growth- and savings-oriented measures to safeguard the Group's future had an adverse effect on earnings development and prevented a year-on-year improvement. Considering the strong growth in net sales, the EBIT margin fell accordingly to 7.5 percent.

WILO strengthens its presence in Russia

In October 2017, the Wilo Group concluded a special investment contract with the Russian Federation and thus secured the status of a local manufacturer in the country. In the next few years, Wilo will continue to make targeted investments in the Russian location and thus build on its strong competitive position in Russia and the Eurasian region.

CAPITAL EXPENDITURE

EUR 124.8 million

Wilo continues to invest heavily in the future. EUR 124.8 million was invested, among other things, in new manufacturing technologies and the construction and expansion of new and existing sales and production locations. The building construction of the new smart factory at the headquarters in Dortmund was officially started with the ceremonial laying of the first stone in February 2017.

RESEARCH AND DEVELOPMENT

EUR 63.6 million

Wilo aspires to set new standards in the pump industry as an innovation leader and digital pioneer. Research and development accordingly have an important position in the company. At EUR 63.6 million or 4.5 percent of net sales, expenditure for research and development remained at a very high level in 2017.

CASH FLOW

EUR 140.4 million

A new record was also set with cash flow from operating activities of EUR 140.4 million. The consistently strong cash flow forms a solid basis for the great financial strength and high financial flexibility of the Wilo Group.

EMPLOYEES

7,700

Wilo's employees are the basis and the driving force for economic success. An annual average of more than 7,700 people were employed in the Wilo Group around the world.

Mergers & acquisitions

Through the acquisition of the operating business of the US pump manufacturers Weil Pump Company, Inc. and Scot Pump Company as well as of Karak Machine Corporation, the Wilo Group enhanced its application expertise and reinforced its activities in the Building Services and Industry market segments in North America.

Strong financial profile

The Wilo Group arranged significant refinancing measures to strengthen its financial flexibility and stability in the 2017 financial year. Long-term borrowings and firm commitments totalled around EUR 100 million. In addition, the existing syndicated loan was prematurely extended to 2022 and topped up to EUR 200.0 million.

BASIC INFORMATION ON THE WILO GROUP

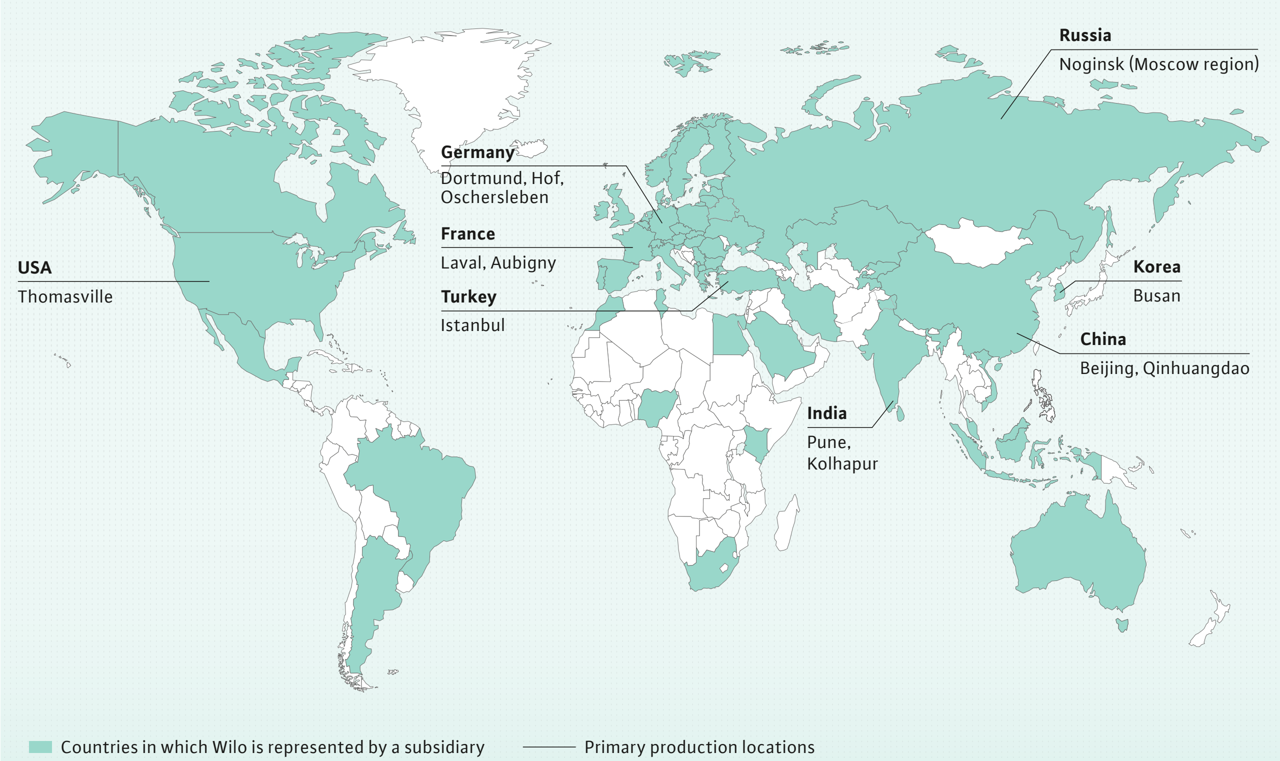
- Premium provider of pumps and pump systems for building services, water management and industry
- Global production and distribution network close to customers
- Over 7,700 employees worldwide
- Extensive realignment of the organisational structure as part of the implementation of the Ambition 2020+ corporate strategy
- Research and development activities remain at a very high level

Customers and products

Wilo is a global, premium provider of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. The company is one of the world's leading manufacturers in these markets. Wilo meets every need with its portfolio of products, system solutions and services. The extensive product range extends from high-efficiency pumps designed for houses, apartment blocks and commercial buildings, via special 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 7,700 employees are systematically geared towards customers and their specific needs and requirements for products, applications and services. The foundation of the Wilo Group's market success is 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 leading technology and intelligent solutions that make people's everyday lives noticeably easier. This is the principle behind the claim "Pioneering for You".

Wilo Group locations



The Wilo Group manufactures pumps and pump systems at 13 primary production locations in Europe, Asia and America. In accordance with the global production strategy (GPS), the production sites at these locations constitute the production network in the narrower sense. They are coordinated and managed accordingly. Highly specialised products such as water supply and wastewater treatment systems are developed and produced at other, smaller locations such as Bari, 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. The Wilo Group increased its production capacity in the USA in the year under review by acquiring the operating business of Weil Pump Company, Inc., Scot Pump Company and Karak Machine Corporation. Wastewater and drainage pumps and pumps for industrial applications are manufactured in Cedarburg, Wisconsin. The Wilo Group therefore has an efficient, customer-oriented network with currently more than 70 production and sales companies in over 50 countries. In combination with numerous additional 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 operates in the Building Services, Water Management and Industry market segments. The portfolio of products, system solutions and services is systematically tailored to the needs of customers in these three market segments. The clear focus, impressive innovative strength and proximity to customers thanks to a local presence are key success factors. The Wilo Group is therefore able to identify different and changing requirements around the world at an early stage and to respond quickly and flexibly.

Building Services

Around the world, energy and resource efficiency is becoming markedly more important in all aspects of life due to ecological and, not least, economic reasons. Economic efficiency and sustainability are also a growing priority when it comes to building use. This makes it increasingly necessary to use innovative systems incorporating optimally coordinated components. Wilo offers the necessary energy-efficient concepts in the Building Services market segment. These relate to 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 growing ever scarcer around the world and – thanks to urbanisation, climate change and environmental pollution – is becoming a precious commodity in increasing numbers of regions. Providing the rapidly growing global population with enough clean drinking water is a central problem. In addition, the demand for water from agriculture and industry is rising sharply around the world. The safe purification and supply of water is therefore already a profound global challenge. Wilo offers professional solutions designed to meet the increasingly complex requirements involved in drinking water extraction, water pumping, and the transportation and processing of wastewater. Wilo Water Management pumps and pump systems set benchmarks worldwide in terms of technical performance, efficiency and sustainability.

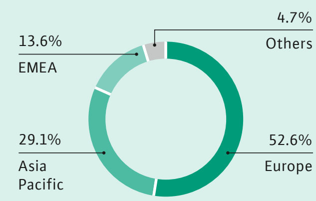
Industry

Wilo develops and manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency. In industrial applications especially, these are vital factors for pumps and pump systems. The Wilo Group’s strength in the Industry market segment lies in support applications for processes in various industries. Wilo pumps are used around the world for pumping cooling water in power plants or dewatering in the mining industry. By acquiring the US Scot Pump Company, the Wilo Group has expanded its expertise and industrial customer base in the chemicals, agriculture and plastics processing sectors.

Group organisation and management

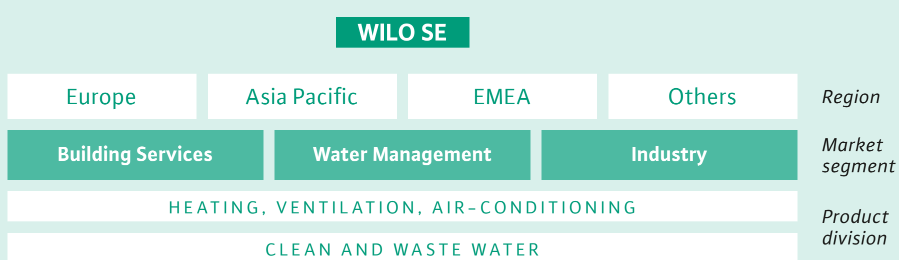
The Wilo Group can look back on a long and successful tradition. “Kupfer- und Messingwarenfabrik Louis Opländer”, founded in Dortmund in 1872, was the predecessor to WILO SE, a European Company (Societas Europaea). The company is domiciled in Dortmund, Germany. As the parent company of the Wilo Group, WILO SE 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.

Net sales
by region in 2017



As at 31 December 2017, the Wilo Group encompassed WILO SE and more than 70 production and sales companies worldwide. 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 2017 financial year, WILO USA LLC acquired the operating business of the pump manufacturers Weil Pump Company, Inc. and Scot Pump Company as well as of Karak Machine Corporation (also referred to below as “Weil & Scot”) in an asset deal. The three companies all have their headquarters and production sites in Cedarburg, Wisconsin, USA. Weil specialises in wastewater and drainage pumps. Scot acts as an original equipment manufacturer primarily for the plastics, agricultural and chemicals industries. Karak Machine Corporation serves these two companies as a producer of essential components. The acquisition further enhanced the Wilo Group’s application expertise and reinforced the US activities in the Building Services and Industry market segments.

Organisation and management structure of the Wilo Group in 2017



Until 31 December 2017, the internal organisational and management structure of the Wilo Group was based on three dimensions: region, market segment and product division. The leading organisational dimension was the region, which also formed 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 nearly 30 percent of net sales in the year under review, while the EMEA region accounted for around 14 percent.

As part of the implementation of the Ambition 2020+ corporate strategy, the Wilo Group carried out an extensive realignment of its organisational structure in the year under review. From the beginning of the 2018 financial year, all production- and development-related areas are managed by the Chief Production and Technology Officer (CTO). The Wilo Group's sales activities worldwide are pooled under the sole management and coordination of the Chief Sales Officer (CSO). Group Marketing was newly assigned to the Chief Executive Officer (CEO). The continuing enhancement and strengthening of the brand and strategic brand management are thus to be further intensified in future. This replaces the previous division structure, in which the production, development and sales activities were organised by product. The new organisational structure's clear and full alignment to function results in a significant reduction in the complexity of corporate management. In addition, processes are optimised both within individual areas and in the cooperation between them.

Since 1 August 2017, the Executive Board of WILO SE, which is responsible for the management of the Wilo Group, has had four members. The schedule of responsibilities below shows the new allocation of functional responsibilities within the Executive Board since 1 January 2018.

Schedule of responsibilities

Chairman of the Executive Board & CEO Oliver Hermes

- Corporate Strategy & Marketing
- Corporate Relations & Network
- Group Human Resources & Legal
- Digitization Team
- Coordination of Executive Board activities

CSO Carsten Krumm

- Sales Region Mature Markets
- Sales Region Emerging Markets
- Strategic Sales Management
- Group Service
- Strategic Business Unit OEM

CTO Georg Weber

- Group Research & Development
- Group Procurement & Supply Chain Management
- Group Operations
- Group Quality
- Group Location Management

CFO Mathias Weyers

- Group Controlling
- Group Accounting & Taxes
- Group Finance
- Group Internal Audit & Compliance
- Group Information Management
- Group Mergers & Acquisitions

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 other overarching organisational and management levels of the Wilo Group (region, market segment and until 31 December 2017 product division) is consistently performed according to these financial key performance indicators. Net sales, EBIT and the EBIT margin are therefore 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 financial key performance indicator at Group level is free cash flow, which reflects the excess liquidity generated. A constantly positive free cash flow 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 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 2017 reporting year.

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

➔ Further information can be found in the "Non-financial success factors" section on page 66 et seq.

Corporate strategy

The Ambition 2020+ corporate strategy defines the Wilo Group's corporate development and strategic growth trajectory up to 2020 and beyond. Wilo intends to remain independent and generate profitable growth. By 2020, the target is to increase net sales to more than EUR 2 billion and achieve an EBIT margin in excess of 10 percent. To achieve these targets, the fundamental strategic directions for each of the three market segments (Building Services, Water Management and Industry) were defined. A fundamental goal in Building Services is to extend the Group's market, technology and innovation leadership. In Water Management, the global market presence is to be reinforced. The Industry market segment is to focus on selected sectors and applications.

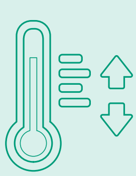
Ambition 2020+ is being implemented in eight major growth initiatives led by experienced Wilo Group managers. Key aspects include covering every area of application across all market segments, strengthening the position as a provider of solutions, expanding regionally and developing new business models and markets.

The growth initiatives also explicitly address external growth through targeted corporate acquisitions. In this regard, the acquisition of the operating business of Weil Pump Company, Inc., and Scot Pump Company in the year under review was already an important growth measure in the USA and was implemented successfully and on schedule.

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.

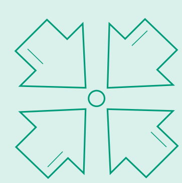


BUILDING SERVICES

We are the global market, innovation and technology leader.

WATER MANAGEMENT

We increase our presence as a global market player.



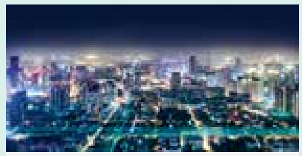
INDUSTRY

We focus on selected branches and applications.

THE WILO MEGATRENDS

Thinking 20 Years Ahead


Globalisation


Urbanisation


Energy shortage


Digital transformation


Water shortage


Climate change

In addition, the Wilo Group is pushing ahead with the WIN and ICI 2.0 cost initiatives to permanently secure and accelerate profitable growth. These extensive, Group-wide projects comprise the analysis and optimisation of significant cost structures and drivers.

Wilo has defined six relevant megatrends in the context of strategic long-term planning. Globalisation, urbanisation, energy shortage, digital transformation, water shortage and climate change will influence the Wilo Group's business in the future and are already influencing the company's current performance.

These six megatrends are together contributing to a major global trend: the creation of smart urban areas. Wilo sees this as the creation of metropolitan areas where elements and aspects of life are digitally and intelligently connected. A smart urban area uses information and communication technology to improve people's quality of life. Intelligent, innovative infrastructures help to make mobility more efficient, conserve resources and reduce negative effects on the environment. Smart urban areas are arising not only in the familiar big cities in mature markets, but also increasingly in emerging economies. Wilo has identified smart urban areas as offering business potential and will systematically tap into new business areas here. This strategy goes hand in hand with the intensive digitalisation of the Group. Wilo aspires to establish itself as a digital pioneer of the pump industry and to evolve into the leading system provider with tailored, intelligent, and resource-efficient solutions in line with the company's vision.

The overarching vision and mission and the corporate values provide the framework for the Ambition 2020⁺ corporate strategy. 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.

OUR VISION	OUR MISSION
Wilo, the water solution leader for a smart and resource efficient world.	Inventing and managing responsible water solutions that benefit everyone, everywhere.

OUR VALUES

Integrity	Fairness	Respect	Passion	Responsibility

On the basis of this vision, the mission describes the main purpose or undertaking that Wilo is pursuing. It 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 system solutions and services to make people's lives easier around the world.

Integrity, fairness, respect, passion and responsibility are the inviolable values by and with which Wilo works and lives. They form a shared foundation to which each individual in the company commits – regardless of their position, duties and responsibilities. Traditionally, the sustainable success of the Wilo Group has largely been 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 7.4 percent in 2017, or 6.0 percent after adjustment for exchange rate and acquisition effects. With an EBIT margin of 7.5 percent, the Wilo Group fell short of the strategic target corridor of between 9 and 11 percent. Further progress was made in future-proofing and growth-oriented projects and measures to promote cost efficiency in connection with the reorganisation of the Wilo Group, digitalisation, the modularisation of products and the WIN cost initiative. Expenses for this package of measures prevent an improvement of EBIT compared to the previous year.

Research and development

Strategy and direction

The Ambition 2020⁺ corporate strategy and the business targets define the overarching framework for the company's research and development activities. The Wilo Group's central objective is to build further on its leading position with regard to technology, innovation and quality. For this purpose, clear risks and opportunities from the megatrends relevant to Wilo were first identified by way of the corporate foresight process. These are reviewed continually and adjusted when necessary. On this basis, the following strategic action areas were derived for research and development: energy and resource efficiency, systems technology, solutions expertise, and digital technologies.

The specific implementation of the associated aspects and starting points in research and development is extremely complex. This is especially true of the action area of digitalisation, which affects every area of the company. Technology and product development is faced with one of the largest and most significant challenges, as digitalisation requires entirely new processes and tools to be developed and implemented.

The strategic action areas are addressed in intensive cooperation with outside partners, other industrial companies and increasingly innovative start-ups. For this purpose, the Wilo Group has access to a global research and development network to help it conduct the various research projects. Wilo also uses government grants for application-related basic issues. As a result of digitalisation, the development focus is increasingly shifting to new business models and complementary services.

In connection with the organisational realignment of the company, a new structure was also created for Group-wide research and development activities in the period under review. In the future, a central research and development organisation will be responsible for all activities. The traditional areas of development, such as mechanics, hydraulics, microelectronics and software, will in the future be complemented by dedicated central developer teams for systems and digital products. This guarantees that the challenges arising partly from the digital transformation of all areas of the company are brought together and tackled as quickly as possible.

Product series development will likewise be coordinated centrally in the future, but will as before be carried out locally at each product site. Besides a more agile way of working in light of the continuing advance of digitalisation, this form of organisation allows global, cross-divisional and interdisciplinary cooperation with the ideal transfer of knowledge. For example, the specific market requirements of different customers and individual customer requests can be addressed quickly and met in conformity with technological innovations. The reorganised product development lends particular weight to the growth markets in Asia.

Results

The trend towards efficient, speed-controlled electric motors continues unabated. Therefore, the motor and drive strategy was again refined and implemented in 2017. High-performance permanent magnets are a key component for high-efficiency electric motors. In 2017, the Wilo Group therefore expanded the in-house manufacturing of this important component to incorporate both additional sizes and greater volume. For the first time, nearly three million magnets were produced. In 2017, the advancement of the magnet technology continued to concentrate on the improvement of magnetic and corrosion properties in damp environments in particular. Several publicly subsided research projects on magnet technology were continued in order to proceed with the further expansion of the high-efficiency permanent-magnet synchronous motor programme. These motors are characterised by their singular compactness, extremely high efficiency and modular construction. They have already been successfully tested and taken into the field.

Numerous structural measures were also performed in the area of research and technology, leading to further process optimisations. With the support of external partners, a modular platform concept was developed to be implemented Group-wide. The implementation began in the year under review. The aim is to use the results and development components of the various projects across divisions and projects and to ensure the lasting transfer of technology and knowledge. Development costs can thus be permanently lowered and the time to market reduced. The worldwide Wilo-Engineering platform was further optimised with a special focus on design and simulation work flows in the international network.

In 2017, a key element of product development activities was the maintenance and optimisation of the existing product range, especially with regard to the new platform concept and advancing digitalisation. In addition, significant progress was made on the development of the first cloud-based Wilo app for the remote control of pumps and systems.

Priorities of the Wilo Group's new product development are bundled in the top development projects. These top development projects, defined on a cross-divisional basis, are intended to significantly increase the pace of development and the customer benefit generated. Here, too, the digitalisation strategy affects product development in particular. The existing definition of interconnected long-term technology, module and product roadmaps was therefore already expanded to include this aspect in the previous year. The result of this approach is the enterprise-wide platform and module system described.

Two of the top development projects were presented as planned at the leading global trade fair ISH in March 2017. The distinguishing features of the Wilo-Stratos MAXO include its unprecedented level of system efficiency, bidirectional connectivity, extreme ease of use and optimum range of applications. The Wilo-Yonos Multi was also presented – an extremely compact pump that both meets the most stringent efficiency criteria and can be adapted extremely flexibly to the requirements and demands of OEM customers.

Employees

With a slightly lower headcount, the employee structure in research and development remained largely stable in 2017 compared with the previous year. The proportion of women in research and development was over 10 percent. The proportion of highly qualified university graduates was over 80 percent. The proportion of the Wilo Group's total workforce accounted for by research and development was again at a high level in 2017. However, the needs-driven recruitment of qualified young candidates in the disciplines of technology and the natural sciences is still a major challenge. With its extensive human resources activities, the Wilo Group therefore seeks to be perceived by potential applicants as an employer of choice. Special talent-promotion programmes, a variety of internal and external training and mentoring programmes and increased cooperation with start-ups are some examples of measures aimed at achieving this goal. They are intended to ensure that Wilo will continue to successfully attract and retain highly qualified employees in the future.

Patents and licences

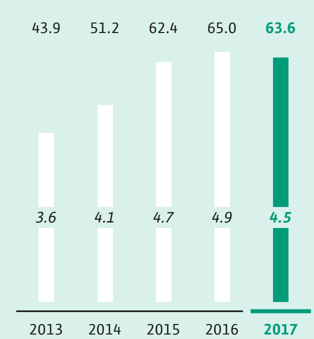
The Wilo Group's patent strategy focuses on protecting technologies and product innovations that constitute an exclusive customer benefit. New technology and product developments are closely connected to the patent strategy. This achieves effective protection for the Wilo Group's intellectual property. A value-oriented patent process safeguards the results of research and development and thus supports the profitable growth of the Wilo Group. The number of new patent applications filed reached the high level of previous years in the year under review. At the same time, the number of patent families fell slightly year on year, as older, unused technologies were removed from the patent portfolio.

Investment and expenditure

In 2017, investment in research and development focused on the further expansion of laboratory and test facilities. Among other things, a modern, fully automated test bench for long-term testing with a remote-monitoring option was installed in Dortmund.

Total research and development costs including capitalised development costs increased amounted to EUR 63.6 million in the year under review (previous year: EUR 65.0 million). At 4.5 percent of net sales (previous year: 4.9 percent), they remained very high. Development costs (including borrowing costs) were capitalised in the amount of EUR 17.7 million. As in the previous year, research and development costs of EUR 47.8 million were recognised in profit or loss in 2017.

R&D expenses*
EUR million and *percent of net sales*



* including capitalised development costs

BUSINESS REPORT

- Global economy recovers faster than projected in 2017
- Growth in net sales exceeds expectations
- Consolidated net income reaches record level
- Corporate acquisition in the USA concluded successfully

General economic conditions

Marked acceleration in global economic growth

The global economy recovered substantially on a broad basis in 2017. Nearly all major industrialised nations saw an upturn, global trade increased and most emerging markets improved their economic situation. According to the International Monetary Fund (IMF), the global economy grew by 3.7 percent in 2017 compared with 3.2 percent in the previous year. The Kiel Institute for the World Economy (IfW) expects an increase as high as 3.8 percent. This was stronger growth than originally projected and the sharpest upturn since 2011. Despite geopolitical risks, such as the simmering conflicts with North Korea and Iran, and high levels of uncertainty regarding the outcome of the negotiations over the Great Britain's exit from the European Union (Brexit) and the course of the new US government, production grew palpably in industrialised nations in the summer. This was down in particular to private consumption and increasingly corporate capital expenditure. The US economy picked up momentum over the course of the year and is expected to have grown by 2.3 percent in 2017 compared to 1.5 percent in the previous year. According to the IMF, industrialised nations grew by 2.3 percent overall in 2017 (previous year: 1.7 percent). In the emerging and developing economies, growth increased to 4.7 percent (previous year: 4.4 percent).

➔ More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 147.

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.

Europe posts solid growth

The euro area's economic recovery grew successively stronger over the course of 2017. According to initial calculations by the statistical office Eurostat, the euro area achieved economic growth of 2.5 percent in 2017 (previous year: 1.7 percent). Financing conditions remained favourable thanks to the European Central Bank's continued expansionary course. The employment situation also improved, giving private consumption and investment in construction an extra boost. As a consequence of increasing exports to other regions, growing industrial production and greater capacity utilisation, businesses' investment backlog was also cleared off.

All countries in the euro area saw positive economic development, with the Eastern European countries posting the highest growth rates. Ireland and Spain likewise grew strongly. Greece and Italy grew moderately in comparison. France's economy revived palpably over the course of the year, while British gross domestic product grow but modestly as a result of the uncertainty over Brexit.

Deutsche Bundesbank estimates that the German economy underwent a broad-based, strong upturn in 2017. Driven by lively demand from abroad, industry grew dynamically. In addition, investment picked up significantly. Private consumption and investment in the construction of housing also grew thanks to the good situation on the labour market. According to the German Federal Statistical Office, gross domestic product grew by 2.2 percent in 2017 (previous year: 1.9 percent).

China again among the Asian growth drivers

Economic expansion in Asia remained strong, albeit with slightly lower momentum than in previous years. According to the IMF, Asia's emerging economies grew by 6.5 percent (previous year: 6.4 percent). The original forecasts were exceeded because the growth in China in particular was more robust than expected as a result of political impetus and was higher than the government targets. Industrial production and investing activities remained dynamic; the service sector also saw above-average growth. According to the National Bureau of Statistics (NBS), Chinese gross domestic product grew by 6.9 percent in 2017 (previous year: 6.7 percent).

According to IMF data, the Indian economy grew by a dynamic but much slower-than-before 6.7 percent in 2017 (previous year: 7.1 percent). This was due to reforms such as the restriction on cash and the introduction of national value added tax, which temporarily weighed considerably on private consumption, among other things. In addition, investment was low in the face of sinking capacity utilisation and limited financing opportunities. In contrast, the Indian economy was supported by high direct investments from abroad.

In Korea, the pace of growth picked up over the course of 2017. This was driven by the strong visible exports due to the improved global economy and by equipment investments. In addition, private consumption was revived slightly by higher employment. According to the Korean central bank, gross domestic product is likely to have grown by 3.1 percent in 2017 (previous year: 2.7 percent).

The emerging economies of Southeast Asia also benefited from domestic incentives, the rising demand from industrialised nations and the favourable environment in China. According to the IMF, the economy of the five major ASEAN nations grew by 5.3 percent overall in 2017 (previous year: 4.9 percent).

Economy of the EMEA region revived by state stimulus

In 2017, the Russian economy grew again after two years of recession. Since the beginning of the international sanctions, the government has taken steps to strengthen domestic production. In addition, exports increased as a result of a slight recovery of oil and gas prices. Faced with fallen inflation, the Russian central bank cut its key interest rate from 10 percent to 7.75 percent in several stages and thus at least tendentially improved the previously very restrictive financing conditions. Investment increased accordingly. According to the Russian central bank, however, the recovery was mainly driven by the recovery of private consumption, which was also partly attributable to the fallen inflation.

According to the World Bank, substantial economic growth of 6.7 percent was recorded in Turkey in 2017 after the attempted coup in the previous year (previous year: 3.2 percent). This was due in particular to government measures to support the economy, such as drastic tax cuts, credit subsidies and higher government spending – including for infrastructure projects. Despite high unemployment, this boosted private consumption and the construction industry. A recovery also became apparent in the tourism sector. However, private and public debt increased markedly, the Turkish lira depreciated sharply and inflation was over 10 percent. In this environment, monetary policy remained restrictive.

The oil-exporting states of the Gulf region – including Saudi Arabia, Iraq and Iran – benefited in 2017 from the OPEC agreement to cut production, but oil prices were still much lower than otherwise seen in the long-term. The conflicts in the region and structural deficits slowed down development, so the World Bank reported only weak growth. In contrast, large oil-importing countries in North Africa such as Morocco and Tunisia benefited from the recovery in Europe thanks to their closer economic links. According to IMF data, the economy of the Sub-Saharan region improved consistently, although Nigeria and South Africa posted only very moderate growth.

Industry-specific conditions

➔ More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 147.

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 2017 reporting year is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Europe's construction industry grows very strongly in 2017

The European construction industry has continued its multi-year upward trend. According to estimates by the Euroconstruct industry network, Europe's construction output grew by 3.5 percent in real terms in 2017 (previous year: 2.5 percent). This is the highest growth rate since 2006. The greatest stimulus was provided by residential construction. Output also increased in commercial construction and civil engineering. The good sector growth was assisted by the general economic revival, low interest rates, increased incomes and sounder public finances. Construction output rose by 3.3 percent (previous year: 3.0 percent) in Western Europe and by as much as 8.6 percent (previous year: -7.1 percent) in Eastern Europe as a result of intensified EU infrastructure projects. The expansion of construction output was again driven by new construction, with maintenance and modernisation's share in total construction activity in Europe rising steadily.

According to an initial estimate by the German Federal Statistical Office, German construction investment grew by 2.6 percent in real terms in 2017 (previous year: 2.7 percent). The German Institute for Economic Research (DIW) expects that the volume of new residential construction amounted to EUR 72.6 billion in 2017. This was another very substantial increase of 12.9 percent after 11.0 percent in the previous year. The volume of new buildings in private- and public-sector building construction grew by 4.5 percent to EUR 35.9 billion in 2017. However, new (residential and non-residential) buildings only account for around one-third of the total building construction volume. Two-thirds of the market volume is attributable to the expansion, conversion, maintenance and modernisation of existing buildings. In 2017, the construction volume here likewise rose at an accelerated pace of 4.7 percent to EUR 142.1 billion in the residential sector and by 2.2 percent to EUR 59.0 billion in private- and public-sector buildings. According to the Association of the German Sanitary Industry and the ifo Institute, the sanitary industry continued its many years of growth in this environment. An increase in net sales of 2.5 percent to EUR 24.4 billion is expected to have been generated in 2017.

Asia's construction industry in the ascendant thanks to infrastructure investments

The Chinese construction industry grew solidly in 2017. According to the NBS, building investments increased by 3.0 percent (previous year: 3.2 percent) in terms of floor space, while prices continued to rise. In terms of value, building investments therefore grew by as much as 7.0 percent (previous year: 6.9 percent). Residential buildings accounted for around 70 percent of the investment volume. Office properties and commercial buildings also received somewhat more investment than in the previous year. In 2017, China also pushed investment in environmental protection and an improved water supply. Investment in water management alone was increased by 16.4 percent.

India's population is growing at a rapid pace, and the demand for housing is rising accordingly. The market for residential property in the major cities remained problematic in 2017 due to stricter requirements for builders and the cash reform. While the overall market shrank significantly once again, the submarket for affordable housing grew sharply thanks to the corresponding government programme. Investment in offices and other commercial buildings likewise rose substantially. The country's construction industry was also supported by high infrastructure investments, including in water management.

Korea's construction sector grew in 2017, although as expected with declining momentum. Demand was curbed by high vacancy levels in office buildings and very high prices for residential properties. After the particularly strong growth spurt in the previous year, the central bank reports that construction investments still grew by 7.2 percent in real terms in 2017 (previous year: 10.5 percent) despite the incipient industry downturn.

The large number of major infrastructure projects continued to support the construction industry in Southeast Asia in 2017. Substantial investments in infrastructure consistently dominated the picture in Singapore and the five major ASEAN states. While the construction industry in Vietnam and the Philippines also saw strong growth in the residential and corporate sectors, these construction activities declined in Singapore, Malaysia and Indonesia.

Russian construction recovers gradually – Turkey dominated by government stimulus

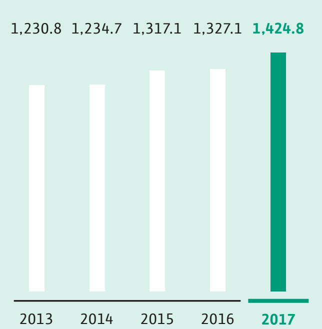
The picture in the Russian construction industry was varied in 2017. After a weak start to the year, especially in residential construction, development brightened due to falling interest rates, but remained down slightly year on year. Negative effects came from new technical guidelines and administrative rules and from altered criteria for construction price calculation. According to Rosstat, the Russian Federal State Statistics Service, Russian construction output fell by a nominal 1.9 percent in the first eleven months of 2017. Residential construction declined by around 4 percent in terms of floor space or units. In contrast, private investment in commercial properties and public-sector construction activity developed well in 2017.

In Turkey, the construction industry enjoyed a boost in 2017 despite high interest rates. The government stimulated the construction industry by implementing numerous infrastructure projects and promoting residential construction, among other things. Nominal construction sales at first grew by a single-digit rate before increasing by as much as around 27 percent compared to the weak basis of the previous year in the summer quarter. It should be noted that construction costs likewise rose by double digits in 2017.

The construction industry in the Middle East and Africa was curbed in 2017 by political unrest, corruption and sometimes severe economic crises. Construction activities in Nigeria and South Africa particularly suffered. An exception was Egypt, where the construction sector, which has been growing since 2010, proved robust. This was driven by residential and commercial construction.

Business performance

Net sales development
in EUR million



In the 2017 financial year, the Wilo Group increased its net sales for the eighth time in a row and thus successfully continued its profitable growth trajectory. Net sales rose sharply by 7.4 percent to EUR 1,424.8 million. Adjusted for exchange rate effects, net sales were actually increased by 8.5 percent. Organic net sales growth, i.e. growth adjusted for exchange rate and acquisition effects, was 6.0 percent. The original planning for 2017, which predicted growth of up to 4 percent, was thus significantly exceeded.

Growth was once again driven by the Asian region, both with a high absolute net sales increase and a dynamic growth rate. Double-digit net sales growth was achieved in China, Korea and India – the key markets in this region. In the smaller Southeast Asian countries, net sales were actually increased by over 20 percent. Despite the still strained political situation, the Wilo Group's business activities in Russia and Turkey developed extremely positively and strong growth was achieved. In Europe, by contrast, business development varied considerably by region. While substantial growth was generated in Italy and Poland, net sales growth in France was muted. Net sales declined slightly in the German-speaking region. Overall, the Wilo Group was well able to compensate for these varying developments in individual countries and markets. The broad regional and sectoral positioning of the business activities is crucial here. Diversification is a strategic success factor, which successfully minimises risks while providing opportunities in individual markets.

With the successful acquisition of the operating business of Weil & Scot, the Wilo Group enhanced its application expertise and expanded its presence on the US market for the long-term. The acquisition of Weil & Scot contributed 2.5 percentage points to net sales growth in the year under review.

Earnings before interest and taxes (EBIT) nearly reached the previous year's level at EUR 106.3 million. Earnings were reduced in particular by non-recurring expenses of around EUR 10 million for measures focused on growth and cutting costs in order to safeguard the Wilo Group's future prospects for the long term. These measures mainly relate to the reorganisation of the Wilo Group and the WIN cost initiative. In addition, net foreign-currency income from operating activities declined by EUR 8.1 million to minus EUR 5.0 million. Further growth- and future-oriented projects, such as the digital transformation, the modularisation of products and the strategic location development in Dortmund were continued as planned. Structurally, shifts in the product sales mix and the regional distribution of net sales also led to a lower gross margin. Profitability, in terms of the EBIT margin, declined accordingly from 8.1 percent in the previous year to 7.5 percent in connection with the strong net sales growth. Taking these various influencing factors into account, the EBIT margin therefore remained below the targeted range of 9 percent to 11 percent, which the Wilo Group set on the basis of its strong market position with the aim of ensuring constant business agility and independence.

Because of a significant decline in tax expenses, consolidated net income increased by a considerable EUR 9.9 million to EUR 85.9 million, reaching a new absolute high. This equates to an increase of 13.0 percent. The lower tax expenses were primarily due to the recognition of deferred tax assets on tax loss carry-forwards.

The Wilo Group intends to continue the development of its profitable growth in future in line with its corporate strategy. The investment policy is accordingly designed to be long-term and sustainable. In 2017, EUR 124.8 million was 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.

Net sales development in the individual regions was as follows in the 2017 and 2016 financial years:

Net sales development by region

EUR million	**2017**	2016	Change %
Europe	749.6	744.0	0.8
Asia Pacific	414.4	359.6	15.2
EMEA	194.4	187.8	3.5
Others	66.4	35.7	86.0
Total	**1,424.8**	**1,327.1**	**7.4**

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 2017 and 2016 financial years:

EBIT development by region

EUR million	2017	2016	Change %
Europe	73.1	80.8	-9.5
Asia Pacific	23.6	15.8	49.4
EMEA	13.2	14.9	-11.4
Others	-3.6	-4.4	18.2
Total	**106.3**	**107.1**	**-0.7**

Regions

EUROPE In the Europe region, net sales were increased by 0.8 percent or EUR 5.6 million to EUR 749.6 million in the 2017 financial year. The positive net sales performances in Italy, the Benelux countries and Poland and slightly higher net sales in France more than compensated for the net sales declines in Germany, the Scandinavian countries and Great Britain. Adjusted for exchange rate effects, net sales growth of 1.0 percent was generated in the Europe region.

In the German-speaking region, net sales fell by 1.8 percent in 2017 overall, while a slight decline of 1.6 percent was seen in Germany, the Wilo Group's largest individual market. Growth in the Water Management and Industry market segments was offset by a decline in net sales in the Building Services market segment. While the project business in the Building Services Commercial market subsegment developed positively, especially with pressure boosters, net sales fell in the Residential market subsegment. Firstly, there is a growing trend for heating systems already equipped with pumps (OEM). This adversely affects the business with small circulating pumps. Secondly, project business was characterised by high price pressure. No notable positive effects have yet been seen from the pump funding programme (funding of heating optimisation via highly efficient pumps and hydraulic balancing) initiated by the German Federal Ministry for Economic Affairs and Energy (BMWi) in August 2016. This is partly due to a lack of capacity among businesses in the trade.

In Switzerland, net sales came close to the high level of the previous year in 2017. Adjusted for exchange rate effects, the net sales growth was 1.6 percent. The positive developments in the OEM business and the Industry market segment nearly offset declines in the Building Services Residential and Commercial market subsegments, where project business was hit by high price pressure. Net sales in Austria declined. The Building Services market segment developed positively thanks to good wholesale business, but this growth was unable to compensate for the declining net sales the Water Management market segment due to sluggish project business.

In France, the net sales generated were only slightly up on the previous year with growth of 1.0 percent. As a whole, the French Building Services market recovered only slowly. In addition, project business in particular was characterised by high price pressure. In contrast, the OEM market subsegment performed exceedingly positively due to focused key account management. The market launches of innovative products also provided positive impetus. Net sales declined in the Water Management market segment, however, where losses were seen in both project and wholesale business. In the Benelux countries, net sales were increased by 3.4 percent year on year. The net sales increase in these countries was also primarily attributable to the positive development of the OEM business. Besides increasing business activities with existing customers, new customers were also acquired.

In the Mediterranean countries, the Wilo Group generated a net sales increase of 4.5 percent year on year. Substantial net sales growth in Italy of 6.9 percent year on year in 2017 more than compensated for the net sales declines in some countries of the Mediterranean region. The growth was driven by the Building Services market segment, in which high growth was enabled in particular through cooperation with wholesalers in both replacement and project business. The OEM market subsegment likewise performed exceedingly positively. In Spain, in contrast, net sales declined. Growth in the Building Services market segment was offset by net sales declines in the Water Management market segment, where the previous year was dominated by a few large orders. Net sales were also down on the previous year in Greece. Although the Building Services market segment benefited from the increased sales of "Energy Solution" products and the expansion of the hotel business, net sales fell short of the previous year overall.

In the Eastern European EU countries, net sales rose by 5.9 percent overall. For example, Poland achieved substantial growth of 12.9 percent. Net sales in the other Eastern European EU countries grew by 3.4 percent. The Building Services market segment generated growth thanks in particular to targeted sales campaigns in Poland, Hungary and the Czech Republic. In addition, net sales in the Water Management market segment in Poland increased significantly with the support of European Union infrastructure funding programmes.

In the Nordic and Baltic states, net sales were stable at the level of the previous year. While in Finland the construction industry continued to develop positively and significant net sales increases were achieved, net sales declined in the other Scandinavian countries. In the Baltic states, net sales were increased significantly in the Building Services market segment due partly to successful project business with district heating systems. However, the Baltic market remains cautious with regard to infrastructure projects in the water management sector.

In Great Britain and Ireland, net sales sank by 8.8 percent altogether. The depreciation of the British pound against the euro had a significant negative impact on business development; adjusted for exchange rate effects, the decline in net sales only amounted to 4.3 percent. In Great Britain, some wholesalers were affected by reorganisation measures. The significant growth in Ireland was unable to compensate for this.

Earnings before interest and taxes (EBIT) in the Europe region declined by 9.5 percent or EUR 7.7 million to EUR 73.1 million. The EBIT margin therefore declined from 10.9 percent to 9.7 percent. This was due firstly to the lower gross margin as a result of changes in the product sales mix. While the lower-margin OEM business grew at a rate far above the average, the higher-margin Building Services Residential and Commercial market subsegments and the Water Management market segment saw declines in net sales, and price pressure increased. Furthermore, the non-recurring future-proofing expenses, some of which were incurred in connection with the reorganisation of the Wilo Group and the WIN cost initiative, led to a decline in profitability.

ASIA PACIFIC In the Asia Pacific region, net sales climbed by a very substantial 15.2 percent or EUR 54.8 million year on year to EUR 414.4 million in 2017. Adjusted for exchange rate effects, the net sales increase was 17.2 percent. Significant growth was achieved in all countries of the region.

On the Chinese market, net sales grew by 15.7 percent. In local currency, net sales were actually increased by over 20 percent. The Building Services market segment posted the largest growth both in absolute and relative terms. In the previous year, the Chinese government imposed stricter regulations on the use of coal-fired boilers ("coal-to-electricity" campaign). These now have to be replaced by more environmentally friendly electric or gas- or oil-fired boilers, which has already benefited the OEM business and the Building Services Residential market subsegment in particular. In addition, the expansion of the dealer network and the enhancement of key account management were continued. While the Water Management market segment also posted a net sales increase, net sales in the Industry market segment declined.

In Korea, the Wilo Group increased net sales by 15.4 percent year on year. The more sharply focused sales strategy in the premium and medium product segment contributed to this very good development again in 2017. In addition, special subsidy measures by the Korean government stimulated construction activity and thus supported the very positive business development in this region.

On the Indian market, net sales climbed by 11.3 percent. The sales organisation was expanded with the aim of greater diversification between the Building Services, Water Management and Industry market segments. Sector-specific fluctuations can thus be better compensated for. This measure took effect and resulted in a considerable increase in business activity in the Building Services and Water Management market segments in 2017. A recovery also became apparent in the industrial sector. Strong growth was also generated in the Industry market segment again from a low base.

Net sales in Southeast Asia increased by a considerable 22.7 percent. The Wilo Group's business activity in these countries is largely dependent on project business, which is by its nature subject to severe fluctuation. The conclusion and billing of large-scale projects in Vietnam and Bangladesh made a significant contribution to this extremely positive development.

Earnings before interest and taxes (EBIT) in the Asia Pacific region improved by nearly 50 percent to EUR 23.6 million in the year under review and thus at a much higher rate than the likewise substantial growth in net sales. The EBIT margin improved from 4.4 percent in the previous year to 5.7 percent. Although the gross margin fell slightly year on year, selling and administrative expenses were kept constant despite a significantly higher business volume. This was primarily attributable to strict cost management and various measures to increase cost efficiency.

EMEA In the EMEA region, net sales were increased by 3.5 percent or EUR 6.6 million to EUR 194.4 million in 2017 despite unfavourable geopolitical and economic conditions. Adjusted for exchange rate effects, net sales actually grew by 5.3 percent as against the previous year. Overall, development in the EMEA region in the 2017 financial year was negatively influenced by the uncertain political situation in Turkey, the still comparatively low oil prices and the unresolved Ukraine / Russia crisis.

In Russia, net sales in the Group currency climbed by 11.6 percent as against the previous year. Moderate growth of around 1 percent was achieved in local currency. This modest development is mainly attributable to lower selling prices in roubles, which resulted from the use of the euro price list and the appreciation of the Russian rouble against the euro. The economic situation in Russia remained strained, although a slight recovery is now emerging. Many large infrastructure and construction projects were continued, especially in connection with the 2018 World Cup and the Lakhta Center in Saint Petersburg. However, many medium-sized and minor projects were shelved or suffered from insufficient financing. The very positive development in the Building Services market segment is partly attributable to these large projects and increasing localisation. In the Industry market segment, the net sales growth was assisted by improved key account management and a sharper focus on local products to serve the middle-market Segment. The production site in Noginsk, near Moscow, which opened in the previous year, enables the Wilo Group to serve the local market efficiently and according to requirements and to benefit from the increasing trend towards localisation.

The Turkish market continued to be burdened by the strained political situation and the resulting uncertainty among market participants. Despite the unfavourable market situation and the sharp depreciation of the Turkish lira, net sales in the Group currency climbed by a significant 7.3 percent. Adjusted for exchange rate effects, net sales growth of around 30 percent was achieved. This is attributable firstly to the restructuring initiated in the previous year and the expansion of the local sales organisation. Secondly, the construction sector defied the forecasts and performed extremely positively. The Turkish government initiated numerous measures to support the economy in order to secure the population's political backing. Substantial growth was also achieved in the OEM business. Compared with the previous year, the positive price effect from using the euro price list provided further support to the development of net sales in local currency. Because the Turkish lira to euro exchange rate was much lower than in the previous year, selling prices in local currency were higher.

In Africa, net sales in the Group currency rose only slightly by 1.1 percent as against the previous year. Business development in the oil-producing states continued to be negatively affected by the decline in the price of oil. In Nigeria, Algeria and Ethiopia, business activity suffered from the shortage of foreign exchange there.

In the Gulf region, net sales dropped sharply by 23.0 percent year on year. The low oil price in a long-term comparison and the continuing geopolitical crises curbed economic growth in the region, so some projects were cancelled or postponed. The severance of some Arab nations' economic relations with Qatar and the imposed blockade further destabilised the already fragile situation in this region.

In the EMEA region, EBIT fell by EUR 1.7 million year on year to EUR 13.2 million in 2017. The EBIT margin declined from 7.9 percent to 6.8 percent. The gross margin was roughly on a par with the previous year, while selling and administrative expenses declined slightly. However, fluctuations in the exchange rate between the Russian rouble and the euro resulted in particular in foreign-currency losses from operating activities, which reduced EBIT by EUR 1.3 million.

Market segments

Net sales development in the individual market segments was as follows in the 2017 and 2016 financial years:

Net sales development by market segment

EUR million	**2017**	2016	Change %
Building Services	1,117.5	1,044.7	7.0
Water Management & Industry	307.3	282.4	8.8
Total	**1,424.8**	**1,327.1**	**7.4**

BUILDING SERVICES With a net sales increase of 7.0 percent and high absolute growth of EUR 72.8 million, the Building Services market segment was the biggest growth driver in the year under review. Some significant increases in net sales were achieved in all regions. There were particularly high growth rates in the Asia Pacific region. Nearly 60 percent of the absolute net sales growth in the Building Services market segment was generated in this region. In China, the Chinese government's measures regarding the replacement of coal-fired boilers supported the OEM business and the Building Services Residential market subsegment in particular. In Korea, this success was due among other things to the focused sales strategy. In addition, strong growth was achieved in the EMEA region despite the difficult conditions.

In the mature economies, the general public and companies are becoming increasingly conscious of sustainability in practically every area of life and business. Energy efficiency and the responsible use of natural resources are particular priorities here. This long-term trend is being driven by new and more ambitious political objectives and requirements for reducing CO_2 emissions. 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. Energy efficiency is also becoming increasingly important outside the industrialised nations. Faced with sometimes massive environmental problems, even emerging economies such as China are advancing stricter regulatory requirements for reducing CO_2 emissions. In addition, heating and energy costs are to rise in the medium and long terms. In this respect, the savings potential offered by energy-efficient products is a growing priority. Together, these trends are amplifying demand for such modern products and solutions.

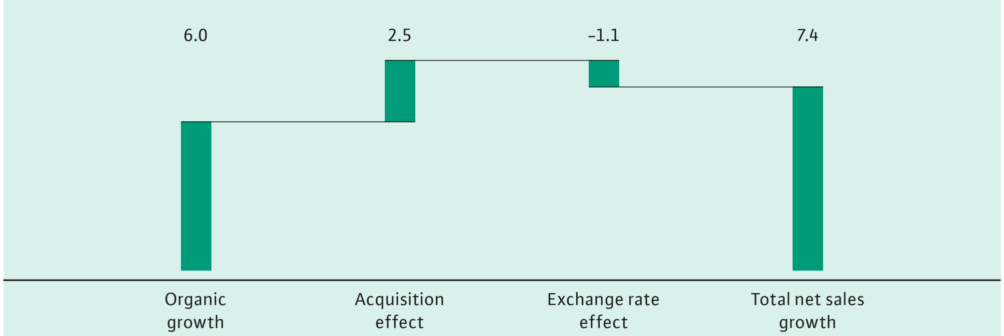
WATER MANAGEMENT AND INDUSTRY In the Water Management and Industry market segments, net sales were increased by 8.8 percent or EUR 24.9 million to EUR 307.3 million overall in the 2017 financial year. While strong growth was posted in the Industry market segment – supported by the acquisition of Scot Pump Company – net sales in the Water Management market segment were down slightly year on year.

The previous year was characterised by a phase of distinct weakness in the industrial sector (especially oil and gas). Starting from this low level, the industrial business began to recover in most regions. Significant growth was achieved in India and Korea in particular. In Russia, intensified key account management and a focus on local products to serve the middle-market segment contributed to good net sales growth. By acquiring Scot Pump Company, the Wilo Group reinforced its position in the US market and expanded its industrial customer base in the chemicals, agriculture and plastics processing sectors. In the Water Management market segment, the double-digit growth in the Asia Pacific region did not fully compensate for the market-driven declines in net sales in the other regions. Certain projects in the Gulf states were cancelled or postponed. In addition, the expected EUR funding projects in most Eastern European countries made only a slow start in some cases. Here, year-on-year growth was only generated in Poland.

Results of operations

In the 2017 financial year, the Wilo Group achieved substantial net sales growth compared to the previous year. Net sales increased by 7.4 percent or EUR 97.7 million to EUR 1,424.8 million. Negative exchange rate effects reduced the net sales growth by 1.1 percentage points, so net sales actually increased by 8.5 percent after adjustment for exchange rate effects. The Weil & Scot acquisition contributed 2.5 percentage points to net sales growth. Organically, i.e. after adjustment for exchange rate and acquisition effects, net sales were increased by 6.0 percent as against the previous year.

Net sales development
in %



EBIT remained largely stable at EUR 106.3 million and was only slightly lower than in the previous year with a small difference of EUR 0.8 million. The EBIT margin (ratio of EBIT to net sales) declined from 8.1 percent in the previous year to 7.5 percent in the 2017 financial year in connection with the strong growth in net sales.

The development of earnings is presented below.

Results of operations

EUR million	2017	2016	Change %
Net sales	**1,424.8**	**1,327.1**	**7.4**
Cost of sales	–901.2	–828.0	8.8
Gross profit	**523.6**	**499.1**	**4.9**
Selling and administrative expenses	–364.1	–355.0	2.6
Research and non-capitalised development costs	–47.8	–47.8	0.0
Other operating income	–5.4	10.8	> 100
Earnings before interest and taxes (EBIT)	**106.3**	**107.1**	**–0.7**
Net finance costs and net income from investments carried at equity	–9.2	–4.1	> 100
Income taxes	–11.2	–27.0	–58.5
Consolidated net income	**85.9**	**76.0**	**13.0**
EBIT in % of net sales (EBIT margin)	**7.5%**	**8.1%**	
Earnings per ordinary share (EUR)	**8.76**	**7.88**	

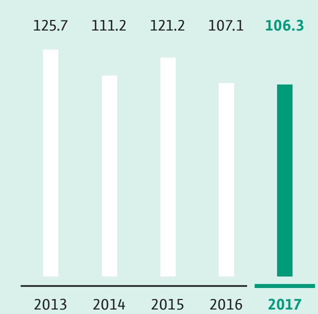
The gross margin, i.e. the ratio of gross profit to net sales, declined from 37.6 percent in the previous year to 36.8 percent in 2017. This was partly due to a change in the product sales mix with a smaller share of high-margin products and a shift in the regional distribution. Firstly, considerably above-average growth was again seen in the lower-margin OEM business. Secondly, business activity, especially in the Building Services market segment, declined in regions with higher margins – such as the German-speaking region – while growth was generated overwhelmingly in countries with comparatively low margins for the Group. In addition, intensified price competition in some markets reduced the gross margin.

Selling and administrative expenses climbed by 2.6 percent year on year to EUR 364.1 million. This is primarily attributable to future-proofing and growth- and savings-oriented expenses in connection with the reorganisation of the Wilo Group, digitalisation, the modularisation of products, location development and the WIN cost initiative. However, this cost increase was below average compared to the net sales growth.

As a customer-focused premium provider, the Wilo Group counts on pioneering and innovative product and technology developments. Research and development therefore play a central role at Wilo. Total spending on research and development, i.e. all research and development costs including capitalised development costs, amounted to EUR 63.6 million in the year under review (previous year: EUR 65.0 million). At 4.5 percent of net sales (previous year: 4.9 percent), it remains very high. As in the previous year, research costs recognised in profit or loss and non-capitalised development costs amounted to EUR 47.8 million.

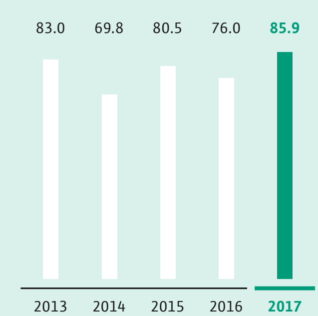
Other operating income fell by a considerable EUR 16.2 million year on year to minus EUR 5.4 million. This was primarily due the EUR 8.1 million decline in net foreign-currency income from operating activities. The net foreign-currency income of minus EUR 5.0 million includes, firstly, realised gains 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 other operating income of the previous year was increased by income from the sale of the old production site in China of EUR 2.2 million.

EBIT
in EUR million



The net finance costs of the Wilo Group (including net income from investments carried at equity) changed by EUR 5.1 million, from EUR 4.1 million in the previous year to EUR 9.2 million in the year under review. This is primarily attributable to a loss of EUR 3.5 million from measurement according to the equity method. Net interest costs improved from EUR 4.3 million to EUR 3.3 million. This mainly resulted from the higher capitalisation of borrowing costs of EUR 2.6 million compared to EUR 1.3 million in the previous year. The capitalised borrowing costs relate to the continuing location development project in Dortmund and the capitalised development costs. Interest expenses increased slightly by EUR 0.6 million due to the additional financial liabilities taken on in the year under review. However, interest income from global cash investment was in turn increased almost in parallel by EUR 0.5 million. The net result from the utilisation and remeasurement of derivative financial instruments was nearly even at minus EUR 0.3 million.

Consolidated net income
in EUR million



Income taxes amounted to EUR 11.2 million (previous year: EUR 27.0 million). They comprised income from deferred taxes EUR 14.9 million (previous year: expense EUR 0.8 million) and stable current tax expense of EUR 26.1 million (previous year: EUR 26.2 million). The income from deferred taxes was primarily based on the recognition of deferred tax assets on tax loss carry-forwards.

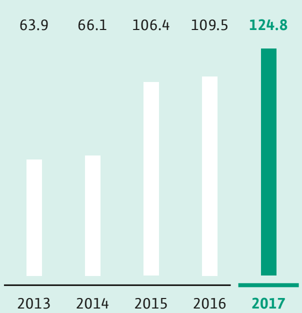
Consolidated net income increased by a substantial EUR 9.9 million to EUR 85.9 million after taxes. This equates to an increase of 13.0 percent. Accordingly, earnings per ordinary share also climbed from EUR 7.88 to EUR 8.76. The return on sales, which describes the Wilo Group's ratio of consolidated net income to net sales, increased from 5.7 percent in the previous year to 6.0 percent in the 2017 financial year.

Capital expenditure and cash flows

Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment (not including corporate acquisitions) increased by EUR 15.3 million year on year to EUR 124.8 million, thereby exceeding the high level of the previous year once again. In accordance with the strategic objective of long-term profitable growth, the priority in the year under review was again to enhance capacity and structures for production and sales and to implement new technologies. There was again a particular focus on the targeted expansion and ongoing modernisation of production capacity, the establishment of structures in the wake of the digital transformation of the Group, new production technologies and new and expanded sales and production locations.

Capital expenditure
in EUR million



The majority of capital expenditure for the modernisation and adjustment of production capacity went on the European locations in Germany and France. Capital expenditure on property, plant and equipment and intangible assets including capitalised development costs at these locations totalled EUR 104.3 million. This corresponds to over 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.

In the strategic location development project, the Wilo Group's headquarters in Dortmund are being completely redesigned. New developments at the Wilo Campus include a state-of-the-art smart factory where significant elements of the Industry 4.0 vision shall be realised. The construction of the factory, the preparations for the construction of the administrative building and the construction work for the new ring road around the Wilo Campus were begun in the year under review. Additional land was also acquired. In addition to the investments in the location development project, investments were also made in appropriate production capacity to account for current and future changes in the product portfolio. For example, investments were made in new, modern production facilities for the Wilo-Stratos MAXO and fully automated electronics production lines. Moreover, 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 17.7 million.

By upgrading the production and sales locations in the rapidly expanding markets of Korea, China, India, Turkey and Russia, the Wilo Group has in recent years purposefully laid the foundations for participating in these markets' great growth potential. In the year under review, notable investments were made in the expansion of sales locations in Romania, Kazakhstan and Dubai. Further investments were also made in the sales infrastructures in Southeast Asia, Africa and Latin America, broadening the foundations for accelerated growth outside of the established markets in Europe. Subsidiaries were founded in countries including Kenya and Malaysia. Moreover, the Wilo Group concluded a special investment contract with the Russian Federation in the year under review. The implementation of this contract allows the Wilo Group to significantly improve its competitive position in all segments of the Russian market. In the next few years, Wilo will continue to make targeted investments in Russia and increase the local value added. These investments are in response to the expected above-average growth in the medium to long term, as well as the size and significance of the Russian market.

Capital expenditure on intangible assets and property, plant and equipment (not including corporate acquisitions) broke down as follows in the 2017 and 2016 financial years:

Capital expenditure on intangible assets and property, plant and equipment

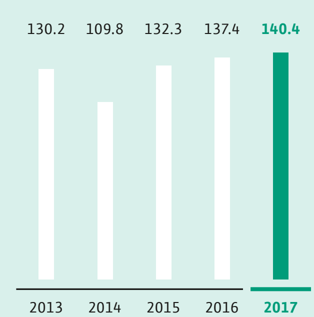
EUR million	2017	2016	Change
Capital expenditure on intangible assets	**30.0**	**31.6**	**–1.6**
Land and buildings	22.9	18.5	4.4
Technical equipment and machinery	8.2	7.6	0.6
Operating and office equipment	21.4	22.4	–1.0
Advance payments made and assets under construction	42.3	29.4	12.9
Capital expenditure on property, plant and equipment	**94.8**	**77.9**	**16.9**
Total	**124.8**	**109.5**	**15.3**

Among the Wilo Group's M&A activities, WILO USA LLC acquired the entire operating business of the pump manufacturers Weil Pump Company, Inc. and Scot Pump Company as well as of Karak Machine Corporation in an asset deal in the year under review. The acquired net assets, including customer relationships of EUR 15.8 million, totalled EUR 27.7 million. In addition, the acquisition resulted in derivative goodwill of EUR 43.2 million. This acquisition sustainably reinforced the Wilo Group's position in the Building Services and Industry market segments on the US market and further enhanced its application expertise.

Cash flow and liquidity

In the 2017 financial year, the positive cash flow from operating activities increased by EUR 3.0 million to EUR 140.4 million, slightly exceeding the record figure of the previous year again. Firstly, working capital changed by only EUR 7.7 million to the detriment of liquidity in the year under review, while in the previous year the liquidity-reducing changes in this item of the statement of financial position amounted to EUR 9.8 million. Secondly, the balance of other assets and liabilities declined by EUR 14.0 million in 2017 and therefore likewise contributed to the improvement of cash flow from operating activities. This development is partly attributable to increased advance payments on account of orders and higher personnel liabilities. Liquidity was reduced by the increase in income tax payments of EUR 15.7 million.

Cash flow from operating activities
in EUR million



Net cash used in investing activities in the year under review increased by a considerable EUR 85.7 million to EUR 193.3 million. This was especially due to the acquisition of Weil & Scot. The transaction involved cash outflow of EUR 70.9 million. In addition, purchases of property, plant and equipment increased by EUR 16.8 million. The higher investment resulted in particular from the ongoing construction measures for the smart factory in Dortmund.

The positive cash flow from financing activities increased by EUR 60.2 million year on year to EUR 41.6 million. This was due primarily to the senior note of USD 30.0 million issued to finance the Weil & Scot acquisition and to the promissory note loan of EUR 50 million taken out in June. Liquidity was reduced by the dividend payment to the shareholders of WILO SE of EUR 17.3 million.

The individual cash flows for the 2017 and 2016 financial years were as follows:

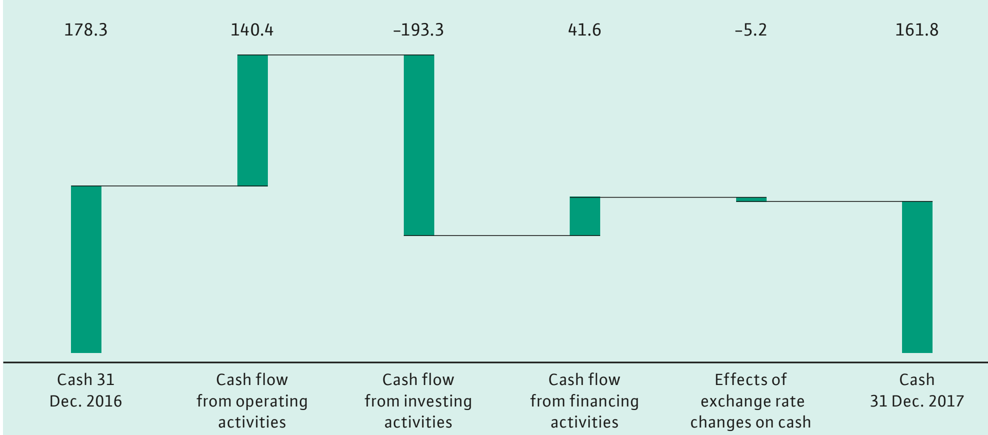
Cash flows

EUR million	2017	2016	Change
Cash flow from operating activities	140.4	137.4	3.0
Cash flow from investing activities	–193.3	–107.6	–85.7
Cash flow from financing activities	41.6	–18.6	60.2
Change in cash	**–11.3**	**11.2**	**–22.5**
Cash at the end of the financial year	161.8	178.3	–16.5
Free cash flow	–58.8	24.2	–83.0

As a consequence of the increase in investment to a record level and the purchase price payment for the Weil & Scot acquisition, the Wilo Group generated a negative free cash flow of EUR 58.8 million in the 2017 financial year, calculated as the difference between the cash flows from operating and investing activities including interest income and expenses and dividends received. After adjustment for the Weil & Scot acquisition, free cash flow was positive at EUR 12.1 million.

Including negative exchange rate effects of EUR 5.2 million, cash decreased by EUR 16.5 million to EUR 161.8 million as at 31 December 2017.

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 280 million. This includes a syndicated loan of EUR 200.0 million. In July 2017, the syndicated loan of EUR 120.0 million concluded in 2013 with an original term until 2018 was prematurely extended to 2022 and in accordance with the planned financing requirement increased to EUR 200.0 million. There is an option to increase the credit facility to EUR 300.0 million and to extend the term by a maximum of two years. Overall, EUR 7.7 million (previous year: EUR 15.3 million) of the cash credit facilities had been utilised as at 31 December 2017.

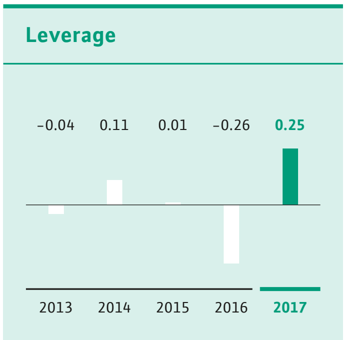
In the year under review, WILO SE also concluded the following financing agreements:

- In connection with the Weil & Scot acquisition, a senior note of USD 30.0 million was issued in May 2017 in a US private placement as part of a multi-currency shelf facility (non-binding debt commitment) totalling USD 150.0 million. The senior note matures in 2027 and had a carrying amount of EUR 24.9 million as at 31 December 2017.

- In June 2017, a promissory note loan of EUR 50 million with a term of ten years was also concluded. The promissory note loan will be repaid in instalments from 2022.

- To finance the construction project at the Dortmund location, a KfW development loan of EUR 19.5 million, likewise with a term of ten years, was concluded for the administrative building. The loan amount will be drawn on from 2018 according to the progress of construction. It will be repaid in instalments after two redemption-free years. No disbursement had yet been carried out as at 31 December 2017.

There are also senior notes of EUR 75.0 million and EUR 37.0 million. These senior notes were issued by WILO SE in US private placements in 2011 and 2013. They mature in 2021 and 2023. 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 7.5 million as at 31 December 2017 (previous year: EUR 10.0 million). 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.



➔ More detailed information on the financing structure can be found in note (9.11) to the consolidated financial statements on page 140 et seq.

The Wilo Group repaid scheduled financial liabilities of EUR 17.8 million in the 2017 financial year. The repayment related to the annual redemption of the promissory note loan in place since 2011 and to current overdrafts.

In total, the Wilo Group's financial liabilities increased by EUR 64.8 million to EUR 202.1 million as at 31 December 2017.

WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans, other loan liabilities and overdrafts on maturity from its budgeted cash flows from operations, as well as through refinancing measures as required. It has no knowledge of whether the increasing volatility of the global economic and financial market environment will have any material negative impact on the Wilo Group's financing activities. As at 31 December 2017, cash amounted to EUR 161.8 million (previous year: EUR 178.3 million). The Wilo Group's leverage, which describes the ratio of the net financial position (financial liabilities less cash) to consolidated EBITDA, increased from -0.26 at the end of the previous year to 0.25 as at 31 December 2017.

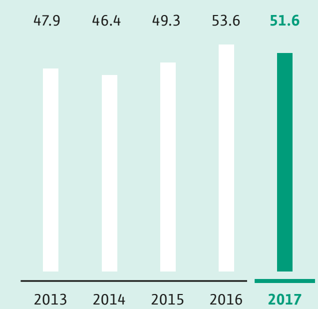
Financial position

In the year under review, the Wilo Group's total assets increased by 12.2 percent or EUR 149.3 million year on year to EUR 1,369.4 million. Non-current assets increased by 22.6 percent or EUR 123.5 million to EUR 668.8 million. This was particularly attributable to capital expenditure on intangible assets and property, plant and equipment of EUR 124.8 million. Investments in property, plant and equipment of EUR 94.8 million mainly related to new manufacturing technologies and the construction and expansion of new and existing sales and production locations. EUR 30.0 million was also invested in intangible assets, of which EUR 15.8 million relates to capitalised development costs plus capitalised borrowing costs of EUR 1.9 million. The acquisition of Weil & Scot's operating business by WILO USA LLC resulted in derivative goodwill of EUR 43.2 million. The acquired net assets, including customer relationships worth EUR 15.8 million, amounted to EUR 27.7 million. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 54.3 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 7.1 million. Intangible assets and property, plant and equipment increased by EUR 116.8 million in net terms. Deferred tax assets increased by EUR 19.6 million to EUR 58.4 million. This was mainly attributable to the capitalisation of deferred taxes on tax loss carry-forwards.

The carrying amount of current assets rose by 3.8 percent or EUR 25.8 million year on year to EUR 700.6 million as at 31 December 2017. As a result of the increase in business activities and the acquisition of Weil & Scot's operating business, inventories grew by 12.5 percent to EUR 234.6 million, while current trade receivables rose by 2.7 percent to EUR 269.2 million. Working capital increased slightly by 1.4 percent overall to EUR 337.4 million. Cash amounted to EUR 161.8 million as at 31 December 2017 and was thus EUR 16.5 million lower than at the end of the previous year.

The Wilo Group's equity increased by 8.2 percent or EUR 53.4 million year on year to EUR 707.0 million as at 31 December 2017. This increase was mainly due to the consolidated net income of EUR 85.9 million for the 2017 financial year. Further positive effects resulted from actuarial gains from pension obligations after deferred taxes of EUR 3.9 million. Equity was decreased in particular by negative effects from the translation of subsidiaries' separate financial statements prepared in local currencies of EUR 19.1 million and the scheduled dividend distribution to shareholders of WILO SE of EUR 17.3 million for the previous year. The equity ratio declined slightly from 53.6 percent to 51.6 percent, primarily as a result of the additional financial liabilities taken on in the financial year.

Equity ratio
in %



As at 31 December 2017, non-current liabilities primarily consisted of financial liabilities in the amount of EUR 191.2 million and pension and similar obligations of EUR 79.7 million. Non-current financial liabilities increased by EUR 72.0 million in the year under review. To finance the Weil & Scot acquisition, a senior note of USD 30.0 million was issued in May 2017, which had a carrying amount of EUR 24.9 million as at 31 December 2017. WILO SE also took out a promissory note loan of EUR 50.0 million in June 2017. Pension obligations decreased by EUR 5.3 million in the year under review, largely as a result of the increase in the discount rate from 1.67 percent to 1.77 percent as at 31 December 2017. Deferred tax liabilities increased by EUR 6.6 million to EUR 42.3 million. This was primarily due to capitalised development costs, for which corresponding deferred tax liabilities were recognised.

The carrying amount of current liabilities rose by EUR 21.4 million year on year to EUR 336.5 million as at 31 December 2017. While current financial liabilities fell by EUR 7.2 million, current trade payables rose by EUR 26.8 million.

The net assets of the Wilo Group were as follows as at 31 December 2017 and 2016:

Financial position

EUR million	2017	%	2016	%
Non-current assets	668.8	48.8	545.3	44.7
Inventories	234.6	17.1	208.5	17.1
Current trade receivables	269.2	19.7	262.0	21.5
Cash	161.8	11.8	178.3	14.6
Other current assets	35.0	2.6	26.0	2.1
Total assets	**1,369.4**	**100.0**	**1,220.1**	**100.0**
Equity	707.0	51.6	653.6	53.6
Non-current liabilities	325.9	23.9	251.4	20.6
Current trade payables	169.0	12.3	142.2	11.6
Other current liabilities	167.5	12.2	172.9	14.2
Total equity and liabilities	**1,369.4**	**100.0**	**1,220.1**	**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 – Group organisation and management"), 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 that allow 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.

Priorities in human resources (HR) are derived from the Group-wide corporate strategy, implemented and adapted to new challenges if necessary. 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. As the Wilo Group wants to remain competitive on the labour market in the long term as an attractive employer, the following HR activities are assigned special significance.

EMPLOYER BRANDING Retaining employees for the long term and selectively approaching potential specialist staff are essential tasks of good HR marketing in times of demographic change. Instead of needs-based recruitment, successful employers on the labour market are increasingly having to impress in the long term with attractive employer branding. For this reason, the Wilo Group redefined its global employer brand in the year under review with the support of over 600 employees around the world.

“Keep it fluent” is the core and the key idea of the Wilo Group’s employer branding and stands at the heart of internal and external communication of the employer brand. Wilo’s claim and identity are as follows: Wilo is an employer for people who take on challenges and drive progress. Wilo is for people who like working in teams and who are intent on striving for optimum and efficient solutions.

With this portrayal of the company, Wilo is positioning itself on the international labour market as an attractive employer and thus setting itself apart from the competition. Employees act as communicators and ambassadors for the employer brand.

MANAGEMENT IN THE DIGITAL AGE Digitalisation and the accompanying technological progress are increasingly necessitating a broader management spectrum. In order to prepare the Wilo Group’s managers for their management duties in the digital age, a management development programme to this end was developed for the top international managers, which was carried out for the first time in the year under review. As well as dealing with topics such as e-learning and leading employees through the digital transformation, the programme primarily serves to communicate the Group-wide management guidelines. The management guidelines were derived from the megatrends relevant to the Wilo Group, the Ambition 2020⁺ corporate strategy, the digitalisation strategy enshrined therein and the corporate values. At the same time, people are and always will be the focus at Wilo, even in the age of digital transformation.

DIVERSITY MANAGEMENT Globalisation and the growing diversity of the workforce are 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 in many respects as part of HR management. For example, the Wilo Group purposefully promotes intercultural cooperation and creates modern working conditions that encourage individual differences and have a direct, positive effect on business success. This alignment of HR policy and HR processes as well as numerous activities and measures derived therefrom motivate the employees to successfully utilise their potential for the organisation.

After the signing of the “Diversity Charter” in the previous year, the first-ever Diversity Day was held at many Wilo locations worldwide on 31 May 2017. The Wilo Group thus reaffirmed its commitment to recognising, appreciating and encouraging diversity throughout the company.

TALENT MANAGEMENT The key tasks of HR management are the optimum deployment of employees and the use and enhancement of knowledge and skills. This makes a material contribution to the Wilo Group's competitiveness.

By way of the established international management development pools, the Wilo Group supports and promotes the emergence of young managers from its own ranks. A large number of participants entered further professional development within the Group in the year under review. In addition, these programmes substantially support the retention of talented young managers within the company. These successful and long-term international management development pools are increasingly being joined and supplemented by regional development programmes.

SUCCESSION PLANNING The Wilo Group regularly carries out systematic succession planning so that it can fill key functions internally in good time and in line with requirements. 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 thus ensure that employees are deployed in line with the respective requirements at all times.

REMUNERATION Appropriate employee remuneration is an important element of HR policy at the Wilo Group. The remuneration of employees under collective agreements in Germany is based on the collective agreement regulations applicable to the company. 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 7,726 employees worldwide in the 2017 financial year. The number of employees as at 31 December 2017 was 7,802.

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

Number of employees by region

	2017	2016	Change %
Europe	4,824	4,778	1.0
Asia Pacific	2,165	2,133	1.5
EMEA	511	517	-1.2
Others	226	120	88.3
Total	**7,726**	**7,548**	**2.4**

Production

The Wilo Group's global production strategy (GPS) centres on 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 at any time or place. This is based on detailed knowledge of the market and Wilo's transparent production network. Strategic decisions such as volume allocations and investments are coordinated systematically, allowing production processes to be harmonised worldwide.

The Wilo Group 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. The achievement of these goals is the main task of global production technology management. 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 relating to digitalisation and Industry 4.0 are being watched more closely. In line with the Wilo Group's digitalisation strategy, business processes are linked end-to-end and the industry is screened continuously for suitable digital solutions, whose operational capability and efficiency are tested in various pilot projects. These include additive production processes (3D printing) and collaborative robots (cobots). 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 via the Wilo Production System (WPS). The WPS sets out binding requirements for the design, implementation, control and improvement of processes at all production locations. They are adapted to reflect the company-specific and local conditions in each location and region.

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 operating organisational and production unit defines an annual policy deployment process with the support of the Group-wide Operational Excellence function. This process is broken down incrementally at the level of the individual departments. The goal 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 stages of the value chain are designed efficiently and flexibly. The WPS methods and standards provide the framework for meeting customer needs 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 relevant lean principles into product and process development.

Steering meetings ensure the ongoing monitoring, coordination and communication of all WPS activities across all departments and check them against the priority objectives. To ensure waste-free processes, the WPS philosophies are already firmly established and provide orientation for the concept design and planning of new locations.

The application of the WPS system is subject to an annual evaluation process at each production site. In this evaluation process, maturity levels are determined for the plant strategy, system and process improvement and qualification of employees by way of a self-evaluation. On the basis of these maturity levels, an improvement plan is compiled for each production site that identifies potential and sets out the direction for the next twelve months.

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

A future-oriented production and logistics concept for versatile, low-waste production was developed as part of this strategic location development project. It includes optimum and direct material flow, an appropriate building layout and further steps for the implementation of the future production location. The process of transformation into a factory of the future is taking place via overarching projects along the entire supply chain. The aim is to establish a transparent and versatile production location with efficient and stable processes that allow greater value-stream orientation and alignment to customer demand. The main aims are to consistently plan and control customer orders, meaningfully link production processes, improve inbound and intra-logistics processes, systematically integrate suppliers and implement optimum and transparent information flow within the supply chain. In addition, the focus is 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. Furthermore, comprehensive change management was established that ensures the involvement of all employees in the transformation process.

In line with the digitalisation strategy, new technologies such as the interconnection of machines and products were analysed and tested in the year under review. Interconnection allows real-time verification of process data in production. As well as an effective IT infrastructure, the implementation of the digitalisation strategy primarily requires stable processes. This requirement will be met through 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 already permanently influences the success and quality of Wilo's products.

Therefore, the Wilo Group's efficient, integrated procurement and supplier management is a significant factor when it comes to successfully achieving the defined business targets, especially 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. The activities resulting from these strategies are implemented consistently so that the increased requirements for cost targets, quality guidelines, delivery performance and corresponding sustainability aspects are met.

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. In combination with the specific product-group strategies, these internationally implemented and largely standardised processes regarding structured tender exercises, negotiations and contracting activities contributed to the optimisation of cooperation with strategic suppliers and the nomination of additional, powerful partners in the 2017 financial year.

In addition, 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), a powerful electronic procurement system. The electronic data exchange 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 generate significant efficiency improvements in procurement.

As part of the digital transformation, the project to introduce a new supplier management system was continued with the aim of sustainably optimising process costs. 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 aim of the Wilo Group's supplier management is 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. Against this backdrop, in the period under review Wilo analysed various procurement processes and material costs for the procurement of both production materials and non-production materials & services in an extensive, comprehensive and integrative project in order to identify and utilise additional potential. In close cooperation with value management, further cost savings were thus achieved in the year under review.

In the 2017 financial year, the procurement department for non-production materials & services updated its procurement strategy. Besides the intensified internationalisation, the focus lay firstly on the product-group-specific analysis of the supplier market structure and secondly on the identification of Group-wide, regional and national synergy potential according to product-group allocation. The structural and operational organisation and thus cross-functional intragroup cooperation was further improved, which created increased cost optimisation potential. In addition, the degree of business process automation was continuously increased and the integration of individual applications was optimised.

The concept of Suppliers' Days established in recent years was supplemented by Topic Days in the year under review. In this focused and intensive format, solutions to specific questions and technology requirements are devised together with international suppliers in cross-functional teams. As a result, new technologies, know-how and potential innovations from the Wilo Group's partners were ideally integrated into the value chain at an early stage in the past financial year. A crucial value contribution was thus made to the digital transformation and the development of innovative products.

Quality

As a premium provider, the Wilo Group demands the highest standards of itself 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. The quality assurance measures centre on customers, their specific requirements and their satisfaction with the services offered by the Wilo Group.

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, which comprises the four pillars/processes of preventive quality, production quality, customer quality and supplier quality. The House of Quality builds on the areas of system quality, HSEE (Health, Safety, Environment, Energy Management) and IPC (International Product Compliance). The individual processes are subject to permanent development, so the focus is being shifted 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 possible 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. Firstly, this generates positive effects for the entire value chain. Secondly, the Wilo Group lives up to its standard of the best possible fulfilment of ever higher customer requirements. The strategic parameter of the technical risk coverage rate (TRCR) for the identification and continuous monitoring of relevant technical risks was established in the top development projects in the year under review and is now tracked on a quarterly basis. Further indicators for the measurement of product and process quality in addition to the TRCR were designed in development projects in 2017, including the qualification maturity level. The implementation of this new indicator is scheduled for 2018.

The role of the production quality pillar is to support the production processes methodically in order to ensure reliable production quality through high 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. The Wilo Group also wants to guarantee stable quality in production processes in the future. The expansion of production in the planned smart factory according to state-of-the-art quality standards and requirements is also to be ensured. For both objectives, the production quality processes have already been aligned to the new requirements for versatile and low-waste production. To support this, auto-quality projects are carried out to safeguard the stability of future production processes in the smart factory and the quality of deliveries.

The aim of customer quality activities is to further enhance customer satisfaction while reducing or avoiding warranty costs. The collection and evaluation of complaint data and regular close contact with subsidiaries in the form of monthly field return calls are key elements of these activities. Top quality issues are derived from the insights gained and prioritised appropriately. Another three top quality topics were addressed in 2017, bringing the total number of available quality updates to 63. The Wilo Group's subsidiaries thus receive structured information on the causes of identified quality deficiencies and on measures and repairs so that they can permanently rectify the deficiencies. Standardised reporting structures for global complaint data ensure professional tracking of these optimisation measures by way of isochrone charts. In order to guarantee an efficient and quick process for the customer in the event of guarantee decisions, a troubleshooting guideline has been developed and made available to the subsidiaries. Reaction times are thus minimised and customer satisfaction increased. Customer quality activities reduced warranty costs by 8.1 percent in the year under review compared to 2016.

Supplier quality management, the fourth pillar in the House of Quality, controls supplier quality throughout the entire product life cycle systematically and in close cooperation with procurement and production. This minimises the quality costs that can be caused by deficiencies in purchased parts and ensures reliable supplier quality. In 2017, ten supplier improvement programmes were carried out, resulting in a high average reduction of the PPM indicators. The supplier development programmes launched in the previous year were enhanced and standardised in 2017. In this supplier development programme, 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. Two programmes were carried out in the year under review. To standardise supplier quality worldwide and thus avoid quality defects and their consequential costs, the criteria to be evaluated in supplier audits were further harmonised with subsidiaries.

The integrated management system for QHSEE (Quality, Health, Safety, Environment, Energy) defines standards and methods that ensure compliance with all relevant laws and standards. The key tools for this are digital legal information systems and Group-wide process and document management, which were updated in the year under review. An important task was the Group-wide implementation of the new ISO requirements. Numerous workshops, training sessions and audits were therefore carried out to prepare all locations for the recertification due in 2018.

Activities in the area of health, safety, environment and energy (HSE) focused on the development and implementation of measures to improve the system with regard to ISO 14001, OHSAS 18001 and ISO 50001. To this end, all locations share information on accident occurrence on a quarterly basis, with preventive measures being discussed and implemented in particular. In addition, more is being done to combat behavioural causes in order to come closer to the target of zero defects. The measures implemented in energy management have generated measurable success.

International Product Compliance (IPC) globally analyses and evaluates technical provisions that the Wilo Group is legally required to comply with or that are established as industry standards. The consistent implementation of the product compliance strategy ensures that risks from constantly changing, country-specific technical standards can be identified at an early stage. In addition, appropriate measures with regard to product design, production or documentation can thus be initiated proactively. This guarantees country-specific product conformity and thus global market access at all times.

Resource efficiency

The scarcity of resources, which is becoming more pronounced worldwide, is being driven by the megatrend of globalisation. Very high efficiency in the handling and use of resources is thus becoming an ever more persistent necessity. This challenge is particularly relevant for the Wilo Group. Accordingly, resource efficiency has been a firmly established objective of the company for a number of years, and one which it pursues systematically and effectively. The Wilo Group's numerous product innovations, which have set efficiency-related technology and product standards in the international market, are just one aspect of the sustainable handling of resources.

Another dimension of resource efficiency is product recycling. The key starting point here is the best possible long-term 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. To this end, an internal guideline was developed on the basis of VDI Standard 2243 and the Ecodesign Directive of the European Commission. 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 thus been improved to nearly 100 percent. In addition, Wilo has been returning magnets with resource-critical rare earth elements to its production process to a large extent since 2012. Together with partners from science and industry, a research project was initiated in the year under review to investigate options for the even more extensive and efficient recycling of magnets.

State-of-the-art repair and recycling centres are operated at the Dortmund and Hof locations under the management of the Quality group function. Among other things, these centres develop Group-wide recycling standards under the motto "prevention through use before recycling and disposal". These standards also consider the leveraging of potential in the areas of production and product returns. An IT-based process enables the plants' own customer service teams to use certain spare parts directly from returns processing in a targeted manner. Components that were not subject to wear and tear during operation are thus used by the repair centre efficiently to conserve resources. Components that cannot be reused are separated into their constituent materials and returned to the recyclable-material cycle by a certified recycling partner.

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 demands high ecological standards for all new production and administrative buildings. As a matter of principle, Wilo 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, Turkey and Russia in recent years. 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 these high resource efficiency standards.

Corporate compliance

The sustainable success of the Wilo Group is not least 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. They are 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 the binding Wilo principles 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 office and the head of the Group Internal Audit & Compliance function. The head of Group Internal Audit & Compliance reports directly to the Chief Financial Officer about all compliance-related matters. Among other things, the compliance office is responsible for the Wilo Business Keeper Monitoring System (BKMS®). With this certified whistle-blower system, employees and third parties can confidentially and anonymously report violations of the code of conduct. In addition to the Executive Board, the Audit Committee receives regular and ad hoc reports on compliance issues.

The roll-out of the Group-wide e-learning initiative to reinforce the compliance culture and knowledge of relevant compliance regulations among all executives and employees was continued in the year under review. It focuses on the requirements of the code of conduct and more profoundly on the topics of corruption prevention and competition law. Additional topics are planned in subsequent years. Moreover, the Group-wide compliance organisation was augmented and strengthened in 2017 by the nomination and training of compliance officers in the subsidiaries.

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).

In view of the European General Data Protection Regulation (EU-GDPR) in force from 2018, the increased requirements for data protection organisation, processes and documentation were analysed and translated into appropriate measures in the year under review.

Statement by the Executive Board on the economic situation

2017 was a challenging and demanding year. Externally, a pleasingly dynamic economic recovery prevailed in nearly all regions and countries despite the difficult geopolitical environment dominated by high levels of uncertainty. Wilo successfully made use of the resulting business opportunities and set a new net sales record for the eighth time in a row. Internally, in 2017 the Executive Board initiated numerous initiatives to optimise structures and processes and thus further strengthen the Wilo Group, some of which are already complete. This demanded full commitment from all managers and employees and, despite the significant growth, weighed on the operating earnings and thus the profitability of the Wilo Group. However, these measures are very important from a strategic point of view, i.e. for the targeted implementation of Ambition 2020⁺ as planned. They are securing the company's future viability and strengthening the foundations for sustainably profitable growth.

The Wilo Group closed the 2017 financial year with substantial growth of 7.4 percent and increased its net sales to over EUR 1.4 billion. Adjusted for exchange rate effects, net sales actually rose by 8.5 percent. The organic growth, i.e. growth adjusted for exchange rate and acquisition effects, amounted to 6.0 percent. The original planning for 2017, which predicted growth of up to 4 percent, was thus significantly exceeded. The strong organic growth validates the strategic direction and impressively demonstrates the effectiveness of the eight major growth initiatives launched to implement Ambition 2020⁺.

Growth was once again driven by Asia, where the Wilo Group generated both a high absolute net sales increase and a double-digit growth rate. In China, Korea and India – the key markets in this region – the Wilo Group's market presence was increased sustainably. In the smaller Southeast Asian countries, where the sales infrastructure was expanded considerably in recent years, net sales increased particularly significantly. The Wilo Group further reinforced its commitment to this region by founding a subsidiary in Malaysia.

Business activities in Russia and Turkey also developed encouragingly. Despite the still difficult political and economic conditions, the Wilo Group significantly increased its net sales in both countries. The production site in Noginsk, near Moscow, opened in the previous year gives Wilo a major location advantage. The local market can thus be served very efficiently and in line with requirements, and use can be made of the increasing trend towards localisation. In Turkey, the Wilo Group benefited from the good development of the construction industry, thanks among other things to the expansion of the local sales organisation.

The picture in Europe was varied. Overall, only a slight increase in net sales was generated here. Substantial growth in Italy and Poland and the at least small net sales growth in France compensated for declining net sales in the saturated markets of the German-speaking region and in Great Britain.

The Wilo Group compensated well for the varying economic developments in individual regions, countries and markets. The broad regional and sectoral positioning of the business activities was crucial here. Diversification is a strategic success factor, which successfully minimises risks while providing opportunities in individual markets. 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 record was achieved in consolidated net income. Because tax expenses were much lower than in the previous year, consolidated net income was increased from EUR 76 million in the previous year to around EUR 86 million. Substantial growth of 13.0 percent was therefore generated. Deferred tax assets on tax loss carry-forwards considerably reduced the tax expenses. Earnings before interest and taxes (EBIT) reached the previous year's level at EUR 106.3 million. Various influencing factors prevented an improvement compared to the previous year. Firstly, net foreign-currency income from operating activities declined significantly. Secondly, the Executive Board introduced or continued measures to cut costs and promote cost efficiency in the year under review. This related primarily to the reorganisation of the Wilo Group and the WIN cost initiative. The measures secure the foundation for the Wilo Group's future profitable growth, but significantly diminished profitability in the 2017 financial year. In addition, further growth- and future-oriented projects, such as the digital transformation, the modularisation of products and the strategic location development in Dortmund were continued as planned. Accordingly, profitability in terms of the EBIT margin fell from 8.1 percent to 7.5 percent, falling short of the strategic target corridor of between 9 and 11 percent aimed at in the long term.

Sustainable, stable profitability within the target corridor guarantees business agility and flexibility. Moreover, it safeguards the Wilo Group's independence, an overriding goal formulated in the Ambition 2020⁺ corporate strategy. This is why the Wilo Group has set itself strict profitability targets. Short-term declines in profitability are tolerated if they serve to secure the future viability and strengthen the performance of the company. The measures carried out in the 2017 financial year to reduce costs and promote cost efficiency serve to optimise the structural foundations for profitable growth and thus steer profitability into the strategic target corridor in the short to medium term.

Alongside the organic growth promoted in the eight growth initiatives, the Wilo Group also makes use of targeted, value-adding M&A transactions. These strengthen the Group and support both growth and profitability. With the acquisition of the operating business of Weil & Scot, the Wilo Group took an important step in the expansion of its presence in the USA. Weil, a specialist for wastewater and drainage pumps, and Scot, an original equipment manufacturer for the plastics, agricultural and chemicals industries, are an enrichment for the Wilo Group and contribute to the further enhancement of application expertise.

As part of the implementation of the Ambition 2020⁺ corporate strategy, the Wilo Group has carried out an extensive realignment of its organisational structure and thus set the course for a successful future. The new structure has been in place since 1 January 2018 and sees the Chief Production and Technology Officer (CTO) in charge of all production and development-related areas, while the sales activities worldwide are pooled under the sole management and coordination of the Chief Sales Officer (CSO). Group Marketing was newly assigned to the Chief Executive Officer (CEO). The focus here is on the continuing enhancement and strengthening of the Wilo brand and the intensification of strategic brand management. This structure is fully aligned to function, enables a reduction in the complexity of corporate management and thus strengthens the Wilo Group's flexibility and business agility.

In the 2017 financial year, the Wilo Group also concluded significant refinancing measures and thus strengthened its financial flexibility and stability. The existing syndicated loan was prematurely extended to 2022 and topped up. The issue of a senior note, taking up a promissory note loan and the conclusion of a KfW development loan complete the measures to secure the Wilo Group's strong financial profile in the long term.

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 remained at a very high level in 2017 at around EUR 64 million or 4.5 percent of net sales. A product of the successful research and development work is the Wilo-Stratos MAXO, which was presented at ISH, the world's leading trade fair, in March 2017. It sets new standards with regard to system efficiency, communication capabilities, connectivity and ease of use. The Wilo Group is also increasingly researching new technologies such as additive production processes (3D printing) and collaborative robots (cobots). The operational capability and efficiency of these technologies are already being tested in pilot projects.

The Wilo Group once again made significant investments in 2017 in order to secure the strategic goal of sustainably profitable growth. Capital expenditure reached a new high of around EUR 125 million. It was again primarily focused on the advancement of new manufacturing technologies and the construction and expansion of new and existing sales and production locations. The strategic location project in Dortmund is centred around a state-of-the-art factory. Here, production is being fundamentally redesigned in order to lay a milestone in terms of digital transformation and Industry 4.0.

Considering the environment and the specific factors for the Wilo Group's business, the Executive Board is very satisfied with the business performance in 2017 with regard to high innovation, the improved market presence, the growth and consolidated net income generated and the company's strong financing structure. However, operating profitability in terms of EBIT fell short of expectations and strategic targets. Accordingly, the management will continue the measures initiated in the year under review to secure future viability and improve profitability in the long term in a targeted and sharply focused manner in 2018.

In summary, 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 2017 and takes into account business performance up until the preparation of the 2017 Group management report. At the time of this Group management report being prepared, business performance in early 2018 is in line with the Executive Board's expectations.

REPORT ON RISKS AND OPPORTUNITIES

- Transparency and security thanks to integrated risk management system
- No risks that could jeopardise the company as a going concern
- Opportunities management enables systematic identification and realisation of operational and strategic opportunities
- Overall risk situation largely unchanged year on year

Risk and opportunities policy

The Wilo Group's corporate strategy and business policy are aimed at ensuring the independence of the company, growing profitably 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, the global focus 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 corporate management include the comprehensive and systematic risk management system that is installed throughout the entire Wilo Group and the forward-looking procedure for managing opportunities.

Opportunities management

The systematic identification and realisation of operational and strategic opportunities is essential for promoting and ensuring the intended profitable growth.

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.

Instead, operational opportunities at the Wilo Group are identified and assessed directly in the regions, market segments and central functions, where the respective markets are monitored and analysed. This allows trends and new developments to be recognised at an early stage and any potential opportunities to be deduced. The latter are then evaluated 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 from acquisitions or partnerships as well as changes in strategy are analysed, assessed and implemented at Executive Board level with the support of Corporate Development. Both risks and 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. 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. The use of checklists and risk classification guarantee uniform risk assessment and procedural compatibility throughout the entire company. 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
- risk management officers in the regions and central functions
- the Group risk manager
- regular risk reporting
- ad hoc risk reporting

The Risk Management Directive of the Wilo Group sets out the principles for handling risks. Furthermore, 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 tracked at all times, the risk atlas is checked for completeness on an ongoing basis and adjusted as required.

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 and central functions. The Group risk manager coordinates the entire risk management process and reports regularly to the WILO SE Executive Board on a quarterly basis and on an ad hoc basis as necessary.

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 binding 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 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 business 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 the 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 the three categories low, medium or 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*	Possible	None
Commodities	Possible	Low
Other	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 or planned economic situation of the Wilo Group as well as possible. Special attention is paid in this context to specific 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 upgrading local production capacity, optimising their use and leveraging synergies.

The pace of global economic growth picked up considerably in 2017. Nearly all major industrialised nations enjoyed an economic upturn, and most emerging markets saw an improvement in their economic situation. Economic researchers expect the growth trend to continue in 2018. However, the uncertainty connected with factors that can slow down economic performance remains high, and geopolitical risks persist. Significant uncertainty factors include growing nationalism and protectionism and the USA's conflicts with North Korea and Iran. In addition, the situation in the Middle East remains critical. Major emerging economies and certain EU states are still suffering from structural deficits. If some of the risks escalate, economic performance in individual countries could be impaired. The generally bright outlook could therefore become significantly gloomier. 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, Wilo has developed and implemented appropriate emergency plans and preventive measures 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, energy efficiency 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. There has been a global rise in protectionist tendencies and an observable rejection of free trade and globalisation. It remains uncertain whether this will actually translate into restrictive measures.

In addition, heightened requirements as a result of product quality or safety standards may lead to increased production or research and development costs.

On the other hand, 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.

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 the consulting firm Strategy&, more than USD 350 trillion will be invested in urban and infrastructure development worldwide up to 2030. The emerging economies, particularly in the Asia Pacific region, will account for much of this. This drastic urbanisation in conjunction with the persistently high population growth is presenting people in these areas with numerous ecological, economic and social challenges. Sustainable and intelligent urban development in these regions is therefore essential. The same applies to growing established conurbations in industrialised nations, which are increasingly modernising their urban structures and public networks. Globally, smart cities and smart urban areas are being designed that integrate digital infrastructures in order to make cities more efficient, less wasteful of resources and more social. The megatrend of urbanisation – especially in the shape of smart urban areas – is the source of considerable long-term growth potential for the Building Services and Water Management market segments.

Water shortage

Water is a scarce resource. According to estimates from WHO (World Health Organisation) and UNICEF, 844 million people currently have no access to a rudimentary supply of drinking water. Around 2.3 billion people live without basic sanitation. Especially in rapidly growing cities in the wake of urbanisation, water supply and wastewater disposal present an increasing problem. The overuse of groundwater reserves there often results in a drop in the water table, while huge quantities of drinking water are lost each year due to outdated and dilapidated pipe systems. In the 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 for 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 & energy shortage

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. Regardless of the USA's current climate policy, the Climate Change Conference in Bonn in 2017 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. At the same time, steadily increasing world trade, the drastic growth of cities in the wake of urbanisation and the rapid economic development of emerging economies entail a significant rise in demand for energy. Demand also remains high in the industrialised nations. The global competition for raw materials is coming up against the finite nature of fossil resources such as oil, coal and gas. In this respect, renewable energies have to be used and sustainable energy savings made not just for ecological reasons but also economic ones.

The megatrends of climate change and energy shortage give 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. In particular, numerous opportunities are arising in urban conurbations, where increasing populations, stricter environmental standards and heightened requirements for energy and resource efficiency are posing new challenges for urban planners. Around the world, innovative urban infrastructures are being created that are characterised by smart systems and digital solutions. 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. Wilo aspires to shape the future as an innovation leader and digital pioneer and to evolve into the leading system provider with tailored, intelligent, and resource-efficient solutions in line with the company's vision. Wilo is thus helping 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 itself 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 defined a digitalisation strategy that is a fixed component of the wider corporate strategy. An interdisciplinary internal group of experts has been formed in order to drive 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. The smart urban areas emerging around the world have been identified as a particular source of business potential in this context. The Wilo Group will systematically tap into new business areas here. 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).

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 can be controlled and accessed centrally and remotely. Smart homes offer additional growth opportunities for the Building Services market segment. The Wilo Group has wide-ranging 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 2017, research and development costs including capitalised development costs amounted to 4.5 percent of consolidated net sales. In order to identify the opportunities of new technologies at an early stage, Wilo conducts regular technology screening and maintains continuous dialogue with universities and research institutions. 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 the uniform Group-wide production standards of the Wilo Production System (WPS) and by the company's 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, their commitment and their motivation. The loss of qualified personnel in strategic positions 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. Its core elements are 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 mitigates these IT risks with daily backups of critical business data. In particular, the business database aiding production, materials management, order processing, financial accounting and cost accounting in particular conforms to top security standards. The Wilo Group 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 are considered 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 always 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 and corresponding measures are planned and implemented for each acquisition.

Despite this careful examination, 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 develops more poorly than 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 company'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 above all from foreign-currency borrowing from third-party lenders. Foreign-currency loans are also granted to Group companies for financing purposes. Wilo uses derivative financial instruments to reduce such currency risks.

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 152 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. On the other hand, 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 154.

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 at the same time. 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 2018 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, as the available financial instruments are not suitable for effectively minimising the risk of price changes for these specific 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 2019 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 154 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 acquire 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. As the Group does not generate more than 10 percent of its total net sales with any one customer, dependency on individual customers is limited. 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 2018.

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. There is also 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 liquidity and financing risks, 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. Liquidity management therefore makes a valuable contribution to the profitable growth of the Wilo Group.

The financing instruments include committed cash credit facilities for the parent company and subsidiaries of more than EUR 280 million with international banks of good to very good credit standing. EUR 7.7 million of the cash credit facilities had been utilised as at 31 December 2017. Furthermore, as at 31 December 2017, there were also promissory note loans of EUR 57.5 million and senior notes of EUR 136.9 million that were issued in US private placements.

The Wilo Group's leverage, i.e. the ratio of the net financial position (financial liabilities less cash) to consolidated EBITDA, increased from -0.26 at the end of the previous year (net liquidity) to 0.25 as at 31 December 2017 (net debt) as a result of the strategically targeted high investment and the acquisition of Weil & Scot in the USA.

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 2017, 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 they fall 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 148 et seq. and note (13) on page 152 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.

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

- Global economy expected to grow dynamically again in 2018
- High risks due to political uncertainties and crises persist
- Moderate net sales increase expected
- Measures to promote cost efficiency to be continued
- Significant investment planned in modern, future-oriented corporate infrastructure

General economic conditions

Global upturn continues at a rapid pace

The global economy is undergoing a strong, broad upturn, which is expected to continue in 2018 driven by further production increases. The IMF and IfW, for example, agree that global growth will amount to 3.9 percent. Inflation is likely to rise only slightly, so economic researchers unanimously expect the monetary policies of industrialised nations to be tightened only very cautiously with low real interest rates. In addition, fiscal policy in these countries is expected to remain expansionary in order to reinforce the growth. The significant tax breaks in the USA are set to have a noticeably positive impact on the economy there in the short term. The IMF therefore estimates that growth in the USA will accelerate to 2.7 percent in 2018. Economic output in the industrialised nations is expected to grow robustly again at 2.3 percent overall. Emerging and developing economies are also likely to benefit from this, and the upturn will likewise continue to strengthen here. The IMF anticipates growth of 4.9 percent. However, this positive global scenario requires risks to remain manageable and, as has recently been seen, to take a back seat compared to the economy.

The greatest political risk factors are nationalism and protectionism, the USA's conflicts with North Korea and Iran and the still uncertain situation in the Middle East. In addition, structural deficits in major emerging economies and certain EU states have not been overcome. A potential global race for tax breaks is another uncertainty factor. The scenario of a hard Brexit could materialise and dampen Europe's economy. In addition, drastic value corrections in speculative, overheated asset markets – such as cryptocurrencies and in some cases equities – cannot be ruled out. Severe turbulence on currency and financial markets could negatively impact the real economy. Therefore, the global economy will remain prone to disruption in 2018 despite the very strong basic trend.

The expected economic development in the Europe, Asia Pacific and EMEA regions in 2018 is described below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

→ More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 147.

Sustained, strong growth forecast in Europe

Political challenges continue to cause major tension in Europe. Particularly notable are Brexit and the uncertain outcome of the negotiations, the growing desire for reorganisation of the EU, political friction between Eastern and Central Europe and the structural deficits in Southern Europe. Spain could also suffer tangibly from the conflict over Catalonia's independence referendum. However, the economic conditions for a sustained, strong upturn in the euro area are intact, and the economy is in good shape. Propensity to invest is likely to remain high and fiscal policy expansionary. Employment in the euro area is expected to keep rising while inflation barely increases. Although the European Central Bank is reducing its bond purchases, key interest rates are likely to stay low. In light of this, economic researchers expect growth in the euro area in 2018 to be similarly strong to last year. The IMF anticipates growth of 2.2 percent, the IfW economists as much as 2.3 percent.

The upturn in Germany is very strong; according to IfW, the German economy is almost booming. In the medium-term, however, the rate of expansion is likely to level off again. Firstly, the economic researchers expect exports to increase less dynamically. Secondly, the additional growth opportunities are limited by the high capacity utilisation and especially the short supply of labour. Nevertheless, 2018 is set to see sustained, strong growth. The IMF expects economic output to increase by 2.3 percent. The IfW and Deutsche Bundesbank anticipate 2.5 percent. The growth continues to be driven by private consumption, investment in equipment and residential construction, and good demand from abroad.

Asia will continue to drive the world's growth in 2018

Since the Chinese economy grew surprisingly strongly thanks to numerous government stimuli in 2017, economists agree that, while the rate of expansion there will tend to decline, it will remain considerably above average compared to the rest of the world. The lower momentum is due to the long-term process of realigning the economy in favour of socially and ecologically more sustainable growth. In addition, the containment of the increase in debt will become a bigger priority in

2018 according to IfW. In its forecast for 2018, the IMF assumes that China's growth will fall to 6.6 percent. This lowers the calculated growth rate for the Asian region as a whole, so the IMF expects no acceleration in growth for the region. Nevertheless, Asia is likely to remain the clear driver of the global economy in 2018, alongside the USA, with expected growth of 6.5 percent.

The extensive reforms in India briefly crippled the country's economy last year and led to substantial declines in growth. In the future, however, they are likely to have a positive structural effect, so the prospects for the Indian economy are already brightening again. The government intends to encourage private consumption by cutting value added tax on most everyday products. Higher public spending and a recapitalisation of the state-run banks are also planned. The IMF therefore expects further strong economic growth of 7.4 percent in 2018.

The Korean economy, supported by the general global upturn, is expected to continue the upward trend at a similarly high pace in 2018. In addition, the Korean central bank says that private consumption is likely to keep rising, driven partly by government stimulus and falling inflation. However, investments are only expected to increase moderately. The Korean central bank expects economic growth of 3.0 percent in 2018. There are notable risks in the conflict with North Korea.

The economy in Southeast Asia is expected to benefit from the predominantly expansionary fiscal policy and the persistently robust upturn of the industrialised nations. In contrast, China's declining momentum is likely to have a dampening effect. For the five major ASEAN nations together, the IMF expects growth of 5.3 percent in 2018.

EMEA region has opportunities for growth despite crises

The Russian national budget, like the domestic economy, is set to be initially supported in 2018 by the extension of the production cuts agreed with OPEC. In addition, the Russian central bank has announced that it will steer its recently slightly restrictive monetary policy onto a neutral course, i.e. cut the key interest rate to between 6 percent and 7 percent in the medium term. This is intended to stimulate private lending. With net exports still negative, robust growth in private consumption and investment is anticipated in 2018. In 2018, the Russian economy is therefore expected to continue on its modest course of expansion. The IMF anticipates moderate growth of 1.7 percent.

In Turkey, the expiry of various government measures to support the economy will result in flatter growth for 2018. However, the government continues to plan a comparatively loose fiscal policy in advance of the 2019 elections. Nonetheless, the key macroeconomic data and the political situation remain problematic and risky. The country's economy is dominated by a large current account deficit and high debt, unemployment, inflation and interest rates with a correspondingly weak currency. This environment is an obstacle to domestic and foreign private investment. The World Bank expects growth to flatten out to 3.5 percent in 2018.

Africa and the Middle East are politically and economically very varied and must be considered selectively. While the military conflicts in Syria and neighbouring regions appear to have been largely contained, no normalisation can yet be identified. In other parts of Africa such as Nigeria, Yemen and South Sudan, the crises rumble on. Iran and Israel are new trouble spots that could grow into major conflicts. Nevertheless, many countries of the resource-rich continent are likely to benefit from a dynamic global economy. The IMF expects the countries in the Middle East and North Africa to recover and grow by 3.6 percent overall in 2018.

Industry-specific conditions

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.

➔ More detailed information on the definition of segments can be found in note (11) to the consolidated financial statements on page 147.

Continuing upturn in Europe's construction industry beyond 2018

Looking forward, the Euroconstruct industry network paints a positive picture for the construction industry. For 2018, the experts forecast growth of European construction output of 2.6 percent. Strong growth is in the offing for Ireland, Portugal and the Netherlands. A recovery is also expected in Italy after the moderate performance so far. While France's construction industry is set to keep growing robustly, construction activity in Great Britain is likely to develop only marginally positively in 2018 as a result of Brexit. According to Euroconstruct, construction output in Europe will increase by 6 percent on a cumulative basis up to 2020, until which time the relevance of new construction will decrease. Conversely, the modernisation and maintenance of existing buildings is increasing in importance. This is expected to drive growth after 2020. In addition, further government support programmes for the reduction of CO_2 emissions are expected in the future. These trends are supporting investments in heat insulation in buildings and the modernisation of heating and air conditioning systems.

Momentum in the German construction industry declined somewhat in 2017, and the order situation dimmed slightly at a high level. The increase in incoming orders in the main construction sector was subdued. The number of building permits decreased in residential construction (new buildings, conversions of existing buildings), previously the industry's biggest driver. The number of permits for non-residential buildings and conversions of all existing buildings declined palpably. However, this is likely to be but a temporary effect. For example, Deutsche Bundesbank argues that the order backlog, equipment utilisation and business confidence are very high. The sector is working at nearly full capacity and is increasingly expanding its construction capacity. The industry growth will therefore continue primarily in residential construction, as demand is substantially in excess of supply here. However, the recently extremely high momentum in new construction is likely to decline. In contrast, industry experts estimate that investments in the energy-related renovation and age-based alteration of existing housing will increase significantly. According to Deutsche Bundesbank, private investment in residential construction is expected to grow by 3.0 percent in real terms in 2018.

The ifo Institute and the industry association VDS forecast that German sanitary industry will keep growing in 2018. Net sales are expected to rise by 2.5 percent to around EUR 25 billion. A more substantial upturn is prevented by the full utilisation of trade capacity. The heating industry also expects structural expansion. According to the Federal Association of the German Heating Industry, the heating system stock in Germany is outdated and 63 percent of the nearly 21 million heat generators are not efficient. According to a paper by the leading professional associations, as many as 40 percent of the heating systems are in need of modernisation. Germany already enacted subsidy measures for the modernisation of heating systems in 2016, which are covering up to 30 percent of the costs. By 2020, 2 million pumps a year are to be replaced and an additional 200,000 heating systems optimised.

Far-reaching stimulus for the construction industry in Asia

Advancing urbanisation and severe environmental pollution pose immense challenges for China with regard to the creation of housing and infrastructure and the improvement of ecological living conditions. Massive investment is therefore required in energy, climate and water management. The demand for water from industry, agriculture and private households is rising rapidly. It is estimated that it will double in cities alone by 2025. According to the five-year plan (2016–2020), which provides for the massive expansion and modernisation of water management in all areas, water consumption is to be reduced by 23 percent in relation to gross domestic product. Total investments of over USD 600 billion are earmarked for this. It requires efficient technologies and thus offers huge potential for suppliers of filters, valves and pumps, especially those from abroad, for 2018 and beyond.

India's rapid population and economic growth and urbanisation are changing the structure of the construction industry. The government has launched a programme for affordable housing in order to combat the housing shortage. In this context, approximately 60 million new homes will be built from 2018 to 2024 with an investment volume of USD 1.3 trillion. India is also investing massively in the construction of 100 smart cities and the renovation of 500 cities, including with efficient water and wastewater management and transport systems for the inhabitants. Water supply and wastewater disposal are a central problem for India. Surface water is being polluted, groundwater levels are falling. At the same time, demand for water is increasing. Moreover, public sewage treatment plants are outdated, inefficient and only have capacity for 30 percent of the wastewater. In this respect, there is a huge need for investment in drinking water and wastewater management. Modern businesses in the oil, gas, petrochemical, pharma, sugar and paper industries are therefore increasingly investment in their own water supply and sewage treatment plants, often with innovative foreign technology.

The construction industry in Korea already clouded over in 2017. This trend is expected to persist. The Korean central bank expects construction investments to largely stagnate in real terms in 2018 (-0.2 percent), as suggested by leading indicators such as declining incoming orders and construction starts. In addition, the central bank increased the key interest rate again for the first time in a while in November. Furthermore, the government is planning various measures in 2018 to stabilise the overheated housing market, including stricter lending rules and considerably higher taxes for owners of multiple residential properties, and budget cuts in public infrastructure investments.

The large countries of Southeast Asia, i.e. Singapore and the five most important ASEAN nations, are pushing the expansion of their infrastructure. This relates to issues such as transport, digitalisation, energy supply and drinking water and wastewater management. Indonesia's upturn in the construction of hotels and hospitals is also continuing. In Vietnam and the Philippines, the construction sector is growing on a broad front, including in residential, office and commercial construction. For the Philippines, BMI Research expects growth in this area alone of nearly 10 percent per year up to 2026. There will also be infrastructure construction measures.

Russian construction picks up momentum

The construction industry in Russia has been invigorated recently. This swing is expected to continue in 2018, as the broader economic recovery is offering a better environment. The conditions for mortgage borrowing are also likely to improve. In addition, residential construction will benefit from a large-scale resettlement program in Moscow. Around 8,000 prefabricated buildings from the 50s and 60s are to be demolished over the next few years and replaced by newbuilds for 1.2 million people. This corresponds to newly built floor space of approximately 100 million m^2. Growth is also expected in commercial buildings, above all logistics centres and hotels. Public investments focus on the modernisation and expansion of infrastructure.

For Turkey's construction industry, the environment initially remains difficult in light of political uncertainties and high interest rates, but is attractive in the long term. While there are high vacancy rates in office buildings, the sharp rise in building permits signals an upturn in residential construction in 2018, and investment in new hotels is also expected to increase again. In industrial and commercial construction, the Organised Industrial Zones (OSBs) are to be expanded. 65 new OSBs are expected to be built by 2023. The Wilo Group's core segments are seeing structurally strong growth. For example, the professional association ISKID expects the market volume for heating, ventilation and air conditioning (HVAC) in Turkey to grow to USD 35 billion by 2023. Moreover, large irrigation and dam projects are being planned for water supply. In wastewater disposal, cities, municipalities and industrial enterprises have an immense amount of catching up to do. This is being addressed by a long-term action plan (2014–2023).

For the construction industry in the Middle East and Africa, the environment will remain risky and uncertain in 2018. In South Africa and Nigeria, prospects are still modest. However, the construction industry in Egypt is likely to grow, driven by high demand for housing, robust commercial construction and the proposed new capital city. There will also be investments in infrastructure. In this respect, selected projects in individual countries are already offering good opportunities in the short term. In the long-term, the stimuli in the region as a whole are coming from the fast population growth, rapid urbanisation and the immense need to catch up with regard to infrastructure, especially in drinking water and wastewater management.

Outlook for the Wilo Group

Future orientation

The economic prospects for 2018 are good. The economic upturn in the USA, which is to be further boosted at least in the short term by drastic tax cuts, should trigger positive impetus for the global economy in 2018. In addition, the already high rate of expansion in the emerging economies is likely to keep increasing despite the structurally somewhat weaker growth in China. This too is expected to stimulate the economy worldwide. The upturn in Europe is broad and robust. However, the trouble spots in North Africa, the Middle East and North Korea, the uncertain progress of Brexit negotiations, and rising bond yields and structural deficits in many countries continue to pose risks. In addition, growing protectionism and nationalism are jeopardising free global trade. Turbulence on the currency and capital markets, such as in equities or cryptocurrencies, with the potential for new destabilisation of the real economy, also cannot be ruled out. Overall, the economic outlook for 2018 is positive but delicate.

It is therefore essential 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 continue to make use of its strengths. These are 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 significant success factors include high entrepreneurial flexibility and well-honed adaptability to altered trends and conditions. These are especially important in crisis situations and in the event of upheavals in the company's core segments. The Wilo Group's adaptability is demonstrated by the many years of profitable corporate growth despite a changing environment and fierce international competition. In order to secure the success factor of flexibility and adaptability going forward, the Wilo Group has extensively realigned its organisational structure as part of the implementation of the Ambition 2020⁺ corporate strategy. All production- and development-related areas on the one hand and the global sales activities on the other have been pooled under the sole management of one Executive Board each member since 1 January 2018. This structure, which is aligned to function throughout the Group, reduces complexity. This strengthens the Wilo Group's flexibility and agility. The company's position in global competition was further enhanced in a consistent manner in 2017 by targeted realignments of sales structures in certain foreign markets, by the commissioning of new production sites – like the one in Russia a year ago – and not least by the acquisition of Weil & Scot in the USA. Regardless of conditions changing at short notice, the Wilo Group has also continuously ramped up its capacity for innovation. With these changes, the Wilo Group has future-proofed the company's foundation.

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. Corporate acquisitions to promote growth also play an important role, provided – like the acquisition of Weil & Scot in 2017 – they make good strategic and economic sense. The Wilo Group will continue expanding its product portfolio, focusing on core competencies in heating, air conditioning and cooling as well as water supply and wastewater disposal. Wilo is thus positioning itself as an innovative and solution-oriented full-service provider.

A fundamental management principle at Wilo is and will remain to identify trends and changes on the market at an early stage and to analyse them quickly. Alternative scenarios can thus be devised and implemented very quickly, and countermeasures can be initiated at short notice. A great deal of importance is attached to effective crisis management in the event 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 megatrends relevant to the company are the cornerstones of the defined corporate strategy, regardless of short-term crises and fluctuations in demand. They will change, drive and shape the Wilo markets in the decades to come. The six megatrends are together contributing to a major global trend: the creation of smart urban areas, which integrate digital infrastructures in order to make cities more efficient, less wasteful of resources and more social. Wilo has identified smart urban areas as offering business potential and will systematically tap into new business areas here.

In this context, the megatrend of digitalisation is incredibly important. It 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 its own path of digital transformation. Its own value chain and existing business processes are thus being fundamentally and sustainably reorganised with high levels of investment – initially at the Dortmund location in particular. The central element is the intelligent, digital networking of production methods, products and logistics. This networking 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 likewise purposefully targeting its innovative capacity at providing customers with intelligent, networkable solutions.

Outlook for the regions

EUROPE The economic research institutes are confident for the euro area and expect growth in 2018 to be similarly strong to last year. The upturn is robust and fiscal policy is likely to further stimulate the economy. Although the low interest rate policy is coming to an end, the ECB is likely to keep key interest rates at a low level in 2018. The economy in the euro area, especially construction activity, will thus continue to be supported by favourable financing conditions. However, Europe is still facing major political challenges that could slow down economic development. The greatest uncertainty lies in the uncertain outcome of the Brexit process, which is already dampening the economy in Great Britain and could also become an economic burden in the European Union in the future.

Provided the uncertainties and risks remain manageable, the fundamental economic conditions for the Wilo Group's business in Europe are good. Leading economists expect growth in all countries of the continent. The rate of economic expansion remains high in Eastern Europe in particular. However, momentum is declining in many Western European countries, including Italy, the Netherlands, Belgium and Austria. Great Britain will also develop more slowly in 2018 as a result of Brexit. The environment in the core European markets of particular importance to the Wilo Group due to market size and competitive position, especially France and Germany, remains good. In France, the upturn is continuing robustly. Germany is experiencing a boom. In both countries, as in Europe generally, the construction industry is growing on a broad basis in 2018.

In Europe, there is high demand for energy-saving and environmentally friendly heating and air conditioning systems. The majority of existing systems are outdated and need to be replaced, especially with regard to increasingly stringent environmental protection requirements. This is tending to stimulate demand 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 European Union's ambitious climate targets. 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. In Europe, the high momentum in the construction of new buildings will gradually decline. Instead, construction activity is increasingly being driven by the modernisation and renovation of buildings, where smart, networked and digitally controllable devices are beginning to predominate. Therefore, the Wilo Group expects structural demand for high-quality energy-efficient pumps to continue to grow throughout Europe over the coming years.

As a technologically sophisticated and high-volume market for pumps, systems and associated services, Europe is of central strategic significance for the Wilo Group. Wilo secures its strong market position in Europe with strong innovation, high quality and close customer relationships. This is particularly important in light of the intense competition. The digitalisation strategy, the realignment of the organisation, measures to reduce costs and increase efficiency and investments in the future are indispensable for allowing the company to continue overcoming the challenges and making use of the opportunities of this market. Wilo's product mix in Europe is attractive, but the market varies considerably region by region. While the market in the German-speaking region is largely saturated, business is likely to grow more strongly in the Eastern European countries in particular. This is also driven by the EU subsidy programs, which are likely to provide greater impetus again in 2018.

Overall, the Wilo Group expects the moderate growth in the Europe region to continue in 2018. The company's diversified position ensures that the varying trends in Europe balance each other out. In light of the stronger momentum in other regions, the growth rate in Europe will again be lower than the net sales growth of the Wilo Group as a whole in 2018.

ASIA PACIFIC Alongside the USA, the Asia Pacific region will remain the growth driver for the global economy in 2018. Despite flattening but still high momentum in China, as planned by the state, both economies and construction activity are expected to grow substantially in the countries of the entire region. In light of the strong population growth and rapid urbanisation, residential construction is brisk and investment in infrastructure, including in drinking water and wastewater management, is immense. 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 expects that demand in the Asia Pacific region will continue to grow in building construction and in the water management segment in 2018. Given the sharp rise in the number of new construction projects last year, China's residential construction sector is also likely to grow in 2018. Moreover, residential construction in China and India is benefiting from government programmes to create affordable housing. India is also investing massively in the construction and expansion of digitally networked smart urban areas. Both large countries and some ASEAN states are boosting their investment in water management. Due to the severe environmental pollution, China is increasingly backing programmes to reduce pollutant emissions in all areas of life. The "coal-to-electricity" campaign, which aims to replace coal-fired boilers, will continue in 2018. Although the construction boom in Korea is flattening out, Wilo's business should benefit from the high volume. Overall, the prospects for all three of the Wilo Group's market segments in the Asia Pacific region remain very good structurally, both in the short term in 2018 and beyond.

The Wilo Group therefore expects the very positive business performance in the Asia Pacific region to continue in 2018. The Asia Pacific region remains a growth driver for the Wilo Group. After adjustment for exchange rate effects, the net sales growth in the region is expected to once again surpass the growth of consolidated net sales. However, the Wilo Group expects major Asian currencies to depreciate against the euro. In 2018, this will probably curb net sales development in the Group currency. Therefore, the net sales growth calculated in euros is likely to be lower than the expected consolidated growth in 2018.

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 2018.

Russia's economy is again expected to grow moderately in 2018. The recent recovery in the construction sector is likely to continue, as financing conditions are improving thanks to the downward interest rate trend. A significant driver of the residential construction is the massive resettlement program in Moscow. A large number of old prefabricated buildings from the post-war era that can no longer be renovated are to be demolished and replaced by new buildings in a multi-year programme. Commercial construction is also likely to pick up in 2018. With its own production site near Moscow, the Wilo Group is in a good position to take part in these developments. In addition, this location is of benefit to Wilo because of the increasing localisation of the economy in Russia. The Wilo Group has reinforced its competitive position in Russia by signing a special investment contract with the Russian Federation. The Wilo Group therefore anticipates higher net sales in this market in 2018.

In Turkey, the political environment remains difficult. However, the government is stimulating the domestic economy with various measures. Extensive investment projects in water supply and wastewater disposal are also being planned. Important leading indicators such as building permits for homes and plans for significant investment in hotels signal brisk construction activity for 2018. In addition, industrial and commercial construction are flourishing thanks to high demand with regard to the expansion of Organised Industrial Zones and air conditioning. These trends are benefiting the Wilo Group's business.

The Wilo Group's business activity in the Middle East and Africa is expected to pick up in 2018. This is partly thanks to the expansion of the market presence in Africa and the nations of the Gulf region. For example, a subsidiary was founded in Kenya in 2017.

In summary, the Wilo Group expects business in the EMEA region to pick up palpably in 2018, provided the crises there do not escalate. The net sales growth in the region is expected to be higher than the increase in consolidated net sales in 2018. The EMEA region is therefore set to have a positive influence the consolidated growth and provide an important counterweight to the weaker growth in the Group currency in other regions.

Statement by the Executive Board on forecast development

Both the general economic environment and the trends in the construction industry, the sanitary industry and heating and air conditioning of specific importance for the Wilo Group are fundamentally positive in 2018. Many of the relevant markets for the Wilo Group are growing, some very dynamically. However, greater headwind from negative currency developments is expected in 2018, especially in the dynamic growth region that is Asia Pacific.

In addition, the competition in some regions and product divisions is very intensive and requires strenuous effort within the entire company. The Wilo Group is prepared and continues to work vigorously to implement future-oriented measures to ensure that the company remains successful in the next few years and can forge its path independently. In addition, the broad diversification of the Wilo Group in terms of regions and products reduces the overall risk for the company in individual countries and market segments. While the economic conditions for good business performance in 2018 are in place, uncertainty is still emanating primarily from political developments such as protectionism and Brexit, but also from economic factors such as an unexpectedly rapid rise in interest rates. This could result in notable negative effects for the economy and especially for international companies. In this respect, the currently positive picture is a precarious one. This requires anticipatory, risk-conscious and flexible company management. Provided the impacts of the risks remain limited, demand should be brisk in most of the countries and market segments of importance to the Wilo Group in 2018.

The net sales and cost planning for 2018 takes the described uncertainties into account. Current developments are also 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 this generally positive but uncertain 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 around 3 percent in the 2018 financial year. This 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 and capital markets.

The Executive Board has set strict profitability targets in order to ensure the Wilo Group's business agility, flexibility and independence at all times. Short-term deviations from these profitability targets will be accepted as long as they are due to measures to secure growth and future viability. The Executive Board already initiated numerous initiatives to optimise structures and processes and thus further strengthen the Wilo Group in the 2017 financial year. Measures to reduce costs and promote cost efficiency will be continued as part of the ICI 2.0 cost initiative, among others, in the 2018 financial year. The structural foundations for profitable growth will thus be optimised and the Wilo Group's future viability strengthened in the long term. The aim is to steer profitability, in terms of the EBIT margin, back into the strategic target corridor of between 9 percent and 11 percent in the short to medium term. However, these measures will once again reduce profitability in the 2018 financial year. Accordingly, the EBIT margin is expected to be on a par with that of 2017 and thus below the strategic target corridor.

At the Wilo Group, research and development are systematically aligned with the medium-term and long-term corporate strategy. Important objectives formulated as part of the Ambition 2020+ corporate strategy are to remain independent and to generate profitable growth. This requires consistently strong innovation. The Wilo Group stands for future-oriented, innovative products and system solutions. In this respect, research and development have traditionally played an important role. Accordingly, expenditure for research and development will again reach a high level in 2018.

The Wilo Group's future growth is also based on the large investments of recent years. A modern, effective corporate infrastructure that promotes growth is a key requirement for sustainable growth and high profitability. In this respect, the Wilo Group will continue investing heavily in the future. Investments are set to be significantly increased again in the 2018 financial year. Firstly, the strategic location development project at the headquarters in Dortmund will continue as planned. Secondly, Wilo will continue to invest in innovative manufacturing technologies and the expansion of the existing sales and production locations. In addition, the Wilo Group's digital transformation will continue to be pursued at a fast pace in 2018. Corporate acquisitions will also remain a priority, 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 and cash of over EUR 160 million 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 2017, WILO SE is required to comply with certain standard financial ratios, or covenants. WILO SE fully complied with these covenants in the 2016 and 2017 financial years and there are currently no indications that it will be unable to comply with them in future.

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 high overall in the 2018 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 2018 are embedded in the Ambition 2020+ corporate strategy. 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 2017

EUR thousand	Note	2017	2016
Net sales	(8.1)	1,424,778	1,327,090
Cost of sales	(8.2)	–901,145	–828,002
Gross profit		**523,633**	**499,088**
Selling expenses	(8.3)	–258,919	–254,748
Administrative expenses	(8.4)	–105,192	–100,224
Research and non-capitalised development costs	(8.5)	–47,826	–47,778
Other operating income	(8.6)	13,583	21,547
Other operating expenses	(8.7)	–19,007	–10,797
Earnings before interest and taxes (EBIT)	(8.10)	**106,272**	**107,088**
Net income from investments carried at equity	(9.4)	–3,490	–616
Net finance costs	(8.8)	–5,680	–3,514
Consolidated net income before taxes	(8.10)	**97,102**	**102,958**
Income taxes	(8.9)	–11,183	–26,982
Consolidated net income	(8.10)	**85,919**	**75,976**
of which: attributable to non-controlling interests		4	5
of which: attributable to shareholders of WILO SE		85,915	75,971
Basic and diluted earnings per share amount to EUR 8.76 (previous year: EUR 7.88) per ordinary share.	(8.11)		

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2017

EUR thousand	2017	2016
Consolidated net income	**85,919**	**75,976**
Items not reclassified to profit or loss in the future		
Remeasurement of pension obligation and plan assets	5,351	–7,644
Income taxes	–1,447	2,027
	3,904	**–5,617**
Items that may be reclassified to profit or loss in the future		
Currency translation differences	–19,134	5,108
	–19,134	**5,108**
Other comprehensive income	**–15,230**	**–509**
Total comprehensive income	**70,689**	**75,467**
of which: attributable to non-controlling interests	4	5
of which: attributable to shareholders of WILO SE	70,685	75,462

Consolidated statement of financial position

as at 31 December 2017

Assets

EUR thousand	Note	2017	2016
Non-current assets			
Intangible assets	(9.1)	204,949	129,310
Property, plant and equipment	(9.2)	382,985	341,794
Investments carried at equity	(9.4)	2,640	6,106
Trade receivables	(9.6)	2,762	4,804
Other financial assets	(9.7)	6,871	4,217
Other receivables and assets	(9.8)	10,205	20,253
Deferred tax assets	(8.9)	58,367	38,811
		668,779	**545,295**
Current assets			
Inventories	(9.5)	234,593	208,540
Trade receivables	(9.6)	269,160	261,966
Other financial assets	(9.7)	5,941	4,747
Other receivables and assets	(9.8)	29,130	21,307
Cash	(9.9)	161,814	178,274
		700,638	**674,834**
Total assets		**1,369,417**	**1,220,129**

Equity and liabilities

EUR thousand	Note	2017	2016
Equity	(9.10)		
Issued capital		26,980	26,980
./. Nominal amount of treasury shares		–1,477	–1,477
Subscribed capital		25,503	25,503
Capital reserves		26,161	26,161
Other reserves		685,018	631,623
Treasury share reserve		–29,766	–29,766
Equity attributable to shareholders of WILO SE		706,916	653,521
Non-controlling interests		63	61
		706,979	**653,582**
Non-current liabilities			
Financial liabilities	(9.11)	191,214	119,222
Trade payables	(9.12)	89	228
Other financial liabilities	(9.13)	7,462	6,451
Other liabilities	(9.14)	1,601	986
Provisions for pensions and similar obligations	(9.15)	79,669	85,013
Other provisions	(9.16)	3,624	3,894
Deferred tax liabilities	(8.9)	42,282	35,646
		325,941	**251,440**
Current liabilities			
Financial liabilities	(9.11)	10,911	18,116
Trade payables	(9.12)	169,024	142,180
Other financial liabilities	(9.13)	33,813	35,811
Other liabilities	(9.14)	78,959	75,680
Other provisions	(9.16)	43,790	43,320
		336,497	**315,107**
Total equity and liabilities		**1,369,417**	**1,220,129**

Consolidated statement of cash flows

for the period 1 January to 31 December 2017

EUR thousand	2017	2016	Change
Earnings before interest and taxes (EBIT)	**106,272**	**107,088**	**–816**
Depreciation and amortisation of intangible assets and property, plant and equipment	54,257	51,001	3,256
Decrease / increase in provisions	–12	2,581	–2,593
Losses/gains on disposals of intangible assets and property, plant and equipment	135	–1,967	2,102
Increase in inventories	–26,316	–6,528	–19,788
Increase in trade receivables	–10,652	–5,649	–5,003
Increase in trade payables	29,282	2,422	26,860
Increase / decrease in other assets/liabilities not attributable to investing or financing activities	13,979	2,624	11,355
Other non-cash expenses and income	7,217	3,961	3,256
Operating cash flow before income taxes	**174,162**	**155,533**	**18,629**
Income taxes paid	–33,767	–18,114	–15,653
Cash flow from operating activities	**140,395**	**137,419**	**2,976**
Purchases of intangible assets	–27,374	–30,298	2,924
Disposals of property, plant and equipment	266	4,667	–4,401
Purchases of property, plant and equipment	–94,779	–77,937	–16,842
Purchases of consolidated companies	–70,855	–3,452	–67,403
Other purchases attributable to investing activities	–531	–550	19
Cash flow from investing activities	**–193,273**	**–107,570**	**–85,703**
Dividend payment	–17,268	–4,049	–13,219
Proceeds from assuming financial liabilities	79,584	6,078	73,506
Repayment of financial liabilities	–14,797	–36,250	21,453
Proceeds from sales of treasury shares	0	21,240	–21,240
Interest payments received	1,992	1,577	415
Interest payments made	–7,889	–7,207	–682
Cash flow from financing activities	**41,622**	**–18,611**	**60,233**
Change in cash	–11,256	11,238	–22,494
Effects of exchange rate changes on cash	–5,204	1,239	–6,443
Cash at beginning of period	178,274	165,797	12,477
Cash at end of period	**161,814**	**178,274**	**–16,460**

Detailed information can be found in note (10).

Consolidated statement of changes in equity

for the period 1 January to 31 December 2017

EUR thousand	Subscribed capital			Other reserves						
	Issued capital	Nominal amount of treasury shares	Capital reserves	Retained earnings	Currency translation reserve	Reserve for remeasurement of pensions	Treasury share reserve	Equity attributable to shareholders of WILO SE	Non-controlling interests	**Equity**
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**
1 January 2017	**26,980**	**–1,477**	**26,161**	**679,079**	**–22,766**	**–24,690**	**–29,766**	**653,521**	**61**	**653,582**
Consolidated net income 2017	0	0	0	85,915	0	0	0	85,915	4	85,919
Other comprehensive income	0	0	0	0	–19,134	3,904	0	–15,230	0	–15,230
Dividend payments	0	0	0	–17,268	0	0	0	–17,268	0	–17,268
Other changes	0	0	0	–22	0	0	0	–22	–2	–24
31 December 2017	**26,980**	**–1,477**	**26,161**	**747,704**	**–41,900**	**–20,786**	**–29,766**	**706,916**	**63**	**706,979**

Detailed information can be found in note (7) and note (9.10).

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 2017 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 2017 financial year. WILO SE exercises the option provided for in section 315e (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 315e (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. The amounts in the consolidated financial statements are generally presented 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 2017 financial year, but had no or no material effect on the consolidated financial statements of WILO SE:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses
- Various amendments as part of the "Improvements to International Financial Reporting Standards 2014–2016"

The following standards, amendments to existing standards and interpretations issued by the IASB and the IFRS Interpretations Committee are not yet effective in the 2017 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 9 "Prepayment Features with Negative Compensation"
- 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 and Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures
- IFRS 15 "Revenue from Contracts with Customers"
- Clarifications to IFRS 15
- 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"
- IFRIC 23 "Uncertainty over Income Tax Treatments"

- IFRS 16 “Leases”
- IFRS 17 “Insurance Contracts”
- Various amendments as part of the “Improvements to International Financial Reporting Standards 2014–2016” regarding amendments to IFRS 1 and IAS 28
- Various amendments as part of the “Improvements to International Financial Reporting Standards 2015–2017” regarding IFRS 3 and 11 and IAS 12 and 23

IFRS 15 “Revenue from Contracts with Customers” specifies an extensive framework for determining whether, when and in what amount to recognise revenue. IFRS 15 replaces existing guidelines on the recognition of revenue, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. Wilo is required to apply IFRS 15 as at 1 January 2018. Wilo has completed its implementation project for the recognition of “Revenue from Contracts with Customers” and decided to apply the cumulative method in the transition to IFRS 15, whereby the cumulative adjustments as at 1 January 2018 are recorded in other comprehensive income. Compared to the previous practice under IAS 18, Wilo expects a reduction in consolidated equity of EUR 4.3 million as at 1 January 2018.

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. Wilo intends to use the cumulative method for the transition. The switch to the new standard is largely complete. The new model for recognising credit losses is not expected to result in any material changes in impairment. Wilo also expects no material effects as a result of the other requirements of IFRS 9. Wilo is required to apply IFRS 9 “Financial Instruments” as at 1 January 2018.

IFRS 16 introduces a standardised accounting model that requires leases to be recognised in the lessee’s statement of financial position. A lessee recognises a right of use that represents its right to use the underlying asset and a lease liability that represents its obligation to make lease payments. There are exemptions for short-term leases and leases for assets of low value.

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”. 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. Wilo will not apply IFRS 16 early. The Group has begun to evaluate the potential impact of the application of IFRS 16 on its consolidated financial statements, but cannot quantify this impact at present. No decision has yet been made as to which transition method to use.

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.

All consolidated companies’ financial statements are prepared as at 31 December. 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 2017 include seven (previous year: eight) German entities and 56 (previous year: 56) foreign subsidiaries. In addition, one associate (previous year: 1) and one joint venture (previous year: 1) are included in the consolidated financial statements using the equity method.

One domestic subsidiary was merged into the domestic parent company in December 2017.

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 On 3 March 2017, WILO USA LLC made a company acquisition according to IFRS 3 via an asset deal. This is also the acquisition date at which WILO USA LLC obtained control over the assets and liabilities. Parts of the companies ARDOX CORP., Cedarburg, WI/USA, WEIL PUMP COMPANY INC., Cedarburg, WI/USA and KARAK MACHINE CORP., Cedarburg, WI/USA, necessary for operations were acquired.

These companies belonged to a group in the USA that specializes in the production and sale of pumps and pump systems. In particular, the product portfolio includes drainage/wastewater pumps (WEIL PUMP COMPANY Inc.) and IEM/OEM products (ARDOX CORP.). WEIL PUMP COMPANY Inc. owns the "Weil" and ARDOX CORP. owns the "Scot Pump" and "Scot Marine" brands. KARAK MACHINE CORP. supplies the former two companies with components for pump production.

The company acquisition covers operating materials and intangible assets (essentially the customer base, brands, machinery and inventories) and certain receivables and liabilities. The employment contracts with employees were also taken on. The companies' buildings are leased. The company acquisition augments the product portfolio already offered by Wilo in the USA and enhances the application expertise. Furthermore, the acquisition gives Wilo crucial access to additional sales channels.

The purchase price was settled in full by the transfer of cash. The fair value of the total consideration transferred as at the acquisition date, broken down into major groups, amounted to:

EUR thousand	4 March 2017
Intangible assets	
Goodwill	43,176
Brand	1,512
Customer base	15,777
Property, plant and equipment	973
Inventories	6,677
Trade receivables	4,202
Warranty provisions	–189
Trade payables	–1,273
Total	**70,855**

As only recoverable receivables were acquired, the fair value of the trade receivables equals the gross receivables.

The goodwill primarily comprises synergies with the existing business activities in the USA associated with the company acquisition, the organisation of the acquired business operations, the know-how of the employees, the very good reputation of the products on the US market and general profit expectations associated with these factors. The goodwill is allocated to the "Clean and Waste Water" division. It is fully tax-deductible.

Since the acquisition date, consolidated net income has included net sales of EUR 33 million and EBIT of EUR 8.9 million from the company purchase. If the acquisition date had been 1 January 2017, net sales of EUR 39 million and EBIT of EUR 10.6 million would have been included in consolidated net income.

(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.

The 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 item in 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 Dec.	
	EUR 1 =	**2017**	2016	**2017**	2016
Pound sterling	GBP	0.8753	0.8227	0.8883	0.8581
Chinese renminbi (yuan)	CNY	7.6715	7.3488	7.8216	7.3443
Indian rupee	INR	73.9390	74.3119	76.7139	71.8220
Polish zloty	PLN	4.2463	4.3638	4.1786	4.4180
Russian rouble	RUB	66.2766	73.1804	69.1006	64.7667
Swedish krona	SEK	9.6461	9.4761	9.8196	9.5656
Swiss franc	CHF	1.1162	1.0894	1.1705	1.0754
South Korean won	KRW	1,278.7502	1,279.9034	1,283.7969	1,276.2370
Turkish lira	TRY	4.1513	3.3394	4.5493	3.7288
US dollar	USD	1.1393	1.1040	1.2010	1.0568

(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 102,268 thousand as at the end of the reporting period (previous year: EUR 64,336 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 that themselves are subject to estimation uncertainty, 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 intangible assets of EUR 204,949 thousand (previous year: EUR 129,310 thousand) and property, plant and equipment of EUR 382,985 thousand (previous year: EUR 341,794 thousand) as at the end of the reporting period.

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 19,932 thousand (previous year: EUR 20,721 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 47,414 thousand (previous year: EUR 47,214 thousand) were reported as at the end of the reporting period. Further information can be found in "Other provisions" (note (7)) and note (9.16).

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 (9.15).

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:

- Judgements must be made when assigning financial assets 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 product and application and are subject to management judgement. The allocation of goodwill to individual cash-generating units is likewise subject to 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 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 15,753 thousand (previous year: EUR 17,220 thousand). Furthermore, the addition to capitalised development costs also includes borrowing costs of EUR 1,903 thousand (previous year: EUR 1,290 thousand), so the addition in note 9.1 totals EUR 17,656 thousand (previous year: EUR 18,510 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 2017 financial year, borrowing costs were capitalised in the amount of EUR 2,644 thousand (previous year: EUR 1,290 thousand). The borrowing cost rate, which forms the basis for determining the capitalisable borrowing costs, was 2.41 percent in the year under review (previous year: 3.42 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 ten 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 three 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 2017 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 recoverable amount of the respective cash-generating unit. If the recoverable amount 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 11.4 percent or 11.6 percent before income taxes was used for the cash-generating units in the 2017 financial year (previous year: 11.6 percent or 12.3 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.

2017 financial year

Divisional structure	Goodwill in EUR thousand	Long-term growth factor in %	Discount rate before income taxes in %
Heating, Ventilation, Air-Conditioning	7,632	0.1	11.4
Clean and Waste Water	94,636	0.7	11.6

The impairment test for capitalised development costs performed in the 2017 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 here. 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 2017 or 2016.

- *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.

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 carry-forwards in subsequent years provided the tax loss carry-forwards 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 the subsequent year.

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 2017 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 1,477 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. 2017	31 Dec. 2016
Discount rate	1.77	1.67
Pension adjustment	1.99	2.00
Salary increase	3.07	3.00

The net interest expense is calculated by multiplying the net pension liability by the discount rate of 1.77 percent (previous year: 1.67 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

EUR thousand	2017	%	2016	%
Europe	749,626	52.6	743,981	56.1
Asia Pacific	414,368	29.1	359,556	27.0
EMEA	194,398	13.6	187,821	14.2
Others	66,386	4.7	35,732	2.7
Total	**1,424,778**	**100.0**	**1,327,090**	**100.0**

Net sales include revenue from the sale of goods of EUR 1,312,381 thousand (previous year: EUR 1,226,209 thousand) and service income of EUR 112,397 thousand (previous year: EUR 100,881 thousand).

(8.2) Cost of sales

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

Cost of sales

EUR thousand	2017	2016
Cost of materials	–621,020	–575,606
Staff costs	–152,663	–143,376
Depreciation and amortisation of intangible assets and property, plant and equipment	–33,505	–33,138
Other staff costs including personnel leasing	–23,589	–14,623
Purchased services	–13,142	–10,645
Third-party maintenance	–11,167	–9,187
Rental payments	–5,414	–5,231
Travel and entertainment expenses	–2,841	–2,697
Other	–37,804	–33,499
Total	**–901,145**	**–828,002**

(8.3) Selling expenses

Selling expenses

EUR thousand	2017	2016
Staff costs	–140,279	–133,615
Outgoing freight	–27,566	–24,728
Advertising costs	–20,256	–20,506
Sales force costs	–18,858	–18,815
Rental payments	–10,046	–9,923
Depreciation and amortisation of intangible assets and property, plant and equipment	–7,688	–6,169
Purchased services	–6,995	–10,275
Other staff costs including personnel leasing	–4,950	–4,274
Legal and consulting costs	–3,431	–3,523
Communication costs	–2,188	–2,417
Write-downs on trade receivables (net)	954	4,977
Defaults	–1,637	–2,026
Other	–15,979	–23,454
Total	**–258,919**	**–254,748**

(8.4) Administrative expenses

Administrative expenses

EUR thousand	2017	2016
Staff costs	–56,833	–54,181
Legal and consulting costs	–11,871	–10,535
Depreciation and amortisation of intangible assets and property, plant and equipment	–10,065	–8,563
Purchased services	–6,304	–6,597
Rental payments	–6,667	–6,080
Other staff costs including personnel leasing	–4,342	–3,867
Travel and entertainment expenses	–3,217	–3,506
Communication costs	–1,765	–2,294
Other	–4,128	–4,601
Total	**–105,192**	**–100,224**

(8.5) Research and non-capitalised development costs

Research and non-capitalised development costs

EUR thousand	2017	2016
Staff costs	–38,805	–37,382
Purchased services	–6,957	–7,186
Depreciation and amortisation of intangible assets and property, plant and equipment	–2,999	–3,131
Other staff costs including personnel leasing	–1,519	–2,104
Third-party maintenance	–1,329	–1,366
Legal and consulting costs	–1,246	–855
Other	–10,724	–12,974
	–63,579	**–64,998**
Capitalised development costs	15,753	17,220
Total	**–47,826**	**–47,778**

(8.6) Other operating income

Other operating income

EUR thousand	2017	2016
Foreign-currency gains from operating activities	7,400	10,504
Income from disposals of intangible assets and property, plant and equipment	635	3,240
Government grants	1,980	2,382
Insurance compensation	211	244
Rental income	45	23
Other	3,312	5,154
Total	**13,583**	**21,547**

The foreign-currency gains from operating activities of EUR 7,400 thousand (previous year: EUR 10,504 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 12,356 thousand (previous year: EUR 7,398 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	2017	2016
Foreign-currency losses from operating activities	-12,356	-7,398
Losses on disposals of intangible assets and property, plant and equipment	-770	-1,273
Other	-5,881	-2,126
Total	**-19,007**	**-10,797**

(8.8) Net finance costs

Net finance costs break down as follows:

Net finance costs

EUR thousand	2017	2016
Net interest costs	-3,253	-4,340
Other net finance income	-2,427	826
Total	**-5,680**	**-3,514**

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

Net interest costs

EUR thousand	2017	2016
Interest income on cash	1,992	1,463
Settlement of derivative financial instruments	0	114
Interest income	**1,992**	**1,577**
Interest expenses on financial liabilities	-7,538	-6,953
Interest on finance leases	-351	-254
Capitalised borrowing costs	2,644	1,290
Interest expenses	**-5,245**	**-5,917**
Total	**-3,253**	**-4,340**

Other net finance income breaks down as follows:

Other net finance income

EUR thousand	2017	2016
Gains on derivative financial instruments	1,803	3,407
Foreign-currency gains from financing activities	0	95
Other	50	30
Other financial income	**1,853**	**3,532**
Losses on derivative financial instruments	–2,150	–754
Foreign-currency losses from financing activities	–895	–508
Interest rate effects from pensions, non-current liabilities and receivables	–1,235	–1,444
Other financial expenses	**–4,280**	**–2,706**
Total	**–2,427**	**826**

The foreign currency gains and losses from financing activities result from the translation of intragroup foreign-currency loans.

In the current financial year, the gains and losses on derivative financial instruments resulted primarily from positive and negative measurement effects of forward exchange contracts. In addition, positive and negative utilisation and measurement effects resulted from commodity derivatives used to hedge prices for commodities within the Wilo Group.

(8.9) Income taxes

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

Income taxes

EUR thousand	2017	2016
Current tax expenses/income		
– reporting year	–23,725	–25,043
– adjustments for prior periods	–2,329	–1,101
Current income taxes	**–26,054**	**–26,144**
Deferred tax income/expense		
– from unutilised loss carry-forwards	14,942	7,498
– from changes in tax rates	–2,693	–13
– from the creation and reversal of temporary differences	2,511	–8,331
– from write-downs and reversals of write-downs on deferred tax assets	111	8
Deferred tax income/expense	**14,871**	**–838**
Income taxes	**–11,183**	**–26,982**

Deferred taxes are determined according to local income tax rates. For Germany, this is a combined tax rate of 30.8 percent (previous year: 30.8 percent) consisting of corporation tax, solidarity surcharge and trade tax. As in the previous year, local income tax rates for foreign entities range from 10.0 percent to 40.0 percent.

Deferred taxes by item in the statement of financial position

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 carry-forwards:

Deferred taxes by item in the statement of financial position

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	**2017**	2016	**2017**	2016
Intangible assets	650	225	20,978	15,888
Property, plant and equipment	1,362	931	7,797	8,735
Inventories	5,038	4,415	341	290
Receivables and other assets	7,561	4,011	2,870	1,096
	14,611	**9,582**	**31,986**	**26,009**
Financial liabilities	0	0	1,145	174
Trade payables	103	175	28	117
Pensions and similar obligations	14,119	15,608	26	0
Other provisions and liabilities	6,581	5,435	9,097	9,346
Tax loss carry-forwards	22,953	8,011	0	0
	43,756	**29,229**	**10,296**	**9,637**
Carrying amount	**58,367**	**38,811**	**42,282**	**35,646**

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. 2016	Recognised in profit or loss	Recognised in other comprehensive income	**Net amount of deferred tax assets/liabilities as at 31 Dec. 2017**
Intangible assets	-15,664	-4,601	-63	-20,328
Property, plant and equipment	-7,804	1,319	50	-6,435
Inventories	4,124	684	-111	4,697
Receivables and other assets	2,915	2,016	-240	4,691
Financial liabilities	-174	-971	0	-1,145
Trade payables	57	18	0	75
Pensions and similar obligations	15,608	-68	-1,447	14,093
Other provisions and liabilities	-3,908	1,532	-140	-2,516
Tax loss carry-forwards	8,011	14,942	0	22,953
Total	**3,165**	**14,871**	**-1,951**	**16,085**

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. 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 carry-forwards	514	7,498	0	8,011
Total	**1,976**	**–838**	**2,027**	**3,165**

EUR –1,447 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 11,759 thousand (previous year: EUR 13,206 thousand). The amount of EUR –504 thousand relates to currency differences.

Unutilised tax loss carry-forwards amounted to EUR 114,608 thousand (previous year: EUR 99,517 thousand) as at the end of the reporting period, EUR 62,764 thousand of which (previous year: EUR 34,823 thousand) can be carried forward indefinitely. The limited tax loss carry-forwards amount to EUR 51,844 thousand (previous year: EUR 64,694 thousand) and can be carried forward between five and 20 years.

Applying local income tax rates, deferred tax assets on loss carry-forwards of EUR 22,953 thousand (previous year: EUR 8,011 thousand) were recognised as at the end of the reporting period. A potential deferred tax asset on loss carry-forwards of EUR 8,554 thousand (previous year: EUR 25,792 thousand) was not recognised on the remaining loss carry-forwards as future utilisation did not seem sufficiently likely at the end of the reporting period.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, deferred tax liabilities of EUR 2,839 thousand (previous year: EUR 3,423 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 159,060 thousand at subsidiaries as at 31 December 2017 (previous year: EUR 138,832 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 in the reconciliation of income taxes in the 2017 financial year. The Wilo Group reported tax expenses of EUR 11,183 thousand (previous year: EUR 26,982 thousand) in its consolidated income statement for 2017. This is EUR 18,725 thousand lower (previous year: EUR 4,729 thousand lower) than the expected tax expense of EUR 29,907 thousand (previous year: EUR 31,711 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	2017	2016
Consolidated net income before taxes	97,102	102,958
Expected tax expense	**–29,907**	**–31,711**
Tax rate changes	–2,693	–13
Difference from foreign tax rates	7,597	6,995
Temporary differences arising on consolidation	647	407
Other permanent differences	–5,533	–4,376
Tax-free income	8,692	5,535
Change in unrecognised deferred taxes on loss carry-forwards	12,045	–1,975
Withholding tax	–1,283	–1,482
Prior-period taxes	–350	–1,293
Other	–398	931
Current tax expense	**–11,183**	**–26,982**

(8.10) Consolidated net income

Consolidated net income

EUR thousand	2017	2016
Earnings before interest and taxes (EBIT)	**106,272**	**107,088**
Net income from investments carried at equity	–3,490	–616
Net finance costs	–5,680	–3,514
Consolidated net income before taxes	**97,102**	**102,958**
Income taxes	–11,183	–26,982
Consolidated net income	**85,919**	**75,976**

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 8.76 (previous year: EUR 7.88), which was calculated after deducting income attributable to non-controlling interests. There are no outstanding preferred shares.

Earnings per share

	2017	2016
Consolidated net income in EUR thousand	85,919	75,976
of which: attributable to non-controlling interests	4	5
of which: attributable to shareholders of WILO SE	85,915	75,971
Number of ordinary shares as at 31 Dec.	9,808,760	9,808,760
Weighted average number of ordinary shares outstanding	9,808,760	9,645,157
Earnings per ordinary share (EUR)	**8.76**	**7.88**

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

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2017 and 2016:

Intangible assets

EUR thousand	Patents, property rights and customer base	Goodwill	Capitalised development costs	Advance payments	Total
Cumulative cost					
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**
As at 1 January 2017	54,567	70,022	45,822	7,043	177,454
Currency translation	–2,321	–5,259	0	0	–7,580
Additions	5,007	0	17,656	7,354	30,017
Additions from business combinations	17,289	43,176	0	0	60,465
Disposals	–441	0	0	–32	–473
Reclassifications	1,766	0	0	–1,766	0
As at 31 December 2017	**75,867**	**107,939**	**63,478**	**12,599**	**259,883**
Cumulative depreciation					
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**
As at 1 January 2017	42,458	5,686	0	0	48,144
Currency translation	–309	–15	0	0	–324
Depreciation in the financial year	7,483	0	47	0	7,530
Disposals	–416	0	0	0	–416
As at 31 December 2017	**49,216**	**5,671**	**47**	**0**	**54,934**
Residual carrying amounts					
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**
As at 1 January 2017	12,109	64,336	45,822	7,043	129,310
As at 31 December 2017	**26,651**	**102,268**	**63,431**	**12,599**	**204,949**

The additions to “Patents, property rights and customer base” mainly relate to software purchases and the brand and customer base from the company acquisition at WILO USA LLC.

Software has a finite useful life and is amortised over a period of between three and five years. The brand and customer base are amortised over a period of between three and 15 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 2017 financial year:

Development of goodwill by division

EUR thousand	1 Jan. 2017	Additions	Currency translation	31 Dec. 2017
Divison				
Heating, Ventilation, Air-Conditioning	7,640	0	-8	7,632
Clean and Waste Water	56,696	43,176	-5,236	94,636
Total	**64,336**	**43,176**	**-5,244**	**102,268**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2017 and 2016 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 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**
As at 1 January 2017	228,345	210,275	294,034	33,339	765,993
Currency translation	–5,966	–2,420	–3,198	–413	–11,997
Additions	22,890	8,223	21,341	42,325	94,779
Additions from business combinations	0	973	0	0	973
Reclassifications	5,908	8,639	8,148	–22,695	0
Disposals	–280	–2,196	–7,127	–348	–9,951
As at 31 December 2017	**250,897**	**223,494**	**313,198**	**52,208**	**839,797**
Cumulative depreciation					
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**
As at 1 January 2017	62,326	145,488	216,385	0	424,199
Currency translation	–940	–1,651	–1,916	0	–4,507
Depreciation in the financial year	7,850	13,414	25,463	0	46,727
Disposals	–146	–2,028	–7,433	0	–9,607
As at 31 December 2017	**69,090**	**155,223**	**232,499**	**0**	**456,812**
Residual carrying amounts					
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**
As at 1 January 2017	166,019	64,787	77,649	33,339	341,794
As at 31 December 2017	**181,807**	**68,271**	**80,699**	**52,208**	**382,985**

Property, plant and equipment includes leased assets in the amount of EUR 5,371 thousand (previous year: EUR 5,435 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. 2017	31 Dec. 2016
Buildings	606	699
Operating and office equipment	4,765	4,736
Total	**5,371**	**5,435**

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 5,075 thousand (previous year: EUR 4,981 thousand).

Minimum lease payments

EUR thousand	31 Dec. 2017	31 Dec. 2016
Total minimum lease payments	5,586	5,363
Interest portion	–511	–382
Present value	**5,075**	**4,981**
Due within one year	2,040	2,001
Due in one to five years	3,035	2,980

(9.3) Operating leases

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

Operating leases

EUR thousand	31 Dec. 2017	31 Dec. 2016
Total minimum lease payments	**32,817**	**49,312**
Due within one year	11,214	16,277
Due in one to five years	17,997	27,360
Due after five years	3,606	5,675

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 22,393 thousand (previous year: EUR 21,675 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 wibutler GmbH (formerly 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 2018.

As at the end of the reporting period, WILO SE held 27.5 percent of the voting rights in wibutler GmbH (formerly iEXERGY GmbH). The shares in wibutler GmbH (formerly iEXERGY GmbH) were written down in full in the 2017 financial year.

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

EUR thousand	31 Dec. 2017	31 Dec. 2016
As at 1 January	**6,106**	**5,472**
Addition	24	1,250
Interest in net loss for the year	–789	–616
Impairment	–2,701	0
As at 31 December	**2,640**	**6,106**

(9.5) Inventories

Inventories

EUR thousand	31 Dec. 2017	31 Dec. 2016
Raw materials and supplies	95,226	73,122
Work in progress	18,554	16,949
Finished goods and goods for resale	119,831	118,042
Advance payments	982	427
Total	**234,593**	**208,540**

The write-down on inventories results from the difference between the lower of cost and the net realisable value. As at 31 December 2017, the write-down on inventories amounted to EUR 22,732 thousand (previous year: EUR 23,576 thousand) with a gross carrying amount of EUR 257,325 thousand (previous year: EUR 232,116 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 269,160 thousand (previous year: EUR 261,966 thousand) are due in the 2018 financial year. Non-current trade receivables of EUR 2,762 thousand (previous year: EUR 4,804 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.

If trade receivables are past due, assumptions are made regarding the expected settlement date. If a long-range settlement date is assumed, the receivables are discounted accordingly.

Specific and general valuation allowances on trade receivables changed as follows in the 2017 and 2016 financial years:

Specific valuation allowances

EUR thousand	2017	2016
As at 1 January	17,458	13,759
Currency translation	-847	-87
Additions	1,997	5,207
Utilisation	-632	-821
Reversals	-2,970	-600
As at 31 December	**15,006**	**17,458**

General valuation allowances

EUR thousand	2017	2016
As at 1 January	3,263	3,259
Currency translation	-219	-37
Additions	2,220	1,049
Utilisation	-45	-329
Reversals	-293	-679
As at 31 December	**4,926**	**3,263**

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 2017 and 2016:

Other financial assets

EUR thousand	31 Dec. 2017 of which with a remaining term Total	Less than 1 year	More than 1 year	31 Dec. 2016 of which with a remaining term Total	Less than 1 year	More than 1 year
Receivables from unconsolidated subsidiaries, jointly controlled entities and associates	151	151	0	167	167	0
Receivables from derivative financial instruments	5,883	3,139	2,744	2,110	2,103	7
Loans	37	0	37	15	0	15
Available-for-sale financial assets	723	0	723	218	0	218
Other financial receivables	6,018	2,651	3,367	6,454	2,477	3,977
Total	**12,812**	**5,941**	**6,871**	**8,964**	**4,747**	**4,217**

Available-for-sale financial assets include equity securities of EUR 716 thousand (previous year: EUR 211 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 2017 and 2016:

Other receivables and assets

EUR thousand	31 Dec. 2017 of which with a remaining term Total	Less than 1 year	More than 1 year	31 Dec. 2016 of which with a remaining term Total	Less than 1 year	More than 1 year
Tax receivables	27,301	20,394	6,907	28,952	11,751	17,201
Advance payments	5,431	5,418	13	6,345	6,331	14
Employer pension liability assets	3,204	0	3,204	2,929	0	2,929
Prepaid expenses	2,354	2,273	81	2,681	2,572	109
Receivables from employees	1,045	1,045	0	653	653	0
Total	**39,335**	**29,130**	**10,205**	**41,560**	**21,307**	**20,253**

(9.9) Cash

The cash of EUR 161,814 thousand (previous year: EUR 178,274 thousand) mainly comprises cash and sight deposits at banks. There are restrictions on title of EUR 495 thousand (previous year: EUR 552 thousand).

(9.10) 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: 9,808,760) and, as in the previous year, no preferred shares in circulation as at 31 December 2017.

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

CAPITAL RESERVES The capital reserves of EUR 26,161 thousand (previous year: EUR 26,161 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. In the 2016 financial year, ordinary shares were sold 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 2017 and 2016:

Other reserves

EUR thousand	2017	2016
As at 1 January	**631,623**	**560,228**
WILO SE shareholders' interest in:		
Consolidated net income	85,915	75,971
Other comprehensive income	–15,230	–509
Dividend payment	–17,268	–4,049
Other changes	–22	–18
As at 31 December	**685,018**	**631,623**

TREASURY SHARES As at 31 December 2017, the company held 567,989 treasury shares, or 5.5 percent of the share capital. As at 31 December 2017, the company reported 308,571 ordinary shares (previous year: 308,571) 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 21 March 2017 resolved to distribute EUR 17,263 thousand from the unappropriated surplus as at 31 December 2016 (previous year: EUR 4,049 thousand). This corresponds to a dividend per ordinary share of EUR 1.76.

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 2017 was EUR 706,979 thousand (previous year: EUR 653,582 thousand). This is mostly accounted for by EUR 745,006 thousand (previous year: EUR 676,381 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 747,704 thousand (previous year: EUR 679,079 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 2017 and 2016 financial years. More detailed information on these senior notes and promissory note loans can be found in note (9.11).

(9.11) Financial liabilities

Financial liabilities break down as follows as at 31 December 2017 and 2016:

Financial liabilities

EUR thousand	31 Dec. 2017	31 Dec. 2016
Long-term borrowings		
with a remaining term		
of between one and five years	84,291	82,240
of more than five years	106,923	36,982
Total	**191,214**	**119,222**
Current financial liabilities		
with a remaining term		
of less than one year	10,911	18,116

WILO SE reported the following material financing agreements as at 31 December 2017:

- **USPP 2027** In May 2017, WILO SE issued a senior note of USD 30.0 million (EUR 27.5 million) maturing in 2027 with an interest rate of 3.22 percent p.a. as part of another US private placement ("USPP 2027"). It is not secured against real property or financial assets of WILO SE. The placement was part of a multi-currency shelf facility totalling USD 150.0 million. The senior note had a carrying amount of EUR 24.9 million as at 31 December 2017.

- **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 2027** In June 2017, WILO SE took out a promissory note loan ("promissory note loan 2027") of EUR 50.0 million, maturing in 2027, at an interest rate of 1.35 percent p.a. The promissory note loan is repayable semi-annually in the amount of EUR 5.0 million from December 2022. It is not secured against real property or financial assets of the company.

- **PROMISSORY NOTE LOAN 2020** In January 2011, WILO SE took out a promissory note loan ("promissory note loan 2020") of EUR 25.0 million, maturing in 2020, at an interest rate of 4.08 percent p.a. It has been repaid semi-annually in the amount of around EUR 1.25 million since 2011. The promissory note loan had a carrying amount of EUR 7.5 million (previous year: EUR 10.0 million) as at the end of the reporting period and is not secured against real property or financial assets of the company.

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 2017 and 2016 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 995 thousand (previous year: EUR 491 thousand).

The fair value of the financial liabilities calculated using net present value models was EUR 217,554 thousand as at 31 December 2017 (previous year: EUR 157,283 thousand).

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2018 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 2017 and 2016:

Maturity structure of financial liabilities

As at 31 December 2017

			Maturity structure							
EUR million	Nominal amount	Carrying amount	2018	2019	2020	2021	2022	2023	2024–27	**Total**
USPP 2027	USD 30.0 million	24.9	0.0	0.0	0.0	0.0	0.0	0.0	24.9	24.9
USPP 2023	EUR 37.0 million	37.0	0.0	0.0	0.0	0.0	0.0	37.0	0.0	37.0
USPP 2021	EUR 75.0 million	75.0	0.0	0.0	0.0	75.0	0.0	0.0	0.0	75.0
Promissory note loan 2027	EUR 50.0 million	50.0	0.0	0.0	0.0	0.0	5.0	10.0	35.0	50.0
Promissory note loan 2020	EUR 25.0 million	7.5	2.5	2.5	2.5	0.0	0.0	0.0	0.0	7.5
		194.4	**2.5**	**2.5**	**2.5**	**75.0**	**5.0**	**47.0**	**59.9**	**194.4**
Overdraft		7.7	7.7	0.0	0.0	0.0	0.0	0.0	0.0	7.7
Financial liabilities		**202.1**	**10.2**	**2.5**	**2.5**	**75.0**	**5.0**	**47.0**	**59.9**	**202.1**

As at 31 December 2016

			Maturity structure							
EUR million	Nominal amount	Carrying amount	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**

(9.12) Trade payables

Trade payables break down as follows as at 31 December 2017 and 2016:

Trade payables

EUR thousand	31 Dec. 2017	31 Dec. 2016
Trade payables		
with a remaining term		
of between one and five years	89	228
of less than one year	169,024	142,180
Total	**169,113**	**142,408**

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.

(9.13) Other financial liabilities

Other financial liabilities break down as follows as at 31 December 2017 and 2016:

Other financial liabilities

EUR thousand	31 Dec. 2017	31 Dec. 2016
Non-current other financial liabilities	**7,462**	**6,451**
of which		
Finance lease liabilities		
with a remaining term of between one and five years	3,035	2,980
Liabilities from derivative financial instruments		
with a remaining term of between one and five years	138	0
Miscellaneous financial liabilities		
with a remaining term of between one and five years	4,289	3,471
Total	**7,462**	**6,451**
Current other financial liabilities	**33,813**	**35,811**
of which		
Bills payable	11,252	12,518
Liabilities to non-consolidated subsidiaries, jointly controlled entities or associates	2,701	2,696
Finance lease liabilities	2,040	2,001
Liabilities from derivative financial instruments	396	141
Miscellaneous financial liabilities	17,424	18,455
Total	**33,813**	**35,811**

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

(9.14) Other liabilities

Other liabilities break down as follows as at 31 December 2017 and 2016:

Other liabilities

EUR thousand	31 Dec. 2017	31 Dec. 2016
Non-current other liabilities		
Deferred income	1,601	986
Total	**1,601**	**986**
Current other liabilities		
Tax liabilities	23,384	30,284
Staff liabilities	32,897	29,361
Advance payments received	11,361	9,441
Social security liabilities	4,874	4,409
Deferred income	18	18
Miscellaneous other liabilities	6,425	2,167
Total	**78,959**	**75,680**

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.

(9.15) Provisions for pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2017 and 2016:

Provisions for pensions and similar obligations

EUR thousand	31 Dec. 2017	31 Dec. 2016
Provisions for pensions	75,676	80,945
Similar obligations	3,993	4,068
Total	**79,669**	**85,013**

Provisions for pensions are composed as follows:

Provisions for pensions

EUR thousand	31 Dec. 2017	31 Dec. 2016
Present value of the pension obligation	87,849	91,907
Fair value of plan assets	-12,173	-10,962
Provisions for pensions	**75,676**	**80,945**

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 2,916 thousand (previous year: EUR 2,509 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	2017	2016
As at 1 January	**91,907**	**82,464**
Current service cost	3,271	2,986
Past service cost	49	43
Interest expense	1,416	1,655
Remeasurement		
Actuarial gains/losses from the change in demographic assumptions	-843	241
Actuarial gains/losses from the change in financial assumptions	-4,106	7,668
Actuarial gains/losses from experience adjustments	-483	-62
Pension payments	-3,224	-2,925
Currency effects and other changes	-138	-163
As at 31 December	**87,849**	**91,907**

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 48,325 thousand (previous year: EUR 50,357 thousand)
- Deferred members: EUR 7,183 thousand (previous year: EUR 7,840 thousand)
- Pensioners: EUR 32,341 thousand (previous year: EUR 33,710 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 %	
		2017	2016
Discount rate	+0.5%	-7.2	-7.2
	-0.5%	8.2	8.1
Pension factor	+0.25%	2.4	2.5
	-0.25%	-2.3	-2.4
Salary factor	+0.25%	0.7	0.7
	-0.25%	-0.6	-0.7
Life expectancy	+10%	6.0	6.2

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 2017, the weighted average duration of the defined benefit obligation was 16.9 years (previous year: 17.4 years).

71.8 percent of the pension obligations of EUR 87,849 thousand (previous year: EUR 91,907 thousand) relate to Germany (previous year: 73.4 percent).

The fair value of plan assets changed as follows:

Fair value of plan assets

EUR thousand	2017	2016
As at 1 January	**10,962**	**10,175**
Interest income	223	203
Remeasurement		
Loss on plan assets (excluding interest income)	–81	–105
Payments	–599	–439
Amounts paid in by employer	1,700	1,551
Currency effects and other changes	–32	–423
As at 31 December	**12,173**	**10,962**

Plan assets comprise the following:

Plan assets break down

EUR thousand	2017	2016
Cash	10,094	8,999
Qualifying insurance policies	1,700	1,588
Investment funds	379	375
As at 31 December	**12,173**	**10,962**

Furthermore, there are employee pension liability policies to cover provision-funded pension obligations in the amount of EUR 2,405 thousand (previous year: EUR 2,373 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 3,993 thousand for 2017 (previous year: EUR 4,068 thousand). They include gross obligations for WILO SE of EUR 2,900 thousand (previous year: EUR 2,971 thousand). The EUR 1,978 thousand (previous year: EUR 2,048 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 799 thousand (previous year: EUR 556 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 2017 was determined using a discount rate of 2.00 percent (previous year: 1.30 percent). Furthermore, an annual wage and salary increase of 1.50 percent was assumed (previous year: 1.50 percent).

(9.16) 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 2017 financial year. The Wilo Group expects that the corresponding repayments of EUR 19,140 thousand (previous year: EUR 19,514 thousand) will be almost fully paid to customers by the middle of 2018.

Other provisions

EUR thousand	1 Jan. 2017	Currency translation	Utilisation	Reversal	Additions	31 Dec. 2017
Non-current						
Guarantees	3,894	–33	386	372	521	3,624
Current						
Guarantees	16,041	–207	1,224	1,398	3,410	16,622
Bonuses and rebates	19,514	–247	16,457	2,810	19,140	19,140
Other	7,765	–245	1,752	193	2,453	8,028
Total	**43,320**	**–699**	**19,433**	**4,401**	**25,003**	**43,790**

(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 2017 consisted of EUR 161,814 thousand (previous year: EUR 178,274 thousand) in cash and sight deposits with banks, EUR 495 thousand (previous year: EUR 552 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 -5,204 thousand (previous year: EUR 1,239 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 "Capital expenditure and cash flows" in the Group management report. Purchases of intangible assets include payments in connection with capitalised development costs of EUR 17,656 thousand (previous year: EUR 18,510 thousand).

The cash flow from financing activities shows the following changes in financial liabilities:

Changes in financial liabilities

EUR thousand	**1 Jan. 2017**	Proceeds from assuming financial liabilities	Repayment of financial liabilities	**31 Dec. 2017**
Financial liabilities (non-current)	119,222	74,900	2,908	191,214
Overdraft	18,116	4,684	11,889	10,911
Financial liabilities	**137,338**			**202,125**
Cash flow from financing activities		**79,584**	**14,797**	

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.

On 3 March 2017, WILO USA LLC made a company purchase (asset deal). Parts of the companies ARDOX CORP., Cedarburg, WI/USA, WEIL PUMP COMPANY INC., Cedarburg, WI/USA and KARAK MACHINE CORP., Cedarburg, WI/USA, necessary for operations were acquired. In the statement of cash flows, the acquisition is included in investing activities under purchases of consolidated companies. Detailed information on company acquisitions is provided in note (4).

(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 235,038 thousand (previous year: EUR 238,810 thousand) were generated with external customers in the 2017 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 2017 and 2016 financial years is as follows:

Segment information

2017

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**749,626**	**414,368**	**194,398**	**66,386**	**1,424,778**
Segment EBIT	**73,080**	**23,583**	**13,170**	**-3,561**	**106,272**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	29,283	13,768	7,866	3,340	54,257
of which non-cash expenses	23,186	4,206	1,882	1,405	30,679

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

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

Earnings before interest and taxes (EBIT)

EUR thousand	2017	2016
Earnings before interest and taxes (EBIT)	106,272	107,088
Net income from investments carried at equity	–3,490	–616
Net finance costs	–5,680	–3,514
Consolidated net income before taxes	**97,102**	**102,958**
Income taxes	–11,183	–26,982
Consolidated net income	**85,919**	**75,976**

Net sales break down as follows among the market segments:

Net sales by market segment

EUR thousand	2017	2016
Building Services	1,117,470	1,044,717
Water Management & Industry	307,308	282,373
Total	**1,424,778**	**1,327,090**

(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 2017 and the changes as against the previous year:

Derivative financial instruments

	Fair value				Nominal amount	
	Maturity from 31 Dec. 2017					
EUR thousand	Less than 1 year	Between 1 and 5 years	Previous year	Total change	31 Dec. 2017	31 Dec. 2016
Forward exchange contracts	806	2,607	583	2,830	86,351	21,436
Commodity derivatives	1,936	0	1,386	550	11,795	9,786

Net finance costs include gains of EUR 1,803 thousand (previous year: EUR 3,407 thousand) and losses of EUR 2,150 thousand (previous year: EUR 754 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 2017 and 2016 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 2017

		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. 2017**
Current and non-current financial assets					
Trade receivables	Loans and receivables	271,922			271,922
Other financial assets					
Receivables from subsidiaries, jointly controlled entities and associates	Loans and receivables	151			151
Receivables from derivative financial instruments	Financial assets held for trading		5,883		5,883
Loans	Loans and receivables	37			37
Available-for-sale financial assets	Available for sale	716	7		723
Miscellaneous financial receivables	Loans and receivables	6,018			6,018
Cash	Loans and receivables	161,814			161,814
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	202,125			202,125
Trade payables	Financial liabilities at amortised cost	169,113			169,113
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	11,252			11,252
Liabilities to subsidiaries, jointly controlled entities and associates	Financial liabilities at amortised cost	2,701			2,701
Finance lease liabilities	n/a			5,075	5,075
Liabilities from derivative financial instruments	FLHfT		534		534
Miscellaneous financial liabilities	Financial liabilities at amortised cost	21,713			21,713
of which aggregated by measurement category under IAS 39					
Loans and Receivables (LaR)		439,942			439,942
Available for Sale (AfS)		716	7		723
Financial Assets Held for Trading (FAHfT)			5,883		5,883
Financial Liabilities measured at Amortised Cost (FLAC)		406,904			406,904
Financial Liabilities Held for Trading (FLHfT)			534		534

Financial assets and liabilities as at 31 December 2016

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. 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	FLHfT		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 (LaR)		451,680			451,680
Available for Sale (AfS)		211	7		218
Financial Assets Held for Trading (FAHfT)			2,110		2,110
Financial Liabilities measured at Amortised Cost (FLAC)		316,886			316,886
Financial Liabilities Held for Trading (FLHfT)			141		141

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 202,125 thousand (previous year: EUR 137,338 thousand) and a fair value of EUR 217,554 thousand (previous year: EUR 157,283 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 716 thousand as at 31 December 2017 (previous year: EUR 211 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 5,883 thousand (previous year: EUR 2,110 thousand) and EUR 534 thousand (previous year: EUR 141 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 2017 and 2016 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
2017 financial year							
LaR	439,942	1,992		-4,298	3,263	-2,575	-1,618
Available for sale	723	0					0
Financial assets/ liabilities held for trading	5,349	0	-347				-347
Financial liabilities at amortised cost	-406,904	-4,894				-3,241	-8,135
Total		**-2,902**	**-347**	**-4,298**	**3,263**	**-5,816**	**-10,100**
2016 financial year							
LaR	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**

(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 2017 and 2016 that were recognised at fair value or for which the fair value was disclosed.

Fair value hierarchy

	31 Dec. 2017 Level 2	31 Dec. 2016 Level 2
Available-for-sale financial assets	7	7
Receivables from derivative financial instruments (financial assets held for trading)	5,883	2,110
Liabilities from derivative financial instruments (financial liabilities held for trading)	534	141
Financial liabilities (loans and receivables)	**217,554**	**157,283**

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 2017 and 2016.

If reclassifications to another level in the valuation hierarchy are required, these are made as at the end of the financial year in which the event occurs that 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 2017 and 2016 in the respective foreign currency. This consists of foreign-currency transactions in operating activities and foreign-currency financing activities up to 31 December 2017 and 2016, as well as expected foreign-currency transactions in operating activities in 2018 and 2017. 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 2017

in million	EUR	USD	GBP	PLN	RON	RUB	SEK
Cash	7.1	4.6	2.2	0.0	0.0	0.0	8.0
Trade and other receivables	11.9	5.2	0.0	0.0	0.0	0.0	0.0
Receivables from affiliated companies	3.1	20.6	0.8	6.2	14.2	26.2	27.0
Trade and other payables	–3.9	–13.8	0.0	0.0	0.0	0.0	0.0
Liabilities due to affiliated companies	–29.0	–17.0	–0.2	–0.2	0.0	–10.8	0.0
Financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency risk from assets and liabilities (gross)	**–10.8**	**–0.4**	**2.8**	**6.0**	**14.2**	**15.4**	**35.0**
Expected sales in 2018	78.3	74.5	16.2	104.5	36.9	3,530.0	65.0
Expected acquisitions in 2018	–106.8	–95.5	–0.1	0.0	0.0	–60.0	0.0
Currency risk from expected transactions in operating activities in 2018 (gross)	**–28.5**	**–21.0**	**16.1**	**104.5**	**36.9**	**3,470.0**	**65.0**
Hedging	0.0	3.3	–10.0	–24.0	–7.0	–360.0	–36.0
Currency risk (net)	**–39.3**	**–18.1**	**8.9**	**86.5**	**44.1**	**3,125.4**	**64.0**

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	0.0	0.0
Currency risk from assets and liabilities (gross)	**–0.4**	**10.5**	**1.5**	**6.4**	**10.1**	**73.0**	**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**	**3,345.8**	**68.5**

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

	2017		2016	
EUR million	**+10%**	**–10%**	+10%	–10%
EUR	–4.4	3.6	–4.2	3.4
USD	–1.7	1.4	–0.8	0.6
GBP	1.1	–0.9	1.3	–1.0
PLN	2.3	–1.9	2.2	–1.8
RON	1.0	–0.9	1.2	–1.0
RUB	5.0	–4.1	5.7	–4.7
SEK	0.7	–0.6	0.8	–0.7

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. As the Wilo Group does not use hedge accounting, there is no material impact on other comprehensive income.

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 2018 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 2019 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	**2017**	2016	**2017**	2016	**2017**	2016
Price increase (10%)						
Impact on earnings	–685	–536	–497	–455	–1,182	–991
Price decrease (10%)						
Impact on earnings	685	536	497	455	1,182	991

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 2017 and 2016. 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. 2017							
Trade receivables	271,922	211,613	22,766	4,249	3,855	2,870	4,750
Other financial assets*	6,206	6,206	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. 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

* 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 291,855 thousand (previous year: EUR 287,491 thousand). As at 31 December 2017, EUR 15,006 thousand (previous year: EUR 17,457 thousand) in specific write-downs was recognised on past due trade receivables of EUR 36,825 thousand (previous year: EUR 34,594 thousand).

A further EUR 4,926 thousand (previous year: EUR 3,263 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 723 thousand (previous year: EUR 218 thousand) on available-for-sale financial assets and of EUR 5,884 thousand (previous year: EUR 2,110 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 2017.

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 2017			
Receivables from derivative financial instruments	5,884	–513	5,371
Liabilities from derivative financial instruments	–534	513	–21
31 December 2016			
Receivables from derivative financial instruments	2,110	–80	2,030
Liabilities from derivative financial instruments	–141	80	–61

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 7.7 million as at 31 December 2017 (previous year: EUR 15.3 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 (9.11)).

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 2017 and 2016:

Cash outflows for financial liabilities as at 31 Dec. 2017

31 Dec. 2017	Carrying amount	Agreed payments	Maturities: Less than 1 year	Between 1 and 5 years	More than 5 years
Financial liabilities					
Non-current	191,214	–221,197	–6,323	–102,394	–112,480
Current	10,911	–10,911	–10,911	0	0
Trade payables	169,113	–169,113	–169,024	–89	0
Finance lease liabilities	5,075	–5,075	–2,040	–3,035	0
Other financial liabilities	35,666	–35,666	–31,377	–4,289	0
Derivative financial instruments	534	–534	–396	–138	0
Total	**412,513**	**–442,496**	**–220,071**	**–109,945**	**–112,480**

Cash outflows for financial liabilities as at 31 Dec. 2016

31 Dec. 2016	Carrying amount	Agreed payments	Maturities: Less than 1 year	Between 1 and 5 years	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**

(14.) Other disclosures

(14.1) Waiver of disclosure

The following Group companies waived disclosure in accordance with section 264 (3) HGB: WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund, WILO Nord Amerika 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 4,669 thousand as at 31 December 2017 (previous year: EUR 3,273 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 656 thousand (previous year: EUR 1,100 thousand) had an agreed remaining term of less than one year as at 31 December 2017, while nominal obligations of EUR 102 thousand (previous year: EUR 303 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 3,912 thousand (previous year: EUR 1,870 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amounted to EUR 82,449 thousand as at 31 December 2017 (previous year: EUR 24,324 thousand). This increase is especially due to the construction work for a state-of-the-art smart factory. In connection with this, the Group also has 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

	2017	2016
Production	4,382	4,280
Sales and administration	3,344	3,268
Total	**7,726**	**7,548**
Germany	2,690	2,677
Abroad	5,036	4,871
Total	**7,726**	**7,548**

The average number of employees rose by 2.4 percent year on year (previous year: 2.2 percent).

(14.4) Staff costs

Staff costs according to section 315e in conjunction with section 314 (1) no. 4 HGB of the financial year break down as follows:

Staff costs

EUR thousand	2017	2016
Wages and salaries	317,343	298,518
Social security contributions and expenses for retirement benefits	71,237	70,036
of which for retirement benefits EUR 7,718 thousand (previous year: EUR 9,516 thousand)		
Total	**388,580**	**368,554**

(14.5) Proposal for the appropriation of profits

At the proposal of the Executive Board, the Annual General Meeting of WILO SE on 28 March 2018 shall resolve the payment of a dividend of EUR 1.97 per ordinary share, with the remaining unappropriated surplus of WILO SE being carried forward to new account.

(14.6) Events after the balance sheet date

The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 16 February 2018. 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 151 thousand (previous year: EUR 167 thousand). Liabilities to these companies amounted to EUR 2,701 thousand at the reporting date (previous year: EUR 2,696 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 517 thousand (previous year: EUR 662 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 1,863 thousand (previous year: EUR 704 thousand) from these companies in the 2017 financial year.

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 731 thousand (previous year: EUR 97 thousand) were generated with the heating and air conditioning installation company in the 2017 financial year. There were receivables from this company of EUR 677 thousand as at 31 December 2017 (previous year: EUR 1 thousand). At the same time, the Wilo Group procured goods and services in the amount of EUR 623 thousand (previous year: EUR 292 thousand) from this company. There were liabilities to this company of EUR 2 thousand as at 31 December 2017 (previous year: EUR 0 thousand). A plot of land with a standing building, which was owned by shareholders, was acquired in the 2017 financial year as part of the campus project. The purchase price was EUR 9,900 thousand (previous year: 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 492 thousand were made to these shareholders in 2017 (previous year: EUR 923 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 39 thousand from this service agreement in 2017 (previous year: EUR 61 thousand). There were no receivables from the Foundation as at 31 December 2017 (previous year: EUR 91 thousand).

(14.8) Auditor's fees

The following fees were recognised as an expense in the 2017 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

Auditor's fees

EUR thousand	2017	2016
Audits of financial statements		
of which for the previous year: EUR 7 thousand (2016: EUR 6 thousand)	428	407
Other assurance services		
of which for the previous year: EUR 2 thousand (2016: EUR 26 thousand)	91	111
Other services		
of which for the previous year: EUR 23 thousand (2016: EUR 127 thousand)	132	417
Total	**651**	**935**

(14.9) Remuneration of the Executive Board and the Supervisory Board

The table below shows the remuneration of the Executive Board:

Remuneration of the Executive Board and the Supervisory Board

EUR thousand	2017	2016
Total remuneration of the Executive Board	**5,442**	**5,652**
Short-term benefits	3,838	3,071
Post-employment benefits	310	2,581
Benefits under IAS 24.17 (d)	1,294	0

As at the end of the reporting period, EUR 0.8 million (previous year: EUR 0.7 million) was recognised as a liability that will not be paid out until the following financial year after approval of the consolidated financial statements.

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). As at 31 December 2017, a total of 259,420 virtual shares have 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 2017, a provision of EUR 250 thousand was reported under other provisions (previous year: 250).

The total remuneration paid to former members of the Executive Board amounted to EUR 1.0 million in the 2017 financial year (previous year: EUR 1.0 million). As at the end of the reporting period, a pension provision of EUR 8.3 million (previous year: EUR 9.2 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 2017 financial year.

(14.10) Executive bodies of the company

SUPERVISORY BOARD

Prof. Norbert Wieselhuber
– Chairman –
Managing Director of Dr. Wieselhuber & Partner GmbH
Management Consultancy
Planegg

Prof. 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

Lars Roßner
Partner at Buse Heberer Fromm,
Rechtsanwälte Steuerberater PartG mbH
Dusseldorf

Dr Ing. h.c. Jochen Opländer
is the Honorary Chairman of the Supervisory Board.

EXECUTIVE BOARD

Oliver Hermes
– Chairman –
Essen

Eric Lachambre (until 31 July 2017)
Dusseldorf

Dr Markus Beukenberg (until 31 July 2017)
Mülheim/Ruhr

Carsten Krumm
Dortmund

Georg Weber (from 1 August 2017)
Dusseldorf

Mathias Weyers
Essen

Dortmund, 19 February 2018

The Executive Board

Oliver Hermes | Carsten Krumm | Georg Weber | Mathias Weyers

Shareholdings

Shareholdings of WILO SE as at 31 December 2017 (Disclosure pursuant to section 315e HGB)

	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
Hydroserve GmbH, Leopoldsdorf/Austria*	100.0
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
wibutler GmbH, Münster/Germany (formerly: iEXERGY GmbH)****	27.5
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/Czechia	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 East Africa Ltd., Nairobi/Kenya*	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
WILO Italia s.r.l., Peschiera Borromeo (Milan)/Italy	100.0

Shareholdings of WILO SE as at 31 December 2017 (Disclosure pursuant to section 315e HGB)

	Shareholding in %
WILO Lebanon S.A.R.L., Beirut/Lebanon	100.0
WILO Lietuva UAB, Vilnius/Lithuania	100.0
WILO Logistic Nordic AB, Växjö/Sweden*	100.0
WILO Magyarország Kft., Törökbálint/Hungary	100.0
WILO Malaysia Sdn. Bhd., Petaling Jaya/Malaysia*	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., Riyadh/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 Pars Co. (PJS), Tehran/Iran*	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., Riyadh/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 2017 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

We 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 2017. 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 315e (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 315e (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, 19 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer	Huperz
German Public Auditor	German Public Auditor

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 2017 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 five meetings in person and three meetings by way of correspondence in 2017.

The extraordinary Supervisory Board meeting on 3 February 2017 centred on the decision to carry out the GoWest project, comprising the acquisition of the operating business of the pump manufacturers Weil Pump Company, Inc., Scot Pump Company and Karak Machine Corporation. The three companies with around 140 employees all have their headquarters and production sites in Cedarburg, Wisconsin. The company acquisition was implemented successfully.

The Supervisory Board meeting held by way of correspondence in February 2017 dealt with the acquisition of the land at Nortkirchenstraße 59 in connection with the location development in Dortmund.

The Supervisory Board meeting on 21 March 2017 focused on the annual financial statements and the consolidated financial statements as at 31 December 2016. The business performance of the Wilo Group in light of the global economic situation was discussed in detail. Another key topic at the meeting was the status of the location development project in Dortmund.

At the meeting on 7 June 2017, 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, and the presentation of planned growth initiatives. The meeting also dealt with the conclusion of a special investment contract in Russia, which was expressly welcomed by the Supervisory Board. Finally, Dr Markus Beukenberg used the meeting to announce his resignation as a member of the Executive Board effective 31 July 2017. However, Dr Beukenberg remains available to WILO SE as general representative.

The two other Supervisory Board meetings held by way of correspondence in June and July 2017 dealt with the termination of Mr Eric Lachambre's Executive Board employment, the appointment of Mr Georg Weber to the Executive Board and the expansion of Mr Carsten Krumm's Executive Board portfolio.

At its meeting on 20 October 2017, the Supervisory Board dealt with current economic developments and the status of the Dortmund location development. In addition, the results of the annual, international executive conference were presented. The agenda also included the resolution on the new, entirely function-based organisational structure of the Wilo Group. Effective 1 January 2018, all production- and development-related areas are managed by the Chief Production and Technology Officer (CTO). The Wilo Group's sales activities worldwide are pooled under the sole management and coordination of the Chief Sales Officer (CSO). Group Marketing was newly assigned to the Chief Executive Officer (CEO). The focus here is on the continuing enhancement and strengthening of the Wilo brand and the intensification of strategic brand management.

At the meeting on 13 December 2017, the Supervisory Board dealt in depth with the integrated planning 2018–2022, the issues of product and location development and the Wilo Group's M&A strategy. 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 2017 financial year presented with the annual report and the separate financial statements of WILO SE for the 2017 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 27 March 2018 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 Dr Hinrich Mählmann, Lars Roßner and Prof. Hans-Jörg Bullinger.

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 28 March 2018, 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:

Mr Eric Lachambre and Dr Markus Beukenberg resigned their posts as Executive Board members effective 31 July 2017.

By way of correspondence in June and July 2017, the Supervisory Board appointed Mr Georg Weber as a member of the WILO SE Executive Board with effect from 1 August 2017.

The Supervisory Board wishes Mr Weber 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 challenging conditions, 2017 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 2018

N. Wieselhuber

The Supervisory Board
Prof. 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.

Europe
The Europe segment comprises the following countries/regions: all European states except Russia, Belarus and Ukraine.

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.

MEDIA

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The annual report is also available online

desktop mobil

www.wilo.com/annual-report-2017

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* 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.

Pioneering for You

WILO SE

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