Exploring new Horizons

Annual Report 2013

wilo

Africa, Southeast Asia and Latin America – these regions are already full of dynamism – their future potential is enormous. They also epitomise those megatrends that Wilo considers decisive for its own growth: globalisation, urbanisation, water scarcity, energy shortage, climate change and technological progress. Pioneering for You. This means growing on the basis of experience and with circumspection in new markets – and not only here.

Contents

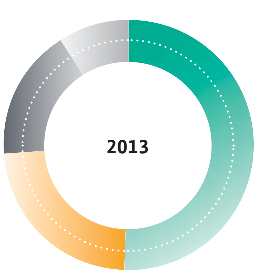
// EUR 1.23 billion – fourth consecutive sales record // 7,194 employees worldwide – more than ever before // EUR 125.7 million – highest EBIT ever // EUR 177.5 million cash – stable financial position // EUR 8.12 – record earnings per ordinary share // EUR 43.9 million for research and development – 12 per cent more than in the previous year //

Wilo Group key indicators

		2013	2012	2011	2010	2009
Sales	EUR million	1,230.8	1,187.1	1,070.5	1,021.4	926.1
Growth in sales	%	3.7	10.9	4.8	10.3	–5.2
EBIT	EUR million	125.7	119.7	97.6	111.4	90.9
(as % of sales)	%	10.2	10.1	9.1	10.9	9.8
Consolidated net income	EUR million	83.0	78.2	53.4	71.1	68.6
(as % of sales)	%	6.7	6.6	5.0	7.0	7.4
Earnings per ordinary share	EUR	8.12	7.63	5.19	7.31	7.04
Cash flow from operating activities	EUR million	130.2	120.8	54.4	95.1	142.3
Free cash flow	EUR million	59.4	24.8	–10.9	34.4	97.4
Cash	EUR million	177.5	176.5	166.0	152.8	140.4
Capital expenditure	EUR million	63.9	90.0	61.5	52.4	39.7
R&D costs	EUR million	43.9	39.2	36.8	33.8	35.3
(as % of sales)	%	3.6	3.3	3.4	3.3	3.8
Equity *	EUR million	476.9	458.0	407.2	401.1	349.3
Equity ratio *	%	47.9	46.8	45.8	47.6	47.3
Employees (annual average)	Number	7,194	6,900	6,708	6,268	6,027

* The equity and equity ratio were calculated retroactively to 2009 applying IAS 19 (2011).

Regional sales trends



	2013 EUR million	in %	2012 EUR million	in %
Europe	622.6	50.6	615.9	51.9
Asia Pacific	287.4	23.4	271.2	22.8
EMEA	210.0	17.0	195.5	16.5
Others	110.8	9.0	104.5	8.8
Total	**1,230.8**	**100.0**	**1,187.1**	**100.0**

// Customer-oriented network of more than 60 subsidiaries and 16 production sites // Target to 2020: push sales to EUR 2 billion with an EBIT margin of more than 10 per cent // Increased headcount in research and development by approximately a quarter // With a high level of investments, we have created the conditions for strong future growth //

Building Services

In order to maximise the efficiency of buildings, it is becoming increasingly important to use innovative and energy-saving systems incorporating components that are optimally matched to one another. Whether it is detached and semi-detached dwellings, public buildings, industrial complexes, office buildings, hospitals or hotels: Wilo offers energy-efficient solutions for heating technology, air conditioning, water supply and waste disposal systems.

Water Management

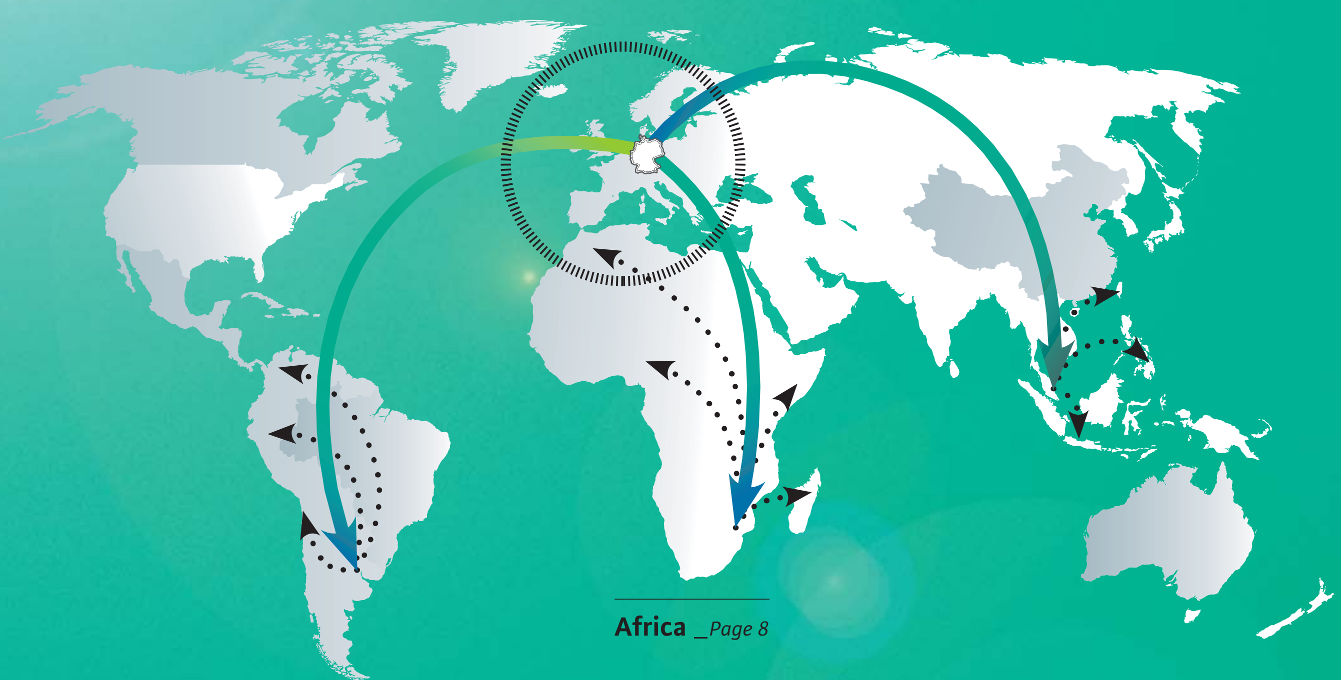
All life is completely dependent on water. However, this valuable resource is becoming increasingly scarce. The ability to ensure the purification and supply of water is rapidly developing into a global challenge. Wilo offers professional solutions designed to meet the complex requirements involved in the production of drinking water, water purification, water pumping and waste-water disposal. Wilo pumps and water management systems set new benchmarks for technical performance, efficiency and sustainability.

Industry

Wilo manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency. Our particular strength lies in producing peripherals for industrial processing applications. Our recognised expertise stems from our extensive product portfolio, solutions aligned to customer requirements, knowledge pool and effective quality management.

Exploring
new Horizons

// The Wilo Group is already represented in more than sixty countries. Now our branches in Johannesburg, Singapore and Buenos Aires will be the springboard for the growth markets of tomorrow.



Africa _*Page 8*

Latin America _*Page 28*

Asia / Southeast Asia _*Page 18*

Performance without limits

Exploring new Horizons

Dear ladies and gentlemen,

once again, we can look back on a very good financial year. In 2013, the Wilo Group continued its profitable growth, made forward-looking investments and launched innovative new products successfully. We rejuvenated our brand identity and presented our brand promise more clearly as one of the world's leading premium providers in the areas of building technology, water supply and in the industry segment. With the commitment, creativity and competence of its approximately 7,200 employees worldwide, who work with passion on innovative pump systems, Wilo stands for solutions that make life better for people all over the world.

For the fourth consecutive year, Wilo posted a new sales record – almost EUR 1.23 billion, up by 3.7 percent (6.1 percent when adjusted for currency effects). At EUR 125.7 million, EBIT also posted an all-time high.

In view of the ongoing restrained economic situation in many countries of the world, it is remarkable that we largely achieved or exceeded our ambitious targets. Wilo developed in a more dynamic fashion than the market as a whole, even though the global general economic situation did not recover to the extent we forecast. Markets in Eastern Europe did not escape the impact of the euro crisis and despite the slight easing that is indicated, Southern Europe still faces great challenges. At the same time, growth in China and the other BRIC countries is slowing. Currencies important for the Wilo Group, such as the Russian rouble, the Indian rupee or the Turkish lira have experienced strong depreciation against the euro. These currency effects prevented even stronger growth.

THE EXECUTIVE MANAGEMENT OF WILO SE

TOBIAS KETTERLE

ERIC LACHAMBRE

OLIVER HERMES
– Chairman –

MARKUS BEUKENBERG

PHOENIX LAKE, DORTMUND

As a global player, we increasingly have to face geopolitical risks. Imponderables such as political or social unrest in certain places of the world, such as Turkey, or currently in the Ukraine can impact business activities at any time.

For this reason, the basis of our success lies not only in the present. Rather it is based on our fundamental stance of always looking a little bit further into the future. It is for this reason that we started this annual report with the title "Exploring new Horizons". This means that we are not resting on the laurels of the very good results, but are planning and implementing the next stage of our corporate development. These are based on the megatrends that the Wilo Group has identified as being important for the next twenty years: globalisation, urbanisation, technological progress, water scarcity, energy shortage and climate change.

On this basis, we derive two perspectives – growing strongly in developing markets and remaining strong in mature markets. Just how strong the potential for Wilo is on what are considered to be the saturated markets of Europe and Germany can be shown clearly on the basis of facts. Nine out of ten heating pumps in European homes are technologically obsolete. Using high-efficiency pumps of the Wilo-Stratos range can result in reducing energy consumption by up to 90 percent. Extrapolated across Europe, this means savings potential of 32 terawatt hours in the area of glandless pumps alone and a possible reduction of CO_2 emissions of 11 million tonnes. The Wilo Group acknowledges its responsibility for the long-term process which in Germany is called the Energy Revolution and which is being advanced in Europe with ambitious directives. Wilo already has one of the most efficient pump portfolios in the world.

The second perspective brings into focus each market in which strong growth is anticipated: Africa, Southeast Asia and Latin America. Africa, which until just recently was considered as quite difficult, is now being assessed in a considerably more positive fashion. Growth rates in many African countries are now regularly higher than the global average. After the BRIC countries, today it is other countries that are beginning to play catch up. The Wilo Group is prepared for this and is systematically expanding its presence in these future regions on a targeted basis. Advantages on the basis of energy-efficiency and top German technology are our strongest arguments in developing countries. Increasing urbanisation presents Wilo with great opportunities. Today, only about 40 percent of people in Africa and Asia live in cities, considerably fewer than in the traditional industrial countries. With the economic momentum, this is set to change dramatically over the next few years. More and more people will move into the conurbations, and new large cities and megacities will emerge.

"What drove my father in the 1920s was not the objective of developing a circulation pump, but to improve the difficult living situation of people," was how Dr Jochen Opländer, Honorary Chairman of our Supervisory Board once put it. This motivation determines our actions more than ever. It is for this reason that we are directing our attention to these regions in which people have to live without any basic infrastructure, such as provision of drinking water and wastewater disposal. In the future, these are places where there will be city areas with tap water and sewerage systems. In agriculture, less water and energy will be used as a result of state-of-the-art pump technology using our innovative system solutions. Wilo is not only in the leading group for such trends. It is actually pushing the developments. Forward to new horizons.

Yours,
The Executive Board

"As one of the market leaders, we are opening up new areas of activities for our sustainable growth and doing so on an ongoing basis. When we talk about new horizons in this report, for us this means developing markets in particular. Here, we want to be involved in the way forward in a responsible manner. And we want to do this for the people there and for the development of the Wilo Group. For our strategic progress, global megatrends play an important role. One of our strengths is to understand markets in their multi-tiered overall context. It is only in this way that we can align our competencies precisely to the various country-specific situations. But ultimately this is the way how future-oriented solutions are being developed."

OLIVER HERMES
– Chairman –

"In the Wilo Group, we are countering the complex challenges in the new markets with innovation and technology. This benefits our customers and the people whose lives are enhanced on a daily basis by the use of our pumps and pump systems. We regard it as our task to develop solutions aligned exactly to regional requirements. Our strength is providing the right technological answers on the new markets, thus establishing the basis for our long-term success."

MARKUS BEUKENBERG

"Exploring new horizons is targeting not only our growth markets, but also mature markets. Particularly in Europe there is a great need of action for exchanging obsolete pump technology. In the European Union alone, buildings contain approximately 140 million pumps, more than 90 percent of which are obsolete. It is for this reason that we place our business advisory expertise in the foreground when communicating to facility managers. As a result, we are able to exchange products before there is a technical breakdown. For the facility manager, replacement with highly efficient technology means a direct and positive impact on the energy situation of his building. For Wilo, this means making a sustained contribution to the environment."

ERIC LACHAMBRE

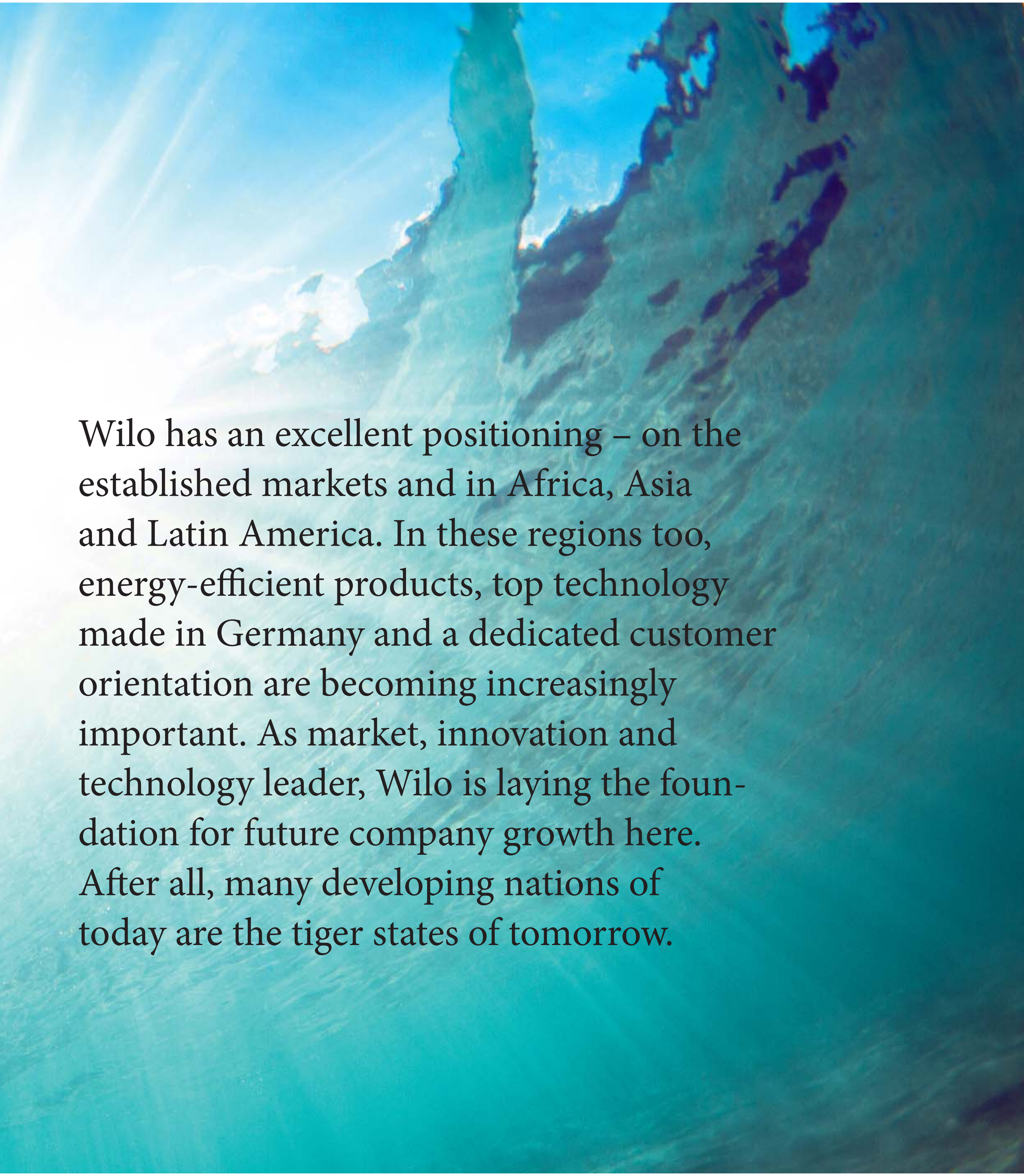
Founded on ***excellence***

Exploring new Horizons

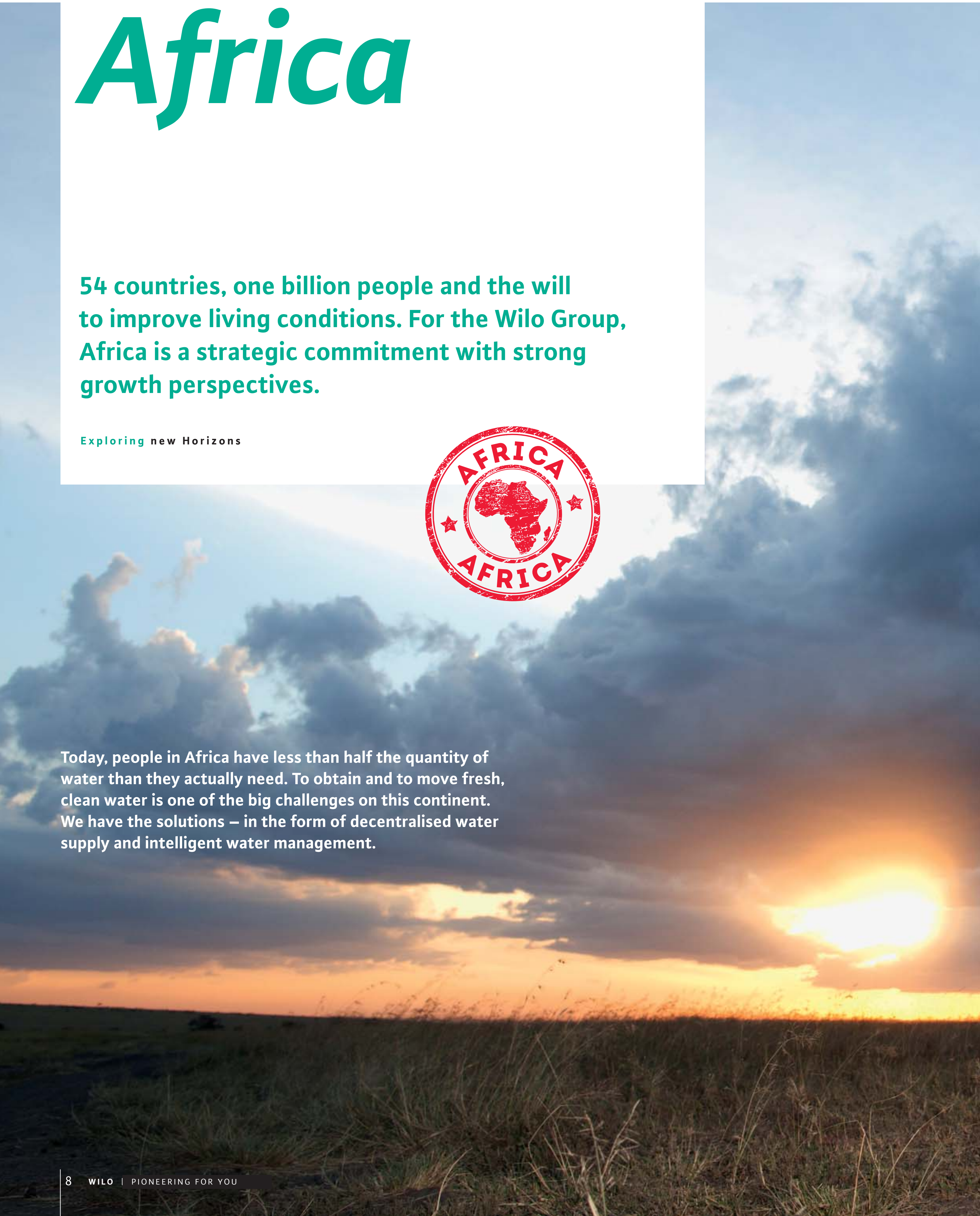
Africa

Asia / Southeast Asia

Latin America



Wilo has an excellent positioning – on the established markets and in Africa, Asia and Latin America. In these regions too, energy-efficient products, top technology made in Germany and a dedicated customer orientation are becoming increasingly important. As market, innovation and technology leader, Wilo is laying the foundation for future company growth here. After all, many developing nations of today are the tiger states of tomorrow.

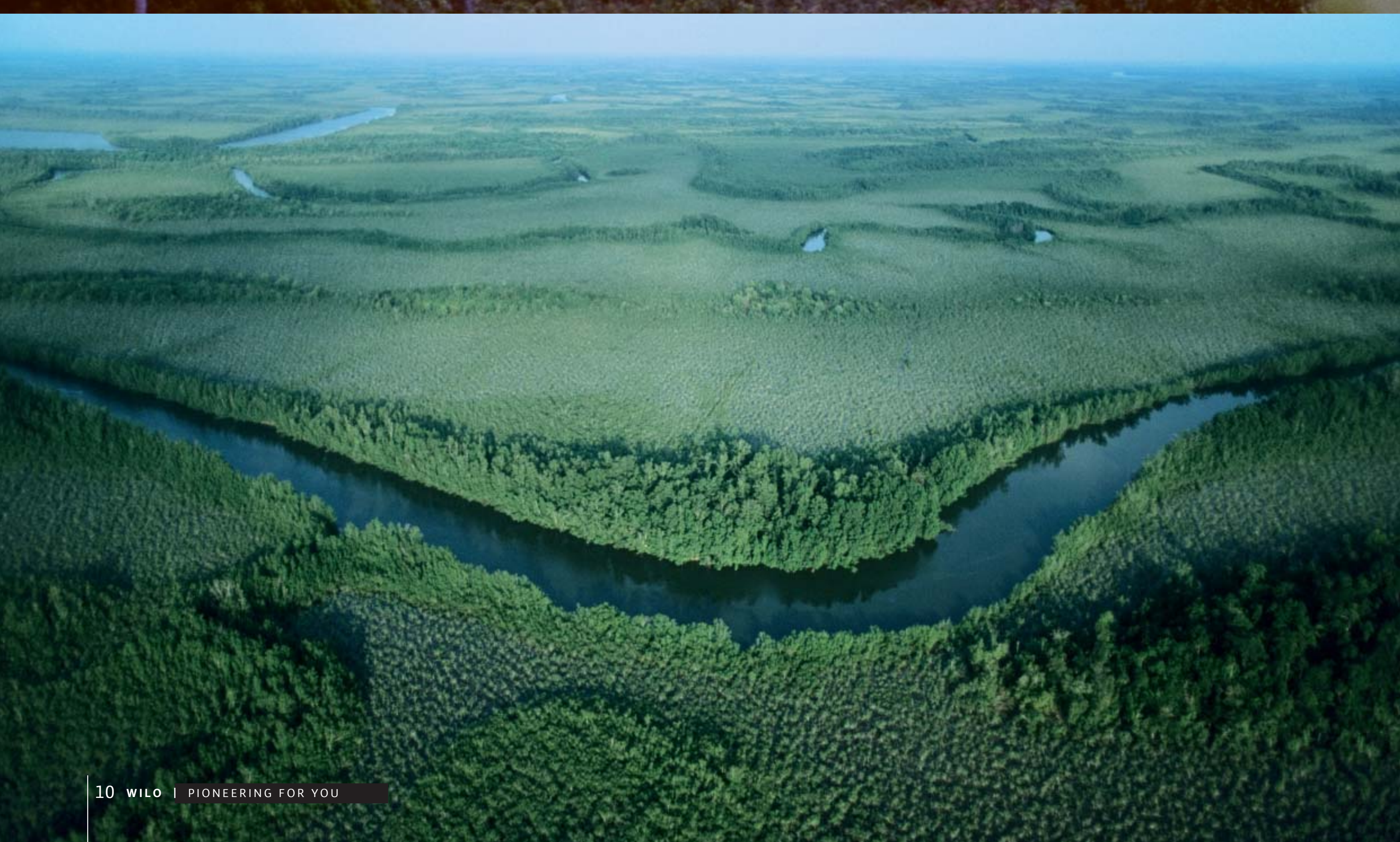


Africa

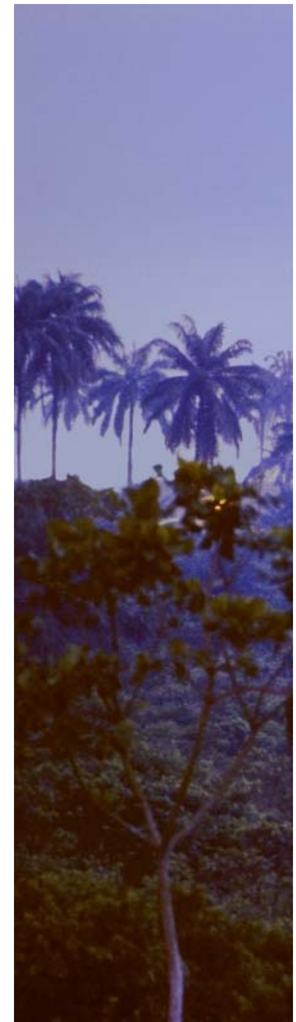
54 countries, one billion people and the will to improve living conditions. For the Wilo Group, Africa is a strategic commitment with strong growth perspectives.

Exploring new Horizons

Today, people in Africa have less than half the quantity of water than they actually need. To obtain and to move fresh, clean water is one of the big challenges on this continent. We have the solutions – in the form of decentralised water supply and intelligent water management.



CYRIL OGU,
COUNTRY MANAGER NIGERIA



Pioneer work on the Ogun River – a project diary

November 2010: Setting up in Nigeria

Wilo employed the Nigerian manager Cyril Ogu. The economics graduate previously worked as an analyst in a management consultancy company and gained experience in sales at the United Cement Company of Nigeria. Over the next few months, Cyril Ogu has intensive training sessions in engineering and operational processes and starts setting up business for Wilo in Nigeria.

Spring 2011: Market analysis

Planning experts, municipal water supply companies, construction engineers and engineering companies specialising in housing technology as well as construction companies in addition to local pump dealers – these are the target groups Cyril Ogu defined for Wilo Nigeria.

Summer 2011: Intensifying contacts

In meetings and small-scale workshops, Cyril Ogu starts creating awareness for Wilo products. The key Wilo advantages he presents are reliability, energy-efficiency and top German technology. Selected contacts in official positions and companies make an information trip to Germany.

6 September 2011: Official start of Wilo in Nigeria

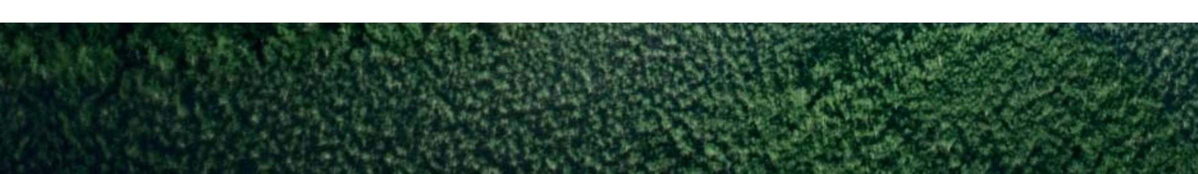
Key decision-makers in public administration, business and water supply are invited to a technical seminar in Lagos. Here, Cyril Ogu and Alain Relisieux of Wilo France present important pump models. “Since then,” reports Cyril Ogu, “we have been proposed by the planners for projects again and again.”

2012: Start of operating activities

Initial projects are realised. Experts from Wilo France and Wilo India provide advice in meetings with large Nigerian water utilities.

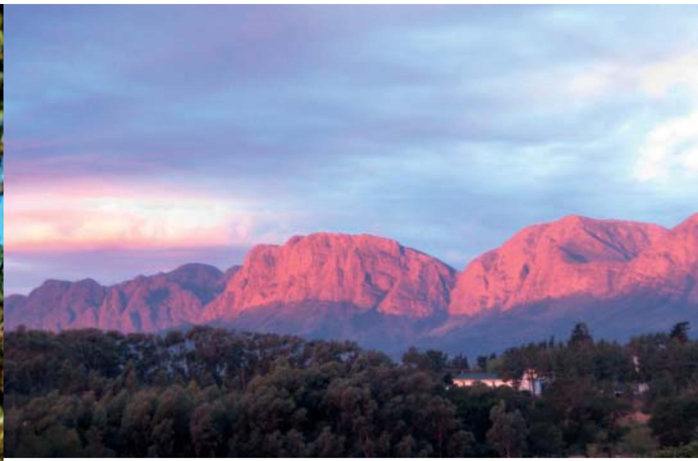
2013: Water for the megacity

One of the biggest water supply companies in Africa is equipped with Wilo pumps. Wilo receives the order to supply three pumps for redeveloping the Akute Water Works. This facility on the Ogun River contributes to providing the water supply to Lagos, a city with seven million inhabitants.



Efficiency meets intelligence

The Algerian city of Constantine has a great historical heritage and a young population. The antique metropolis received its name from the Roman emperor Constantine in the fourth century AD. Today, it is growing as part of a country whose population has more than tripled since 1960. In this context, the Constantine city administration is setting up a completely new campus for the local Mentouri University. On land of 170 hectares, 13 buildings for approximately 38,000 students are to be built. For supplying the drinking water, the Wilo Group is providing 85 booster sets, for the sprinkler systems 60. Heating in the buildings is to be driven by more than 150 Wilo heating circulation pumps. The buildings will be constructed by CSCEC, the Chinese building group.



The vineyard Morgenster, Somerset West, close to Cape Town

A vineyard on its way

As the manager, Bob Hobson, started working in 2008 on the 300-year-old Morgenster Estate, he ascertained quickly that the land produced not only excellent wine and top-quality olive oil, but also had structural problems. The vineyard irrigation system was out-of-date and inefficient. Producing wine is energy-intensive, with costs for electricity and water giving a competitive edge. In a project together with Kreditanstalt für Wiederaufbau, TÜV Rheinland and several engineering consultants and research institutes, Hobson had the situation on his vineyard analysed. The result was that new highly efficient Wilo system solutions would be able to achieve a significant reduction in water and energy consumption. The consequence was that multi-stage flexible pump systems made by Wilo were installed. This meant that costs for irrigation, fertiliser and energy sunk considerably, as did the maintenance costs for the irrigation systems. According to Wilo Project Manager, Sakkie Gelderblom, based in Cape Town, “The holistic approach and technical improvements in many details were decisive for the success. Our customer is very satisfied”. What is more, the positive results can be transferred to other projects.

Two Wilo COR-Helix V/CC booster sets provide efficient water management. The grape vines in the various estate properties can be supplied precisely with water and fertiliser, reducing energy costs.

Coast of Carthago, Tunesia

"Africa's time has come. In the extraordinarily heterogeneous environment of the developing African countries, our objective is to be successful on the market on a long-term basis. To achieve this, we are establishing local start-up structures on key local markets. As a result we are close to the customers and their needs."

THOMAS KUBBE, REGION MANAGER EMEA

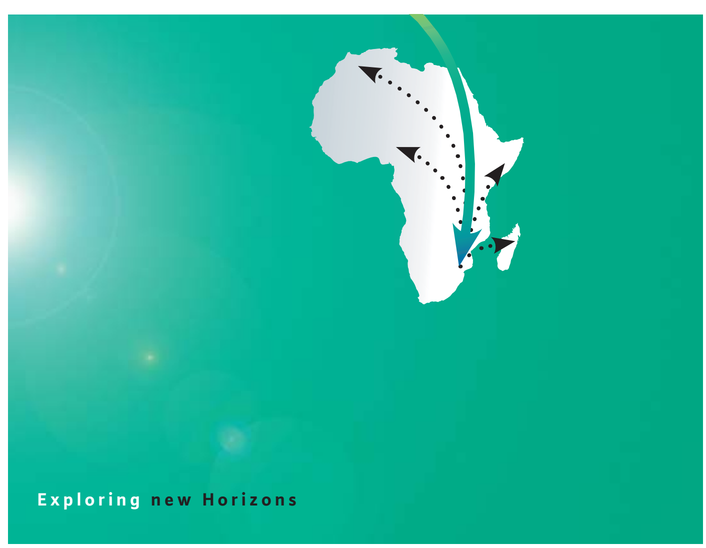
Providing hope.

Only 65 percent of people in Africa have access to drinking water, fewer than half have electricity or a connection to the sewerage system. Irrigation reaches only a quarter of agricultural land, and water power is deployed only to a limited extent. Much of the continent has pent up demand. Since 2001, economic growth in African has been higher than the global average. And this is only the start of a long-term development. In the wake of a further rapid increase in population, urbanisation will continue and the construction industry will prosper. Harvard economist Lawrence Summers puts it in a nutshell, "Africa can make huge leaps".

Bay of Bengazi, Libya

Africa in figures

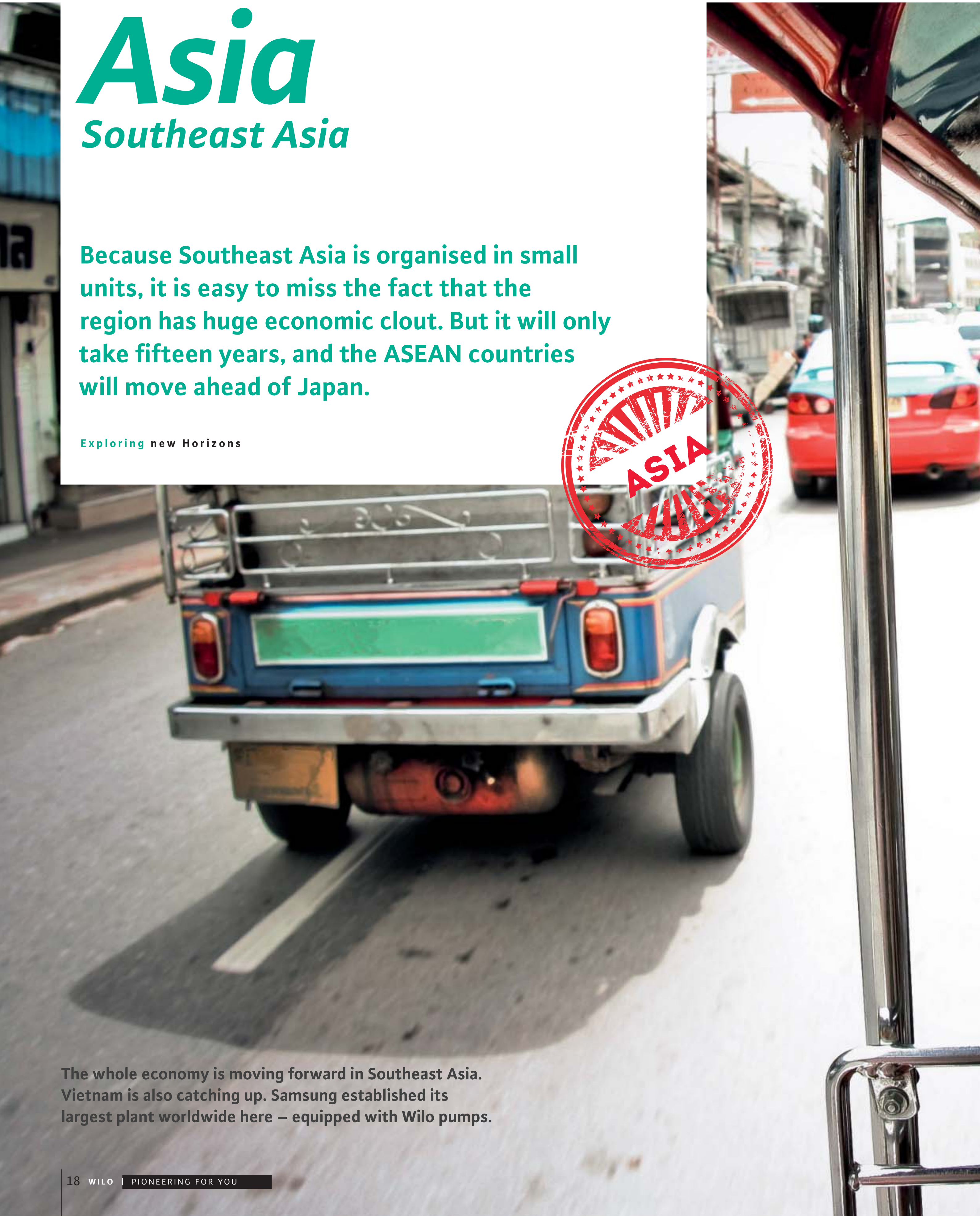
// Over 1 billion inhabitants // 22 percent of the world's surface // 11.4 million km² of land that can be used for agriculture // 5 percent annual economic growth rate to 2050 expected // 150 percent more sales for Wilo to 2020 //



Asia
Southeast Asia

Because Southeast Asia is organised in small units, it is easy to miss the fact that the region has huge economic clout. But it will only take fifteen years, and the ASEAN countries will move ahead of Japan.

Exploring **new Horizons**



The whole economy is moving forward in Southeast Asia. Vietnam is also catching up. Samsung established its largest plant worldwide here – equipped with Wilo pumps.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Thirteen PSV-2520E and one PSV-1512E provide fresh water in Alabang Town Centre, close to Manila.

Fresh water for the shopping mall

Alabang Town Centre is a shopping mall in the Manila metropolitan region. A good five hundred shops, restaurants and cinemas are to be found here – some of them in the open air. Since the opening in 1982, the shopping centre has become a popular meeting point for the local population. Philippine pop stars give concerts here on a regular basis. However, it is showing its age somewhat, and the drinking water pumps had to be replaced. Wilo won the order, supplying 13 pumps and one booster set, winning out against the Japanese competition and even completing the project before the scheduled deadline. Wilo project manager, Leo Kim, is satisfied and states, “We have worked many times with the party that gave us the order, a team of specialist housing facility engineers. They are as enthusiastic about the performance and efficiency of our pumps as they are about our service.”

Healing springs in the north of Taiwan

Suao in the northwest of Taiwan is well known for its pure and healing springs, where the water has a high level of natural carbon dioxide. With the springs, Suao has developed into one of the most popular spa towns of the island nation off the coast of China. Right in the middle of the area with the springs is the RSL Cold & Hot Springs Resort, which offers its guests an extensive spa programme. The required water is moved by 28 Wilo pumps.

High pressure Wilo MHI centrifugal pumps move the water in the spa hotel, RSL Cold & Hot Springs Resort.

Beitou, Taiwan

The Wilo Group has long since been successful in China. Now we are exploring new horizons there, too. In cooperation with Technische Universität Darmstadt, the first semi-central supply and disposal system is being set up in the Chinese coastal town of Qingdao. In view of the rapid urbanisation in Asia and other world regions, the project in which Wilo has positioned itself as a system supplier is trend-setting, also beyond China.

Skyline of Qingdao

DR SUSANNE BIEKER,
HEAD OF SEMIZENTRAL AT THE INSTITUTE IWAR, TU DARMSTADT

Water for growing cities

Dr Bieker – what is SEMIZENTRAL all about?
// SEMIZENTRAL is an infrastructure approach for cities of the future. Instead of constructing huge systems with long lead times, SEMIZENTRAL grows with the cities. The necessary water infrastructure is created in each new city district.

What makes this better than systems used in the past?
// SEMIZENTRAL is extraordinarily flexible. It makes it possible to save 40 percent of drinking water, reduce wastewater volumes, use waste and effluent sludge to gain energy, while at the same time being self-sufficient in terms of energy.

How much progress has been made with this project?
// A great deal. We are now in the process of implementing the world's first semi-centralised supply and disposal centre. In the Chinese coastal city of Qingdao, a system is being constructed for 17,000 inhabitants, making water available for flushing toilets and irrigation out of wastewater, at the same time being self-sufficient in terms of electricity and heat.

How is this possible?
// SEMIZENTRAL links the sectors of water and waste. Effluent sludge and waste is used to generate biogas, which is then used to treat water. The machines and aggregates have to be highly efficient in order that enough energy is generated. With Wilo in Qingdao, we have a partner who makes an important contribution with its technological expertise and its particularly efficient pumps.

Sydney, Australia

Samsung manufactures mobile phones in Vietnam. For Factory No. 4 in Bac Ninh province, the Wilo Group supplies pumps for air conditioning the production facilities.

The new Tiger states.

The ASEAN region is in a hurry to grow. It is expected that in Indonesia – the country with the biggest population in the region – gross national product will quadruple by 2030. And in order that things can move even more quickly, the Association of Southeast Nations (ASEAN) resolved to bring forward the date of establishing a common domestic market – from 2020 to 2015. The expected result is that over the next two decades the ASEAN countries will be the fastest-growing consumer market in the world. The construction sector will grow by 6 percent in Indonesia and by 5 percent in the Philippines and in Vietnam. Many forecasts indicate that demand will increase precisely in those areas in which the Wilo Group is strong: "Green & Clean Tech" for infrastructure and facility management.

"Southeast Asia is a highly dynamic region that will play an increasingly important role for Wilo. A special strategy is required to take account of the greatly differing cultures in this region. The first, crucial step is standardising the operating processes in the various countries. A central sales platform for Southeast Asia will follow and result in additional growth."

YUNJOONG KIM,
REGION MANAGER ASIA PACIFIC

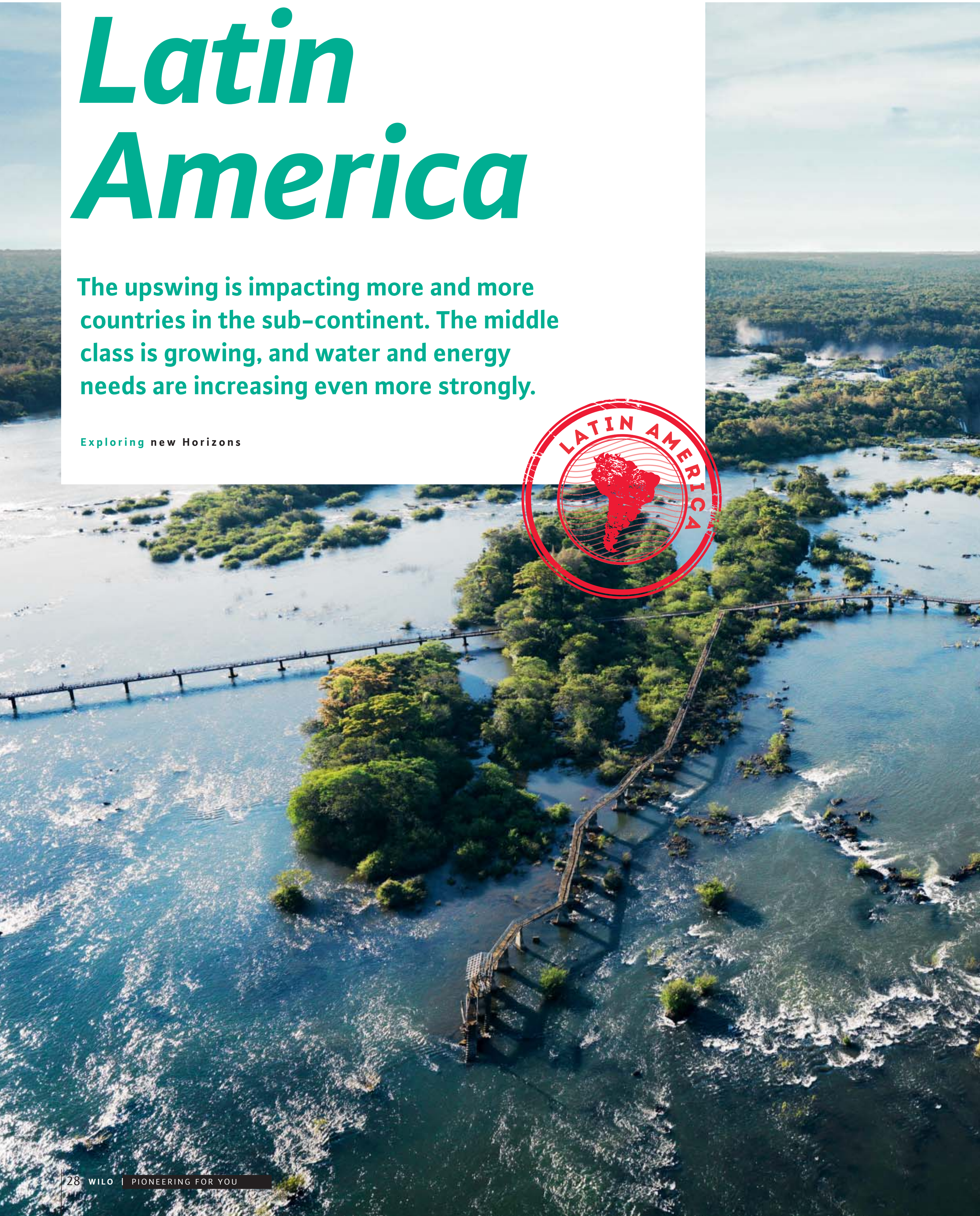
Southeast Asia in figures

// About 600 million inhabitants // USD 10 trillion GDP expected in 2030 // 126 percent growth of European direct investments in the region between 2009 and 2011 // Together, the ASEAN countries make up the ninth-largest economy in the world //

Latin America

The upswing is impacting more and more countries in the sub-continent. The middle class is growing, and water and energy needs are increasing even more strongly.

Exploring new Horizons



Iguazú Falls on the border of Argentina and Brazil

RESPONSIBLE WILO-PROJECT ENGINEER ANDRÉ DIAS WITH EDUARDO PAES, THE MAYOR OF RIO DE JANEIRO

Dry feet on Bandeira Square

For decades, Praça da Bandeira (Bandeira Square) was a problem area in the traffic of Rio de Janeiro. When there was heavy rain, the square was flooded. There was no place the water could drain off. Traffic between the city centre and the northern parts of the city was then cut off. After building a cistern, this was a thing of the past. The 20-meter deep basin can take up to 18,200 cubic metres of water, and then drain them slowly to the surrounding sluices. This is done using three Wilo FA pumps, selected for robustness and efficiency. In order to secure optimum results, the Wilo team worked together with construction engineers right from the planning stage onwards. Once construction has been finished, the water basin will receive a concrete cover so that the street area above can be redesigned. From Bandeira Square, it is possible to see Maracanã Stadium, where the Soccer World Cup final will be played.

Santiago de Chile

Peru (above), Buenos Aires, Argentinia (left)

A sub-continent is catching up.

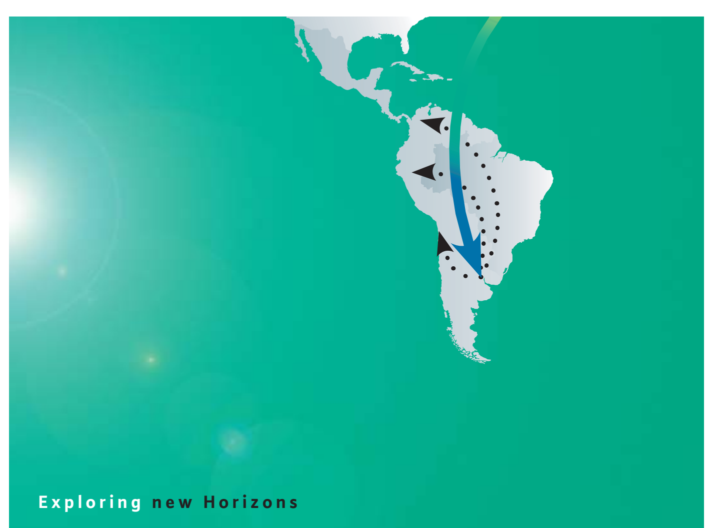
After the global financial crisis, the Latin American economies have coped in a stable fashion. Today, incoming investment is three times higher than before the crisis year of 2008. First of all, it was primarily Argentina and Brazil that were writing the business success stories. Now, other countries are following – especially Chile, Peru and Columbia. It is expected that growth there will be twice as high as in the other countries of Latin America over the next few years. A great deal still needs to be done on the entire sub-continent. 77 million inhabitants do not have access to clean drinking water. The households of 100 million persons are not connected to a waste water system.

"Wilo Americas region is growing rapidly, at the same pace in both North and South America. Particularly in Latin America we are excellently positioned to gain relevant market share over the next few years – with our innovative products, our global production capacity, creative solutions and great sales."

JEFF BREDESON, REGION MANAGER AMERICAS

Latin America in figures

// Nearly 600 million inhabitants // USD 5.16 trillion gross national product // German exports to the region increased by 115 percent between 2002 and 2012 // 50 percent more electricity consumption // Hydro power to be expanded by 85 gigawatts until 2030 //



Strategic moves for the future

Exploring new Horizons

"The Wilo Ambition 2020 describes the key elements of our strategy. With this strategy we want to further accelerate our profitable growth as an independent global player. To do this, we have translated our targets into 30 concrete strategic actions. These address the three market segments and the way forward for Wilo to move faster than the market. In this way, we can more easily implement the strategy and align it to the various dimensions of the company in a vigorous fashion. Important aspects include introducing new business models, ongoing development of innovative products and solutions for our customers as well as the consistent expansion of our global presence. Key regions are Africa, Southeast Asia and Latin America. There the white areas on our map will turn Wilo-green."

DR ANJA SCHULZ, STRATEGY EXECUTION

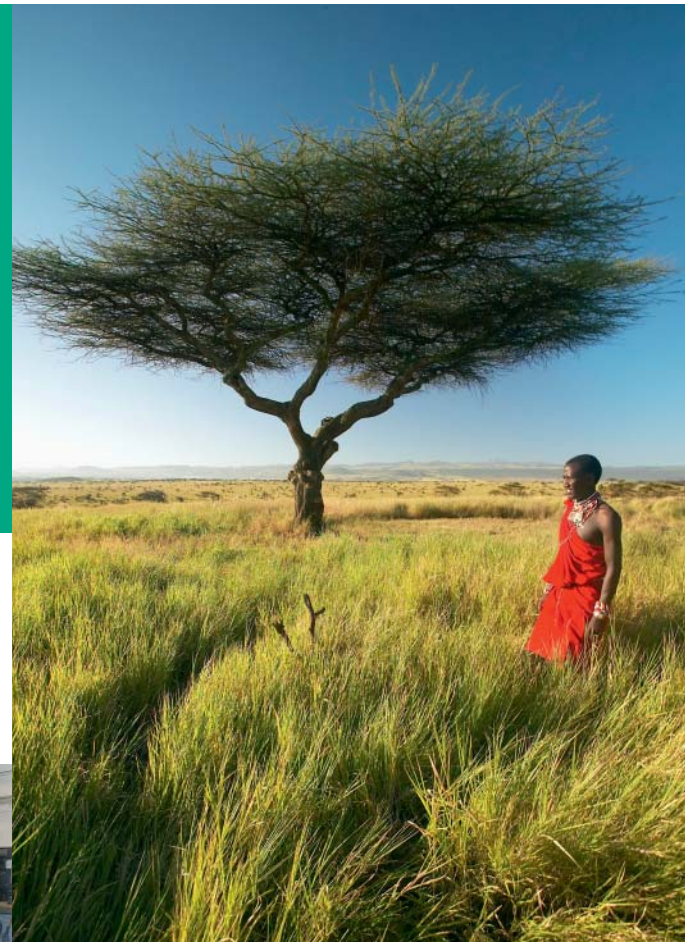
Our ambition as one of the world's leading premium providers in the areas of building technology, water management and in the industrial segment is to remain strong in mature markets and to grow rapidly in developing countries. In brief, this is our strategy on the way to the next stage of our company's development. We will reach this new level on the basis of a clearly defined process in which all Wilo units work together. In this way and from a position of strength, we can benefit from new opportunities – for Wilo's future and for the people whose lives our products enhance. Individual solutions and a high-output team secure our global success. We are leveraging this success to explore new horizons on an ongoing basis. With expertise. With passion. With vision.

2020

With Ambition 2020, we have set the direction for our global growth.

Our commitment 2013

Exploring new Horizons



Help for Syria

In an aid convoy before Christmas, a pump valued at EUR 25,000 was sent from Germany to Syria. It is being used in a refugee camp. There, water was found at a depth of 400 metres. But only with equipment from Wilo can the precious liquid now find its way to the surface.

The wells of the Massai

It is only in films that life in the savannah looks idyllic. But actually there are high levels of de-privation, resulting primarily from water scarcity. For some 2,000 people in the north of Tanzania, who are part of the Massai tribe, this problem at least is solved for the future. Thanks to the donation of a pump from Wilo, their village is now supplied with water. The wells, in which the device with a value of several thousand euros is being used, provide the water supply within a radius of approximately 30 kilometres. The farmers no longer need to drive their cows over long distances and leave their families for longer periods of time. What is more, the animals produce more milk. The Wells for Tanzania project was initiated by Burkard Freitag in a private capacity. He spends his holiday every year in Tanzania within the framework of this aid project. "As a globally operating company caring about sustainability," commented Peter Löser, Wilo regional representative in North Bavaria, "we are happy to support projects like the one organised by Burkard Freitag".

In a team for the environment

As part of the Environment Days in September 2013, employees at Wilo Korea developed environment activities with the theme “We are the most sustainable team in Wilo Pumps Korea” and presented them in a small competition. Within a very short period, a whole range of projects came into being – from bringing greenery into the office to fundraising. And the colleagues chose the Marketing team as winners. They had donated blood.

Pumping off the floods

Wilo reacted quickly and in a straightforward fashion when the Elbe flooded in the summer of 2013. With the old town of Pirna under water, Alf Bauer, Sales Manager of the East DACH region, handed over 20 submersible pumps to those helping. The donation with a value of EUR 27,000 was used immediately to pump out water from cellars.

Responsibility for Greece

In solidarity for Greece, Wilo held its 2013 Management Meeting in Athens. The Management Meeting was accompanied by an impressive team-building exercise. Managers from all over the world renovated the primary school in nearby Kamariza. The action underlines Wilo’s corporate values such as social responsibility and commitment in society.

Girls’ football in South Africa

Wilo South Africa supports girls’ football. In 2013 and 2014, Wilo has been sponsoring an initiative of Janine Van Wyk, the South African football player, who created a football league for schoolgirls with 17 teams. Selected players were then provided special training in a JVW Star Team. The programme was a success from the very start.

Group management report

Exploring new Horizons

1,230.8 MILLION

Sales Net sales climbed by 3.7 percent to EUR 1,230.8 million, making this the fourth year in a row that the Wilo Group has set a new record for sales. Without the negative effects of the depreciation of many key currencies of the Wilo Group, net sales would have been up by 6.1 percent year on year.

125.7 MILLION

All-time high profit A new record was set for earnings as well. EBIT and consolidated net income improved to EUR 125.7 million and EUR 83.0 million.

7,194

Worldwide The average number of employees worldwide at the Wilo Group was 7,194 in 2013.

59.4 MILLION

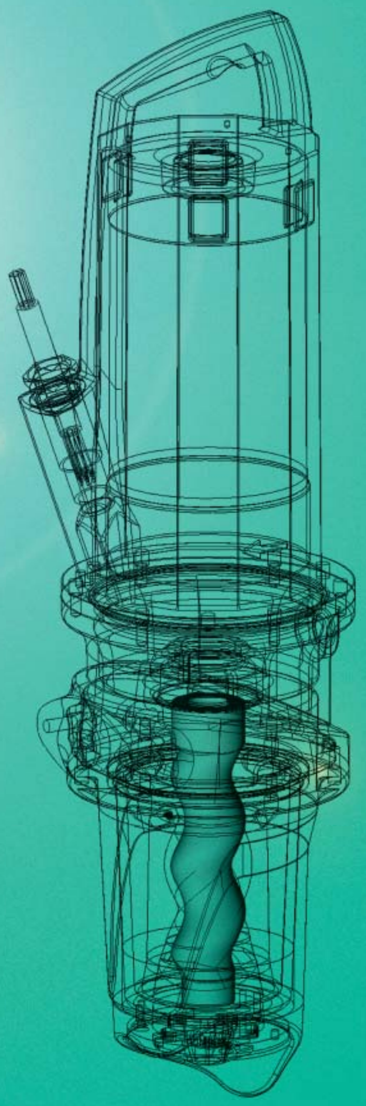
Growth During the successfully closed financial year the free cash flow climbed to EUR 59.4 million.

120.0 MILLION

Syndicated loan agreement WILO SE raised its financial flexibility, stability and dynamism by concluding a syndicated loan agreement for EUR 120.0 million for five years.

Highlights of the 2013 financial year

// The Wilo Group has continued its success of recent years in the 2013 financial year as well. Although the generally anticipated recovery on the global economy failed to materialise, the industry environment in individual regions was very challenging and the currencies of key emerging markets suffered substantial depreciation, old records were broken and new ones were set. The Wilo Group has grown profitably for the fourth year in a row. It made forward-looking investments and developed and launched innovative products.



// Innovative solution

A practical solution for improving heat dissipation in under-supplied areas in the heating system was presented with Wilo-Heatfixx. Thanks to standardised installation and radio technology, Wilo-Heatfixx can be put to use quickly without extensive planning or assembly.

// Expanded business activities in Europe

The Wilo Group has successfully implemented the first level of the Energy-related Products (ErP) Directive as a premium provider of highly efficient products, thereby expanding its business activities in Europe.

// Strong position

The Wilo Group improved its standing in the area of process water, extinguishing water and drinking water supply with its acquisition of GEP Industrie-Systeme GmbH.

// Successful launch

The Wilo AxumCut PRO (see picture) screw spindle pump was launched in wastewater and sewage, for a variety of applications with a wide range of delivery head and flow rate combinations.

// Ambitious Wilo talents

Two Group-wide staff development programmes were initiated for new executives. The most talented employees will be systematically aided in their professional development and acquisition of strategic skills.

Basic information on the Wilo Group

Customers and products

As a premium provider, Wilo is one of the world's leading manufacturers and suppliers of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. Its comprehensive product range extends from decentralised pump systems for use in detached houses, apartments and commercial buildings (Wilo Geniax), to Wilo-Stratos and Wilo Yonos high-efficiency pumps, to large cooling water pumps for power plants.

Our customers and their specific needs and requirements for products, applications and services are at the heart of our corporate strategy, and are the focal point of the more than 7,000 employees of the Wilo Group. The Wilo Group produces high-quality pumps and pump systems around the world and on a decentralised basis at 16 locations in Europe, Asia and America.

With an efficient, customer-oriented network of more than 60 production and sales companies in around 50 countries plus numerous branches and independent sales and service partners, the Wilo Group ensures that customers' needs and requirements are met at all times to the highest standards of quality.

Market segments

The Wilo Group systematically serves the Building Services, Water Management and Industry market segments with its tailored portfolio of products, system solutions and services. With its focus on these three market segments and its customer proximity, the Wilo Group can adapt optimally and early on to the varied and changing requirements worldwide.

Building Services

The growing significance of energy and resource efficiency means that such concepts are increasingly being focused on in building use. This makes it ever more essential to use innovative systems incorporating optimally coordinated components. Whether in detached and semi-detached houses, public buildings, industrial and office buildings, hospitals and hotels, Wilo offers energy-efficient solutions for heating technology, air conditioning, water supply and wastewater disposal in the Building Services segment.

Water Management

Life on earth cannot exist without water. However, this precious resource is growing ever scarcer. The safe purification and supply of water is therefore rapidly becoming a global challenge. Wilo offers professional solutions designed to meet the complex requirements involved in the production of drinking water, water purification, water pumping and wastewater disposal. Wilo water management pumps and pump systems set benchmarks worldwide in terms of technical performance, efficiency and sustainability.

Wilo Production locations

Industry

Wilo manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency. The Wilo Group's strength in the Industry market segment lies in support applications for processes in the iron and steel industry, mining and power generation. The Wilo Group's internationally recognised expertise is based on a sophisticated, high-performance product range, networked knowledge and effective quality management.

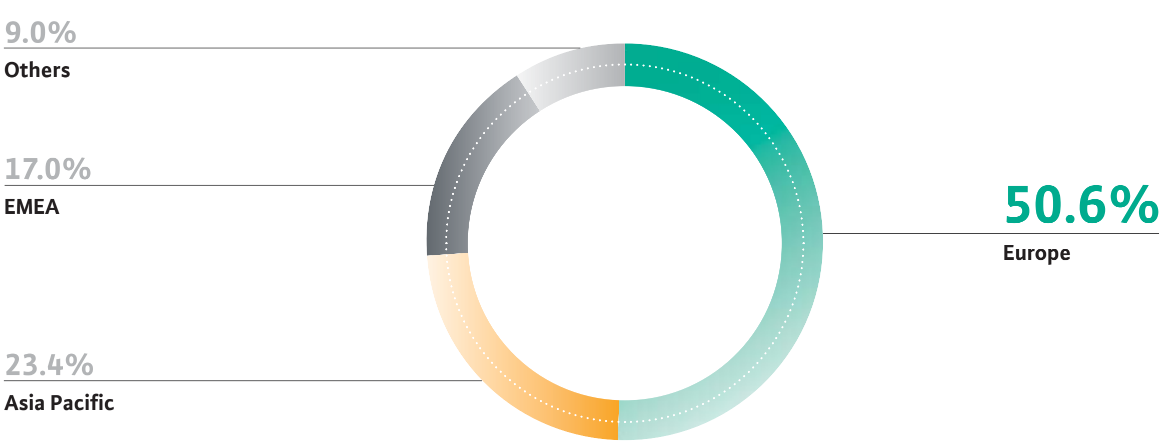
Group structure

The roots of the Wilo Group go back more than 140 years. "Kupfer- und Messingwarenfabrik Louis Opländer" was founded in Dortmund in 1872. The parent company of the Wilo Group is WILO SE, a European stock corporation (Societas Europaea) based in Dortmund, Germany. WILO SE handles central management activities for the entire Group and has its own operations as well. With around 90 percent of the shares in WILO SE, its majority shareholder is the Caspar Ludwig Opländer Foundation. Other shareholders include individual family members and members of the Supervisory Board and Executive Board of WILO SE. The issued capital amounts to EUR 26,980 thousand.

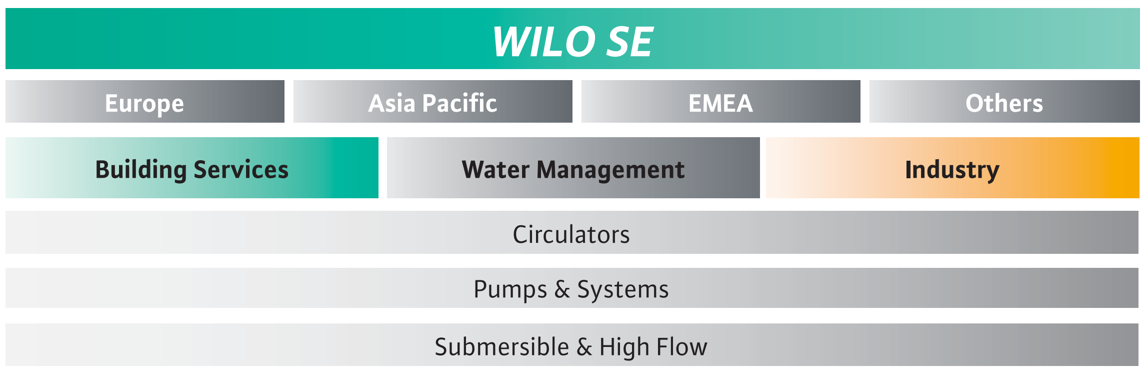
As at 31 December 2013, in addition to WILO SE, the Wilo Group comprised more than 60 production and sales companies, in most of which WILO SE held a direct majority investment. WILO SE holds an indirect majority in only six Group companies. Non-controlling interests are not significant within the Wilo Group. In the 2013 financial year, WILO SE acquired all shares in GEP Industrie-Systeme GmbH, Zwönitz, which specialises in the manufacture of systems for the supply of process water, extinguishing water and drinking water.

The internal organisational and management structure of the Wilo Group is based on the three dimensions "region", "market segment" and "product division". The leading organisation dimension here is the region, which is also the basis for segment reporting. The Europe region is highly important to the Wilo Group with a share of sales of around 50 percent. The Asia Pacific region accounted for almost a quarter of sales in the reporting year while the EMEA region accounted for 17 percent.

Sales by region in 2013



Organisation and management structure of the Wilo Group



For an optimum focus on the requirements of the individual customer groups in each region, regional managers work hand-in-hand with the managers of the product divisions and market segments. This structure also includes the reporting to the Executive Board and Supervisory Board of WILO SE.

Management and monitoring

The management of the Wilo Group is the responsibility of the Executive Board of WILO SE, which is appointed, controlled and monitored by the Supervisory Board of WILO SE. The Supervisory Board of the company is appointed by the Annual General meeting and has six ordinary members. Two members of the Supervisory Board are employee representatives appointed at the proposal of the European Works Council of WILO SE.

In its management of the Wilo Group, the Executive Board essentially focuses on the development of net sales and earning power. The analysis of earning power is based on operating earnings, i.e. earnings before interest and taxes (EBIT), and the EBIT margin. The regions, market segments and product divisions of the Wilo Group are managed using these key performance indicators. A further key performance indicator at Group level is free cash flow, which reflects the excess liquidity generated. A positive free cash flow at all times ensures the financial independence of the Wilo Group and its liquidity. The management of the Wilo Group regularly analyses and thereby manages the development of free cash flow. The main levers for improving free cash flow are increases in sales and EBIT. The development of free cash flow is also aided by systematic management of working capital and a coordinated investment policy.

Furthermore, the Wilo Group is required to maintain standard financial ratios under its long-term financing agreements. These include the ratio of consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) to consolidated interest expenses (interest cover ratio), ratio of consolidated net debt to consolidated EBITDA (leverage) and the equity ratio. These figures are also regularly reviewed and reported to the Management Board so as to always comply with the required minimum values. The Wilo Group continued to comply with the agreed financial ratios in the 2013 reporting year.

Our Ambition 2020

We accelerate our profitable growth as an independent global player

Wilo strengthens its position as a major global player.

Wilo accelerates profitable growth beyond 2 billion euros net sales with an EBIT > 10% in 2020.

Wilo continues to be inno-vation leader.

Wilo remains independent.

Wilo cares to make life easier.

Building Services	Water Management	Industry
We are a global market, innovation and technology leader.	We increase our presence as a major market player.	We intensify our activities in selected branches.

Corporate strategy

As part of formulating the Ambition 2020 programme, the Wilo Group reviewed, honed and adapted its corporate strategy to the changing challenges. Wilo is standing by its fundamental and primary objective of profitable growth as a global and independent group. The Wilo Group intends to increase its net sales to more than EUR 2 billion by 2020 and generate an EBIT margin of more than 10 percent. Its strong organic growth will be supplemented by the pursuit of external growth opportunities.

The Wilo Group continued to develop in line with this strategic thrust in the 2013 reporting year with the profitable growth it achieved. The 2013 EBIT margin was again at the level intended in corporate strategy at 10.2 percent.

The strategic direction is defined for each market segment. The customer is at the heart of this strategy. The clear goal in Building Services is to extend market, technology and innovation leadership. International market presence is to be increased further in water management, especially in the high-growth emerging markets. In the Industry market segment it is planned that the Group will concentrate on selected sectors (iron and steel, mining, energy). The Wilo Group will consolidate and extend its position on the mature markets of the industrialised nations. Strong growth in the emerging markets of the developing regions is planned. In particular, this will focus on stepping up the regional presence in South-east Asia, East/West/Central Africa and Latin America.

In the previous year, Wilo had already integrated a key, new component into its strategy process by identifying and analysing six relevant global megatrends (corporate foresight process). Future challenges posed by the megatrends of "globalisation", "urbanisation", "energy shortage", "water shortage", "climate change" and "technological progress" were described from a long-term perspective, and the risks and opportunities for the existing business model were derived from this. The six global megatrends represent additional guidance for the management and were used for the forward-looking development and optimisation of corporate strategy.

In the reporting year, the Corporate Development function was created to formulate, develop and implement corporate strategy. It is assigned directly to the CEO of WILO SE.

In order to guarantee the goal-driven implementation of corporate strategy, Ambition 2020 was broken down into strategic areas that are regularly reviewed as part of the strategy implementation programme, "A2P – Ambition Acceleration Programme". The operational implementation of corporate strategy is closely coordinated with the managers of the three dimensions of the Wilo Group – "region", "market segment" and "product division".

Research and development

Strategy und direction

The primary framework for the research and development activities of the Wilo Group is defined by corporate strategy and business objectives. Furthermore, clear risks and opportunities are identified from the relevant megatrends as part of the corporate foresight process. In conjunction with the Wilo Group's goal of further expanding its leading position in terms of technology, innovation and quality, three strategic action areas were defined for research and development. These are energy and resource efficiency, systems technology and communication. The associated aspects and starting points for implementation in research and development are highly complex. This requires intensive cooperation with outside partners. For this purpose, the Wilo Group has access to a global research and development network with the support of which the various necessary research projects are conducted. This often occurs in close cooperation with project partners and with the aid of government grants. The focus is on traditional application-related basic issues.

All research and technology activities are conducted on a Group-wide basis by the two central research and technology centres in Dortmund. Product series development is carried out locally in the respective product divisions. This division of responsibilities ensures that new innovations and technologies are prepared and planned, and that market requirements can be addressed and met through direct proximity to customers.

Key projects, methods and technological processes were initiated and continued in 2013. This applies in particular to all activities and development work relating to efficient use of energy and resources. Moreover, the Wilo Group stepped up its efforts in the areas of materials and coatings and communication and systems.

Results

The trend towards increasingly efficient, speed-controlled electric motors is unabated. The motor and drive strategy was therefore implemented with considerable effort in the reporting year. The new HED high-efficiency motor series based on permanent magnet synchronous technology is now available in all models up to 7.5 kW. This combination of motor and inverter is currently being installed in our premium Wilo-Stratos GIGA and Wilo-Helix EXCEL products. Preparations for the use of this technology for other pump types are underway.

The strategic dependence on a handful of suppliers for permanent magnets is being significantly reduced by the systematic development of expertise and in-house production capacity. The Wilo Group has begun manufacturing these key components itself for high-efficiency electric motors. A first step on this path was the installation of a production facility for plastic bonded magnets.

Conventional asynchronous technology also allows a further increase in quality and efficiency. In response to the increasingly demanding global guidelines on the efficiency levels of electric motors, asynchronous motors in the power range of up to 7.5 kW were developed that satisfy energy efficiency class IE3. It is even possible to reach efficiency class IE4 here. Energy efficiency class IE4 electric motors based on the line-start permanent magnet principle (LSPM) are also available on Asian markets. The available power range was extended to 5.5 kW in the reporting year. Thus, Wilo Group customers can have high-efficiency drive solutions for almost all applications.

Methods and processes for flow calculation for instationary flows and pump dimensioning were also developed further in research and technology. In order to meet the constantly rising requirements, the Wilo Group increases its own capacity in the field of high-performance computing each year. Moreover, work in coatings has made such great progress that this technology is now being used as series in a number of small glandless pumps, thereby significantly enhancing the robustness of our products under harsh operating conditions.

New development and simulation environments were implemented as part of the ongoing broadening of systems expertise. These allow holistic analysis not just of the pump’s direct environment, but also of the entire connected system including its interactions with the surrounding area. This allows the energetic and functional optimisation of pump function taking into account the whole system.

In order to reduce the time requirements for the development of new control algorithms, simulation and development tools from different areas are increasingly being networked. This allows seamless development from the first draft through to the finished software. Hardware-in-the-loop (HIL) and software-in-the-loop (SIL) techniques are applied in addition to this to achieve improved model accuracy and to be able to optimally map a pump’s control response in real hydraulic environments.

As in the previous year, a key element of product development activities in 2013 was the expansion of the product portfolio. The Wilo-Heatfixx solution, based on Wilo-Geniax technology, was launched in the glandless area. This is an end-to-end solution for underserved single radiators.

The Wilo-Giga and Wilo-Helix series were completed in the clean water sector, meaning that full ranges are now available to our customers. A new displacement pump was launched in wastewater and sewage pumps for the first time in 15 years. The Wilo-AxumCut PRO screw spindle pump was specially designed for pressurised drainage and has an integrated macerator. Thanks to its features, the pump can be used for a variety of applications with a wide range of delivery head and flow rate combinations.

The high level of spending for research and development enable the Wilo Group to constantly launch new products on the market. The share of sales on the European market accounted for by products not older than three years (by market launch) climbed significantly in the 2013 reporting year.

Employees

The employee structure in research and development barely changed in 2013 compared to the previous year. The proportion of women in research and development remained constant at around 10 percent. The share of highly qualified academics is still more than 80 percent. Although the needs-driven recruitment of excellent candidates in the disciplines of technology and the natural sciences is a challenge, the headcount in research and development was increased by more than 25 percent. This outpaced sales and highlights the Wilo Group's will to consolidate and expand its leading position in technology development and innovation.

Patents and licences

The Wilo Group's existing patent strategy was adapted to current requirements for more customer benefit. New technology and product developments are now followed more closely by patent strategy to ensure broad and comprehensive protection of expertise. 40 percent more patents were submitted or filed compared to the same period of the previous year. The patent portfolio has grown by seven percent, even though more patents expire every year. In addition, a growing number of industrial designs were applied for.

Other companies were granted joint rights of use from the existing patent portfolio. The Wilo Group also utilised rights of use to third-party patents.

40 percent

more patents were submitted or filed compared to the same period of the previous year.

Anti-counterfeiting remains a priority. A number of fake and imitation products are still being launched, especially in China, and many highly similar brands are being registered as well. The legal steps initiated, e.g. prohibition of use of highly similar logos, or the confiscation of entire inventories of pump systems, are more frequently successful.

Investment and expenditure

Investment in research and development focused on expanding laboratory and test facilities and on building new types of production facilities. A main area in the reporting year was again extending test bench capacity. Further investments were also made in computer hardware as part of the expansion of activities in high-performance computing. Substantial funds were also dedicated to new machinery and equipment for the development of production expertise for permanent magnets.

Total research and development costs in the Wilo Group increased by 12.0 percent year on year to EUR 43.9 million in 2013, equivalent to 3.6 percent (previous year: 3.3 percent) of sales.

Business report

General economic conditions

Moderate growth by global economy

In 2013 the environment on the global economy was characterised by an expansive monetary policy, low interest rates and – in the industrialised nations – low rates of inflation. The expansive monetary policy of key central banks stimulated the financial and capital markets, albeit without a noticeable impact on the real economy until autumn 2013. According to current calculations by the International Monetary Fund (IMF), global economic performance climbed by 3.0 percent in 2013, and therefore more slowly than in the two previous years (2012: 3.1 percent; 2011: 3.9 percent). The Kiel Institute for the World Economy (IfW) estimates growth for 2013 at 2.9 percent.

Although the euro area overcame the recession in the spring, and the United States gained economic momentum at the end of the year, the industrialised nations achieved economic growth of only 1.3 percent in 2013 after 1.4 percent in the previous year, according to IMF information. Thus, the emerging markets suffered due to limited export opportunities and the less stabilising force of their own domestic economy. In addition, some emerging markets experienced massive capital outflows at times and some significant currency depreciation. The IMF quantifies the growth of the emerging markets in 2013 at 4.7 percent (previous year: 4.9 percent).

The economic development in the Europe, Asia Pacific and EMEA regions in 2013 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.

Europe – Economy gradually recovering

The economy in Europe gradually recovered from the effects of the debt crisis in 2013. After a brief negative economic impact, the reforms and efforts of budget consolidation are now beginning to have a positive structural effect. The euro area ended its one-and-a-half-year recession in the spring. However, the economic lift effect remained very moderate, leaving 2013 as a whole in the red. According to IMF figures, gross domestic product (GDP) in the euro area declined by 0.4 percent (previous year: down by 0.7 percent). Meanwhile, the development in the individual countries of Europe was very mixed. Economic performance declined in Portugal, Spain, Italy, Greece and the Netherlands, but at a slower rate each quarter. France posted a GDP increase of just 0.2 percent in 2013, barely more than stagnation.

According to the IMF, the German economy is very moderate with an increase in GDP of only 0.5 percent, again slower than in the previous year when growth had amounted to 0.9 percent. This was mainly due to a smaller export contribution and a further weak performance in equipment investments. In addition, investment in construction declined as a result of the setbacks in the commercial and public building sectors. Given the low interest rates, high level of employment and the good income situation, the main pillars of the domestic economy were a significant rise in residential construction and robust private consumer spending.

Asia Pacific – Still the world's growth engine

Asia was again the world economy's growth engine in the reporting year, though the rate of its expansion has slowed. The IfW has estimated growth for 2013 in Asia as a whole at 6.3 percent after 6.6 percent in the previous year and 7.5 percent (previous year: 7.8 percent) for China. With targeted measures and reforms, the Chinese government is supporting a medium-term transformation process away from being growth driven by government infrastructure investment and exports towards strengthening private demand for capital and consumer goods.

By contrast, Korea's economy benefited from higher public spending, an increase in exports, investment in construction and stronger private consumer spending. According to the IfW, Korea's economic performance in 2013 climbed by 2.6 percent (previous year: 2.0 percent). The clear economic down phase in India initially continued as a result of declining investment and exports. Domestic demand was slowed until summer 2013 by currency depreciation and a more restrictive monetary policy as a result. Exports, investments and private consumer spending recovered in the second half of 2013. According to the IMF, Indian GDP grew by 4.4 percent in 2013 after 3.2 percent in the previous year.

EMEA – Political framework causes uncertainty

Growth in Russia slowed significantly in 2013. According to the IMF, the growth rate dropped from 3.4 percent in the previous year to 1.5 percent. With the exception of the crisis year of 2008, this is the lowest figure since 1998. This development was caused by the weak demand for industrial goods, falling oil and gas prices and high interest rates.

Turkey overcame the previous year's down phase in growth with a strong economic recovery in the first half of 2013 in particular. The easing of monetary policy and the expansive fiscal policy had jumpstarted private demand and public investment. The development was more moderate in the second half of the year. The IfW estimates GDP growth for 2013 as a whole at 3.5 percent (previous year: 2.2 percent).

Economic growth weakened tangibly in the oil-exporting countries of the Gulf region and North Africa in 2013 on account of the uncertain political framework and declining oil prices. In the African nations south of the Sahara, the economy suffered from high unemployment, a lack of international competitive capability and, as well, falling oil prices. This led to a slower rate of growth.

Industry-specific conditions

In addition to the general economic development of individual countries and regions, the performance of the Wilo Group is especially influenced by the construction and sanitary industries among others. The 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.

Europe – Weak construction industry, but German housing construction gathering pace

The weak economic performance of the crisis nations of Europe, combined with high unemployment and private and public debt weighed heavily on the development in construction activity in these countries. According to estimates by the Euroconstruct network and the Ifo Institute, construction production in Europe contracted by almost three percent in real terms in 2013. Investment in new housing fell to its lowest level in 20 years. Spending on maintenance and modernisation were also slightly in decline. Total European housing construction investment therefore decreased by more than two percent in 2013.

According to IfW data, investment in German construction was down by 0.3 percent in real terms in 2013. This was due to a decline of 3.2 percent in commercial construction and 1.1 percent in public construction. However, given the consistently good general conditions thanks to low interest rates, high employment and rising income, residential construction was again a key pillar of the German economy in 2013.

The number of new construction permits increased significantly. In this context, despite losses at the start of the year due to poor weather conditions and already high capacity utilisation, housing investment increased by 1.3 percent in real terms according to the IfW and Deutsche Bundesbank.

The positive development in the German sanitary industry continued as well. Based on the annual forecast for 2013 by the Ifo Institute and the Association of the German Sanitary Industry, sales increased by more than two percent in the reporting year to EUR 21.6 billion. Renovation and modernisation work contributed to this alongside new buildings.

Asia Pacific – Construction booming in China, growth down in India

China's construction sector continued its dynamic growth. According to information from the National Bureau of Statistics of China, property investments increased by 19.5 percent by the end of November 2013. The rise in investment in residential construction was 19.1 percent. In addition to long-term drivers such as urbanisation and economic growth, the construction sector is supported by the government programme for investment in affordable housing. In light of the exploding property prices in megacities, this programme provides for the construction and renovation of 36 million affordable residential units between 2011 and 2015. Construction on 6.66 million units had begun by the end of November in 2013 and 5.44 million units were completed.

India's construction industry is on a longer-term growth path given its overall economic growth rates and strong population growth. In 2013, however, the Indian construction industry was hampered by the extreme increases in property prices in the major cities, rising debt on the part of property companies, high interest rates and the weak Indian currency.

EMEA – Construction industry mixed

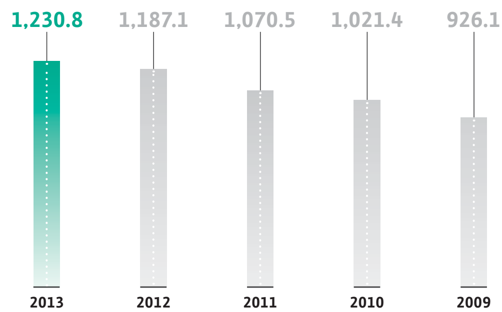
After high growth rates in the previous years, the Russian construction industry remained flat in 2013. This was due to the weakness in the industry, energy and infrastructure sectors, which suffered from falling oil and gas income, more difficult financing conditions and capital outflows. By contrast, there was significant growth in the office, commercial and residential construction segments with rates of almost 20 percent. According to the market research institute PMR, 485,300 new residential units – and therefore 18.8 percent more than in the same period of the previous year – were built by the end of September 2013. Residential space increased by 12.0 percent in real terms, construction in Turkey rose by rates of between 7.3 percent and 8.9 percent in the first three quarters of 2013, according to calculations of the Turkish Statistical Institute.

Business performance

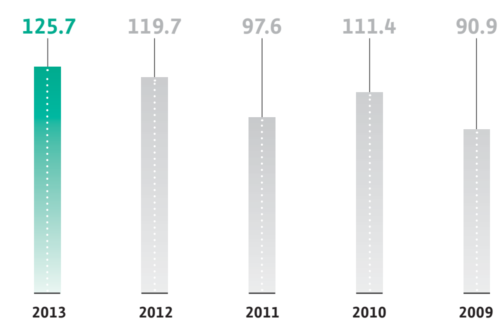
The Wilo Group set a new record for the fourth financial year in a row with sales of EUR 1,230.8 million. The rise in sales as against the previous year was 3.7 percent. Without the negative effects of the depreciation of key currencies of the Wilo Group, sales would have been up by 6.1 percent year on year. Furthermore, the economic environment in many regions of the world was worse than generally expected. The leading industrialised nations saw only minor momentum, the development in the Eastern European countries of the EU was weak and the economy in the South European crisis nations contracted again. The emerging markets also grew more slowly than in the previous year. Both the negative currency effects and the weaker economic development in a number of countries were key factors in the Group not achieving its forecast sales growth for 2013.

In line with the corporate strategy of generating profitable growth, the Wilo Group again set new records for earnings in 2013 with EBIT of EUR 125.7 million and consolidated net income of EUR 83.0 million. The EBIT margin improved to 10.2 percent (previous year: 10.1 percent) despite the weaker economic forces and the negative currency effects, thereby even exceeding the projected figure. The Executive Board of the Wilo Group anticipated the sales performance in individual countries early on and took targeted measures to adapt cost developments accordingly. Due to lower sales growth, the EBIT forecast for 2013 was not achieved in the reporting year.

Sales development (EUR million)



EBIT (EUR million)



This business success was generated in the 2013 reporting year by an average of 7,194 employees (previous year: 6,900). The Wilo Group has never employed this many people before.

So as to continue the development in profitable growth in future as well, the Wilo Group is pursuing a long-term and sustainable investment policy. The Wilo Group invested EUR 63.9 million in increasing capacity, new production technologies and the expansion of the existing sales and production locations in the 2013 financial year. In addition, it acquired all shares in GEP Industrie-Systeme GmbH, a specialist in the field of drinking water, process water and extinguishing water systems, for a purchase price of EUR 8.1 million.

Sales increased in all regions and market segments in 2013. The different regional breakdown of growth contributions largely corresponds to the respective expansion of key economies.

Sales development in the individual regions was as follows in the 2013 and 2012 financial years:

Sales development by region

EUR million	2013	2012	Change %
Europe	622.6	615.9	1.1
Asia Pacific	287.4	271.2	6.0
EMEA	210.0	195.5	7.4
Others	110.8	104.5	6.0
Total	**1,230.8**	**1,187.1**	**3.7**

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 and other nations not assigned to the above regions

EBIT development in the individual regions was as follows in the 2013 and 2012 financial years:

EBIT development by region

EUR million	2013	2012	Change %
Europe	74.7	71.9	3.9
Asia Pacific	23.7	18.2	30.2
EMEA	24.9	26.0	-4.2
Others	2.4	3.6	-33.3
Total	**125.7**	**119.7**	**5.0**

Regions

Europe

In the Europe region the Wilo Group generated moderate sales growth of 1.1 percent. Sales was up by EUR 6.7 million to EUR 622.6 million. The development in sales varied greatly in the individual countries. Business activities in the German-speaking region, France, Benelux and the Scandinavian and Baltic countries resulted in increases in sales. However, the Wilo Group posted declines in sales in line with the macroeconomic situation in the UK, the Eastern European countries of the EU and the Mediterranean nations.

Despite modest overall economic growth, sales throughout the German-speaking areas climbed by 6.4 percent year on year as a result of the strong demand for high-efficiency products. Germany is the largest individual market of the Wilo Group. Sales here were increased by 6.2 percent in 2013. This was mainly due to growth in investment in housing construction, including not just new buildings but modernisation and renovation work on existing buildings as well. The positive development in residential construction went hand-in-hand with a rise in demand on the boiler market. As a premium provider of highly efficient products, the Wilo Group proactively implemented the first level of the Energy-related Products (ErP) Directive, thereby expanding its business activities in Germany. More detailed information on the ErP Directive can be found in the Report on risks and opportunities in the section "Industry-specific risks and opportunities – Energy shortage and the Ecodesign Directive" of the Group management report.

In France and the Benelux nations, sales increased by an average of 4.4 percent. The growth was due firstly to greater demand for high-efficiency pumps and pump systems for commercially used buildings. Secondly, the entry into force of the ErP Directive also had a positive effect on sales performance in France and Benelux. Business activities in the Scandinavian and Baltic countries grew by 1.9 percent as against the previous year. The stable overall economic situation and the growing construction sector, which was also aided by tax benefits and government subsidies, greatly fostered sales growth in some cases in these countries. Without the negative currency effects from the depreciation of individual currencies against the euro, sales in Scandinavia and the Baltics would even have been 2.6 percent higher than in the previous year.

The Wilo Group posted a 4.7 percent year-on-year drop in sales in the UK as pound sterling depreciated considerably as against the euro. Adjusted for negative currency effects, the decline in sales in the UK would have only been 0.8 percent. Sales were down by 6.7 percent year on year in the Eastern European countries of the EU. This was caused by a weak economic performance, an unstable property market and a muted construction sector. Negative currency effects exacerbated the sales decline in local currency by a further 1.1 percentage points.

In the Mediterranean countries, the Wilo Group posted a decrease in sales of 13.2 percent year on year in the 2013 financial year. As in the previous year, operating activities were slowed by the lingering economic problems in Greece, Portugal and Spain. In the Mediterranean countries, the very weak level of private and public investment in infrastructure and construction projects resulted in much lower demand for energy-efficient pumps and pump systems.

The improvement in EBIT in the Europe region was stronger than sales growth, rising by 3.9 percent from EUR 71.9 million in 2012 to EUR 74.7 million in the year under review. The EBIT margin climbed to 12.0 percent (previous year: 11.7 percent). This was due to a slight change in the product sales matrix and a change in the regional composition of sales. Both effects are reflected in a better gross margin. In addition, the low rise in selling and administrative costs compared to sales had a positive effect on earnings and margin development. The Executive Board of the Wilo Group anticipated the sales performance in individual countries early on and took targeted measures to adapt cost developments accordingly.

Asia Pacific

In the Asia Pacific region, the Wilo Group increased its sales by 6.0 percent year on year to EUR 287.4 million. This corresponds to absolute sales growth of EUR 16.2 million. Sales developed positively in almost all countries of the Asia-Pacific economic area but with varying degrees of momentum. The Asia Pacific region therefore again generated strong growth impetus for the Wilo Group in the reporting year.

In China, the Wilo Group increased its sales by 10.5 percent year on year. This positive trend in sales was due to continuing strong growth in China's construction sector of over 19 percent in 2013. The economic climate in China with high GDP growth also had a positive effect on the business performance of the Wilo Group.

On the Korean market the Wilo Group generated sales growth of 1.9 percent year on year. This sales development was accompanied by a positive situation of the Korean economy, which is believed to have grown by 2.6 percent in 2013. In particular, the business performance of the Wilo Group was aided by the rise in construction investment. Meanwhile, the depreciation of the Korean won against the euro had a slight negative impact on sales development in reporting currency in 2013.

The Wilo Group increased its sales in India by almost 20 percent in local currency. The very positive sales performance despite the unstable economic conditions since summer 2013 was mainly due to the growth of project business on the Indian market in the Water Management and Industry segments. However, the strong depreciation of the Indian rupee as against the euro by around 14 percent on average over the year reduced the sales growth in Group currency to 6.2 percent.

There was also a positive rise in sales of 5.1 percent year on year in Southeast Asia, driven mainly by strong project business in Vietnam.

EBIT in the Asia Pacific region improved by EUR 5.5 million from EUR 18.2 million in 2012 to EUR 23.7 million in the year under review. The EBIT margin therefore climbed from 6.7 percent in the previous year to 8.2 percent. This was mainly due to the income of around EUR 6.2 million from the disposal of the former Korean production facilities. Without this effect, the EBIT generated by the Wilo Group in this region would have been slightly lower by EUR 0.7 million. The reason for this is the stronger rise in expenses compared to sales development. These expenses mainly related to the selective expansion of sales infrastructures in the countries of Southeast Asia. These measures will have a positive effect on the market presence of the Wilo Group in the countries of this region in the years to come.

287.4 million EUR

sales in the Asia Pacific region,
6.0 percent more than previous year.

EMEA

In 2013, the Wilo Group generated a rise in sales of 7.4 percent or EUR 14.5 million as against the previous year to EUR 210.0 million in the EMEA region. This growth was generated throughout the markets of the region that matter most to the Wilo Group.

A key share of the positive sales performance in the EMEA region was the expansion of business activities in Russia, Belarus and Ukraine. Combined sales in these three countries were up 8.7 percent on the previous year. The Wilo Group increased its sales in Russia, the biggest market in the EMEA region, 20 percent in local currency. The dynamic growth in the construction sector, government and private investment in infrastructure and stronger project business had an essentially positive influence on the business activities of the

Wilo Group in the market segments of Water Management and Industry. However, the strong depreciation of the Russian rouble against the euro had a negative effect. This left high sales growth in Group currency of 12.9 percent.

In Turkey, the second biggest market for the Wilo Group in the EMEA region, business activities expanded rapidly on account of the improved economic performance as against the previous year. Sales climbed by 23.0 percent year on year in local currency. The positive economic development in Turkey resulted from a relaxed monetary policy and expansive fiscal policy, which led to higher public investment and increased private demand. The Turkish construction sector expanded considerably under these stimulating economic conditions. However, the Turkish lira lost significant ground against the euro over the year, resulting in sales growth in reporting currency of only 11.0 percent.

The Wilo Group also enjoyed a positive performance in the Gulf region and in the Caucasus nations and Central Asia. However, the Wilo Group saw a drop in sales on the African continent in line with the economic downturn. The uncertain political situation in some African nations, falling oil prices and a decline in subsidies slowed economic growth south of the Sahara in 2013. Nevertheless, the main stimulus in the mixed region remained intact. Africa's population is growing rapidly, and urbanisation is driving the construction and water industry. At the same time, there is a trend towards very strong growth rates in the continent's oil-producing countries in particular. The purchasing power is rising above all in the quickly growing cities. The Wilo Group is therefore confident that the African continent especially has considerable growth potential despite the politically and economically uncertain general conditions, and that it is one of its future regions. In recent years Wilo has therefore begun to step up its market presence in selected countries on the African continent significantly. This included expanding subsidiaries in Morocco and Nigeria in addition to establishing branches in Libya and Algeria. Branches are in the start-up phase in Tunisia and Egypt.

Despite the rise in sales, EBIT in the EMEA region fell by 4.2 percent from EUR 26.0 million in 2012 to EUR 24.9 million in the year under review. The main reasons for this were the strong depreciation of the Russian rouble and the Turkish lira, which together reduced EBIT by around EUR 2.5 million. In addition, operating earnings were also squeezed by the non-recurring effects of the reorganisation of the Russian subsidiary. The EBIT margin of 11.9 percent (previous year: 13.3 percent) achieved in the EMEA region in the reporting year despite these effects is a reflection of the high earnings power and strong market position of the Wilo Group in these countries.

Market segments

Sales development in the individual market segments was as follows in the 2013 and 2012 financial years:

Sales development by market segment

EUR million	2013	2012	Change %
Building Services	927.4	907.1	2.2
Water Management and Industry	303.4	280.0	8.4
Total	**1,230.8**	**1,187.1**	**3.7**

Building Services

Sales increased slightly by 2.2 percent year on year from EUR 907.1 million to EUR 927.4 million in the Building Services market segment. The absolute rise in sales was essentially generated in the Europe and Asia Pacific regions. Both the strong market position and presence of the Wilo Group and the considerably greater awareness among the population of energy sustainability and the responsible use of natural resources spurred demand for energy-efficient products and applications, especially in the mature economies. The prospects of rising heating and energy costs in the medium to long term are improving the savings potential of energy-efficient products and thereby boosting demand. Business activities in the Building Services market segment also benefited from a more dynamic construction sector than in the previous year in many countries. The sales growth in the Building Services market segment was higher overall in local currencies. However, the at times substantial depreciation effects tended to have a negative impact on growth rates for some of the Wilo Group's key currencies.

Water Management and Industry

Sales in the Water Management and Industry market segments climbed by 8.4 percent in the 2013 financial year from a combined figure of EUR 280.0 million to EUR 303.4 million, thus rising at a faster rate than the overall sales of the Wilo Group. The reasons for this positive development included the significantly escalated business activities in the EMEA region, which saw sales rise by around EUR 12 million year on year. The focus on project business activities should be emphasised in this regard. The dynamic construction sector and higher government and private investment in infrastructure in Russia and Turkey had a particularly positive effect on business activities in both market segments. By contrast, sales development was hampered by negative exchange rate effects.

Results of operations

The Wilo Group generated a 5.0 percent increase in EBIT year on year to EUR 125.7 million, with sales up 3.7 percent in the 2013 financial year. The ratio of EBIT to sales (EBIT margin) improved as against the previous year from 10.1 percent to 10.2 percent and was therefore slightly ahead of expectations. The gross margin remained constant at the previous year's level of 39.6 percent. The rise in the EBIT margin is essentially due to the relatively low increase in selling and administrative expenses relative to sales growth. The rise in spending for research and development of 12.0 percent was therefore more than offset. The development of earnings is presented below.

Results of operations

EUR million	2013	2012	Change %
Net sales	**1,230.8**	**1,187.1**	**3.7**
Cost of sales	-743.0	-717.5	3.6
Gross profit	**487.8**	**469.6**	**3.9**
Selling and administrative expenses	-327.7	-320.9	2.1
Research and development costs	-43.9	-39.2	12.0
Other operating result	9.5	10.2	-6.9
Earnings before interest and taxes (EBIT)	**125.7**	**119.7**	**5.0**
Net finance costs	-12.6	-9.3	-35.5
Income taxes	-30.1	-32.2	-6.5
Consolidated net income	**83.0**	**78.2**	**6.1**
EBIT as a % of sales (EBIT margin)	**10.2%**	**10.1%**	
Earnings per ordinary share (EUR)	**8.12**	**7.63**	
Earnings per preference share (EUR)	**8.13**	**7.64**	

Selling and administrative expenses climbed only moderately year on year by 2.1 percent from EUR 320.9 million to EUR 327.7 million, and therefore more slowly than sales. The Executive Board of the Wilo Group anticipated the sales performance in individual countries early on and implemented targeted measures to adapt cost developments and increase cost efficiency.

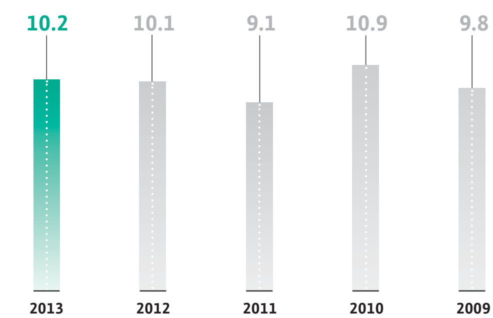
As a premium, customer-oriented provider, the Wilo Group focuses on forward-looking, innovative and promising product and technology developments. Research and development play a central role. Research and development costs were specifically increased by 12.0 percent in the 2013 financial year to EUR 43.9 million. They climbed more rapidly than sales to a high level at 3.6 percent (previous year: 3.3 percent) of sales.

Other operating income improved slightly by EUR 0.7 million year on year to EUR 9.5 million. A key aspect of other operating income in 2013 was the income from the disposal of a significant portion of the production facilities previously held in Korea in the amount of EUR 6.2 million. By contrast, net currency income from operating activities was down on the previous year by EUR 2.5 million due to the substantial depreciation of some of the currencies relevant to the Wilo Group. The Wilo Group reported a negative net currency result of EUR 1.2 million in the reporting year. This currency result includes realised gains and losses from exchange rate differences between the inception and settlement of intra-Group foreign-currency receivables and liabilities on the one hand, and unrealised gains and losses from the measurement of intra-Group and external foreign-currency receivables and liabilities as at the end of the reporting period on the other.

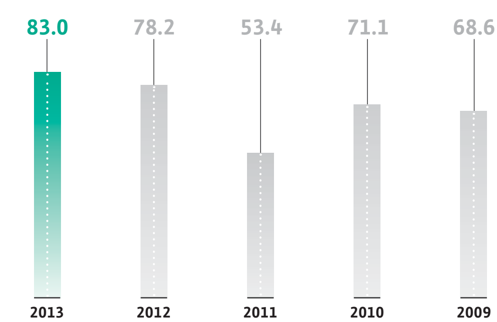
The net finance costs of the Wilo Group increased by EUR 3.3 million from minus EUR 9.3 million in the previous year to minus EUR 12.6 million in the 2013 reporting year. One reason for this was utilisation and measurement effects from commodity derivatives, used to hedge price changes for the Wilo Group's commodity demand. These effects increased net finance costs by EUR 1.3 million in the 2013 financial year. In the previous year, however, they resulted in financial income of EUR 1.1 million. Negative currency effects from the measurement of intra-Group and external financial instruments added further financing costs of EUR 2.6 million. By contrast, the Wilo Group's net interest income improved by EUR 0.9 million in 2013. This was due to the refinancing measures implemented, an improvement in the net financial position and an optimised investment policy.

Consolidated net income after taxes improved considerably by 6.1 percent (EUR 4.8 million) to EUR 83.0 million. Accordingly, earnings per ordinary share rose from EUR 7.63 in the previous year to EUR 8.12. The return on sales – the ratio of consolidated net income after taxes to net sales – climbed from 6.6 percent in the previous year to 6.7 percent in the 2013 financial year.

EBIT as % of sales



Consolidated net income (EUR million)



Capital expenditure and Cash flow

Capital expenditure

Investments in intangible assets and property, plant and equipment declined by EUR 26.1 million as against the previous year to EUR 63.9 million in the 2013 financial year, but remained at a very high level. This capital expenditure essentially related to capacity expansion, new manufacturing technologies and the expansion of the existing sales and production locations. The reduction in investments was largely due to changing timetables for location development projects, which postponed the investments initially planned to later years. In addition, positive procurement effects contributed towards a reduction in investments in intangible assets and property, plant and equipment.

A key area of investment activity was the modernisation and expansion of production capacity at key European locations in Germany and France with a combined amount of EUR 31.4 million. This includes investments for facilities for the production of ErP-compliant products. In addition, the change in the product portfolio and product-specific, increased demand for electronics components led to investments in adequate production capacity. Investments in locations in Germany and France amounted to almost 50 percent of total investments in 2013. This reflects the major significance of the European locations for the strategic orientation of the Wilo Group.

The Wilo Group is planning to build a new production site in Russia in the next two years as well, firstly on account of this market's strong growth and secondly to reflect its size and importance to Wilo. Land close to the Russian capital of Moscow was already acquired for this purpose in the 2013 reporting year.

Furthermore, the Wilo Group's new production facilities including sales and administration units in Busan, South Korea, commenced operations in 2013. Production capacity has therefore been expanded for the Korean market in particular. The investment volume for this project was almost EUR 25 million in total. Advance payments and assets under construction were reclassified to property, plant and equipment in the statement of financial position in the year under review.

Capital expenditure on intangible assets (not including goodwill) and property, plant and equipment broke down as follows in the 2013 and 2012 financial years:

Capital expenditure on intangible assets and property, plant and equipment

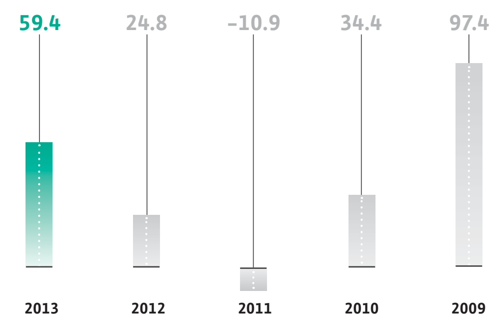
EUR million	2013	2012	Change
Capital expenditure on intangible assets	**7.0**	**4.2**	**2.8**
Land and buildings	11.3	3.9	7.4
Technical equipment and machinery	9.1	8.0	1.1
Operating and office equipment	19.7	21.2	–1.5
Advance payments made and assets under construction	16.8	52.7	–35.9
Capital expenditure on property, plant and equipment	**56.9**	**85.8**	**–28.9**
Total	**63.9**	**90.0**	**–26.1**

In addition to investments in intangible assets and property, plant and equipment, WILO SE acquired all shares in GEP Industrie-Systeme GmbH for a purchase price of EUR 8.1 million. This resulted in goodwill of EUR 6.4 million. This acquisition has allowed the Wilo Group to improve its standing in the field of process water, extinguishing water and drinking water supply.

Cash flow and liquidity

In the 2013 financial year, the positive cash flow from operating activities improved by EUR 9.4 million to EUR 130.2 million. The negative cash flow from investing activities declined by EUR 24.3 million to EUR 63.1 million as the volume of property, plant and equipment investment was considerably lower than in the previous year. Net cash flow used in financing activities increased by EUR 39.1 million to EUR 63.2 million. This was due to the reduction of financial liabilities, the net liquidity-reducing acquisitions and disposals of treasury shares and a higher dividend payment to the shareholders of WILO SE. Overall, the cash flow generated in operating activities more than compensated the cash flow used in investing and financing activities.

Free cash flow (EUR million)



Free cash flow as the difference between cash flows from operating and investing activities including interest income and expenses and dividends received more than doubled in 2013 from EUR 24.8 million to EUR 59.4 million.

Taking into account negative exchange rate effects of EUR 2.9 million, cash was up slightly by EUR 1.0 million at EUR 177.5 million as at 31 December 2013. The individual cash flows for the 2013 and 2012 financial years were as follows:

Cash flows

EUR million	2013	2012	Change
Cash flow from operating activities	130.2	120.8	9.4
Cash flow from investing activities	-63.1	-87.4	24.3
Cash flow from financing activities	-63.2	-24.1	-39.1
Change in cash	3.9	9.3	-5.4
Free cash flow	59.4	24.8	34.6
Cash at the end of the financial year	**177.5**	**176.5**	**1.0**

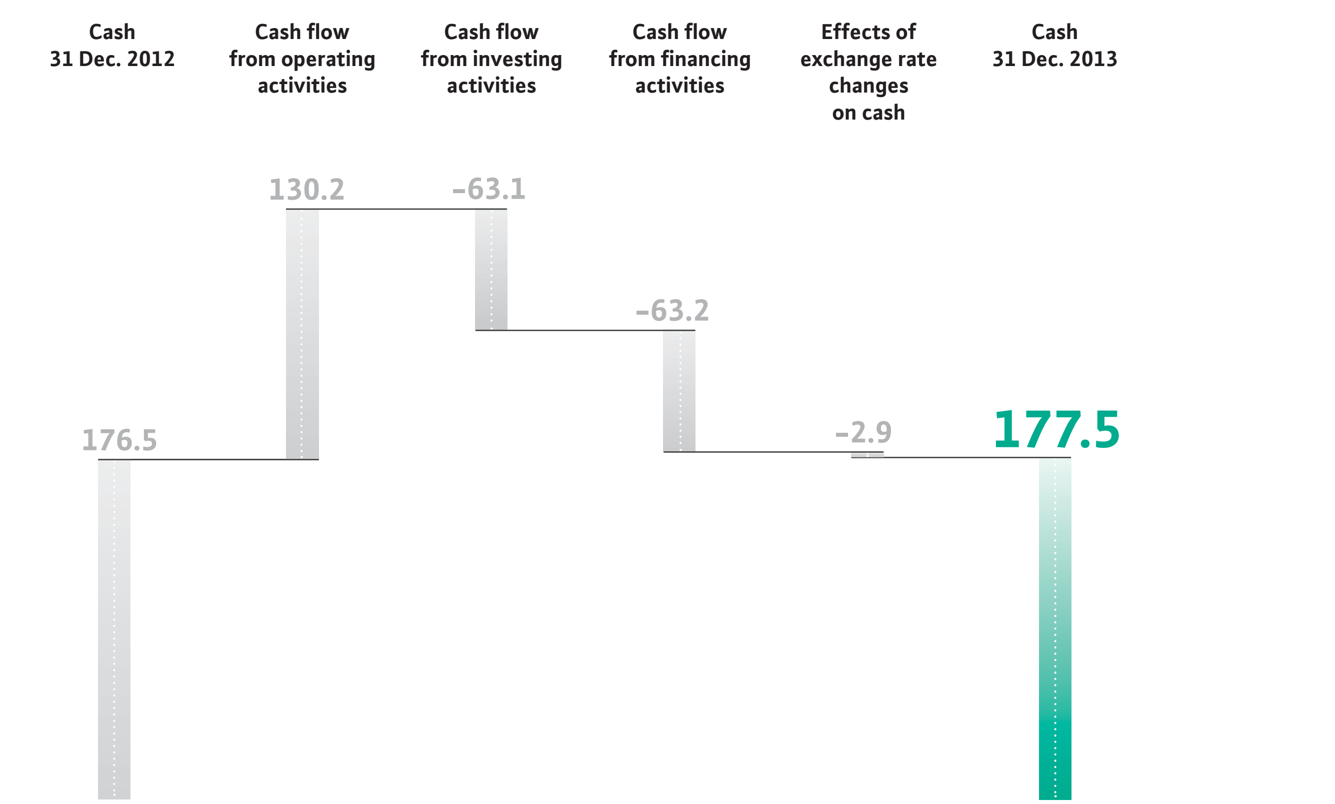
The positive development in operating cash flow in the reporting year is due to several factors. The increase in EBIT had a positive impact with an effect of EUR 6.0 million. Furthermore, the EUR 12.0 million reduction in working capital to EUR 321.0 million (after adjustment for currency effects) also had a positive effect on cash flow. This was as a result of systematic working capital management. These factors were countered by the cash reduction in staff liabilities and advance payments on account of orders with a combined amount of EUR 6.2 million.

Net cash used in investing activities decreased by EUR 24.3 million to EUR 63.1 million. The main reason for this was investments in intangible assets and property, plant and equipment, which were reduced by EUR 26.1 million year on year to EUR 63.9 million. The investment volume originally planned for 2013 was not implemented, mainly on account of the amended timetables for location development projects, which put the investments back to later years. In addition to investments in intangible assets and property, plant and equipment, WILO SE acquired all shares in GEP Industrie-Systeme GmbH, Zwönitz. The purchase price was EUR 8.1 million. Taking into account the cash assumed as part of the acquisition of EUR 1.0 million, the net cash used amounted to EUR 7.1 million. Offsetting this, the Wilo Group generated a cash inflow of EUR 7.3 million from the disposal of a significant portion of its production facilities in Korea.

Net cash used in financing activities increased by EUR 39.1 million year on year to EUR 63.2 million. This was due in part to the cash reduction of financial liabilities in the amount of EUR 11.7 million. This included scheduled repayments of EUR 48.7 million, which essentially related to the repayment of a US bond of USD 40.0 million from 2006 and repayments of promissory note loans of EUR 10.0 million. In return, the Wilo Group took advantage of the very low interest level and good markets conditions to issue a new ten-year bond of EUR 37.0 million as part of a US private placement in 2013.

Furthermore, net acquisitions and disposals of treasury shares in the amount of EUR 12.5 million reduced the net cash used in financing activities. These transactions had an effect of increasing liquidity by EUR 4.6 million in the previous year. Furthermore, the dividend payment to the shareholders of WILO SE was increased by EUR 10.0 million on account of the improved 2012 consolidated net income. The distribution ratio was virtually unchanged as against the previous year. Net interest expense improved by EUR 0.9 million to EUR 7.8 million. This was due to the refinancing measures implemented and an optimised investment policy. The net financial position was also improved.

Change in cash (EUR million)



Financial management

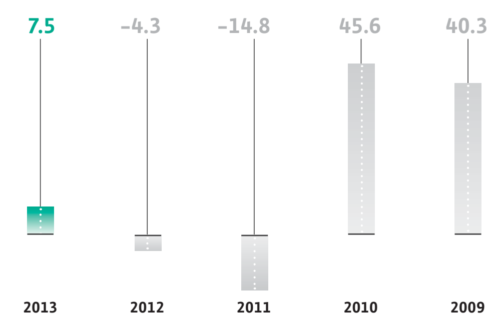
The goal of financial management is to maintain the financial independence of the company, ensure liquidity at all times and support the operating activities of the Wilo Group. In addition to its operating cash flow, the Wilo Group has sufficient financing facilities from international banks for this purpose, consisting of short and medium-term cash credit lines of more than EUR 200.0 million. This includes a syndicated loan agreement of EUR 120.0 million with a term of five years that was concluded in 2013 and adapted to the Group's requirements and future challenges. EUR 5.2 million of the cash credit facilities had been utilised as at 31 December 2013. The Wilo Group has been operating active portfolio management for several years with regard to the origin, type and maturity structure of its borrowings. Financing policy focuses primarily on both return and security targets.

The Wilo Group repaid scheduled financial liabilities of EUR 48.7 million in the 2013 financial year. The repayment essentially related to a US bond of USD 40.0 million issued in 2006. To refinance this, the Wilo Group took advantage of the very low interest level and good market conditions to issue a new ten-year bond of EUR 37.0 million as part of a US private placement.

The Wilo Group reported financial liabilities of EUR 170.0 million as at 31 December 2013 (previous year: EUR 180.8 million). These mostly consist of a senior note of USD 40.0 million maturing in 2016 and senior notes of EUR 75.0 million and EUR 37.0 million. All senior notes were issued by WILO SE in the context of private placements in the years 2006, 2011 and 2013. The senior notes of EUR 75.0 million and EUR 37.0 million mature in 2021 and 2023 and were issued as part of a private shelf facility (non-binding debt capital commitment). The private shelf facility of USD 150.0 million has therefore been utilised in full. Furthermore, there are two promissory note loans of EUR 25.0 million each. These were borrowed in 2008 and 2011 and will be repaid in instalments until 2015 and 2020 respectively. These two promissory note loans had a carrying amount as at 31 December 2013 of EUR 23.7 million (previous year: EUR 33.7 million). There were also short-term current account liabilities with a volume of EUR 5.2 million (previous year: EUR 10.8 million).

WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans on maturity from budgeted cash flows from operations. It has no evidence that the uncertain situation on the global banking and financial sector will have any material negative impact on the Wilo Group's financing activities. The Wilo Group has cash of EUR 177.5 million (previous year: EUR 176.5 million) as at 31 December 2013. The net financial position (financial liabilities less cash) of the Wilo Group was therefore a liquidity surplus of EUR 7.5 million on 31 December 2013. Net financial liabilities of EUR 4.3 million were reported in the previous year.

Net financial position (EUR million)



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

Financial position

The amended accounting standard IAS 19 (2011) "Employee Benefits" was applied for the first time in the reporting year. The main change for the Wilo Group is the full and direct recognition of actuarial gains and losses from the calculation of pension obligations in equity and a corresponding adjustment of pension obligations. The retrospective adoption of the amendment is mandatory. This essentially necessitated adjustments to equity and pension obligations, which are components of non-current liabilities, as at 31 December 2012 and 1 January 2012. More detailed information on the adoption of IAS 19 (2011) and the resulting adjustments to the previous year can be found in note (3) to the consolidated financial statements.

The total assets of the Wilo Group as at 31 December 2013 climbed by 1.6 percent to EUR 994.9 million. Non-current assets increased by 5.1 percent to EUR 375.3 million. The reason for this in particular was investments in intangible assets and property, plant and equipment in the amount of EUR 63.9 million. These investments primarily relate to measures to increase capacity, new manufacturing technologies and the expansion of the existing sales and production locations. Depreciation and amortisation on intangible assets and property, plant and equipment amounted to EUR 44.2 million in the reporting year (previous year: EUR 39.3 million). The acquisition of GEP Industrie-Systeme GmbH, Zwönitz, resulted in additional goodwill of EUR 6.4 million. Intangible assets and property, plant and equipment with a carrying amount of EUR 5.3 million were disposed of in the year under review. EUR 3.0 million of this was reclassified to assets held for sale within current assets in accordance with IFRS 5. The appreciation of the euro against many of the Wilo Group's key currencies resulted in negative currency effects in non-current assets of EUR 6.5 million. Intangible assets and property, plant and equipment increased by EUR 14.5 million in net terms.

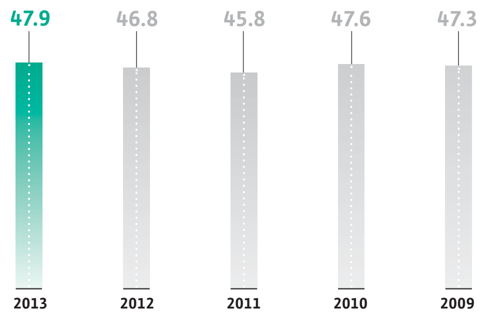
The carrying amount of current assets of EUR 619.6 million as at 31 December 2013 was almost unchanged as against the previous year's figure. Inventories were also on par with the previous year's level at EUR 187.8 million despite the expansion of business activities. Current trade receivables declined by 4.2 percent to EUR 215.8 million. A main reason for the development in inventories and current trade receivables was the successful, consistently optimised working capital management. Also, the depreciation of key foreign currencies for the Wilo Group caused the carrying amounts of these two items to decline. Working capital was reduced by a total of 6.8 percent to EUR 321.0 million. Cash increased slightly by EUR 1.0 million from EUR 176.5 million to EUR 177.5 million as at 31 December 2013.

47.9 percent

Equity ratio as of 31 December 2013.

The equity of the Wilo Group was up by 4.1 percent or EUR 18.9 million year on year at EUR 476.9 million as at 31 December 2013. The consolidated net income for the 2013 financial year of EUR 83.0 million significantly increased equity and more than offset opposing effects. These opposing effects essentially included the scheduled dividend distribution of EUR 31.2 million (previous year: EUR 21.3 million) to the shareholders of WILO SE, negative effects from the translation of the separate financial statements of subsidiaries prepared in local currencies in the amount of EUR 18.9 million and the equity-reducing net acquisitions and disposals of treasury shares in the amount of EUR 13.1 million. The equity ratio improved from 46.8 percent to 47.9 percent overall as at 31 December 2013.

Equity ratio*



* The equity ratio was calculated retroactively to 2009 applying IAS 19 (2011).

The non-current liabilities as at 31 December 2013 mainly consisted of financial liabilities in the amount of EUR 157.2 million and pension and similar obligations of EUR 63.0 million. The EUR 34.3 million increase in non-current liabilities to EUR 253.8 million essentially related to the bond of EUR 37.0 million issued as a US private placement.

Current trade payables rose by EUR 12.4 million to EUR 106.5 million as a result of the continuously optimised and internationally implemented working capital management and the extended operating activities of the Wilo Group.

The EUR 50.2 million decrease in other current liabilities to EUR 157.7 million mainly resulted from the reduction in current financial liabilities. The US bond of EUR 40.0 million issued in the 2006 financial year was repaid as scheduled in 2013. In total, the Wilo Group repaid current financial liabilities of EUR 48.7 million in the reporting year. The reclassification from non-current to current financial liabilities increased this item by around EUR 6.6 million. The net financial position (current and non-current financial liabilities less cash) of the Wilo Group was therefore a liquidity surplus of EUR 7.5 million on 31 December 2013. Net financial liabilities of EUR 3.4 million were reported in the previous year.

In addition to current financial liabilities, staff liabilities and advance payments received on orders were down by EUR 3.1 million each. Other current provisions declined by EUR 5.2 million, largely accounted for by the provision for customer bonuses and rebates of EUR 4.3 million.

The net assets of the Wilo Group were as follows as at 31 December 2013 and 2012:

Financial position

EUR million	2013	%	2012	%
Non-current assets	375.3	37.7	357.0	36.4
Inventories	187.8	18.9	187.3	19.1
Current trade accounts receivable	215.8	21.7	225.2	23.0
Cash	177.5	17.8	176.5	18.0
Other current assets	38.5	3.9	33.5	3.5
Total assets	**994.9**	**100.0**	**979.5**	**100.0**
EUR million	2013	%	2012	%
Equity	476.9	47.9	458.0	46.8
Non-current liabilities	253.8	25.6	219.5	22.4
Current trade accounts payable	106.5	10.7	94.1	9.6
Other current liabilities	157.7	15.9	207.9	21.2
Total liabilities	**994.9**	**100.0**	**979.5**	**100.0**

Non-financial success factors

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

Employees

"Focusing on people" is a guiding principle in Wilo's business activities. For HR management this means aligning all activities with the needs of the company and its employees. HR strategy is incorporated into corporate strategy and networked with other functional strategies.

This takes into account the relevant social and human resources developments. These developments have a crucial influence on which HR activities will be assigned special significance in future in order to remain competitive on the labour market. The following three developments and the associated measures are examples of this:

- **Globalisation:** Global business activity requires activities at various locations and in different time zones in addition to an understanding and collaboration between different cultures. Introducing, standardising and honing structures and processes at different levels of maturity is also a significant issue in this regard. This includes the possibility of global further training as well. The global orientation of employee training and the transfer of knowledge have been furthered by creating international training centres and supporting subsidiaries in establishing local or regional training programmes as part of "Wilo Academy worldwide".

- **Work virtualisation:** Knowledge work and the flow of information are becoming ever more important in today's world. The Wilo Group uses global infrastructures and information and communication systems to facilitate Group-wide knowledge transfer and cooperation. For example, around 1,500 employees have access to the international internal video and web conference system. The implementation of a global HR information system in 2013 created the foundation for worldwide HR management. Global HR work is therefore being efficiently supported by, for example, system-based HR processes. In addition, the availability of worldwide employee data enables state-of-the-art reporting and improves the flow of information.

- **Resource management:** The optimal deployment of employees and the use and ongoing development of skills are key activities in HR management that make a significant contribution to competitive capability. Among others, the establishment of resource networks and offers to expand interdisciplinary and cultural horizons are suitable measures for fostering this. Two Group-wide staff development programmes were initiated for new executives. The most talented employees will be systematically aided in their professional development and acquisition of strategic skills. The teams in the "middle and senior management pool" consist of members from all divisions all over the world.

Appropriate employee remuneration is an important component of HR policy at the Wilo Group. The remuneration of employees under collective agreements in Germany is based on the applicable regional collective agreement regulations. In addition to their basic salary, employees not covered by collective agreements receive a bonus linked to both company goals and the achievement of personal targets.

That basis of remuneration is formed by clearly documented function descriptions and assessments (job profiles) that are formulated uniformly throughout the Group. The remuneration of employees at subsidiaries is also based on these job profiles, 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. More detailed information can be found in note (9.16) to the consolidated financial statements.

In the 2013 financial year, the Wilo Group increased its global workforce by 4.3 percent to an average of 7,194 employees. On 31 December 2013, Wilo had almost 7,300 employees worldwide. Headcount therefore mirrored the positive overall business development of the Wilo Group.

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

Number of employees by region

	2013	2012	Change %
Europe	4,148	3,932	5.5
Asia Pacific	2,176	2,126	2.4
EMEA	421	391	7.7
Others	449	451	-0.4
Total	**7,194**	**6,900**	**4.3**

Production

The Wilo production system (WPS) was implemented in 2006 and is developed on an ongoing basis to adapt the principles and methods of streamlined production systems to company-specific circumstances and to firmly establish them in the Wilo Group. It was gradually introduced by a Group-wide staff department in cooperation with local WPS representatives and is the basis for all location reorganisation and development activities.

The goal of the WPS is to establish a culture of continuous improvement in the spirit of the Wilo corporate philosophy and strategy, in which all value streams in the Wilo production network are geared towards customer requirements, focusing on value added from customer perspective and in which the individual valued added processes are designed efficiently and flexibly. The methods and standards defined in WPS enable the individual operating divisions and production locations to achieve their ambitious targets for quality, costs and delivery times. They include the standardisation of processes, avoiding waste, value stream design and the integration of lean principles into product and process development.

In order to direct the continuous improvement activities and the targeted use of WPS methods in line with corporate strategy and the annual division/plant targets that result from this, each operating organisational unit defines an annual policy deployment process with the support of the Group-wide staff department, in which strategic activities are gradually derived from the organisational goals and broken down for the individual departments. The associated controlling rounds handle the ongoing monitoring, coordination and communication of WPS activities across all departments and check them against the priority objectives. Annual audits review the degree of implementation and the targeted use of WPS methods in line with goal planning. The global audits performed in 13 production plants and divisions in 2013 again verified a high degree of maturity throughout the Wilo Group and the great importance of WPS to customer orientation and the constant advancement of the Wilo production network.

Quality

As a premium provider, Wilo sets the highest standards for reliably high-quality of its products and services for customers. This applies to the entire value chain. Quality assurance begins with the development of products and sourcing of parts and extends from production to customer service. At the core of this process are the customers, their specific requirements and their satisfaction. Wilo has established systematic quality management for this purpose that it is further developed on an ongoing basis.

The purpose of the quality management system (QMS) is to install, harmonise and develop standards and methods along the entire quality process chain. This improves the efficiency and effectiveness of processes. A further central task is to establish transparency regarding the performance and conformity of quality processes in order to identify action areas and measures for improvement.

New structures, processes and interfaces along the entire value process were already defined in the 2012 financial year with the establishment of the Group Quality division and the implementation of the "House of Quality" with the four pillars/processes of preventive quality, production quality, customer quality and supplier quality, thereby creating a new launch pad for quality management (QM) at Wilo. Key successes were achieved in the QM disciplines in the reporting year. The implementation of a Group-wide quality management system will continue further in 2014. The goal is for matrix certification of all production locations by 2015. This forms the basis for the further harmonisation of standards and the rapid implementation of improvement measures.

The aim of the quality management system is to make the processes in product development and production so controllable that our customers receive a defect-free product, quality problems are permanently stopped, costs reduced and quality issues advanced.

26 quality updates
on top quality issues in the market were sent to the sales subsidiaries.

Preventive quality activities aim to recognise risks early on in the development phase and to eliminate them, for example, either through changes in the development process or corrective measures in production. This ensures high-quality on product launch, which pays off in downstream quality processes, e.g. due to low warranty costs (customer quality) or by reducing rejects and rework (production quality).

The primary goal in the production quality process in 2013 was to analyse the data currently available on global reject and rework costs at production locations. The most important action areas here were identified as a result in order to reduce these costs. The associated measures will be implemented as a priority in 2014.

The aim of customer quality activities is to reduce or avoid warranty costs and complaint rates so as to enhance customer satisfaction. In addition to gathering global complaint data, close and regular contact with sales branches in the form of monthly field return calls also plays a big role here as an input factor. The top quality issues derived from this are remedied in a structured way in cooperation with the production locations using established quality management methods, such as 8D, Ishikawa or 5 Why, and communicated to the customer. By the end of 2013, 26 quality updates on top quality issues in the market were sent to the subsidiaries so far. In addition to the elimination of defects, 2014 will be wholly dedicated to tracking the effectiveness of the optimisation measures already introduced.

Supplier quality management, as the fourth pillar in the House of Quality, systematically steers supplier quality in close cooperation with procurement and production throughout the entire product lifecycle. The intention of this is to keep the quality costs caused by defective quality of the purchased parts delivered as low as possible and to ensure reliable supplier quality. The Group-wide coordination of a standard quality assurance agreement that defines quality requirements and procedures for quality complaints is important in this. 30 agreements with key strategic suppliers were signed in 2013. Supplier improvement programmes were also initiated. The goal here is to further enhance and sustainably improve supplier performance through cooperation with suppliers.

Resource efficiency

The globalisation megatrend seen by the Wilo Group as relevant goes hand-in-hand with growing shortages of resources around the world. Given the tangible decline in the availability of resources, there is a rising need for very high resource efficiency.

Resource efficiency is a goal that the Wilo Group has been successfully pursuing for many years and that has set international technology and product standards relating to efficiency in a number of product innovations. For example, thanks to its high-efficiency drive, the Wilo-Stratos GIGA requires around 40 percent less energy than its predecessor product, which was also electronically regulated, while at the same time using 50 percent less materials.

40 *percent*

less energy requires the Wilo-Stratos GIGA than its predecessor product.

A further key area in resource efficiency is product recycling. A long-term goal here is resource-conserving activity at the end of a product's life, when old products are removed from the market, having first been separated as much as possible, and recycled. But there are also areas to tackle resource efficiency in early phases of the product lifecycle. Using Ecodesign specifications, Wilo uses recycling-appropriate construction taking into account the aspects of disassembly and reuse ("design for disassembly") and recycling-appropriate production processes for every new product developed. This creates the necessary conditions for having a product that can be effectively and efficiently recycled at the end of its lifecycle. For example, magnets have already been reintroduced to the production process within the Wilo Group since 2012.

The European Waste Electrical and Electronic Equipment Directive adopted in 2003 makes manufacturers responsible for the proper disposal of their electronics products. From 2018 at the latest, this Directive will also apply to pumps and their drives. The Wilo Group takes this responsibility seriously and is already ensuring the most sensible ways of reusing or recycling its old products.

In the reporting year, the Wilo Group began analysing the option for actively recovering old products from the market for recycling. Furthermore, with the participation of research institutes, Wilo has devised ways to reuse products and ecologically and economically optimised recycling processes, which resulted in the establishment of a Group-wide function in charge of product recycling processes in 2013.

In general new production and administration buildings of the Wilo Group are constructed and operated according to building standards geared towards low environmental impact and sustainability. The buildings completed in China, India and Turkey in recent years have received gold LEED certification. LEED (Leadership in Energy and Environmental Design) is an ecological building standard developed by the US Green Building Council. The LEED assessment system defines standards for environmentally friendly, resource-conserving and sustainable construction. The new South Korean plant began operations in the year under review, which meets the highest energy efficiency and environmental standards and that was certified according to country-specific energy and environmental standards based on the LEED system.

Corporate compliance

The success of the Wilo Group is largely based on shared concepts of values and ethical principles that guide employees in their daily activities. The Executive Board of the Wilo Group therefore acknowledges the basic ethical Wilo values "integrity – respect – fairness" as the starting point for a common system of principles and values across all cultural groups. Back in 2011, the Wilo Group introduced its "Acting Responsibly" code of conduct and defined Wilo principles that thus became the benchmark for the actions of all executives and employees of the Wilo Group. Wilo principles include:

- adherence to basic social principles such as respecting human rights, equal treatment and equal opportunities,
- compliance with 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 our employees.

The compliance organisation at Wilo currently comprises the compliance director and the compliance office. In this function, the compliance director reports directly to the CEO on issues relevant to compliance. Among other things, the compliance office is responsible for the "Wilo Business Keeper Monitoring System" (BKMS®), which is available to employees and third parties for confidential and anonymous tips on violations of the code of conduct. In addition to reporting to the Executive Board, the Audit Committee is also reported to regularly and on a case-by-case basis on issues relevant to compliance.

Statement by the Executive Board on the economic situation

Taking into account the persistently difficult general economic situation in many regions of the world, the Executive Board of the Wilo Group considers business performance in 2013 to have been highly satisfactory overall. In the year under review the Wilo Group successfully continued its profitable growth course with sales and income increases to new records, which essentially met and in some cases exceeded the targets for 2013.

A new sales record was set once again with growth of 3.7 percent. Without the negative effects of the depreciation of key currencies of the Wilo Group, net sales would even have been up by 6.1 percent year on year. Above all, the strong depreciation of the Indian rupee, the Russian rouble and the Turkish lira against the euro impaired sales growth in reporting currency.

Despite the negative currency effects, strong sales growth was achieved in the Asia Pacific and EMEA regions of 6.0 percent and 7.4 percent respectively. Sales growth in the German-speaking regions also outpaced that of the Group as a whole at 6.4 percent. On the other hand, the business activities of the Wilo Group in the countries of Eastern and Southeast Europe were also hampered by the weak development of the respective economies. The improvement in the economic situation – which was already only forecast as moderate – fell short of expectations in many countries.

The Executive Board anticipated the economic and currency developments that emerged in individual regions over the course of the 2013 financial year and adjusted planned cost increases to actual performance. Further progress was made in the optimisation of structural costs and long-term cost-cutting measures in 2013 as well. Expenses for strategic issues, such as research and development, were increased at an even faster rate than sales in some cases. A new record was therefore also set for operating earnings overall. With an EBIT margin of 10.2 percent, the company even outperformed its profitability target for 2013. At EUR 83.0 million, consolidated net income also reached a record level. In addition, a strong positive free cash flow was again achieved in the reporting year at EUR 59.4 million.

The already very good financial situation of the company improved further in 2013. The Wilo Group repaid financial liabilities of EUR 48.7 million in line with planning in the 2013 financial year, and refinanced itself at good conditions with the successful placement of a ten-year US senior note in the amount of EUR 37.0 million. Furthermore, a syndicated loan agreement of EUR 120.0 million with a term of five years and adapted to the Group's requirements and future challenges was successfully concluded. Both transactions also further boost the high financial stability, flexibility and dynamism of the Wilo Group.

By creating the Corporate Development function, which will proactively advance M&A activities as well, the Wilo Group has implemented a key element for the ongoing development and implementation of its adjusted corporate strategy. The successful acquisition of GEP Industrie-Systeme GmbH, a specialist in process water, drinking water and extinguishing water systems will step up the Wilo Group's activities on this market. The acquired company recently generated annual sales of around EUR 7 million and is profitable. Positive effects on sales and EBIT of the Wilo Group are expected from 2014.

The Executive Board rates the economic situation of the Wilo Group as highly stable and sustainable. This assessment is based on the results in the consolidated financial statements and the 2013 separate financial statements of WILO SE and takes into account business performance up to preparation of the 2013 Group management report. At the time of this Group management report being prepared, business performance at the start of 2014 is consistent with the Executive Board's expectations.

Report on risks and opportunities

Risk and opportunities policy

The business policy of the Wilo Group is geared towards ensuring the independence of the company, profitable growth and increasing enterprise value in the long term. As a global company, the Wilo Group is exposed to various risks on the one hand. On the other, there are also numerous opportunities. Business activity therefore requires the careful monitoring of all relevant risks and opportunities. Strategic and operational decisions are made on the basis of a systematic analysis and assessment of risks and opportunities with regard to the income and liquidity situation of the company 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 generally not taken.

As a fixed component of its corporate strategy, the Wilo Group has installed a comprehensive and systematic risk management system and procedures for managing opportunities.

Opportunities management

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

Operational opportunities are essentially identified and assessed in the regions, market segments and central functions. The respective markets are observed and analysed in order to detect trends and developments early on so as to derive and exploit any opportunities that may arise from them. Opportunities are analysed and assessed within the planning process and incorporated directly into medium-term planning in scenario calculations. Resources are coordinated and allocated at Group level.

Opportunities of elevated strategic significance, such as acquisitions, cooperations or changes in strategy, are analysed, assessed and implemented at Executive Board level with the support of Corporate Development. In the context of the corporate foresight process, both risks and opportunities are derived and analysed from forecast future developments with respect to the global megatrends and are thereby systematically taken into account in the ongoing development of corporate strategy.

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

Risk management system

The Wilo Group has a state-of-the-art, integrated, globally available risk management system. The system ensures that business risks are identified early on and guarantees that effective countermeasures are initiated promptly. The monitoring of the consistent implementation of the measures initiated is a key component of the system. Once identified, risks are assessed, managed as far as possible, and monitored at all times. The risk management system is regularly reviewed by the internal audit department.

Risk management at Wilo is based on a decentralised approach. Throughout the Group, level-two managers are responsible for risk tracking and reporting. They act as risk management officers, work closely with the Group risk manager and are aided in this by controlling. The use of checklists and risk classification ensure a uniform risk assessment and procedural compatibility. Software in line with Group needs serves as a platform for communication and information.

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

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

The Risk Management Directive of the Wilo Group sets out the principles for the handling of risks. Furthermore, it contains binding regulations for the requirements of risk reporting, procedures for the measurement of risk and reporting thresholds. The duties and authorisations of persons involved in the risk management process are also stipulated in the Directive. The risk atlas sets out uniform categories to be used for the structuring of risk identification. To guarantee that all relevant risk areas are always tracked, the risk atlas is checked for completeness on an ongoing basis and adjusted as required.

The Group risk manager coordinates the risk management process and, in this function, reports regularly to the Executive Board on a quarterly basis and on an ad hoc basis as necessary. Risk management officers are responsible for tracking and controlling risks in their divisions. Thus, risks are identified and reported on for the individual sales regions, product areas and central functions in the Wilo Group.

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 (within the next twelve months), gross and net risk are calculated for each of the identified risks. 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 financial instruments. The Risk Management Directive defines reporting thresholds. When the net potential loss exceeds a defined value, the risk management officers must report it 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 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 probability of occurrence and the potential loss. The risks, probabilities of occurrence and possible financial impact on EBIT are measured and classified as follows:

Probability of occurrence	
Unlikely	≤ 20%
Possible	> 20% ≤ 50%
Likely	> 50%

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

Possible impact on EBIT	
Low	≤ 10%
Medium	> 10% ≤ 50%
High	> 50%

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

Overview of business risks

	Probability of occurrence	Possible impact on EBIT
General risks		
Economic environment	Possible	Medium
Extraordinary external disruptions	Unlikely	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
Financial risks		
Exchange rates	Likely	Low
Interest *	Unlikely	None
Commodities	Possible	Low
Customer credit risk	Possible	Low
Financing and liquidity	Unlikely	Low

* The possible impact of interest rate risk relate to net finance costs and is classed as low.

More detailed information can be found in the "Financial risks and opportunities" section 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. In terms of industries, the development of the construction sector and the sanitary industry in the respective countries and regions is considered particularly important. The Wilo Group is not insubstantially dependent on these developments. The broad international presence of the Wilo Group can help 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. This entails the intention to take any corresponding countermeasures to safeguard the current and planned economic and financial situation of the Wilo Group as well as possible. Special attention is given here to individual country risks, and targeted countermeasures have been defined to minimise them. Despite the uncertain conditions on some global markets and risky future expectations, some Asian, Latin American and African markets offer very good growth opportunities, though these markets also have elevated risks. The Wilo Group reduces this risk potential considerably by organisational measures, expanding and optimising the utilisation of local production capacity and by leveraging synergies.

The current consensus of economists is for a recovery in global economic performance in 2014, predominantly carried by the mature economies. Nonetheless, the outlook is subject to a positive global economic development with regional risks. Firstly, the debt crisis in the euro area has not yet been conclusively overcome. Secondly, in an environment of rising interest rates – especially as a result of a turnaround in monetary policy in the US – a long-term redirection of international cash flows away from emerging markets cannot be ruled out. This could thus jeopardise stability and growth prospects in countries in these regions and thereby global economic prospects as well. 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.

Extraordinary external disruptions

As a global 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. To the extent possible and reasonable, the Wilo Group is adequately insured against operational shutdowns and property damage, and appropriate emergency plans and preventive measures have been implemented to minimise the potential negative effects. The Wilo Group classes the earnings effect of extraordinary external disruptions as moderate (medium earnings impact according to risk classification).

Urbanisation

Over the past 60 years, the proportion of the global population who live in cities has steadily risen to over 50 percent. This trend is set to continue. According to studies by the United Nations, the earth will be home to nine billion people in 2050. Around 70 percent of people will live in cities by then. In addition to the existing, constantly growing cities, other entirely new cities will be built. According to analyses by Booz & Company, more than USD 350 trillion will be dedicated to urban and infrastructure development in the next 30 years worldwide. The emerging economies, particularly in the Asia Pacific region, will account for much of this. This megatrend is the source of growth potential, particularly for the Building Services and Water Management market segments, which the Wilo Group is tapping with targeted investments.

Water shortages

Water is already a scarce resource. More than 780 million people worldwide still have no access to clean drinking water. In future, it will 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 in the Water Management market segment, and provides professional solutions for the complex requirements in drinking water extraction, water purification, water pumping and wastewater disposal, giving rise to growth opportunities in the EMEA and Asia Pacific regions in particular.

Climate change

The world increasingly faces threats from global warming and the growing incidence of extreme weather conditions. The 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 apparent effects of climate change. Drastic action is required to stop climate change and its consequences.

One of the most important measures here is the reduction of greenhouse gases. In addition to the increased use of renewable energies, the focus is on developing and using more energy-efficient processes and technologies. For example, around 11 million tonnes of CO_2 could be saved each year in Europe alone by using state-of-the-art high-efficiency pumps for heating systems.

Following the climate change megatrend, there are growth opportunities for all three market segments in all regions. Demand for forward-looking, resource-conserving products and solutions will also increase as a result 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. The stated aim of the Wilo Group is to shape the future as an innovation and technology leader, and to promote innovations that reduce energy consumption and thus also lessen the impact of CO_2 on the environment.

Industry-specific risks and opportunities

Competition

Competition risk has remained largely unchanged compared to the previous year. For example, the growing price competition on major projects entails imponderables. The Wilo Group mitigates these risks mainly by making increased use of product lines with unique selling propositions. It also ensures a high level of competitive capability through its technological edge over competitors, notably with regard to energy efficiency, 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 competitive environment and differ from corporate planning as moderate (medium earnings impact according to risk classification).

Energy shortage and the Ecodesign Directive

The Ecodesign or Energy-related Products Directive forms the framework for defining uniform regulations on the environmentally sound design of energy-related products in the European Union. The specific product requirements are stipulated for individual product groups by the European Commission in implementing measures and enacted by regulations. EU Regulation no. 641/2009, amended by no. 622/2012, stipulates the requirements for the environmentally sound design of external glandless circulation pumps and products with integrated glandless circulation pumps. Accordingly, from 1 January 2013, manufacturers may only market external glandless circulation pumps that do not exceed an energy efficiency index (EEI) of 0.27. From 1 January 2015, the EEI must not exceed 0.23 and will also apply to glandless circulation pumps that are integrated in heating systems.

The Wilo Group responded to these crucial changes early on. The products in the Wilo-Stratos and Wilo-Yonos series already largely meet the energy efficiency requirements that will apply from 1 January 2015. The Wilo Group expects the stipulation of binding energy efficiency requirements to result in market opportunities in the Europe region. However, it is presently hard to assess the extent to which the forecast positive effects will take hold in the expected period.

Technological progress in building management

More and more people are discovering smart living. In smart homes, everyday devices and systems in private households are electronically integrated, chiefly in order to attain energy efficiency, but also greater convenience, economic efficiency, flexibility and safety. The devices and systems are controlled and accessed centrally and also remotely. This trend means additional growth opportunities for the Building Services market segment. The innovative and intelligent Wilo-Geniax system enables needs-driven, individual heating in individual rooms in buildings and can easily be incorporated in smart home systems. The opportunities arising from this can positively influence the business activities of the Wilo Group in the medium to long term. However, it is currently difficult to estimate the effects on earnings and liquidity, and they can therefore not yet be included in the specific financial planning of the Wilo Group.

Company-specific risks and opportunities

Research and development

Wilo is firmly committed to technological progress, and continuously invests in the development of new technologies and products to strengthen its market position. In 2013, research and development costs amounted to 3.6 percent of consolidated net sales. Regular technology screening and exchanges with universities and research institutions are used to identify the opportunities of new technologies at an early stage. Wilo counters the risk of insufficient attention to customer requirements in the development process through customer surveys, trend analyses and targeted market tests.

The Wilo Group continuously examines the effectiveness and target conformity of all development activities. 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. This is supported by binding Group-wide standards and guidelines. The occurrence of risks from research and development is possible, but the impact on the result of operations of the Wilo Group is considered low.

Production

Quality risk is mitigated by uniform Group-wide standards in production (Wilo production system) and comprehensive quality management. This risk is classed as unlikely overall. The Wilo Group significantly reduces the risk of production stoppages by using state-of-the-art production plants and professional control systems. 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 nonetheless, 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 employees and their expertise, commitment and motivation. The loss of employees in strategic positions constitutes a risk that can lead to the loss of company-specific knowledge, capacity bottlenecks or decreased productivity. The Wilo Group counters this risk with methods such as coordinated demography management, which includes active succession planning and the development of new staff. The occurrence of HR risks is generally possible. However, the impact on EBIT is classified as low.

Information technology

Business processes vital to the Wilo Group are integrated in IT systems. In a worst case scenario, the failure of key systems or substantial data losses could lead to business interruptions. WILO SE mitigates these IT risks with daily backups of all critical business data. The business database aiding production, materials management, order processing, financial accounting and cost accounting conforms to top security standards. WILO SE's critical business applications run in two separate, certified, 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 reduced to a medium level.

Financial risks and opportunities

Exchange rates

The Wilo Group's global presence makes it important to manage changes in exchange rates. The Wilo Group faces currency risk primarily in its operating and financing activities. The currency risk that mainly relates to the supply of goods and services to Group companies is hedged by using 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 mostly relates to foreign-currency borrowing from third-party lenders. There is also foreign-currency lending to Group companies for financing purposes. Such currency risks are reduced by the use of derivative financial instruments.

To prepare the consolidated financial statements, the annual financial statements of the subsidiaries that are based outside the euro area, or whose functional currency is not the euro, are translated into the reporting currency (euro). Changes in the average exchange rate of a currency can therefore notionally influence both sales and income as a result of translation. However, this translation risk has no effect on the cash flows in local currency.

Overall, the occurrence of currency risks is considered likely, but the Wilo Group classes the associated impact on earnings as low. Further information on currency risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found under note (13) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements.

Interest

The interest rate risk mainly results from floating rate financial liabilities and the investment of cash. Both rises and falls 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. The occurrence of interest rate risk is considered unlikely and the possible impact on net finance costs is rated as low as most financial liabilities have fixed long-term interest rates. By contrast, favourable interest rate developments could have a positive effect on net interest income. Wilo's 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 three months.

Further information on interest rate risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found under note (13) “Risk management and derivative financial instruments” of the notes to the consolidated financial statements.

Commodities

A major factor in the commodity price risk of the Wilo Group is price fluctuations on the global markets for copper, aluminium and stainless steel and their alloys. The Wilo Group uses commodity derivatives to minimise the commodity price risk. These are used if the effect on earnings from the change in commodity prices is significant to the Wilo Group and corresponding financial instruments are available and can also be used efficiently. In addition, the development of prices and supply of rare earth elements is monitored very closely.

The prices for most of the copper and aluminium procurement volume for the 2014 financial year have already been fixed in order to minimise the impact on earnings from the change in copper and aluminium 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 commodities. According to current information, the Wilo Group’s results of operations could primarily be affected by price fluctuations on the world markets for copper and aluminium from the 2015 financial year.

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 attempting to use appropriate substitutes and to identify further suppliers for these commodities. As things stand, the future price development of rare earth elements can continue to affect the Wilo Group’s results of operations both positively and negatively.

Commodity price risks are possible, but the Wilo Group classes the associated impact on earnings as low. Further information on commodity price risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found under note (13) “Risk management and derivative financial instruments” of the notes to the consolidated financial statements.

Customer credit risk

The Wilo Group counters customer credit risk with a uniform and effective Group-wide system for systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited as Wilo does not generate more than 10 percent of its total sales with any one customer. The Wilo Group did not experience any significant negative influence from its customers’ payment practices in the past financial year. The possible effect on earnings of default is currently also considered low for 2014. However, there were delays in payment by customers based in the Mediterranean countries due to the ongoing crisis in the eurozone.

Further information on credit and default risk in accordance with IFRS 7 can be found under note (13) “Risk management and derivative financial instruments” of the notes to the consolidated financial statements.

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. Furthermore, there is a risk of having to accept unfavourable financing terms in the event of liquidity bottlenecks and volatility on the international financial and capital markets. To minimise these liquidity and financing risks, and thereby to make a valuable contribution to the profitable growth of the Wilo Group, the Wilo Group aims to ensure long-term, cost-effective coverage of liquidity and capital requirements at all times. Various financing instruments are used for this purpose.

They include committed cash credit facilities for the parent company and subsidiaries of more than EUR 200.0 million with international banks of good to very good credit standing. This also includes the syndicated loan agreement of EUR 120.0 million with a term of five years that was concluded in the reporting year and adapted to the Group's requirements and future challenges. Only EUR 5.2 million of the cash credit facilities had been utilised as at 31 December 2013. Furthermore, as at 31 December 2013, there were also promissory note loans of EUR 23.7 million and senior notes of EUR 141.1 million that were issued in US private placements.

The net financial position (financial liabilities less cash) reported by the Wilo Group as at 31 December 2013 was a liquidity surplus of EUR 7.5 million. The Wilo Group therefore has no net liabilities. The net financial position in the previous year was EUR -4.3 million. The ratio of net financial liabilities to EBITDA (leverage) improved from 0.03 to -0.04.

In order to achieve a needs-driven supply of cash with matching maturities and the optimum allocation of cash within the Group, corresponding liquidity and finance plans are prepared on the basis of the budget planning and strategic five-year planning process in addition to the year-to-date forecast. Also, rolling three-month liquidity planning is prepared monthly for each Group company. The cash directly available to the Wilo Group over the course of 2013 was at all times higher than the minimum reserve defined by the Executive Board of EUR 100.0 million.

Cash pooling, netting and borrowing arrangements are used within the Wilo Group to the extent advisable and if permitted under local commercial and tax regulations. All Group-level 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 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. More detailed information on the use of derivative financial instruments can be found in notes (12) and (13) of the notes to the consolidated financial statements.

Overall assessment

The risk exposure of the Wilo Group is largely unchanged from the previous year. The risk management system ensures that the identified risks are managed at all times. According to the Executive Board, there are currently no discernible risks or combinations of risks that jeopardise the company as a going concern.

Subsequent events

Since the end of the 2013 financial year, there have been no significant organisational, economic, socio-political, company law or financing-related changes that could have a material impact on the operating activities of the Wilo Group in the opinion of the management.

Outlook

General economic conditions

Stronger growth on world economy yet again

The prospects for the global economy brightened noticeably around the end of 2013 and the start of 2014. The US economy is gathering momentum again. The structural adjustments in the euro area are increasingly having their intended effect, though the recovery remains fragile and moderate compared to other regions. Stronger recovery trends have recently been observed again in key emerging markets. In its outlook for the global economy updated in January 2014, the International Monetary Fund (IMF) is forecasting global growth of 3.7 percent for 2014.

The forecast recovery of the global economy in 2014 is essentially based on an acceleration of growth in the mature economies. According to IMF estimates, the big industrialised nations will grow by 2.2 percent in 2014, and therefore more dynamically than in the recent past. The US will take on the mantle of growth engine. Growth of the US economy is projected at 2.8 percent in 2014, according to the IMF. However, it is assumed that the change in monetary policy course by the US Fed will be effected cautiously and without turbulence on the financial and capital markets. According to the forecast, the developing and emerging nations will experience higher growth than the industrialised nations in 2014 at 5.1 percent. However, it is assumed that the very rapid rate of expansion seen in the past will not be matched moving ahead. Lower growth is expected for China in particular.

The forecast economic development in the Europe, Asia Pacific and EMEA regions in 2014 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.

Europe – Recovery trends tightening grip

The tangible, tentative recovery in economic performance recently seen in the eurozone is expected to stabilise in 2014. On the one hand, the budget consolidation efforts still necessary, especially in the peripheral nations, and the continuing difficulty at times in accessing business loans will still slow the recovery of the economy. On the other, according to estimates by the Institute for the World Economy (IfW), private consumer spending will be positively influenced by higher real earnings and the stabilisation of the labour market. Furthermore, the crisis-struck nations have gained competitive capability in terms of prices thanks to an improvement in their cost structure. Exports by the euro area are expected to pick up in 2014. In this environment, there are signs of a gradual increase in investment activity. According to the IMF, growth in the euro area of 1.0 percent is therefore forecast for 2014. The IfW is now forecasting negative growth rates in the euro area for Greece and Cyprus only. There are also indications of an economic recovery in 2014 for EU countries not in the euro area in Central and Eastern Europe. In Poland in particular, the IfW is anticipating significantly faster growth at 2.4 percent.

Key economic indicators in Germany such as the Ifo business climate index and the ZEW index for the end of 2013/start of 2014 give reason to expect a stronger expansion in the coming months. In line with this, the leading research institutes, the IMF and Deutsche Bundesbank, are forecasting that gross domestic product (GDP) in Germany will rise by between 1.6 and 1.9 percent in 2014. This is expected to be driven by a broader recovery of domestic economy forces. It is expected that equipment investments will pick up again after the investment backlog in the previous year. The positive environment combining low interest rates and high employment should further stimulate private consumer spending and housing investment. Furthermore, it is expected that commercial and public construction will gain momentum significantly.

Asia Pacific – China slowing rate of expansion in the region

The consensus of economic research institutes (including the IMF, IfW) is that the emerging markets will continue to grow more dynamically than the industrialised nations in future, albeit without being able to maintain the high expansion rates of the past. It is expected that the slowdown in exports und government infrastructure investment will not be compensated by rising domestic demand for consumer and capital goods. In addition, the structural weaknesses of individual Asian economies could become more prominent. It is also possible that the turnaround in US monetary policy will redirect global cash flows away from the emerging markets. For Asia as a whole, the IfW is assuming that economic growth will increase only slightly in 2014 from 6.3 percent in 2013 to 6.6 percent.

A key factor for slowing performance is China. According to the IMF, the world's second-largest economy will grow more slowly than in the past in 2014 at 7.5 percent. Stimulated by fiscal and monetary policy, Korea is expected to see GDP growth of 3.4 percent (IfW) for 2014. India should benefit from a push in the implementation of ongoing infrastructure projects and higher exports in 2014. The IMF is forecasting that Indian GDP will grow by 5.4 percent in 2014. According to IfW estimates, the emerging markets of Southeast Asia will expand more progressively than in the previous year at a combined rate of 5.2 percent.

EMEA – Economic recovery in a frequently politically unstable setting

Russia is largely dependent on income from oil and gas. The government has resolved clear cutbacks in government spending, particularly for civil servant salaries. However, its fiscal policy is still to generate economic stimulus with infrastructure investment and a big push in defence spending. The IfW and the IMF estimate the growth of the Russian economy in 2014 at 2.0 percent, provided that commodity prices do not slide any further.

The economic recovery in Turkey fuelled by private consumer spending and government investment had already cooled in the second half of 2013. While estimates published to date by economic research institutes (e.g. IfW) are signalling further growth for the Turkish economy in 2014, the country's prospects are now considerably less bright. On the one hand there is political turbulence and uncertainty, while on the other Turkey has witnessed the continuing dramatic depreciation of its own currency since the start of 2014 – as have several other emerging markets as well. In order to stabilise the Turkish lira, the central bank raised its lending rate to ten percent in one big swoop. A tangible negative impact on the real economy cannot be ruled out.

Development in 2014 could also be impacted by the political uncertainty in some countries of the Gulf region and Africa and structural deficits. Furthermore, there is the risk for many countries in Africa, particularly those that do not export oil, that the flow of capital will dry up as a result of a change in interest policy in the US. However, the prospects for the countries that do export oil will brighten if oil prices do not decline further and the amounts extracted rise again as the global economic situation improves.

In its October 2013 economic outlook, the IMF forecasts economic growth for the oil-exporting nations of North Africa and the Gulf region of 4.0 percent and an improvement to 3.1 percent for the oil-importing countries of North Africa (such as Egypt, Morocco, Tunisia). The IMF is anticipating that the nations south of the Sahara will also experience a more dynamic economic development in 2014, above all in the oil-exporting nations of Nigeria (7.4 percent) and Angola (6.3 percent). The IMF is also optimistic for developments in South Africa, for which it forecasts GDP growth for 2014 of 2.8 percent in its updated January report.

Industry-specific conditions

In addition to the general economic development of individual countries and regions, the performance of the Wilo Group is especially influenced by the construction and sanitary industries among others. The 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.

Europe – Growth in construction again

According to the forecast by the Ifo Institute and the Euroconstruct network, the construction industry will pick up moderately in Europe in 2014 at 0.9 percent as part of a general economic recovery. This is a positive turnaround after a contraction process lasting several years. Increases are mainly expected in housing construction, which should expand in nearly all countries again for the first time. Over the course of 2014, commercial construction and the backlog of infrastructure investment are also expected to gather pace.

The outlook for the German construction industry remains good. The consistently positive interest rate and employment conditions, coupled with rising rents and house prices in conurbations, should aid residential construction. Moreover, there has recently been a significant increase in construction permits. Deutsche Bundesbank is anticipating a rise in investments in housing construction of 5.5 percent for 2014. The IfW is projecting an increase here of 4.3 percent. The IfW expects commercial construction to grow by 1.5 percent in 2014. Public construction could surge with growth of 5.0 percent in 2014. The public sector is planning higher infrastructure spending for energy and roads. Repairing the flood and storm damage of last year will also play a role. The German Federal Construction Industry Association is anticipating growth in the energy and building technology sector in Germany of 3 percent. Stimulus is expected from the new construction volume and the backlog of modernisation requirements.

Asia Pacific – Construction industry still on track for growth in region

By 2025, China, the world's largest regional market for the construction industry, will increase its share of global construction volumes by an estimated rate of around six percent per year from currently 18 percent to 25 percent. This is a core statement of the forecast "Global Construction 2025" (GC 2025) by the two market research institutes Global Construction Perspectives and Oxford Economics. Given the Chinese government's massive programme for affordable housing (new builds and renovation) that will run until 2015, the reforms to gradually stabilise its domestic economy and the investments in a clean water supply, the prospects for the construction industry and for heating, air conditioning and sanitation installations in China are good for 2014.

The improved economic outlook is also expected to radiate positively on residential construction in Korea, India and the countries of Southeast Asia in 2014. The GC 2025 forecast assumes average annual growth in construction volumes of 3.5 percent in Korea and 7.4 percent in India. A further depreciation of the Indian rupee and therefore possible intervention by the Indian central banks could lead to higher interest rates and thus weaken the good prospects for the construction industry in India.

EMEA – Construction industry to expand very rapidly in medium term

According to the GC 2025 forecast, the construction industry in Russia and Turkey is expected to grow by an average of more than five percent per year for the period from 2012 to 2025. In the first three quarters of 2013 there were double-digit growth rates in construction permits in Turkey – of 13.8 percent in terms of value and 10.8 percent in terms of the number of residential units – thereby significantly outpacing production. The conditions for a good construction industry in Turkey in 2014 therefore exist, provided that the clear rise in interest rates at the start of 2014 stabilises the currency and that, at the same time, the local financing conditions do not become significantly worse.

Against the backdrop of the population growth and urbanisation on the African continent, the GC 2025 forecast is projecting high growth for the construction industry in the countries to the south of the Sahara. The forecast assumes that the urban population in the region will increase by 70 percent by 2025, and that the affluence of city residents will rise as well. All construction segments will benefit from this in the medium term. 1.5 million new apartments have to be built per year in Nigeria alone. According to GC 2025, the Nigerian construction industry is growing by eight percent per year.

Outlook for the Wilo Group

Future orientation

The Wilo Group has held its ground very well in an uncertain and, at times, difficult global economic setting. The prerequisites for this were created by the successful business policy that the company has been pursuing for years. The core aspects of this business policy are customer orientation, advancing innovation activities, the constant development of new technologies, an international market presence and regional diversification. A matter of key importance, especially in crisis situations, is the ability of the Wilo Group to respond rapidly to changing general conditions and developments and to introduce suitable measures. The significant increases in sales and earnings achieved in recent years, the technological innovations and the global increase in workforce illustrate the strengthened position of the Wilo Group compared to its global competitors. The company will retain this successful orientation. The strong market position in Europe is to be consolidated. The international expansion will focus in particular on activities in the emerging markets of Southeast Asia. In addition, the Wilo Group intends to expand its market presence in the high-growth countries of Latin America and Africa.

The Wilo Group is confident that its strategic orientation, long-term innovation policy and effective crisis management are ensuring its lasting future prospects. A basic principle of corporate governance at Wilo is quickly analysing different developments, devising alternative scenarios and initiating countermeasures at short notice. This applies in times of positive overall economic development and in phases of global economic downturn. In the event of considerable volatility on the international financial and capital markets with a corresponding negative impact on the real economy, the Wilo Group will initiate appropriate countermeasures from this position of strength.

Outlook for the regions

There are signs of an economic recovery in the Europe region for 2014. In Germany, France, the large peripheral nations to the south and the Eastern European states, stronger general economic growth and a recovery in the construction industry are expected. Residential construction in particular is expected to stimulate business for the Wilo Group. In addition, there is the positive effect of the long-term trend that has been observed for some years now of a growing awareness among the population for energetic sustainability and the responsible handling of natural resources. The Building Services market segment will benefit from this especially. Rising energy costs for heating and air conditioning in the long term will also aid demand for energy-efficient products and system solutions. Furthermore, stricter regulatory requirements in the European Union with the aim of cutting back on CO_2 will stimulate the Wilo Group's business activities in the Europe region. The considerable investments that the company has implemented in its production facilities in Germany and France in recent years are increasing flexibility and customer proximity and therefore helping the growth targets in the Europe region. The Wilo Group anticipates lower sales growth in the Europe region than for the Group as a whole in financial year 2014.

The Asia Pacific region is characterised by highly dynamic general economic growth and a sustainable trend towards urbanisation. The economic forces in the region are expected to rally again in 2014. In addition to India and Korea, this applies above all to the countries of Southeast Asia, where the Wilo Group has deliberately expanded its market presence. Growth of the economy as a whole will level off in China, but developments in the construction industry will remain dynamic. This applies just as much to residential and commercial construction as it does to investing in the water supply for the nation's megacities. It is expected that demand for energy-efficient products will grow throughout the entire Asia Pacific region. The Wilo Group is set to benefit from this in all three market segments – Building Services, Water Management and Industry. With the new location in Korea that began operations in 2013 the Group has established the conditions for participating in the strong growth of the market there. Overall, the Wilo Group is anticipating a positive business performance in the Asia Pacific region and higher sales growth than for the Group as a whole in financial year 2014.

The prospects for the EMEA region in 2014 are varied. In Russia there are signs of an economic recovery. There are also attractive growth opportunities in the construction sector. In Ukraine, however, the political and therefore economic uncertainty is very high. This also applies to Turkey, which responded to the loss of confidence and the depreciation of the Turkish lira with a massive rise in interest rates at the start of 2014. While estimates published to date by economic research institutes (e.g. IfW) are signalling further growth for the Turkish economy in 2014, the country's prospects are now considerably less bright. An economic recovery is currently expected for the Gulf states and the African nations. The Wilo Group will continue the targeted expansion of its market presence in Africa especially. The Wilo Group is anticipating a positive business performance overall in the EMEA region and higher sales growth than for the Group as a whole in financial year 2014.

Statement by the Executive Board on forecast development

The general conditions for the economy as a whole and the industry are signalling a recovery in global economic activities for the new financial year. Of particular significance is the recovery in the eurozone forecast by economic research institutes (such as the IMF, IfW), especially in the peripheral nations in the south of Europe. Furthermore, the Eastern European nations, above all Russia, and the countries in the Asia-Pacific region will continue to grow in particular. Another positive factor is the emerging recovery of the construction industry in almost every country of the world (sources: Euroconstruct, Ifo, GCP). The environment for the business activities of the Wilo Group is therefore generally more positive for 2014 than in the previous year. Nevertheless, the general economic prospects are uncertain in many regions of the world. In particular, the currency markets could exhibit strong volatility in 2014.

With a high level of investments in the past two financial years, the Wilo Group has established good conditions for expanding its business volume more rapidly than the economy as a whole moving ahead as well. Given its own strong market position and the rising demand for energy-efficient products, the Wilo Group is forecasting sales growth of up to five percent in the 2014 financial year, equivalent to maximum net sales of EUR 1.29 billion. The prerequisites for this are that the global economic climate develops as expected in 2014, and that there is no major appreciation by the euro relative to key currencies of the Wilo Group. The systematic cost management, continuing streamlined management of working capital and the targeted implementation of strategic measures will help to safeguard the company's high earnings power. The Wilo Group's goal for the 2014 financial year is to grow profitably. In turn, the EBIT margin should amount to around ten percent. Thus an EBIT of up to EUR 129.0 million is anticipated.

The Executive Board is confident that the long-term financing structure, the very high equity ratio of almost 50 percent, the cash holdings of more than EUR 175 million and the absence of net financial liabilities constitute a solid basis for the long-term profitable growth of the Wilo Group. Under long-term financing instruments in place as at 31 December 2013, WILO SE is required to comply with certain standard financial ratios. WILO SE fully complied with these covenants in the 2013 and 2012 financial years and there are currently no indications that it will be unable to comply with them in future. More detailed information can be found under note (9.12) of the notes to the consolidated financial statements.

Overall, the risks and impact of any possible forecasting inaccuracies regarding the development of the sales and procurement markets, and the currency markets in particular, are increasing. Thus, the sales and EBIT forecasts of the Wilo Group are subject to greater uncertainty. The global positioning of the Wilo Group means that regional economic fluctuations can be partially compensated for. However, a cool-down of the global economy and possible massive changes in the relevant exchange rates can substantially influence the growth targets of the Wilo Group.

The business targets for 2014 are embedded in corporate strategy with Ambition 2020. They are based on a professional and detailed planning process and take into account information on and knowledge of internal and external factors that was available at the time of this management report being created. Future unforeseeable developments and events may lead to changes in expectations and deviations from forecasts.

Consolidated financial statements

Exploring new Horizons

Consolidated income statement

for the period 1 January to 31 December 2013

Consolidated income statement			
EUR thousand	Note	2013	2012
Net sales	(8.1)	1,230,823	1,187,086
Cost of sales	(8.2)	–742,976	–717,481
Gross profit		**487,847**	**469,605**
Selling expenses	(8.3)	–242,962	–241,048
Administrative expenses	(8.4)	–84,723	–79,863
Research and development costs	(8.5)	–43,865	–39,160
Other operating income	(8.6)	22,438	20,021
Other operating expenses	(8.7)	–13,059	–9,867
Earnings before interest and taxes (EBIT)	(8.10)	**125,676**	**119,688**
Net finance costs	(8.8)	–12,582	–9,276
Consolidated net income before taxes	(8.10)	**113,094**	**110,412**
Income taxes	(8.9)	–30,123	–32,168
Consolidated net income after taxes	(8.10)	**82,971**	**78,244**
of which: attributable to non-controlling interests		182	59
of which: attributable to shareholders of WILO SE		82,789	78,185
Basic and diluted earnings per share amount to EUR 8.12 (previous year: EUR 7.63) per ordinary share, EUR 8.13 (previous year: EUR 7.64) per preferred share.	(8.11)		

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2013

Consolidated statement of comprehensive income		
EUR thousand	2013	2012 (adjusted)*
Consolidated net income after taxes	**82,971**	**78,244**
Gains/losses never reclassified to profit or loss		
Remeasurement of pension obligation and plan assets	–2,281	–12,284
Income taxes	737	4,006
	–1,544	**–8,278**
Gains/losses that may be reclassified to profit or loss		
Currency translation differences	–18,980	–2,648
Cash flow hedges – effective portion of changes in fair value	–152	0
Income taxes	47	0
	–19,085	**–2,648**
Other comprehensive income	**–20,629**	**–10,926**
Total comprehensive income	**62,342**	**67,318**
of which: attributable to non-controlling interests	132	45
of which: attributable to shareholders of WILO SE	62,210	67,273

* Information on the adjustment of prior-year figures can be found in note (3).

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

Consolidated statement of financial position

as at 31 December 2013

Assets

EUR thousand	Note	31 Dec. 2013	31 Dec. 2012 (adjusted)*	1 Jan. 2012 (adjusted)*
Non-current assets				
Intangible assets	(9.1)	71,413	62,344	61,416
Property, plant and equipment	(9.2)	261,330	255,944	209,659
Investments carried at equity	(9.4)	2,640	2,640	2,640
Trade receivables	(9.6)	3,109	3,743	3,228
Other financial assets	(9.7)	3,875	3,954	5,199
Other receivables and assets	(9.8)	8,208	3,855	3,261
Deferred tax assets	(8.9)	24,748	24,491	20,956
		375,323	**356,971**	**306,359**
Current assets				
Inventories	(9.5)	187,775	187,252	173,931
Trade receivables	(9.6)	215,787	225,237	208,169
Other financial assets	(9.7)	4,674	5,214	6,541
Other receivables and assets	(9.8)	30,921	28,290	28,441
Cash	(9.9)	177,468	176,522	166,030
Assets held for sale	(9.10)	2,951	0	0
		619,576	**622,515**	**583,112**
Total assets		**994,899**	**979,486**	**889,471**

* Information on the adjustment of prior-year figures can be found in note (3).

Equity and liabilities

EUR thousand	Note	31 Dec. 2013	31 Dec. 2012 (adjusted)*	1 Jan. 2012 (adjusted)*
Equity	(9.11)			
Issued capital		26,980	26,980	26,980
Capital reserves		14,527	14,527	14,527
Other reserves		448,686	416,795	371,281
Treasury share reserve		–13,086	0	–5,236
Equity of WILO SE shareholders		477,107	458,302	407,552
Non-controlling interests		–158	–290	–335
		476,949	**458,012**	**407,217**
Non-current liabilities				
Financial liabilities	(9.12)	157,241	128,739	167,432
Trade payables	(9.13)	1,091	1,121	1,207
Other financial liabilities	(9.14)	10,330	8,068	10,096
Other liabilities	(9.15)	1,347	1,279	1,023
Pensions and similar obligations	(9.16)	62,983	60,582	47,300
Other provisions	(9.17)	3,225	3,219	3,134
Deferred tax liabilities	(8.9)	17,602	16,494	18,594
		253,819	**219,502**	**248,786**
Current liabilities				
Financial liabilities	(9.12)	12,734	52,093	13,359
Trade payables	(9.13)	106,490	94,107	87,838
Other financial liabilities	(9.14)	37,239	43,390	36,321
Other liabilities	(9.15)	69,030	68,554	53,360
Other provisions	(9.17)	38,638	43,828	42,590
		264,131	**301,972**	**233,468**
Total equity and liabilities		**994,899**	**979,486**	**889,471**

* Information on the adjustment of prior-year figures can be found in note (3).

Consolidated statement of cash flows

for the period 1 January to 31 December 2013

Consolidated statement of cash flows

EUR thousand	2013	2012 (adjusted)*	Change
Earnings before interest and taxes (EBIT)	**125,676**	**119,688**	**5,988**
Depreciation and amortisation of intangible assets and property, plant and equipment	44,183	39,320	4,863
Decrease in provisions	–7,116	–563	–6,553
Gains/losses from the disposal of intangible assets and property, plant and equipment	–6,180	849	–7,029
Increase in inventories	–5,326	–12,662	7,336
Decrease/increase in trade receivables	2,906	–17,963	20,869
Increase in trade payables	14,402	6,405	7,997
Increase/decrease in other assets/liabilities	–5,218	16,824	–22,042
Other non-cash income	–3,303	–3,290	–13
Operating cash flow before income taxes	**160,024**	**148,608**	**11,416**
Income taxes paid	–29,809	–27,815	–1,994
Net cash flow from operating activities	**130,215**	**120,793**	**9,422**
Disposals of intangible assets	0	174	–174
Purchases of intangible assets	–6,952	–4,154	–2,798
Disposals of property, plant and equipment	8,476	2,481	5,995
Purchases of property, plant and equipment	–56,967	–85,853	28,886
Acquisition of subsidiary, net of cash acquired	–7,277	0	–7,277
Other purchases attributable to investing activities	–419	–38	–381
Net cash flow from investing activities	**–63,139**	**–87,390**	**24,251**
Dividends paid	–31,233	–21,267	–9,966
Proceeds from borrowings of financial liabilities	37,000	5,709	31,291
Repayment of financial liabilities	–48,748	–4,517	–44,231
Purchases of treasury shares	–15,840	–7,342	–8,498
Disposals of treasury shares	3,375	11,930	–8,555
Interest received	2,288	2,269	19
Interest paid	–10,052	–10,970	918
Dividends received	45	80	–35
Net cash flow from financing activities	**–63,165**	**–24,108**	**–39,057**
Change in cash	**3,911**	**9,295**	**–5,384**
Effects of exchange rate changes on cash	–2,965	1,197	–4,162
Cash at beginning of period	176,522	166,030	10,492
Cash at end of period	**177,468**	**176,522**	**946**

* Information on the adjustment of prior-year figures can be found in note (10).

The consolidated statement of cash flows is explained in note (10).

Consolidated statement of changes in equity

for the period 1 January 2012 to 31 December 2013

Consolidated statement of changes in equity

EUR thousand	Issued capital	Capital reserves	Retained earnings	Currency translation reserve	Hedging reserve	Reserve for remeas-urement of pensions	Treasury share reserve	Total WILO SE	Non-controlling interests	**Equity**
1 Jan. 2012	26,980	14,527	380,519	-6,414	0	0	-5,236	410,376	-335	**410,041**
Adjustment*	0	0	1,092	0	0	-3,916	0	-2,824	0	**-2,824**
1 Jan. 2012 (after adjustment)*	26,980	14,527	381,611	-6,414	0	-3,916	-5,236	407,552	-335	**407,217**
Consolidated net income 2012	0	0	78,185	0	0	0	0	78,185	59	**78,244**
Other comprehensive income	0	0	0	-2,634	0	-8,278	0	-10,912	-14	**-10,926**
Dividend payment	0	0	-21,267	0	0	0	0	-21,267	0	**-21,267**
Purchases of treasury shares	0	0	0	0	0	0	-7,342	-7,342	0	**-7,342**
Disposals of treasury shares	0	0	0	0	0	0	11,930	11,930	0	**11,930**
Other changes	0	0	-492	0	0	0	648	156	0	**156**
31 Dec. 2012 (adjusted)*	**26,980**	**14,527**	**438,037**	**-9,048**	**0**	**-12,194**	**0**	**458,302**	**-290**	**458,012**
1 Jan. 2013	26,980	14,527	438,037	-9,048	0	-12,194	0	458,302	-290	**458,012**
Consolidated net income 2013	0	0	82,789	0	0	0	0	82,789	182	**82,971**
Other comprehensive income	0	0	0	-18,930	-105	-1,544	0	-20,579	-50	**-20,629**
Dividend payment	0	0	-31,233	0	0	0	0	-31,233	0	**-31,233**
Purchases of treasury shares	0	0	0	0	0	0	-15,840	-15,840	0	**-15,840**
Disposals of treasury shares	0	0	0	0	0	0	3,375	3,375	0	**3,375**
Other changes	0	0	914	0	0	0	-621	293	0	**293**
31 Dec. 2013	**26,980**	**14,527**	**490,507**	**-27,978**	**-105**	**-13,738**	**-13,086**	**477,107**	**-158**	**476,949**

* Information on the adjustment of prior-year figures can be found in note (3).

The consolidated statement of changes in equity is explained in note (9.11).

Notes to the consolidated financial statements

Exploring new Horizons

(1.) General information

WILO SE (“the company”) has its registered office in Dortmund, Germany, 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 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for 2013. WILO SE exercises the option provided for in section 315a(3) of the Handelsgesetzbuch (HGB – German Commercial Code) and is therefore not required to prepare consolidated financial statements in accordance with German commercial law. To ensure equivalence with consolidated financial statements prepared in accordance with German commercial law, the disclosure requirements of section 315a(1) HGB are met in addition to the IFRS disclosure requirements. The consolidated financial statements are fully in compliance with IFRS as endorsed in the EU and present a true and fair view of the Group’s economic situation.

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

(3.) Adoption of new and amended IFRS

The Wilo Group applied the amended IAS 1 “Presentation of Financial Statements”, which deals with the presentation of other comprehensive income, for the first time as at 1 January 2013. The items of other comprehensive income are now divided into amounts that are reclassified into profit or loss and those that are not. The presentation of the Group’s other comprehensive income has therefore changed but there has been no effect on content.

The Wilo Group also applied the revised IAS 19 “Employee Benefits” (2011) for the first time as at 1 January 2013, which adjusts the recognition of actuarial gains and losses, the recognition of past service cost and the basis for determining income and expenses in connection with defined benefit plans according to the new regulations. The recognition of top-up amounts in partial early retirement agreements has also been amended.

From the 2013 financial year, actuarial gains and losses and the effects of the remeasurement of plan assets are recognised immediately in full outside profit or loss in other comprehensive income, instead of recognising only the amount that exceeds the corridor in profit or loss as before.

Thus the key result of applying IAS 19 (2011) was higher provisions for pensions, In addition, the operating results are now no longer impacted by the amount outside the corridor. Instead, the other comprehensive income is impacted more strongly.

Past service cost is recognised immediately in profit or loss regardless of any vesting requirements. Annual net interest income is calculated by applying the discounting rate to the net pension obligation. The net interest expense includes the interest expense on the pension obligation and interest income from plan assets.

The expected return on plan assets had previously been calculated using long-term forecasts. Top-up amounts for partial early retirement arrangements are recognised pro rata and not in full when the agreement is concluded as was previously the case.

The change in accounting policies was applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the opening statement of financial position as at 1 January 2012 and the results for the comparative prior-year period as at 31 December 2012 were adjusted as if IAS 19 (2011) had always been applied.

The effect on total comprehensive income and on assets and liabilities is shown below:

Effect of the adoption of IAS 19 (2011) on total comprehensive income

EUR thousand	2013	2012
Effects on consolidated net income		
Increase (-)/decrease (+) in administrative expenses	1,604	-678
Increase (-)/decrease (+) in income taxes	-494	209
Increase (+)/decrease (–) in consolidated net income	**1,110**	**-469**
Effects on other comprehensive income		
Remeasurement of pensions	-2,281	-12,284
Decrease in income taxes	737	4,006
Decrease in other comprehensive income	**-1,544**	**-8,278**
Decrease in total comprehensive income	**-434**	**-8,747**
Share of WILO SE shareholders in increase (+)/decrease (-) in consolidated net income	1,110	-469
Total	**1,110**	**-469**
Share of WILO SE shareholders in decrease in other comprehensive income	-1,544	-8,278
Total	**-1,544**	**-8,278**

Effect of the adoption of IAS 19 (2011) on assets and liabilities

EUR thousand	1 Jan. 2012 (as previously reported)	Adjustment	1 Jan. 2012 (adjusted)
Other non-current receivables and assets	2,902	359	3,261
Deferred tax assets	19,624	1,332	20,956
Pensions and similar obligations	-42,785	-4,515	-47,300
Total effect on net assets		**-2,824**	
Other reserves	374,105	-2,824	371,281
Total effect on equity		**-2,824**	

EUR thousand	31 Dec. 2012 (as previously reported)	Adjustment	31 Dec. 2012 (adjusted)
Other non-current receivables and assets	3,482	373	3,855
Deferred tax assets	19,153	5,338	24,491
Pensions and similar obligations	-43,078	-17,504	-60,582
Total effect on net assets		-11,793	
Other reserves	428,588	-11,793	416,795
Total effect on equity		**-11,793**	

EUR thousand	31 Dec. 2013 IAS 19 (old)	Adjustment	**31 Dec. 2013 IAS 19 (2011)**
Other non-current receivables and assets	7,752	456	8,208
Deferred tax assets	19,176	5,572	24,748
Pensions and similar obligations	-44,443	-18,540	-62,983
Total effect on net assets		**-12,512**	
Other reserves	461,198	-12,512	448,686
Total effect on equity		**-12,512**	

The following standards, interpretations and amendments to existing standards were also adopted for the first time in the 2013 financial year, but had no material effect on the consolidated financial statements of WILO SE:

- Amendment to IAS 12 Deferred Taxes: Recovery of Underlying Assets
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans
- Amendment to IAS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Various amendments as part of the Improvements to International Financial Reporting Standards 2009–2011

Due to the change in IFRS "Financial Instruments: Disclosures", the Wilo Group expanded its information relating to offsetting financial assets and liabilities (cf. note (13) to the consolidated financial statements).

The following standards, amendments to existing standards and interpretations issued by the IASB and IFRIC are not yet effective in the 2013 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:

- Amendment to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions
- Amendment to IAS 27 Separate Financial Statements and subsequent amendments regarding Investment Entities
- Amendment to IAS 28 Investments in Associates and Joint Ventures
- Amendment to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives
- 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
- IFRS 10 Consolidated Financial Statements and subsequent amendments to Transitional Provisions and Investment Entities
- IFRS 11 Joint Arrangements and subsequent amendments to Transitional Provisions
- IFRS 12 Disclosure of Interests in Other Entities and subsequent amendments to Transitional Provisions and Investment Entities
- IFRIC 21 Levies
- Various amendments as part of the Improvements to International Financial Reporting Standards 2010–2012 and 2011–2013

The first-time adoption of these standards, interpretations and amendments to existing standards will have no 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 holds more than half of the voting rights in a company or it can otherwise govern its financial and operating policies so as to obtain benefits from its activities.

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 IAS 27.

In addition to WILO SE, the consolidated financial statements as at 31 December 2013 include five German entities (previous year: four) and 54 (previous year: 58) foreign subsidiaries in which WILO SE directly or indirectly holds the majority of voting rights. There were four mergers within the Group outside Germany in the 2013 financial year. One company was acquired in Germany and consolidated for the first time.

A list of all of WILO SE's direct and indirect shareholdings can be found in the annex to the notes to the consolidated financial statements.

Acquisitions

WILO SE acquired all shares in GEP Industrie-Systeme GmbH, Zwönitz ("GEP"), in December 2013. GEP specialises in the manufacture of systems for the supply of process water, extinguishing water and drinking water. As a result of the acquisition, the Wilo Group is expanding its existing water supply application areas on the national and international market.

Given the short period between the acquisition date and the preparation of the consolidated financial statements of the Wilo Group, it was not possible to finalise purchase price allocation as at 31 December 2013. The assets and liabilities were as follows according to the preliminary purchase price allocation: goodwill (EUR 6,367 thousand), other intangible assets (EUR 7 thousand), other non-current assets (EUR 137 thousand), inventories and other current assets (EUR 1,596 thousand), cash (EUR 980 thousand) and other liabilities (EUR 1,027 thousand). The goodwill essentially comprises the anticipated synergies, the customer base and the employees' expertise. It has been allocated to the Pumps & Systems division. It is not deductible for tax purposes. The provisional acquisition cost was EUR 8,060 thousand; the purchase price was settled in full by the transfer of cash.

Had the acquisition occurred as at 1 January 2013, the Wilo Group would have reported net sales of EUR 1,238 million. Consolidated net income after taxes would have amounted to almost EUR 85 million.

(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 interest in the fair value of any assets and liabilities not acquired is reported under non-controlling interests.

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

An increase in the shareholding in a controlled and thereby fully consolidated company is treated as a transaction between owners under IFRS 27 in the consolidated financial statements. Any resulting difference is recognised directly in retained earnings.

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

(6.) Currency translation

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

Non-monetary items measured at fair value are translated at the measurement date exchange rate.

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

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

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

Exchange rates

		Annual average rate		Rate as at 31 December	
	EUR 1 =	**2013**	**2012**	**2013**	**2012**
Pound sterling	GBP	0.8497	0.8113	0.8331	0.8154
Chinese renminbi (yuan)	CNY	8.1686	8.1397	8.3314	8.2117
Indian rupee	INR	78.5205	69.0521	85.2246	72.2231
Polish zloty	PLN	4.2159	4.1714	4.1508	4.0929
Russian rouble	RUB	42.5912	40.0461	45.2582	40.1982
Swedish krona	SEK	8.6664	8.6823	8.8263	8.5842
Swiss franc	CHF	1.2288	1.2039	1.2267	1.2072
South Korean won	KRW	1,455.7913	1,447.5126	1,452.9692	1,411.3720
Turkish lira	TRY	2.5646	2.3141	2.9450	2.3557
US dollar	USD	1.3301	1.2918	1.3767	1.3183

(7.) Accounting policies

The accounting policies applied in the previous year have generally been retained. Information 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.

The preparers of the consolidated financial statements have a certain amount of discretion. Essentially the following matters are affected by estimates and assumptions:

- assessment of impairment on goodwill
- 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 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 61,683 million as at the end of the reporting period (previous year: EUR 55,780 million). Further information can be found in "Intangible assets" and "Impairment of assets" (note (7)) and note (9.1).

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

Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. The discounted future cash flow of the asset in question must be determined to calculate its value in use. The estimate of discounted future cash flows includes significant assumptions, e.g. the discount rate.

Although the management presumes that its assumptions of general economic conditions, estimates of discounted future cash flows 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 future if the trends identified by the management reverse or if its assumptions or estimates prove to be incorrect. The Wilo Group reported property, plant and equipment of EUR 261,330 million as at the end of the reporting period (previous year: EUR 255,944 million). Further information can be found in “Intangible assets”, “Property, plant and equipment” and “Impairment of assets” (note (7)) and 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 12,968 thousand (previous year: EUR 12,733 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 41,863 thousand (previous year: EUR 47,047 thousand) were reported as at the end of the reporting period. Further information can be found in “Other provisions” (note (7)) and note (9.17).

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

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

Judgements

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

- Financial assets must be assigned to the categories “financial assets at fair value through profit and loss”, “financial assets held to maturity”, “loans and receivables” and “financial assets Available-for-sale”.

- The cash-generating units for goodwill impairment testing were formed and defined by products and applications and are subject to management judgement.

- When using derivatives to minimise the financial risks of hedged items, it must be decided whether hedge accounting is to be used within the meaning of IAS 39.

Expense and revenue recognition

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

Administrative expenses and selling expenses

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

Research and development costs

Development costs are capitalised as intangible assets at cost and amortised over their useful lives, provided the capitalisation criteria described in IAS 38 are met. Development costs that do not meet the capitalisation criteria in accordance with IAS 38 and research costs are reported as a separate line item in the income statement. The recognition criteria for the capitalisation of development costs in accordance with IAS 38 were not met in 2013 or 2012.

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. No borrowing costs were capitalised in the 2013 financial year (previous year: EUR 101 thousand). The borrowing costs rate, which formed the basis for determining the capitalisable borrowing costs, was 3.96 percent in the year under review (previous year: 4.36 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.

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 thirteen 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 group 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 additionally tested for impairment whenever 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 at least once per financial year 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, which comprise the *Circulators, Pumps & Systems* and *Submersible & High Flow* divisions, are broken down by product groups and applications to form the cash-generating units.

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

The discount rate used in annual impairment testing of cash-generating units is determined on the basis of market data. A rate of between 11.9 percent and 12.5 percent before income taxes was used in the 2013 financial year (previous year: between 10.9 percent and 11.5 percent before income taxes). As in the previous year, the long-term growth factor for CGUs is between 0.1 and 0.9 percent.

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

2013 financial year

Division	Goodwill in EUR thousand	Long-term growth factor %	Discount rate before taxes %
Submersible & High Flow	30,054	0.9	11.9
Pumps & Systems	24,481	0.5	12.2
Circulators	7,148	0.1	12.5

2012 financial year

Division	Goodwill in EUR thousand	Long-term growth factor %	Discount rate before taxes %
Submersible & High Flow	30,190	0.9	10.9
Pumps & Systems	18,416	0.5	11.2
Circulators	7,174	0.1	11.5

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 discount rate increases by 0.5 percentage points.

Investments carried at equity

Investments in jointly controlled entities are measured using the equity method and reported under “Investments carried at equity”.

Financial assets

Financial assets comprise loans and receivables, acquired equity and debt securities, cash and derivatives 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 39. Accordingly, 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 in accordance with IAS 32.

Purchases and sales of financial assets at market prices are accounted for on the settlement date. A financial asset is initially recognised at fair value. For financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition are also taken into account. Non-interest-bearing receivables or receivables subject to low interest rates are carried at the present value of the expected future cash flows on first-time recognition.

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. They are measured 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 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 2013 or 2012.

- *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) which are contained in other financial assets.

  Available-for-sale financial assets are measured at fair value. If 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 in this category are recognised in other comprehensive income. Impairment is recognised in profit or loss only on disposal, unless the fair value over a longer period of time is greater or materially less than amortised cost. 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 expenses.

  Available-for-sale financial assets in the Wilo Group consist mainly of financial assets 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 categorised as loans and receivables, held-to-maturity investments and available-for-sale financial assets that are measured at amortised cost show objective, substantial indications of impairment, they are tested to see if the carrying amount exceeds the present value of the expected future cash flows. If this is the case, an impairment loss is recognised in the amount of the difference. Indications of impairment include several years of operating losses in a company, a reduction in market value, material deterioration of credit rating, significant default on payment, a particular breach of contract, the high probability of insolvency or other form 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.

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 opportunities.

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 on the one hand and net realisable value less estimated costs to sell on the other.

Derivatives and hedging

Derivatives are used in the Wilo Group 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 market values are calculated using present value and 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. All changes in fair value are taken directly to profit and loss.

The fair value of forward exchange contracts is determined using the mean 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 market value of interest rate swaps is determined by discounting the expected future cash flows with the market rates applicable for the remaining contract term. Commodity futures are measured on the basis of quoted market prices and forward premiums and discounts. 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 forward exchange contracts or forward exchange options 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 other operating income and expenditure. If the item relates to financing activity, corresponding income and expenses from the realisation of forward exchange contracts is reported in other net financial income. Income or expenses from the realisation of interest rate and currency swaps are disclosed in net interest income. Income or expenses from the realisation of commodity futures and options without physical delivery are reported in cost of sales.

For the first time in the reporting year to a small extent, non-derivative financial instruments were used to hedge future cash flows from hedged items against currency fluctuations. For hedging instruments designated as cash flow hedges, the effective portion of the change in value is recognised in other comprehensive income until the results of the hedged item are recognised. Changes in value are reclassified to profit or loss on recognition of the hedged item. The ineffective portion of the change in value of the hedging instrument is recognised in other operating income as at the end of each reporting period.

Other receivables and assets

Other receivables and assets primarily include tax receivables, advance payments, reinsurance assets, deferrals, and receivables from employees that are not financial assets. These other receivables and assets are measured at amortised cost.

Deferred taxes

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

Deferred tax assets are also recognised in respect of the expected utilisation of unused tax loss carryforwards in subsequent years provided the tax loss carryforwards are sufficiently likely to be utilised. Deferred tax assets are tested for impairment as at the end of the reporting period. The Wilo Group also recognises deferred tax liabilities for the tax expenses to arise on the expected profit distributions by the consolidated subsidiaries to WILO SE in 2014.

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 2013 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.

Financial liabilities

Financial liabilities comprise primary liabilities and derivative liabilities 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.

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 in accordance with IAS 32. Primary liabilities are measured at the cost of consideration or the cash received on first-time recognition. Transaction costs that are directly attributable to acquisition are also reported 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 lease payments at the inception of the lease. 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. Non-interest-bearing financial liabilities and those subject to low rates of interest are discounted using the market interest rate.

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

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 defined benefit obligations was 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

%	31 Dec. 2013	31 Dec. 2012
Discount rate	2.95	3.13
Pension adjustment	1.79	1.86
Salary increase	3.96	3.83

The net interest expense is calculated by multiplying the net pension liability by the discount rate of 2.95 percent (previous year: 3.13 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 breaks down according to the following regions:

Net sales

	2013		2012	
	EUR thousand	%	EUR thousand	%
Europe	622,626	50.6	615,930	51.9
Asia Pacific	287,426	23.4	271,171	22.8
EMEA	209,965	17.0	195,449	16.5
Others	110,806	9.0	104,536	8.8
Total	**1,230,823**	**100.0**	**1,187,086**	**100.0**

(8.2) Cost of sales

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

Cost of sales

EUR thousand	2013	2012
Cost of materials	–524,063	–509,767
Staff costs	–121,872	–117,873
Depreciation and amortisation of intangible assets and property, plant and equipment	–28,954	–25,233
Third-party maintenance	–8,938	–7,072
Rental payments	–3,824	–4,861
Other staff costs	–3,581	–4,777
Travel and entertainment expenses	–2,897	–2,851
Other	–48,847	–45,047
Total	**–742,976**	**–717,481**

(8.3) Selling expenses

Selling expenses

EUR thousand	2013	2012
Staff costs	–123,818	–122,843
Outgoing freight	–25,271	–25,323
Advertising costs	–25,209	–25,156
Sales force	–17,942	–18,527
Rental payments	–11,034	–10,899
Depreciation and amortisation of intangible assets and property, plant and equipment	–5,671	–4,870
Legal and consulting costs	–3,619	–1,556
Write-downs on trade receivables (net)	–2,049	–721
Defaults	–931	–2,796
Other	–27,418	–28,357
Total	**–242,962**	**–241,048**

(8.4) Administrative expenses

Administrative expenses are costs of administration not attributable to production, development or sales.

Administrative expenses

EUR thousand	2013	2012
Staff costs	–45,026	–41,030
Depreciation and amortisation of intangible assets and property, plant and equipment	–7,355	–6,787
Legal and consulting costs	–6,563	–6,910
Travel and entertainment expenses	–3,131	–2,652
Rental payments	–3,077	–3,395
Other staff costs	–2,739	–3,642
Communication costs	–2,043	–2,022
Other	–14,789	–13,425
Total	**–84,723**	**–79,863**

(8.5) Research and development costs

Research and development costs		
EUR thousand	2013	2012
Staff costs	-27,967	-25,096
External services	-4,621	-3,616
Depreciation and amortisation of intangible assets and property, plant and equipment	-2,203	-2,430
Legal and consulting costs	-1,148	-797
Other	-7,926	-7,221
Total	**-43,865**	**-39,160**

(8.6) Other operating income

Other operating income		
EUR thousand	2013	2012
Foreign-currency gains from operating activities	8,270	7,467
Income from disposals of intangible assets and property, plant and equipment	6,731	517
Government grants	2,291	1,695
Rental income	459	7
Insurance compensation	182	287
Other	4,505	10,048
Total	**22,438**	**20,021**

The foreign-currency gains from operating activities of EUR 8,270 thousand (previous year: EUR 7,467 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 9,448 thousand (previous year: EUR 6,096 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 intragroup transactions. The income from the disposal of intangible assets and property, plant and equipment essentially includes the income from the disposal of a significant portion of the production facilities previously held in Korea in the amount of EUR 6,171 thousand. The remaining assets, for which the sales process had not yet been completed as at the end of the reporting period, are reported as assets held for sale (see note (9.10)).

(8.7) Other operating expenses

Other operating expenses		
EUR thousand	2013	2012
Foreign-currency losses from operating activities	-9,448	-6,096
Losses on disposals of intangible assets and property, plant and equipment	-551	-1,366
Other	-3,060	-2,405
Total	**-13,059**	**-9,867**

(8.8) Net finance costs

Net finance costs break down as follows:

Net finance costs		
EUR thousand	2013	2012
Net interest income	-7,764	-8,701
Other net finance costs	-4,818	-575
Total	**-12,582**	**-9,276**

Net interest income consists of the following interest income and expenses:

Net interest income		
EUR thousand	**2013**	**2012**
Interest income on cash and on loans granted	1,848	1,685
Settlement of derivative financial instruments	440	584
Interest income	**2,288**	**2,269**
Interest expenses on financial liabilities	–9,763	–10,717
Interest on finance leases	–289	–253
Interest expenses	**–10,052**	**–10,970**
Total	**–7,764**	**–8,701**

Other net finance costs break down as follows:

Other net finance		
EUR thousand	**2013**	**2012**
Foreign-currency gains from financing activities	1,360	1,921
Gains on derivative financial instruments	935	2,837
Dividends from associates	45	80
Other	0	25
Other financial income	**2,340**	**4,863**
Losses on derivative financial instruments	–2,806	–2,791
Foreign-currency losses from financing activities	–2,488	–463
Interest rate effects from pensions and liabilities	–1,863	–2,178
Other	–1	–6
Other financial expenses	**–7,158**	**–5,438**
Total	**–4,818**	**–575**

Gains and losses on derivative financial instruments in the financial years 2013 and 2012 result firstly from positive and negative utilisation and measurement effects of commodity derivatives used to hedge prices for commodities within the Wilo Group. In the 2013 financial year, the net utilisation and measurement of commodity derivatives reduced net other financial income by EUR 1,270 million. In the previous year, this effect improved net financial income by EUR 1,061 thousand.

Secondly, the gains and losses from derivative financial instruments are significantly influenced by the change in the fair value of the interest and currency swaps that hedge the senior notes of originally USD 80.0 million borrowed in the 2006 financial year (see note (9.12)) in full against currency risks. The derivative, which hedges the senior note still in place that matures in 2016 in the amount of USD 40.0 million against currency risks, was measured with a negative fair value of EUR 4,158 thousand (previous year: EUR 2,868 thousand) as at the end of the reporting period. The loss on the remeasurement of these interest rate and currency swaps of EUR 1,290 thousand is reported under losses from derivative financial instruments. The senior note of USD 40.0 million that matured in 2013 was repaid as scheduled in the reporting year and the corresponding derivative hedging instrument expired accordingly. A loss of EUR 1,531 thousand was reported under losses on derivative financial instruments for both interest and currency swaps in the previous year.

The loss from the remeasurement of the interest and currency swaps is offset by gains from the translation of the senior note maturing in 2016 of EUR 1,287 thousand, which are shown under foreign-currency gains from financing activities in the amount of EUR 1,360 thousand. In the previous year the gain from the translation of both senior notes amounted to EUR 1,152 thousand and was also reported under foreign-currency gains from financing activities.

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

(8.9) Income taxes

Income tax expense recognised in consolidated net income after taxes is as follows:

Income taxes

EUR thousand	2013	2012
Current tax expenses/income		
– reporting year	–28,680	–32,796
– adjustments for the previous year	145	–183
Current income taxes	**–28,535**	**–32,979**
Deferred tax income/expense		
– from unutilised loss carryforwards	–189	–408
–from changes in tax rates	–404	–3
–from the creation and reversal of temporary differences	–514	1,249
– from write-downs and reversals of write-downs on deferred tax assets	–481	–27
Deferred tax income/expense	**–1,588**	**811**
Income taxes	**–30,123**	**–32,168**

The calculation of current income taxes in Germany for 2013 is based on a combined statutory tax rate of 15.8 percent for corporation tax and the solidarity surcharge plus trade tax approximating 15.0 percent (previous year: combined tax rate of 30.8 percent). As in the previous year, foreign entities are subject to local income tax rates ranging from 10.0 percent to 40.0 percent.

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

Deferred taxes by item

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

Deferred taxes by item

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	2013	2012	2013	2012
Intangible assets	446	473	989	2,084
Property, plant and equipment	1,010	1,285	5,089	5,213
Inventories	3,840	4,225	142	70
Receivables and other assets	2,018	1,862	257	1,145
	7,314	**7,845**	**6,477**	**8,512**
Financial liabilities	0	0	1,849	1,087
Trade payables	372	276	4	8
Pensions and similar obligations	8,945	8,308	6	67
Other provisions and liabilities	6,290	7,228	9,817	8,553
Tax loss carryforwards	2,378	2,567	0	0
	17,985	**18,379**	**11,676**	**9,715**
Offsetting of deferred tax assets and liabilities	–551	–1,733	–551	–1,733
Carrying amount	**24,748**	**24,491**	**17,602**	**16,494**

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. 2012	Recognised in profit or loss	Recognised in OCI	Net amount of deferred tax assets/liabilities as at 31 Dec. 2013
Intangible assets	–1,611	1,068	0	–543
Property, plant and equipment	–3,927	–152	0	–4,079
Inventories	4,156	–458	0	3,698
Receivables and other assets	716	1,044	0	1,760
Financial liabilities	–1,087	–762	0	–1,849
Trade payables	268	100	0	368
Pensions and similar obligations	8,240	–38	737	8,939
Other provisions and liabilities	–1,325	–2,201	0	–3,526
Tax loss carryforwards	2,567	–189	0	2,378
	7,997	**–1,588**	**737**	**7,146**

The change in deferred tax assets and liabilities in the previ–ous year was as follows:

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2011	Recognised in profit or loss	Recognised in OCI	Net amount of deferred tax assets/liabilities as at 31 Dec. 2012
Intangible assets	–1,803	192	0	–1,611
Property, plant and equipment	–4,523	596	0	–3,927
Inventories	4,905	–749	0	4,156
Receivables and other assets	–308	206	818	716
Financial liabilities	–1,928	841	0	–1,087
Trade payables	274	–6	0	268
Pensions and similar obligations	3,699	535	4,006	8,240
Other provisions and liabilities	–929	–396	0	–1,325
Tax loss carryforwards	2,975	–408	0	2,567
	2,362	**811**	**4,824**	**7,997**

Unutilised tax loss carryforwards amounted to EUR 56,798 thousand (previous year: EUR 60,458 thousand) as at the end of the reporting period, EUR 4,158 thousand of which (previous year: EUR 3,674 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 52,640 thousand (previous year: EUR 56,785 thousand) and can be carried forward between five and 20 years.

Applying local income tax rates, the deferred tax assets on loss carryforwards would amount to EUR 19,420 thousand (previous year: EUR 19,689 thousand). EUR 17,042 thousand (previous year: EUR 17,122 thousand) of this total was not recognised as at the end of the reporting period as it was not sufficiently likely that they will be utilised in future.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, total deferred tax liabilities of EUR 2,550 thousand (previous year: EUR 1,882 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 110,712 thousand at subsidiaries as at 31 December 2013 (previous year: EUR 77,901 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 was used to calculate deferred taxes in Germany for the 2013 financial year (previous year: 30.8 percent). The Wilo Group reported tax expenses of EUR 30,123 thousand (previous year: EUR 32,168 thousand) in its consolidated income statement for 2013. This is EUR 4,710 thousand lower (previous year: EUR 1,839 thousand lower) than the forecast tax expense of EUR 34,833 thousand (previous year: EUR 34,007 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	**2013**	**2012**
Consolidated net income before taxes	113,094	110,412
Expected tax expense	**–34,833**	**–34,007**
Tax rate changes	–404	–3
Difference from foreign tax rates	4,294	5,326
Goodwill impairment and temporary differences arising on consolidation	878	–13
Other permanent differences	–6,375	–3,222
Tax-free income	8,200	1,182
Unrecognised deferred tax assets on tax loss carryforwards	80	–1,140
Withholding tax	–2,140	–515
Prior-period taxes	145	–183
Other	32	407
Current tax expense	**–30,123**	**–32,168**

(8.10) Consolidated net income

Consolidated net income		
EUR thousand	2013	2012
Earnings before interest and taxes (EBIT)	**125,676**	**119,688**
Net finance costs	–12,582	–9,276
Consolidated net income before taxes	**113,094**	**110,412**
Income taxes	–30,123	–32,168
Consolidated net income after taxes	**82,971**	**78,244**

EBIT is stated before 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 8.12 (previous year: EUR 7.63). Both basic and diluted earnings per preferred share amount to EUR 8.13 (previous year: EUR 7.64). Both figures were calculated after deducting income attributable to non-controlling interests.

Earnings per share		
	2013	2012
Consolidated net income after taxes	82,971	78,244
of which: attributable to non-controlling interests	182	59
of which: attributable to shareholders of WILO SE	82,789	78,185
Number of ordinary shares as at 31 Dec	9,868,290	10,117,331
Weighted average number of ordinary shares outstanding	9,738,148	10,015,408
Number of preferred shares as at 31 Dec.	259,418	259,418
Weighted average number of preferred shares outstanding	259,418	225,694
Earnings per ordinary share (EUR)	**8.12**	**7.63**
Earnings per preferred share (EUR)	**8.13**	**7.64**

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

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2013 and 2012:

Intangible assets

EUR thousand	Patents and property rights	Goodwill	Advance payments	**Total**
Cumulative cost				
As at 1 January 2012	28,719	63,150	145	**92,014**
Currency translation	165	410	4	**579**
Additions	3,082	0	1,072	**4,154**
Disposals	–3,365	0	0	**–3,365**
Reclassifications	673	0	–673	**0**
As at 31 December 2012	**29,274**	**63,560**	**548**	**93,382**
As at 1 January 2013	29,274	63,560	548	**93,382**
Currency translation	–8	–552	168	**–392**
Additions	4,440	0	2,512	**6,952**
Additions due to business combinations	7	6,367	0	**6,374**
Disposals	–622	0	0	**–622**
Reclassifications	219	0	–219	**0**
As at 31 December 2013	**33,310**	**69,375**	**3,009**	**105,694**
Cumulative amortisation				
As at 1 January 2012	22,918	7,680	0	**30,598**
Currency translation	107	100	0	**207**
Amortisation in the financial year	3,424	0	0	**3,424**
Disposals	–3,191	0	0	**–3,191**
As at 31 December 2012	**23,258**	**7,780**	**0**	**31,038**
As at 1 January 2013	23,258	7,780	0	**31,038**
Currency translation	–142	–88	0	**–230**
Amortisation in the financial year	4,099	0	0	**4,099**
Disposals	–626	0	0	**–626**
As at 31 December 2013	**26,589**	**7,692**	**0**	**34,281**
Residual carrying amounts				
As at 1 January 2012	5,801	55,470	145	**61,416**
As at 31 December 2012	**6,016**	**55,780**	**548**	**62,344**
As at 1 January 2013	6,016	55,780	548	**62,344**
As at 31 December 2013	**6,721**	**61,683**	**3,009**	**71,413**

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

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

The goodwill impairment test performed in the 2013 financial year did not result in any impairment requirements for the cash-generating units.

Goodwill allocated to the product divisions developed as follows in the 2013 financial year:

Development of goodwill per division

EUR thousand	**1 Jan. 2013**	Additions	Currency translation	**31 Dec. 2013**
Submersible & High Flow	30,190	0	–136	30,054
Pumps & Systems	18,416	6,367	–302	24,481
Circulators	7,174	0	–26	7,148
	55,780	**6,367**	**–464**	**61,683**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2013 and 2012 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 Jan. 2012	119,306	154,271	211,556	26,721	**511,854**
Currency translation	50	–456	679	–152	**121**
Additions	3,938	7,988	21,165	52,762	**85,853**
Reclassifications	18,701	9,943	8,291	–36,935	**0**
Disposals	–174	–5,886	–31,530	–911	**–38,501**
As at 31 Dec. 2012	**141,821**	**165,860**	**210,161**	**41,485**	**559,327**
As at 1 Jan. 2013	141,821	165,860	210,161	41,485	**559,327**
Currency translation	–4,147	–2,666	–1,844	–754	**–9,411**
Additions	11,345	9,067	19,729	16,826	**56,967**
Additions due to business combinations	0	75	62	0	**137**
Reclassifications	20,901	8,333	13,979	–43,213	**0**
Disposals	–6,831	–4,935	–10,654	–50	**–22,470**
As at 31 Dec. 2013	**163,089**	**175,734**	**231,433**	**14,294**	**584,550**
Cumulative depreciation					
As at 1 Jan. 2012	40,416	102,664	159,115	0	**302,195**
Currency translation	74	–185	574	0	**463**
Depreciation in the financial year	4,362	11,284	20,250	0	**35,896**
Reclassifications	31	45	–76	0	**0**
Disposals	–154	–5,737	–29,280	0	**–35,171**
As at 31 Dec. 2012	**44,729**	**108,071**	**150,583**	**0**	**303,383**
As at 1 Jan. 2013	44,729	108,071	150,583	0	**303,383**
Currency translation	–547	–1,304	–1,166	0	**–3,017**
Depreciation in the financial year	5,644	11,433	23,007	0	**40,084**
Reversals of write-downs	0	0	–11	0	**–11**
Reclassifications	0	65	–65	0	**0**
Disposals	–2,616	–4,529	–10,074	0	**–17,219**
As at 31 Dec. 2013	**47,210**	**113,736**	**162,274**	**0**	**323,220**
Residual carrying amounts					
As at 1 Jan. 2012	78,890	51,607	52,441	26,721	**209,659**
As at 31 Dec. 2012	**97,092**	**57,789**	**59,578**	**41,485**	**255,944**
As at 1 Jan. 2013	97,092	57,789	59,578	41,485	**255,944**
As at 31 Dec. 2013	**115,879**	**61,998**	**69,159**	**14,294**	**261,330**

Property, plant and equipment includes leased assets in the amount of EUR 5,494 thousand (previous year: EUR 4,732 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. 2013	31 Dec. 2012
Buildings	674	932
Operating and office equipment	4,820	3,800
Total	**5,494**	**4,732**

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 5,247 thousand (previous year: EUR 4,890 thousand).

Minimum lease payments

EUR thousand	31 Dec. 2013	31 Dec. 2012
Total minimum lease payments	5,747	5,274
Interest portion	-500	-384
Present value	**5,247**	**4,890**
Due within one year	2,213	2,262
Due in one to five years	3,034	2,628

(9.3) Operating leases

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

Operating leases

EUR thousand	31 Dec. 2013	31 Dec. 2012
Total minimum lease payments	**38,066**	**39,944**
Due within one year	14,427	15,052
Due in one to five years	21,415	22,004
Due after five years	2,224	2,888

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 18,036 thousand (previous year: EUR 19,247 thousand) were recognised in profit or loss in the year under review.

(9.4) Investments carried at equity

The investments carried at equity consist solely of shares in the jointly controlled entity WILO Middle East LLC i.L., Riyadh, Saudi Arabia, which has had no 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 2014.

(9.5) Inventories

Inventories

EUR thousand	31 Dec. 2013	31 Dec. 2012
Raw materials and supplies	71,221	67,361
Work in progress	20,638	18,516
Finished goods and goods for resale	95,727	100,807
Advance payments	189	568
Total	**187,775**	**187,252**

The write-down on inventories results from the difference between the lower of cost and the net realisable value less estimated costs to sell.

As at 31 December 2013, the write-down on inventories amounted to EUR 20,464 thousand (previous year: EUR 21,631 thousand) based on a gross carrying amount of EUR 208,239 thousand (previous year: EUR 208,883 thousand). Reversals of write-downs of EUR 1,167 thousand (previous year: EUR 887 thousand) were recognised in profit or loss within cost of sales in the 2013 financial year. 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 215,787 thousand (previous year: EUR 225,237 thousand) are due in the 2014 financial year. Non-current trade receivables of EUR 3,109 thousand (previous year: EUR 3,743 thousand) are due after more than one year. There are no restrictions on title on trade receivables.

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

General valuation allowances are recognised on the basis of past experience as to the general credit risk and country risk of debtors.

Specific and general valuation allowances are reported in separate adjustment accounts. Objectively uncollectable receivables are derecognised.

Specific and general valuation allowances on trade receivables changed as follows in the 2013 and 2012 financial years:

Specific valuation allowances

EUR thousand	2013	2012
As at 1 January	10,085	11,152
Additions	2,365	1,237
Utilisation	–1,678	–1,289
Reversals	–201	–1,015
As at 31 December	**10,571**	**10,085**

General valuation allowances

EUR thousand	2013	2012
As at 1 January	2,648	2,507
Additions	336	960
Utilisation	–136	–358
Reversals	–451	–461
As at 31 December	**2,397**	**2,648**

(9.7) Other financial assets

Other financial assets break down as follows as at 31 December 2013 and 2012:

Other financial assets

	31 Dec. 2013			31 Dec. 2012		
		of which with a remaining term			of which with a remaining term	
EUR thousand	Total	< 1 year	> 1 year	Total	< 1 year	> 1 year
Receivables from non-consolidated subsidiaries, jointly controlled entities or associates	348	348	0	571	571	0
Receivables from derivative financial instruments	1,190	870	320	1,778	1,401	377
Loans	118	0	118	175	0	175
Available-for-sale financial assets	367	0	367	177	0	177
Other financial receivables	6,526	3,456	3,070	6,467	3,242	3,225
Total	**8,549**	**4,674**	**3,875**	**9,168**	**5,214**	**3,954**

Available-for-sale financial assets include equity securities of EUR 359 thousand (previous year: EUR 169 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.

There was no reclassification of available-for-sale financial assets in the year under review. The Executive Board estimates that 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 2013 and 2012:

Other receivables and assets

	31 Dec. 2013			31 Dec. 2012		
		of which with a remaining term			of which with a remaining term	
EUR thousand	Total	< 1 year	> 1 year	Total	< 1 year	> 1 year
Tax assets	29,217	23,610	5,607	20,697	19,647	1,050
Advance payments	4,617	4,602	15	6,221	6,204	17
Reinsurance assets	2,457	0	2,457	2,557	0	2,557
Deferred expenses	2,197	2,107	90	1,861	1,642	219
Employee receivables	641	602	39	809	797	12
Total	**39,129**	**30,921**	**8,208**	**32,145**	**28,290**	**3,855**

(9.9) Cash

The cash of EUR 177,468 thousand (previous year: EUR 176,522 thousand) mainly comprise cash and sight deposits at banks. There are restrictions on title of EUR 316 thousand (previous year: EUR 122 thousand).

(9.10) Assets held for sale

The assets held for sale in the amount of EUR 2,951 thousand (previous year: EUR 0 thousand) include land and buildings of the locations previously owned in Beijing, China, and Gimhae, Korea, which are no longer used. The sale process for these assets began in the financial year but had not yet been completed as at the end of the reporting period. The market values less costs to sell of the assets held for sale are at least equal to their carrying amounts. Write-downs were not required in the reporting year.

(9.11) Equity

Issued capital

As in the previous year, the issued capital of WILO SE amounted to EUR 26,980 thousand as at the end of the reporting period and is fully paid in. It is divided into 10,117,331 no-par-value ordinary registered shares and 259,418 no-par-value preferred registered shares without voting rights.

The preferred shares outstanding are entitled to a preferred profit distribution. Accordingly, the shareholders will receive an automatic profit share of EUR 0.01 from the unappropriated surplus for the year per preferred share. If the unappropriated surplus for one or more financial years is not sufficient for a preferred distribution of EUR 0.01 per preferred share, the unpaid amounts will be paid without interest from the unappropriated surplus of subsequent financial years after the distribution of the share of profits for preferred shares for these financial years and before the distribution of share of profits for ordinary shares. The right to subsequent payment is a component of the profit share for the financial year from the unappropriated surplus of which the subsequent payment on preferred shares is made.

The number of shares outstanding, broken down by ordinary and preferred shares, changed as follows in the period under review:

Number of ordinary shares

	2013	2012
As at 1 January	10,117,331	10,117,331
Purchases of treasury shares	–311,302	–166,028
Disposals of treasury shares	62,261	166,028
As at 31 December	**9,868,290**	**10,117,331**

Number of preferred shares

	2013	2012
As at 1 January	259,418	155,651
Disposals of treasury shares	0	103,767
As at 31 December	**259,418**	**259,418**

Capital reserves

The capital reserves result exclusively from the capital increase performed 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.

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 reserve for cash flow hedges, 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 2013 and 2012:

Other reserves

EUR thousand	2013	2012
As at 1 January	416,795	371,281
Attributable to the shareholders of WILO SE:		
Consolidated net income	82,789	78,185
Other comprehensive income	–20,579	–10,912
Dividend payment	–31,233	–21,267
Other changes	914	–492
As at 31 December	**448,686**	**416,795**

Treasury shares

The company reported 249,041 ordinary shares as treasury shares as at 31 December 2013. In the previous year it did not report ordinary or preferred shares as treasury shares.

Non-controlling interests

Non-controlling interests are held by shareholders in Mather and Platt Pumps Ltd., Pune, India (0.1 percent) and Mather and Platt Fire Systems Ltd., Pune, India (44.5 percent).

Dividends

Dividends of EUR 31,233 thousand (previous year: EUR 21,267 thousand) were distributed to the shareholders of WILO SE in the 2013 financial year. This corresponded to a dividend per ordinary share of EUR 3.04 (previous year: EUR 2.07) and a dividend per preferred share of EUR 3.05 (previous year: EUR 2.08).

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 2013 was EUR 476,949 thousand (previous year: EUR 458,012 thousand). This is mostly accounted for by EUR 487,809 thousand (previous year: EUR 435,339 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).

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 2013 and 2012 financial years. More detailed information on these senior notes and promissory note loans can be found in note (9.12).

(9.12) Financial liabilities

Financial liabilities break down as follows as at 31 December 2013 and 2012:

Financial liabilities

EUR thousand	31 Dec. 2013	31 Dec. 2012
Non-current financial liabilities		
with a remaining term		
of between 1 and 5 years	40,389	46,334
of more than 5 years	116,852	82,405
	157,241	**128,739**
Current financial liabilities		
with a remaining term		
of less than 1 year	**12,734**	**52,093**

WILO SE reported the following material financing agreements as at 31 December 2013:

- **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 capital 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.

- **USPP 2016**
  In the 2006 financial year, WILO SE issued senior notes ("USPP 2016") as part of a US private placement with a total amount of originally EUR 67.5 million (USD 80.0 million, in two tranches of USD 40 million each) maturing in 2013 and 2016 and with fixed interest of 5.28 percent and 5.33 percent respectively. The first tranche of USD 40.0 million was repaid on schedule in 2013. The senior note maturing in 2016 had a carrying amount of EUR 29.1 million as at the end of the reporting period (previous year: EUR 30.3 million) and is hedged against currency fluctuations by way of a derivative financial instrument. However, the hedge accounting regulations of IAS 39 have not been applied. It is also not secured against real property or financial assets of the company.

- **Promissory note loan 2020**
  In January 2011, WILO SE placed a promissory note loan ("promissory note loan 2020") with a lender in the amount of EUR 25.0 million, maturing in 2020, repayable semi-annually from 2011 in the amount of around EUR 1.25 million and bearing interest at 4.08 percent p.a. The promissory note loan had a carrying amount of EUR 17.5 million (previous year: EUR 21.2 million) as at the end of the reporting period and is not secured against real property or financial assets of the company.

- **Promissory note loan 2015**
  In the 2008 financial year, WILO SE issued a promissory note loan ("promissory note loan 2015") of EUR 25.0 million maturing in 2015, repayable in semi-annual instalments of around EUR 2.08 million and with a fixed interest rate of 5.54 percent. The promissory note loan had a carrying amount of EUR 6.2 million (previous year: EUR 12.5 million) as at the end of the reporting period and is not secured against real property or financial assets of the company.

The 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 2013 and 2012 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 1,103 thousand (previous year: EUR 415 thousand). The increase is essentially due to direct, external costs that were incurred in connection with the conclusion of a syndicated loan agreement in the amount of EUR 120.0 million.

The fair value of the financial liabilities, calculated by banks using net present value models, was EUR 194,806 thousand (previous year: EUR 209,474 thousand) as at 31 December 2013.

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2014 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 2013 and 2012:

Maturity structure of financial liabilities

As at 31 Dec. 2013

EUR million	Nominal volume	Carrying amount	Maturity structure 2014	2015	2016	2017	2018–20	2021–22	2023	Total
USPP 2023	EUR 37.0 million	37.0	0.0	0.0	0.0	0.0	0.0	0.0	37.0	37.0
USPP 2021	EUR 75.0 million	75.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	75.0
USPP 2016	USD 40.0 million	29.1	0.0	0.0	29.1	0.0	0.0	0.0	0.0	29.1
Promissory note loan 2020	EUR 25.0 million	17.5	2.5	2.5	2.5	2.5	7.5	0.0	0.0	17.5
Promissory note loan 2015	EUR 25.0 million	6.2	4.1	2.1	0.0	0.0	0.0	0.0	0.0	6.2
		164.8	**6.6**	**4.6**	**31.6**	**2.5**	**7.5**	**75.0**	**37.0**	**164.8**
Overdraft		5.2	5.2	0.0	0.0	0.0	0.0	0.0	0.0	5.2
Financial liabilities		170.0	11.8	4.6	31.6	2.5	7.5	75.0	37.0	170.0

As at 31 Dec. 2012

EUR million	Nominal volume	Carrying amount	Maturity structure 2013	2014	2015	2016	2017	2018–20	2021	Total
USPP 2021	EUR 75.0 million	75.0	0.0	0.0	0.0	0.0	0.0	0.0	75.0	75.0
USPP 2013/2016	USD 80.0 million	60.7	30.4	0.0	0.0	30.3	0.0	0.0	0.0	60.7
Promissory note loan 2020	EUR 25.0 million	21.2	3.7	2.5	2.5	2.5	2.5	7.5	0.0	21.2
Promissory note loan 2015	EUR 25.0 million	12.5	6.3	4.1	2.1	0.0	0.0	0.0	0.0	12.5
Other loans	EUR 10.0 million	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.6
		170.0	**41.0**	**6.6**	**4.6**	**32.8**	**2.5**	**7.5**	**75.0**	**170.0**
Overdraft		10.8	10.8	0.0	0.0	0.0	0.0	0.0	0.0	10.8
Financial liabilities		180.8	51.8	6.6	4.6	32.8	2.5	7.5	75.0	180.8

(9.13) Trade payables

Trade payables break down as follows as at 31 December 2013 and 2012:

Trade payables

EUR thousand	31 Dec. 2013	31 Dec. 2012
Trade payables		
with a remaining term		
of between one and five years	1,091	1,121
of less than one year	106,490	94,107

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

(9.14) Other financial liabilities

Other financial liabilities break down as follows as at 31 December 2013 and 2012:

Other financial liabilities

EUR thousand	31 Dec. 2013	31 Dec. 2012
Non-current other financial liabilities		
Liabilities from derivative financial instruments		
with a remaining term		
of between 1 and 5 years	4,170	2,868
Finance lease liabilities		
with a remaining term		
of between 1 and 5 years	3,034	2,628
Miscellaneous other financial liabilities		
with a remaining term		
of between 1 and 5 years	3,103	2,245
of more than 5 years	23	327
Total	**10,330**	**8,068**
Current other financial liabilities		
Bills payable	11,742	10,898
Liabilities to non-consolidated subsidiaries, jointly controlled entities or associates	2,723	2,650
Finance lease liabilities	2,213	2,262
Liabilities from derivative financial instruments	424	3,528
Miscellaneous other financial liabilities	20,137	24,052
Total	**37,239**	**43,390**

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

(9.15) Other liabilities

Other financial liabilities as at 31 December 2013 and 2012 break down as follows:

Other liabilities

EUR thousand	31 Dec. 2013	31 Dec. 2012
Non-current other liabilities		
Deferred income	1,347	1,274
Advance payments received	0	5
Total	**1,347**	**1,279**
Current other liabilities		
Staff liabilities	24,996	28,062
Tax liabilities	24,888	18,801
Advance payments received	9,988	13,150
Social security liabilities	6,220	6,044
Deferred income	991	884
Miscellaneous other liabilities	1,947	1,613
Total	**69,030**	**68,554**

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

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

(9.16) Pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2013 and 2012:

Pensions and similar obligations

EUR thousand	31 Dec. 2013	31 Dec. 2012
Pensions	60,496	57,154
Similar obligations	2,487	3,428
Total	**62,983**	**60,582**

The pension provision is composed as follows:

Pension provision

EUR thousand	2013	2012
Present value of the defined benefit obligation	69,713	63,519
Fair value of plan assets	-9,217	-6,719
Foreign plan assets	0	354
As at 31 December	**60,496**	**57,154**

Provisions for pensions are recognised for defined benefit obligations 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 dependents 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 remeasurement of plan assets are recognised in full in other comprehensive income. The corridor method was last used in the 2012 financial year.

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 commitment has been entered into from 1 January 2006. An expense of EUR 2,114 thousand (previous year: EUR 1,253 thousand) was recognised in the reporting year for defined contribution plans in the Wilo Group.

Pension plans for the employees of two companies of the Wilo Group were discontinued in the reporting year 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 benefit obligation developed as follows:

Present value of the benefit obligation		
EUR thousand	**2013**	**2012**
As at 1 January	63,519	46,808
Current service cost	2,565	1,216
Past service cost	139	110
Interest expense	2,055	2,205
Remeasurement		
Actuarial gains/losses from the change in demographic assumptions	767	1,183
Actuarial gains/losses from the change in financial assumptions	723	11,474
Actuarial gains/losses from experience adjustments	825	–373
Pension payments	–3,070	–2,510
Settlement of defined benefit plan	–3,523	0
Transfers	5,925	3,201
Currency effects and other changes	–212	205
As at 31 December	**69,713**	**63,519**

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 34,891 thousand (previous year: EUR 30,035 thousand)
- Deferred members: EUR 6,042 thousand (previous year: EUR 5,821 thousand)
- Pensioners: EUR 28,780 thousand (previous year: EUR 27,664 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. Given an increase (decrease) in the discount rate of 50 basis points, the pension obligation would fall by 7.3 percent (rise by 8.3 percent) as at 31 December 2013. An increase (decrease) in the pension factor of 25 basis points would result in a 2.6 percent increase (2.5 percent decrease) in the pension obligation. Given an increase (decrease) in the salary factor of 25 basis points, the pension obligation would rise by 0.4 percent (decline by 0.3 percent). A 10 percent increase in life expectancy would increase the pension obligation by 6.1 percent. 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.

The weighted average duration of the defined benefit obligation as at 31 December 2013 was 15.4 years.

78.1 percent of the defined benefit obligation of EUR 69,713 thousand (previous year: EUR 63,519 thousand) relate to Germany (previous year: 83.4 percent).

The fair value of plan assets changed as follows:

Fair value of plan assets		
EUR thousand	**2013**	**2012**
As at 1 January	6,719	3,581
Interest income	298	112
Remeasurement		
Return on plan assets (excluding interest income)	34	63
Payments	–688	0
Amounts paid in by employer	1,336	169
Settlement of defined benefit plan	–3,114	0
Transfers	4,819	2,794
Currency effects and other changes	–187	0
As at 31 December	**9,217**	**6,719**

The plan assets include cash of EUR 7,536 thousand that are mostly invested in guaranteed investment contracts. The plan assets also include qualifying insurance policies in the amount of EUR 1,325 thousand and investment funds in the amount of EUR 356 thousand. Furthermore, there are reinsurance policies to hedge provision-funded pension obligations in the amount of EUR 1,262 thousand (previous year: EUR 1,205 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 2,487 thousand for 2013 (previous year: EUR 3,428 thousand). They include gross partial retirement obligations for WILO SE of EUR 2,725 thousand (previous year: EUR 2,776 thousand). The EUR 1,880 thousand (previous year: EUR 1,530 thousand) fair value of plan assets as at the end of the reporting period is deducted insofar as it relates to settlement arrears under the partial retirement scheme. The remaining plan assets of EUR 1,194 thousand (previous year: EUR 978 thousand) that are not off-set against the obligation under the partial retirement scheme are reported under reinsurance assets in non-current other assets. The present value of the obligations under the partial retirement scheme at 31 December 2013 was determined using a discount rate of 2.95 percent (previous year: 3.55 percent). Furthermore, an annual wage and salary increase of 1.95 percent was assumed (previous year: 1.95 percent).

(9.17) Other provisions

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

The provision for bonuses and rebates mainly relates to customer reimbursement for the 2013 financial year. The Wilo Group expects that the corresponding repayments of EUR 17,599 thousand (previous year: EUR 21,002 thousand) will be almost fully paid to customers by the middle of 2014.

Other provisions

EUR thousand	1 Jan. 2013	Currency translation	Utilisation	Reversal	Additions	31 Dec. 2013
Non-current						
Guarantees	**3,219**	**–74**	**232**	**54**	**366**	**3,225**
Current						
Guarantees	14,791	–218	2,035	1,119	3,663	15,082
Bonuses and rebates	21,002	–163	19,391	1,176	17,327	17,599
Other	8,035	–142	1,860	742	666	5,957
	43,828	**–523**	**23,286**	**3,037**	**21,656**	**38,638**

(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 have been reported after adjustment for currencies for the first time. The comparative figures for operating cash flow before income taxes were adjusted accordingly. 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 2013 consisted of EUR 177,468 thousand (previous year: EUR 176,522 thousand) in cash and sight deposits with banks, EUR 316 thousand (previous year: EUR 122 thousand) of which was subject to restrictions.

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 2,965 thousand (EUR 1,197 thousand) relate to the effect of translating foreign-currency items of cash into the reporting currency. Detailed information on the consolidated statement of cash flows can be found under “Financial position” in the Group management report.

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.

In order to improve the clarity of presentation, certain items in operating cash flow were combined or are now reported individually. The prior-year figures were adjusted accordingly.

(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 net sales 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 and other nations not assigned to the above regions

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 shows 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 219,473 thousand (previous year: EUR 206,577 thousand) was generated with external customers in the 2013 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 2013 and 2012 financial years is as follows:

Segment information

2013

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**622,626**	**287,426**	**209,965**	**110,806**	**1,230,823**
Segment EBIT	**74,664**	**23,654**	**24,912**	**2,446**	**125,676**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	23,500	9,827	5,999	4,857	44,183
of which non-cash expenses	21,947	4,243	628	969	27,787

2012

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**615,930**	**271,171**	**195,449**	**104,536**	**1,187,086**
Segment EBIT	**71,897**	**18,183**	**26,038**	**3,570**	**119,688**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	22,269	7,636	5,065	4,350	39,320
of which non-cash expenses	29,561	2,522	1,308	1,215	34,606

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

Earnings before interest and taxes (EBIT)

EUR thousand	2013	2012
Earnings before interest and taxes (EBIT)	**125,676**	**119,688**
Net finance costs	–12,582	–9,276
Consolidated net income before taxes	**113,094**	**110,412**
Income taxes	–30,123	–32,168
Consolidated net income after taxes	**82,971**	**78,244**

Net sales breaks down as follows among the product groups:

Net sales by product group

EUR thousand	2013	2012
Products for		
Building Services	927,372	907,090
Water Management and Industry	303,451	279,996
Total	**1,230,823**	**1,187,086**

(12.) Financial instrument disclosures

(12.1) Derivative financial instruments

The following table shows the fair values of derivative financial instruments as at 31 December 2013 and the changes as against the previous year.

Derivative financial instruments

	Fair value				Nominal amount	
	Maturity from 31 Dec. 2013					
EUR thousand	Within 1 year	Between 1 and 5 years	Previous year	Total change	31 Dec. 2013	31 Dec. 2012
Forward exchange contracts	–56	–12	–84	16	13,347	25,315
Interest rate and currency swaps	661	–3,838	–5,645	2,468	37,750	73,499
Commodity derivatives	–159	0	1,111	–1,270	15,592	17,245

Net finance costs include gains of EUR 935 thousand (previous year: EUR 2,837 thousand) and losses of EUR 2,806 thousand (previous year: EUR 2,791 thousand) (see note (8.8)).

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

The following tables show the financial assets and liabilities with their carrying amounts as at 31 December 2013 and 2012 per measurement 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 2013

		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. 2013**
Current and non-current financial assets					
Trade receivables	Loans and receivables	218,896			218,896
Other financial assets					
Receivables from subsidiaries, jointly controlled entities or associates	Loans and receivables	348			348
Receivables from derivative financial instruments	Financial assets held for trading		1,190		1,190
Loans	Loans and receivables	118			118
Available-for-sale financial assets	Available-for-sale	359	8		367
Miscellaneous financial receivables	Loans and receivables	6,526			6,526
Cash	Loans and receivables	177,468			177,468
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	169,975			169,975
Trade payables	Financial liabilities at amortised cost	107,581			107,581
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	11,742			11,742
Liabilities to subsidiaries, jointly controlled entities or associates	Financial liabilities at amortised cost	2,723			2,723
Finance lease liabilities	n/a			5,247	5,247
Liabilities from derivative financial instruments	Financial liabilities held for trading		4,594		4,594
Miscellaneous financial liabilities	Financial liabilities at amortised cost	23,263			23,263
of which aggregated by measurement category under IAS 39					
Loans and receivables		403,356			403,356
Available-for-sale		359	8		367
Financial assets held for trading			1,190		1,190
Financial liabilities measured at amortised cost		315,284			315,284
Financial liabilities held for trading			4,594		4,594

Financial assets and liabilities as at 31 December 2012

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. 2012**
Current and non-current financial assets					
Trade receivables	Loans and receivables	228,980			228,980
Other financial assets					
Receivables from subsidiaries, jointly controlled entities or associates	Loans and receivables	571			571
Receivables from derivative financial instruments	Financial assets held for trading		1,778		1,778
Loans	Loans and receivables	175			175
Available-for-sale financial assets	Available-for-sale	169	8		177
Miscellaneous financial receivables	Loans and receivables	6,467			6,467
Cash	Loans and receivables	176,522			176,522
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	180,832			180,832
Trade payables	Financial liabilities at amortised cost	95,228			95,228
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	10,898			10,898
Liabilities to subsidiaries, jointly controlled entities or associates	Financial liabilities at amortised cost	2,650			2,650
Finance lease liabilities	n/a			4,890	4,890
Liabilities from derivative financial instruments	Financial liabilities held for trading		6,396		6,396
Miscellaneous financial liabilities	Financial liabilities at amortised cost	26,624			26,624
of which aggregated by measurement category under IAS 39					
Loans and receivables		412,715			412,715
Available-for-sale		169	8		177
Financial assets held for trading			1,778		1,778
Financial liabilities measured at amortised cost		316,232			316,232
Financial liabilities held for trading			6,396		6,396

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 only not the case for financial liabilities, which have a carrying amount of EUR 169,975 thousand (previous year: EUR 180,832 thousand) and a fair value of EUR 194,806 thousand (previous year: EUR 209,474 thousand).

The fair values of financial liabilities are calculated by banks using net present value methods.

The financial assets in the available-for-sale category of EUR 359 thousand as at 31 December 2013 (previous year: EUR 169 thousand) that are measured at amortised cost 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 value of the shares in these subsidiaries corresponds to their amortised cost. 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. There are currently no plans to dispose of these companies.

The fair values of assets in the available-for-sale category of EUR 8 thousand (previous year: EUR 8 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 1,190 thousand (previous year: EUR 1,778 thousand) and EUR 4,594 thousand (previous year: EUR 6,396 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 2013 and 2012 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

EUR thousand Measurement category	Carrying amount as at 31 Dec.	Interest and dividends	Changes in fair value*	Impairments	Impairment reversals	Effects of currency translation	**Net gains/ losses**
2013 financial year							
Loans and receivables	403,356	1,848		–2,701	652	–58	–259
Available-for-sale	367	45					45
Financial assets/liabilities held for trading	–3,404	440	–1,871				–1,431
Financial liabilities at amortised cost	–315,284	–9,763				1,287	–8,476
Total		**–7,430**	**–1,871**	**–2,701**	**652**	**1,229**	**–10,121**
2012 financial year							
Loans and receivables	412,715	1,685		–2,197	1,476	69	1,033
Available-for-sale	177	80					80
Financial assets/liabilities held for trading	–4,618	584	46				630
Financial liabilities at amortised cost	–316,232	–10,717				1,152	–9,565
Total		**–8,368**	**46**	**–2,197**	**1,476**	**1,221**	**–7,822**

* The changes in fair value as against the previous year consist of realised and unrealised gains/losses on financial assets and liabilities classified as financial assets and financial liabilities at fair value through profit and loss. These amounts do not include interest income or expense.

(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 7 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 2013 and 2012 that were recognised at fair value or for which the fair value was disclosed:

Fair value hierarchy

	31 Dec. 2013	31 Dec. 2012
EUR thousand	Level 2	Level 2
Available-for-sale financial assets	8	8
Receivables from derivative financial instruments (financial assets held for trading)	1,190	1,778
Liabilities from derivative financial instruments (financial liabilities held for trading)	4,594	6,396
Financial liabilities (loans and receivables)	194,806	209,474

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 calculated as at 31 December 2013 and 2012.

(13.) Risk management and derivative financial instruments

Risk management principles

In particular, 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. 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. Hedge accounting according to IFRS regulations was applied for the first time to a small extent in the reporting year. The general credit risk on these derivative financial instruments is low because they are only entered into with banks of excellent credit standing.

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 the Group Treasury department. Further information on risks and risk management can be found in the report on risks and opportunities in the Group management report.

Market risk

Market risk includes currency, interest rate, commodity price, credit and liquidity risks.

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 companies concerned.

To a small extent, future sales in foreign currency from committed sales are hedged against exchange rate fluctuations with export credits in the corresponding currencies. The export credits are designated as a cash flow hedge. The corresponding cash flows, income and expenses are usually expected within a year of agreeing to the contract in question. The carrying amount of the export credits as at 31 December 2013 was EUR 2,072 thousand (previous year: EUR 0 thousand), the fair value was EUR 2,051 thousand. An amount of EUR –152 thousand was recognised in other comprehensive income in 2013 (previous year: EUR 0 thousand). No amounts were reclassified to the consolidated income statement in the reporting year as hedge accounting was applied for the first time. The consolidated net income for 2013 contains no expenses or income relating to the ineffective portion of the hedge.

The following table shows the Wilo Group's currency risk as at 31 December 2013 and 2012 resulting from foreign-currency transactions in operating activities and from foreign-currency financing activities up to 31 December 2013 and 2012, and from expected foreign-currency transactions in operating activities in 2014 and 2013. All currency risks shown relate to transactions with third parties. Moreover, only those derivative financial instruments used to hedge operating transactions and financing measures are reported. This analysis does not take into account the effects of intra-Group transactions in foreign currency or of the translation of the financial statements of subsidiaries into reporting currency (translation risk).

Currency risk

	31 Dec. 2013		31 Dec. 2012	
	EUR thousand	USD thousand	EUR thousand	USD thousand
Trade receivables	3,621	3,311	3,334	5,733
Trade payables	–1,396	–1,352	–1,486	–893
Financial liabilities	0	–40,000	0	–80,000
Currency risk from assets and liabilities (gross)	**2,225**	**–38,041**	**1,848**	**–75,160**
Expected sales in 2014 (previous year: 2013)	44,262	13,748	34,271	25,926
Expected acquisitions in 2014 (previous year: 2013)	–17,577	–32,251	–21,680	–23,810
Currency risk from expected transactions in operating activities in 2014 (previous year: 2013) (gross)	**26,685**	**–18,503**	**12,591**	**2,116**
Derivative financial instruments	0	43,447	0	76,000
Currency risk (net)	**28,910**	**–13,097**	**14,439**	**2,956**

The reported financial liabilities of USD 40.0 million (previous year: USD 80.0 million) relate solely to the senior note issued in 2006, which is hedged against currency risk with derivative financial instruments in the same amount.

Foreign-currency receivables and liabilities in addition to derivative financial instruments in the form of interest rate and currency swaps and forward exchange contracts reported in the Wilo Group's consolidated statement of financial position as at 31 December 2013 have certain sensitivities to currency fluctuations. At 31 December 2013, a 10.0 percent appreciation (depreciation) by the euro against all foreign currencies would have resulted in a EUR 129 thousand decrease (EUR 158 thousand increase) in EBIT and a EUR 324 thousand increase (EUR 489 thousand decrease) in net finance costs. In the previous year, a 10.0 percent appreciation (depreciation) by the euro against all foreign currencies would have resulted in a EUR 334 thousand decrease (EUR 408 thousand increase) in EBIT and a EUR 1,841 thousand increase (EUR 2,250 thousand decrease) in net finance costs.

The change in EBIT in this sensitivity analysis is the result of translating foreign-currency receivables and liabilities into reporting currency. The effect of these scenarios on net finance costs results on the one hand from the translation differences on non-current financial liabilities in foreign currency in the amount of EUR 2,641 thousand (previous year: EUR 5,517 thousand) given a 10% appreciation by the euro (EUR -3,228 thousand given a 10% depreciation by the euro) as at the end of the reporting period (previous year: EUR -6,743 thousand on a 10% depreciation by the euro).

On the other hand, the remeasurement of interest and currency swaps, forward exchange contracts and commodity derivatives would have had a negative (positive) effect on net finance costs of EUR -2,317 thousand (EUR 2,739 thousand) given a 10 percent appreciation (depreciation) by the euro. In the previous year, a 10 percent appreciation (depreciation) by the euro would have resulted in a negative (positive) effect on net finance costs of EUR 3,676 thousand (EUR 4,493 thousand).

The sensitivity analysis is based on the calculated change in the fair value of derivative and non-derivative financial instruments resulting from a specific change in the relevant risk variable (the exchange rate) with all other factors influencing fair value remaining constant as at the end of the reporting period. The calculations are performed using net present value and option pricing models. The changes in EBIT and net finance costs in the sensitivity analysis mostly relate to receivables, liabilities and derivatives in US dollars, Indian rupees and various European currencies. Other foreign currencies are of minor importance in the sensitivity analysis.

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 curves 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.

If the market interest rate had been 100 basis points higher (lower) as at 31 December 2013, this would have had a positive effect on net finance costs of EUR 78 thousand (negative effect of EUR 83 thousand). The same change in the previous year would have had a positive effect on net finance costs of EUR 127 thousand (negative effect of EUR 135 thousand). The change in earnings in this sensitivity analysis of EUR 78 thousand and EUR 83 thousand (previous year: EUR 127 thousand and EUR -135 thousand) relates exclusively to measurement of the interest component of interest rate and currency swaps as at the end of the reporting period. The sensitivity analysis does not indicate any material effect on net finance costs relating to primary, floating-rate liabilities because most financial liabilities have long-term fixed interest rates.

The sensitivity analysis is based on the calculated change in the fair value of derivative and non-derivative financial instruments resulting from a specific change in the relevant risk variable (the market interest rate) with all other factors influencing fair value remaining constant as at the end of the reporting period. The calculations are performed using net present value and option pricing models. The sensitivity analysis does not include the effects of a defined change in the risk variable “market interest rate” on the investment of cash.

Commodity price risk

The Wilo Group is subject to commodity price risk primarily from price fluctuations on the global markets for copper, aluminium and stainless steel and their alloys. It uses commodity derivatives to minimise this risk. The prices for most of the copper procurement volume for the 2014 financial year have already been stipulated. Currently, the Wilo Group’s result of operations would be influenced by price fluctuations on the global markets for copper, aluminium, stainless steel and their alloys from the 2015 financial year onwards.

If the prices for copper had been 10.0 percent higher (lower) as at 31 December 2013, this would have had a positive effect on net finance costs of EUR 1,608 thousand (negative effect of EUR 1,579 thousand). The same change in the previous year would have had a positive effect on net finance costs of EUR 1,936 thousand (negative effect of EUR 1,904 thousand).

The effect of EUR 1,608 thousand and EUR -1,579 thousand (previous year: EUR 1,936 thousand and EUR -1,904 thousand) shown in this sensitivity analysis relates exclusively to the measurement of commodity derivatives as at the end of the reporting period. The sensitivity analysis is based on the calculated change in the fair value of derivative financial instruments resulting from a specific change in the relevant risk variable (commodity prices) with all other factors influencing fair value remaining constant as at the end of the reporting period. The calculations are performed using net present value and option pricing models.

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 sales with any one customer. It is not possible to predict how the economic crisis will affect customer payment behaviour.

The maximum credit risk is equal to the carrying amount of financial assets. 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 2013 and 2012. 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	over 180
31 Dec. 2013							
Trade receivables	218,896	177,276	15,844	8,344	1,172	1,666	1,301
Other financial assets*	6,992	6,992	0	0	0	0	0
31 Dec. 2012							
Trade receivables	228,980	181,689	22,160	6,192	2,459	3,640	2,419
Other financial assets*	7,213	7,213	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 231,865 thousand (previous year: EUR 241,713 thousand). As at 31 December 2013, EUR 10,571 thousand (previous year: EUR 10,085 thousand) in specific write-downs was recognised on past due trade receivables of EUR 28,326 thousand (previous year: EUR 36,870 thousand). A further EUR 2,397 thousand (previous year: EUR 2,648 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 367 thousand (previous year: EUR 177 thousand) on available-for-sale financial assets and of EUR 1,190 thousand (previous year: EUR 1,778 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, there was no impairment on other financial assets as at 31 December 2013.

Master agreements for financial future 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 legally enforceable 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 meet the criteria for offsetting in the statement of financial position	Net amount
31 Dec. 2013			
Receivables from derivative financial instruments	1,190	-208	982
Liabilities from derivative financial instruments	-4,594	208	-4,386
31 Dec. 2012			
Receivables from derivative financial instruments	1,778	-107	1,671
Liabilities from derivative financial instruments	-6,396	107	-6,289

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 5.2 million as at 31 December 2013. In addition, WILO SE has secured its long-term financial requirements by issuing promissory note loans, which were also placed with financially sound, reputable financial partners (see note (9.12)).

As a result of existing short- and medium-term credit facilities with various reputable 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 2013 and 2012:

Liquidity risk

			Maturities		
EUR thousand	Carrying amount	Agreed payments	Less than 1 year	Between 1 and 5 years	More than 5 years
31 Dec. 2013					
Financial liabilities					
Non-current	157,241	-198,599	-7,146	-62,296	-129,157
Current	12,734	-12,734	-12,734	0	0
Trade payables	107,581	-107,581	-106,490	-1,091	0
Finance lease liabilities	5,247	-5,747	-2,460	-3,287	0
Other financial liabilities	37,728	-37,728	-34,602	-3,103	-23
Derivative financial instruments	4,594	-3,998	-156	-3,842	0
Total	**325,125**	**-366,387**	**-163,588**	**-73,619**	**-129,180**
31 Dec. 2012					
Financial liabilities					
Non-current	128,739	-166,391	-6,777	-66,118	-93,496
Current	52,093	-52,093	-52,093	0	0
Trade payables	95,228	-95,228	-94,107	-1,121	0
Finance lease liabilities	4,890	-5,274	-2,481	-2,793	0
Other financial liabilities	40,172	-40,172	-37,600	-2,245	-327
Derivative financial instruments	6,396	-5,520	-3,236	-2,284	0
Total	**327,518**	**-364,678**	**-196,294**	**-74,561**	**-93,823**

(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, and WILO Nord Amerika GmbH, Dortmund.

(14.2) Contingent liabilities and other financial obligations

No provisions have been recognised for the following contingent liabilities carried at nominal amount as the probability of the risk is estimated as low:

Contingent liabilities

EUR thousand	31 Dec. 2013	31 Dec. 2012
Contingent liabilities		
from guarantees	600	600
from warranties	3,980	6,149
Total	**4,580**	**6,749**

There is a guarantee under a lease agreement for a building owned by a company in which a family member of a former managing director and one shareholder of WILO SE have an ownership interest. There is a guarantee of EUR 600 thousand to the company.

The contingent liabilities from warranties essentially result from operating activities with the customers and suppliers of the Wilo Group. Warranties with a nominal obligation of EUR 1,937 thousand (previous year: EUR 742 thousand) had an agreed remaining term of less than one year as at 31 December 2013, while nominal obligations of EUR 837 thousand (previous year: EUR 1,166 thousand) with an agreed remaining term of more than one year have been contractually stipulated. There are also indefinite warranties and guarantees with a nominal obligation of EUR 1,206 thousand (previous year: EUR 4,240 thousand).

As a result of exercising a call option, WILO SE undertook in the past financial year to acquire 75% of the shares in a limited partnership at a provisional purchase price of EUR 1,951 thousand in April 2014. The limited partnership is the owner of land that, in addition to office buildings and a production hall on it, has been leased to WILO SE. The lease ends on 31 March 2014.

Purchase commitments for planned capital expenditure on property, plant and equipment amount to EUR 11,077 thousand (previous year: EUR 10,100 thousand) as at 31 December 2013. 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	2013	2012
Production	4,163	3,991
Sales and administration	3,031	2,909
Total	**7,194**	**6,900**
Germany	2,454	2,278
Other countries	4,740	4,622
Total	**7,194**	**6,900**

The average number of employees rose by 4.3 percent (previous year: 2.9 percent) as against the previous year. Staff costs amounted to EUR 318.7 million in the 2013 financial year (previous year: EUR 306.8 million).

(14.4) Proposal for the appropriation of profits

At the Annual General Meeting of WILO SE on 2 April 2014, the Executive Board will propose a resolution for the distribution of a dividend of EUR 3.27 per ordinary share and EUR 3.28 per preference share and to carry forward the remainder of the unappropriated surplus of WILO SE to new account.

(14.5) Events after the end of the reporting period

The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 19 February 2014. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

(14.6) Related party disclosures

All business transactions consisting solely of the provision of goods and services to non-consolidated subsidiaries, jointly controlled entities or associates of WILO SE are settled at standard market conditions. The outstanding trade receivables from these companies amount to EUR 348 thousand (previous year: EUR 571 thousand). Liabilities to these companies amounted to EUR 2,723 thousand (previous year: EUR 2,650 thousand) as at the end of the reporting period. Sales and services passed on to these companies amounted to EUR 768 thousand (previous year: EUR 511 thousand).

In the 2013 financial year, the members of the Supervisory Board and the Executive Board conducted the following acquisitions and sales of shares in WILO SE:

Acquisition and sales of shares in WILO SE

	Supervisory Board		Executive Board		Total	
	Number	Payment in EUR thousand	Number	Payment in EUR thousand	Number	Payment in EUR thousand
As at 31 Dec. 2012	259,418		477,331		736,749	
Acquisition	0		62,261	3,375	62,261	3,375
Sale	0		-311,302	-15,840	-311,302	-15,840
As at 31 Dec. 2013	**259,418**		**228,290**		**487,708**	

As at 31 December 2013, 259,418 preferred shares in WILO SE are held by members of the Supervisory Board and 228,290 ordinary shares are held by members of the Executive Board. As a result of these transactions, WILO SE reported 249,041 ordinary shares as treasury shares as at 31 December 2013. No preference shares are held as treasury shares. WILO SE did not report any ordinary or preference shares as treasury shares in the previous year.

There are approved consulting agreements with members of the Supervisory Board. The total volume of these agreements for 2013 amounted to EUR 207 thousand (previous year: EUR 450 thousand), EUR 130 thousand (previous year: EUR 255 thousand) of which had not yet been paid as at 31 December 2013.

One of the shareholders is a managing partner of a consultancy firm that provides consultancy services to WILO SE. These services are remunerated at standard market conditions. There were no liabilities to this company as at 31 December 2013. Liabilities of EUR 62 thousand were reported in the previous year. The company generated sales of EUR 1,115 thousand (previous year: EUR 262 thousand) with WILO SE in the 2013 financial year.

Another shareholder 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. Sales of EUR 180 thousand (previous year: EUR 151 thousand) were generated with the heating and air conditioning installation company in the 2013 financial year. At the same time, the Wilo Group procured goods and services in the amount of EUR 1,731 thousand (previous year: EUR 708 thousand) from this company. Receivables from this company of EUR 5 thousand (previous year: EUR 541 thousand) were reported as at 31 December 2013.

There are also leases relating to land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 836 thousand (previous year: EUR 578 thousand) were made to these shareholders in 2013. The rent was agreed in line with market conditions.

In addition, there is a lease agreement for a building owned by a company in which a family member of a former managing director and one shareholder have an ownership interest. EUR 518 thousand (previous year: EUR 518 thousand) was paid in rent in 2013. The resulting finance lease liabilities as at the end of the reporting period amounted to EUR 57 thousand (previous year: EUR 273 thousand). There is a guarantee of EUR 600 thousand (previous year: EUR 600 thousand) to the company.

In the reporting year, there was a consulting agreement with a member of the owner family in the amount of EUR 60 thousand (previous year: EUR 60 thousand), of which EUR 60 thousand had not been paid as at 31 December 2013 (previous year: EUR 60 thousand).

The Caspar Ludwig Opländer 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 78 thousand from this service agreement in 2013 (previous year: EUR 80 thousand). There were receivables from the foundation of EUR 2 thousand (EUR 0 thousand) as at 31 December 2013.

(14.7) Auditor's fees

The following fees were recognised as an expense in the 2013 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

Auditor's fees

EUR thousand	2013	2012
Audits of financial statements of which for the previous year: EUR -1 thousand (2011: EUR 0 thousand)	362	361
Other assurance services of which for the previous year: EUR 8 thousand (2011: EUR 17 thousand)	133	38
Other services of which for the previous year: EUR 0 thousand (2011: EUR 34 thousand)	461	103
Total	**956**	**502**

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

The total remuneration of the Executive Board for the 2013 financial year was EUR 2.8 million (previous year: EUR 2.6 million). EUR 1.1 million (previous year: EUR 1.2 million) of this total relates to fixed remuneration and EUR 1.2 million (previous year: EUR 1.4 million) to variable remuneration, EUR 0.8 million (previous year: EUR 0.8 million) of which was reported as a provision as at the end of the reporting period and will not be paid out until the approval of the consolidated financial statements in the subsequent financial year. EUR 0.5 million was paid in the 2013 financial year as part of defined contribution pension plans for members of the Executive Board. The remuneration of the Supervisory Board amounted to EUR 0.1 million (previous year: EUR 0.1 million) in the 2013 financial year.

The total remuneration paid to former members of the Executive Board amounted to EUR 1.8 million in the 2013 financial year (previous year: EUR 2.1 million). EUR 0.9 million (previous year: EUR 1.0 million) of this is a benefit under IAS 24.17 (d). Furthermore, contributions of EUR 0.1 million (previous year: EUR 0.1 million) was paid into defined contribution pension plans for former members of the Executive Board in the 2013 financial year. As at the end of the reporting period, a pension provision of EUR 9.1 million (previous year: EUR 9.0 million) was recognised for former members of executive bodies.

(14.9) Executive bodies of the company

Supervisory Board

Dr Heinz-Gerd Stein
– Chairman –
Former CFO of ThyssenKrupp AG
and management consultant
Wollerau, Switzerland

Prof Dr Hans-Jörg Bullinger
Former President of Fraunhofer-Institute
Stuttgart

Jean-François Germerie
European Works Council
Laval, France

Daniela Mohr
European Works Council
Dortmund
since 16 April 2013

Felix Opländer
Businessman
Verden/Aller

Heinz-Peter Schmitz
European Works Council
Dortmund
until 16 April 2013

Prof Dr Nobert Wieselhuber
Managing Director of Dr Wieselhuber & Partner GmbH
Consultancy firm
Planegg

Herr Dr–Ing E.h. Jochen Opländer
is the Honorary Chairman of the Supervisory Board.

Executive Board

Oliver Hermes
– Chairman –
Essen

Dr Markus Beukenberg
Mülheim/Ruhr
since 16 April 2013

Gilbert Faul
Beijing, China
until 18 February 2013

Eric Lachambre
Saint Germain en Laye, France

Dortmund, 19 February 2014

The Executive Board

Oliver Hermes

Dr Markus Beukenberg

Eric Lachambre

Shareholdings

Shareholdings of WILO SE as of December 31, 2013

	Shareholding in %
Bombas WILO-SALMSON Portugal – Sistemas Hidráulicos, Lda., Porto/Portugal	100.0
Circulating Pumps Ltd., King's Lynn, Norfolk/Great Britain	100.0
EMB Pumpen AG, Rheinfelden/Switzerland	100.0
EMU I.D.F. S.A.R.L., Ste. Geneviève-des-Bois/France **	50.0
GEP Industrie-Systeme GmbH, Zwönitz/Germany	100.0
Mather and Platt Fire Systems Ltd., Pune/India	55.5
Mather and Platt Pumps Ltd., Pune/India	99.9
PT. WILO Pumps Indonesia/Jakarta/Indonesia	100.0
S.E.S.E.M. S.A.S., Saint-Denis/France	100.0
SALMSON South Africa Ltd., Johannesburg/South Africa	100.0
STEMMA S.R.L., Trissino/Italy	100.0

Shareholdings of WILO SE as of December 31, 2013	Shareholding in %
WILO (UK) Ltd., Burton-on-Trent/Great Britain	100.0
WILO Adriatic d.o.o., Ljubljana/Slovenia	100.0
WILO Baltic SIA, Riga/Latvia	100.0
WILO Bel o.o.o., Minsk/Belarus	100.0
WILO Beograd d.o.o., Belgrade/Republic of 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 Danmark A/S, Karlslunde/Denmark	100.0
WILO Eesti OÜ, Tallinn/Estonia *	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 Finland OY, Espoo/Finland	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 Industriebeteiligungen GmbH, Dortmund/Germany	100.0
WILO Intec S.A.S., Aubigny/France	100.0
WILO Italia s.r.l., Peschiera Borromeo (Milan)/Italy	100.0
WILO Lietuva UAB, Vilnius/Lithuania	100.0
WILO Magyarország Kft., Törökbálint/Hungary	100.0
WILO Middle East FZE/Dubai/United Arab Emirates	100.0
WILO Middle East LLC i.L., Riyadh/Saudi Arabia ***	50.0
WILO N.V./S.A., Ganshoren (Brussels)/Belgium	100.0
WILO Nederland b.v., Westzaan/The Netherlands	100.0
WILO Nord Amerika GmbH, Dortmund/Germany	100.0

Shareholdings of WILO SE as of December 31, 2013

	Shareholding in %
WILO Norge AS, Oslo / Norway	100.0
WILO Polska Sp. z o.o., Lesznowola (Warsaw) / Poland	100.0
WILO Pompa Sistemleri San. Ve Tic. A.S., Istanbul / Turkey	100.0
WILO CS s.r.o., Prague / Czech Republic	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 Romania s.r.l, Bucharest / Romania	100.0
WILO Rus o.o.o., Moskau / Russia	100.0
WILO SALMSON Argentina S.A., Buenos Aires / Argentina	100.0
WILO Saudi Arabia, Riyadh / Saudi Arabia *	100.0
WILO Nordic AB, Växjö / Sweden	100.0
WILO Ukrainia t.o.w., Kiev / Ukraine	100.0
WILO USA LLC, Rosemont, IL / USA	100.0
WILO Taiwan Company Ltd., Taipeh / Taiwan	100.0
WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund / Germany	100.0
WILO-SALMSON France S.A.S., Chatou / France	100.0
WILO Lebanon S.A.R.L., Beirut / Lebanon	100.0
WILO Australia PTY Ltd., Brisbane City QLD / Australia	100.0
WILO Maroc S.A.R.L., Casablanca / Marocco	100.0
WILO Vietnam Co, Ltd., Ho Chi Minh City / Vietnam	100.0
WILO Systems ITALIA S.R.L., Bari / Italy	100.0
WILO Indústria, Comércio e Importação LTDA, City of São Paulo / Brazil	100.0
WILO Projektgesellschaft mbH, Dortmund / Germany *	100.0
WILO (Singapore) Pte. Ltd., Singapore / Singapore *	100.0

* These companies were not included in the 2013 consolidated financial statements.
** This is an associate accounted for at cost.
*** This is a joint venture accounted for using the equity method.

Auditor's report

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 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the European Union, and the additional regulations of the German Commercial Code (HGB) pursuant to section 315a (1) HGB are the responsibility of the legal representatives 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 management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Essen, 20 February 2014
KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer
Auditor

Huperz
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 2013 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 also 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.

Various key issues were dealt with at a total of four in-person meetings of the Supervisory Board in 2013. The meeting on 16 April 2013 focused on the annual financial statements and the consolidated financial statements as at 31 December 2012. The situation on the global economy and the business development of the Wilo Group were discussed in detail. The schedule of responsibilities of the Executive Board was adjusted.

At its meeting on 27 June 2013, the Supervisory Board discussed primarily the results of the personnel development programmes successfully launched in the previous year. The Supervisory Board also covered the strategy projects presented by the Executive Board on marketing and technology cooperations.

On 17 October 2013, the Supervisory Board discussed in particular the strategy project presented by the Executive Board on customer relationship management and the reconciliation of long-term corporate goals with global megatrends in addition to the updated corporate strategy.

On 19 December 2013, among other things, the Supervisory Board approved the budget for 2014 and the revised strategic planning extending to 2018. The M&A strategy and strategic investments in the context of global location development were also discussed. In addition, the Supervisory Board resolved various amendments to the Rules of Procedure for the Supervisory Board and the Audit Committee.

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 2013 financial year presented with the annual report and the separate financial statements of WILO SE for the 2013 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 systems established by the Executive Board, the internal control system (ICS), 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 31 March 2014 in order to report on key audit findings and provide comprehensive supplementary information. The Audit Committee previously performed preparatory work for the Supervisory Board and also appraised the findings of the risk management system and the internal control system.

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 1 April 2014, which was also attended by the auditor. The annual financial statements are thereby adopted. The Supervisory Board also approves the proposal for appropriation of the net profit of WILO SE.

The following changes occurred in the composition of the Executive Board in the year under review:

By way of resolution dated 16 April 2013, the Supervisory Board appointed Dr Markus Beukenberg, previously an authorised representative, as a new member of the Executive Board for a period of five calendar years. The Supervisory Board wishes Dr Beukenberg all the best 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.

2013 was the most successful financial year in the Wilo Group's history. New records in revenues, EBIT and consolidated net income document the ongoing sustainable profitable growth. 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, April 2014

The Supervisory Board
Dr Heinz-Gerd Stein
Chairman

Glossary

5 Why
Iterative Q&A technique for quality management for determining cause and effect. The aim is to determine the root cause of a defect or problem.

8D
Procedural model used in quality management for structured problem solving. "8D" (eight disciplines) stands for the eight steps in this model.

Anti-counterfeiting
Measures for combatting product piracy.

Business Keeper Monitoring System (BKMS®)
Internet-based electronic whistleblower system for providing information on violations of the law or code of conduct.

Cash pooling
Instrument for optimisation of liquidity management. Daily liquidity equalisation is performed within the Group by the parent company as a part of financial management, whereby excess liquidity is siphoned from Group companies and liquidity shortages are covered.

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 thereby systematically taken into account in the ongoing development of corporate strategy.

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.

Glandless pumps
In this design, the rotating part of the electric motor is located in the pumped fluid. Glandless pumps are largely maintenance-free and very quiet in operation.

Hardware-in-the-loop (HIL)
Method for testing embedded systems (e.g. motor control units). The entire system being controlled is simulated with models to check that the control unit in development is functioning correctly. This enables the possibility of function tests early on in the development phase.

High-performance computing
Simulations performed with high-performance computers allow the analysis of complex, technical systems for which direct, experimental examination is unreasonable or even impossible. These computer-aided simulations usually require high computing power or memory.

IE energy efficiency classification
Electric motors are classified according to their energy efficiency rating. The International Electrotechnical Commission (IEC), an international standards body for electrotechnology, has put in place the following energy-efficiency classification system:
IE1 = Standard, IE2 = High,
IE3 = Premium,
IE4 = Super Premium.

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 rulings of the IFRIC (International Reporting Interpretations Committee)

Ishikawa
Technique for analysing quality problems. Possible causes of errors are clearly shown by the Ishikawa diagram.

Line-start permanent magnet motor (LSPM motor)
A line-start permanent magnet motor is a three-phase induction motor with additional permanent magnets in the squirrel-cage motor. LSPM motors run on the grid like a three-phase induction machine and offer the benefits of a highly efficient synchronous motor after synchronisation with the supply frequency in synchronous working.

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.

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.

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.

Software-in-the-loop (Sil)
Method for validating control software (possibly preliminary to hardware-in-the-loop), in which the control software is run in a full system simulation on a development computer. This allows for tests to be performed before the corresponding hardware is available.

WEEE (Waste Electrical and Electronic Equipment) Directive
The European Waste Electrical and Electronic Equipment Directive (2002/96/EC), which came into force in 2003, contains specifications for putting electrical and electronic equipment into circulation, taking it back and its environmentally friendly disposal at the end of its life.

Wilo-Geniax
This decentralised pump system uses several miniature pumps installed in the heating surfaces or heating circuits instead of thermostat valves. Instead of conventional "supply-driven heating" with a central heating pump, the Wilo-Geniax provides "demand-driven" heating. The rotation speed of the miniature pumps is controlled by a central server, which means the pumps only supply the heating unit with as much hot water as is required to meet the demand for heat in each room at any given time.

Wilo-Heatfixx
Wilo-Heatfixx is a practical solution for improving heat dissipation in under-supplied areas in the heating system. Thanks to standardised installation and radio technology, Wilo-Heatfixx can be put to use quickly without extensive planning or assembly.

Wilo-Helix
The Wilo-Helix series comprises high-pressure centrifugal pumps that can be individually adjusted to a wide range of customer requirements. Areas in which this model is used include water supply and pressure boosting, cooling water circuits and fire extinguishing or sprinkler systems.

Imprint

Published by

WILO SE
Nortkirchenstr. 100
44263 Dortmund, Germany

Concept and design

HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg, Germany

Typesetting / reproduction

Hirte GmbH & Co. KG, Hamburg, Germany

Printing

Hartung Druck und Medien GmbH, Hamburg, Germany

Picture credits

Andreas Pohlmann: 2, 16, 27
Corbis: 8, 10 (2), 15, 17, 20 (2), 22, 23, 24, 28, 30, 41
Fotolia: 26, 36 (2)
Getty Images: 6, 16, 18, 21, 26, 40
Privat: 25
Tongji Design Institute 2013: 24
VIEW Pictures: 12
Wilo: 11, 14 (3), 17, 23 (2),
26, 30, 36, 37, 40, 41 (3)
Cover: Sebastian Vollmert

This Annual Report was published on 29 April 2014 in German, English and French. All three versions are available as a download at www.wilo.de.

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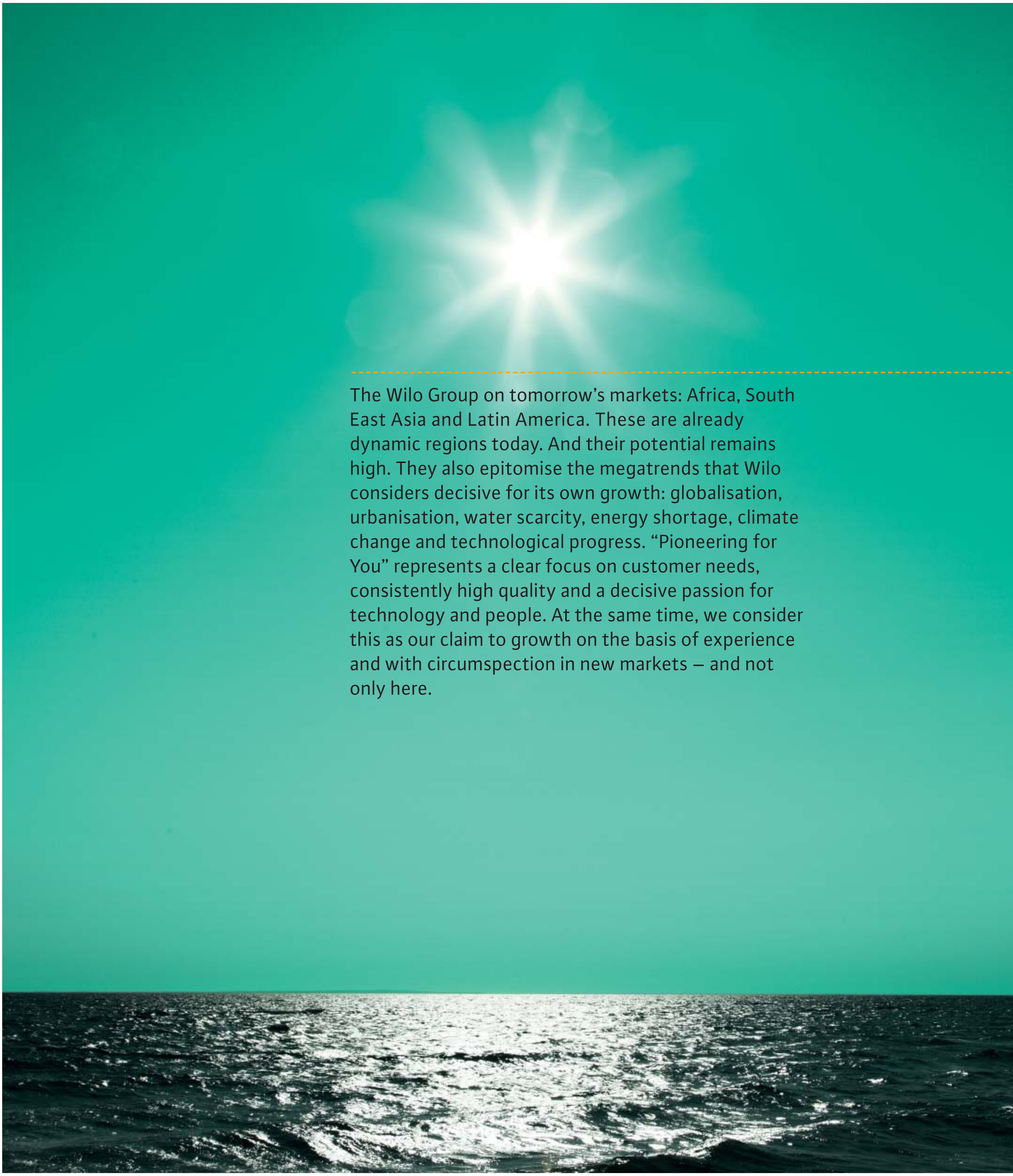

The Wilo Group on tomorrow's markets: Africa, South East Asia and Latin America. These are already dynamic regions today. And their potential remains high. They also epitomise the megatrends that Wilo considers decisive for its own growth: globalisation, urbanisation, water scarcity, energy shortage, climate change and technological progress. "Pioneering for You" represents a clear focus on customer needs, consistently high quality and a decisive passion for technology and people. At the same time, we consider this as our claim to growth on the basis of experience and with circumspection in new markets – and not only here.

WILO SE

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