Wilo is going beyond pumps

Annual Report 2014

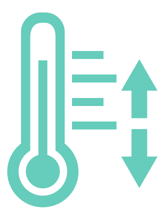
Wilo Group key indicators

		2014	2013	2012	2011	2010
Sales	EUR million	1,234.7	1,230.8	1,187.1	1,070.5	1,021.4
Growth in sales	%	0.3/3.0[1]	3.7	10.9	4.8	10.3
EBIT	EUR million	111.2	125.7	119.7	97.6	111.4
(as % of sales)	%	9.0	10.2	10.1	9.1	10.9
Consolidated net income	EUR million	69.8	83.0	78.2	53.4	71.1
(as % of sales)	%	5.7	6.7	6.6	5.0	7.0
Earnings per ordinary share	EUR	7.11	8.12	7.63	5.19	7.31
Cash flow from operating activities	EUR million	109.8	130.2	120.8	54.4	95.1
Free cash flow	EUR million	38.0	59.4	24.8	–10.9	34.4
Cash	EUR million	149.1	177.5	176.5	166.0	152.8
Capital expenditure	EUR million	66.1	63.9	90.0	61.5	52.4
R & D expenses[2]	EUR million	51.2	43.9	39.2	36.8	33.8
(as % of sales)	%	4.1	3.6	3.3	3.4	3.3
Equity	EUR million	477.1	476.9	458.0	407.2	401.1
Equity ratio	%	46.4	47.9	46.8	45.8	47.6
Employees (annual average)	Number	7,425	7,194	6,900	6,708	6,268

1) Adjusted for foreign currency
2) Including capitalised development costs

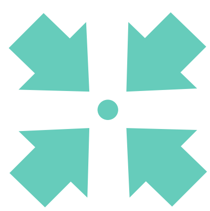
Wilo is a company seeped in tradition. Its origins go back to 1872. Since that time, the copper and brassware factory founded by Caspar Ludwig Opländer in Dortmund has enjoyed a successful history as a manufacturer of innovative pumps and pump systems. Today the Wilo Group is one of the world's leading premium providers for building technology, water supply and industry.

Uncompromising customer orientation, direct market proximity and our culture of innovation have made us what we are. We offer our customers energy-efficient products as well as outstanding system solutions and services.



Building Services

Water Management



Industry

Contents

Editorial of the Executive Board

Dear ladies and gentlemen,

We look back on a year during which we faced numerous challenges. The 2014 financial year was characterised by difficult and uncertain political and general economic conditions. Geopolitical risks continued to rise, while the upturn in the global economy forecast by economic researchers failed to live up to expectations and varied significantly across different regions. In this challenging environment, the Wilo Group performed well and yet again continued its profitable growth course during the 2014 financial year.

After adjustment to take account of exchange rate effects, the Wilo Group grew three percent and exceeded the record revenue levels of recent years. The 2014 financial year was characterised by geopolitical tensions, which led, among other things, to significant volatility on the currency markets. Some of the economically significant countries for us in the emerging markets experienced major currency depreciation. The Russian rouble and the Turkish lira also experienced further – at times double-digit – depreciation against the euro in 2014. Before adjusting for negative currency effects, we generated revenues in excess of EUR 1.23 billion – record levels that were also slightly above those of the previous year.

Despite the global economic uncertainties, we resolutely pursued activities of strategic importance to us. Our investment as well as R&D activities were consistently intensified. Furthermore, we expedited the expansion of the sales infrastructure in the “second-tier” emerging markets of Latin America, Africa and Southeast Asia.

Although lower than the previous year’s figure in absolute terms, operating earnings (EBIT) of EUR 111.2 million remained at a high level. The EBIT margin of nine percent is within our strategic corridor for relative profitability of between nine and eleven percent. In the context of the current environment, this is a satisfactory result overall.

Megatrends are influencing our business activities

Megatrends describe changes that will influence society, the economy, the environment and technology around the world in the long term. Six of these trends are of decisive strategic importance for Wilo: globalisation, urbanisation, energy shortage and water scarcity, climate change and technological progress. We are systematically addressing all of these global megatrends, from which we derive key insights for our strategies.

For example, the Wilo Group adapted at an early stage to the challenge of globalisation and extended its international reach. We are driving this process consistently forwards with the aim of further expanding our position as an international champion. We have a presence in Southeast Asia, as well as in Africa and Latin America. We are expanding our activities in these markets and have established additional agencies and subsidiaries.

Current energy consumption is unprecedented

Demand for energy continues to grow worldwide. However, reserves of fossil fuels are finite. The upward trend in global CO_2 emissions remains unchanged, as does the pace of climate change. The challenge in this context is to conserve the finite resources on our planet while at the same time finding a solution to the rising demand. This is driving the rapid expansion in the use of renewable energies in many countries. The movement referred to as the “Energy Transition” in Germany has long since become a global challenge and a worldwide issue. We are currently in the midst of an energy revolution. A whole series of nations have since formulated extremely ambitious targets for cutting CO_2 emissions. However, a renewable energy mix alone is not sufficient to halt, let alone reverse, the process of climate change. This can only be achieved through a drastic reduction in energy consumption and a simultaneous significant increase in energy efficiency. For this reason, sustainable measures that can be quickly implemented are required in order to turn ambitious targets into tangible successes. This presents a major opportunity for German industry and for the Wilo Group, which is in a position to convince the world market with highly efficient technologies and products.

Wilo is going beyond pumps

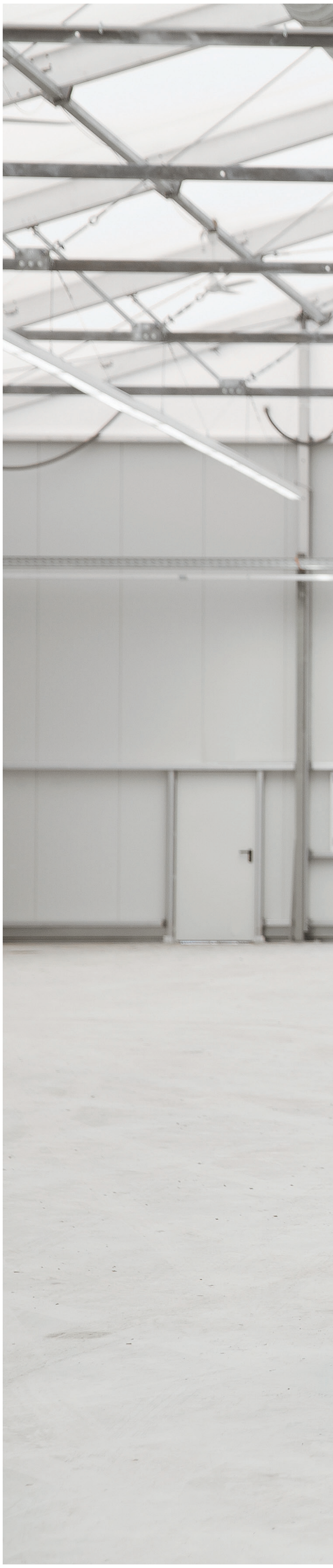
The megatrend of energy shortage highlights the fact that Wilo products and system solutions can make a valuable contribution to solving this global problem. The ability to save energy is an expediting factor that is set to play an increasingly important role in the context of the sustainable reorganisation of the energy sector. As a manufacturer of pumps and pump systems for building technology, water supply and industry, we have identified areas of activities here that we will also exploit to ensure the further profitable growth of our Group. Our objective is to systematically open up these business opportunities with our highly efficient technology. To this end, we are devoting significant resources to research and development, and are pursuing this objective on the basis of a consistent strategy.

The radical change in the energy sector offers huge potential for Wilo around the globe. The dynamic development and industrialisation of the leading newly industrialising countries and emerging markets continues, even if the pace has slowed somewhat. The key factor restricting growth in this context can be energy shortage, which must be overcome with the help of energy efficiency measures. In mature markets, there is a growing consensus that the transformation of energy systems must be accelerated. This global development presents opportunities for highly efficient products and forward-looking, intelligent systems and solutions. Against the background of ever shorter innovation and product cycles and increasingly intense competitive pressure, Wilo is taking an intelligent approach – with the aim of remaining a leader in technology and innovation. This is our objective and we are devoting all our resources to achieving it.

The largest location development program in the company's history

The Wilo Group is also embarking on a major initiative in another respect. At our headquarters in Dortmund, we are pressing ahead with the largest location development program in our corporate history. Not only does this involve erecting a new production complex and modern R&D, sales and administration buildings on an area of 120,000 square meters by 2020. More importantly, this project will also see us set new standards in the pump industry by taking our production processes and technologies into a new dimension. We are all committed to taking decisive action today in preparing Wilo for the future.

Yours,
The Executive Board.



Dr Markus Beukenberg
Chief Technology Officer (CTO)

Oliver Hermes
Chief Executive Officer (CEO)

Eric Lachambre
Chief Operating Officer (COO)

Carsten Krumm
Chief Operating Officer (COO)

Megatrends – prospects for the future

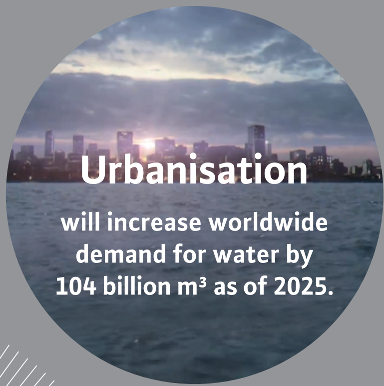
Changes that drive us.

Six megatrends describe changes that will influence our society, the economy and the world that we live in over the long term: globalisation, urbanisation, water scarcity, energy shortage, climate change and technological progress. Wilo is aligning its long-term strategy to address all of these trends. One current area of focus is on the megatrend of energy shortage, which has developed an unprecedented dynamic worldwide.

One fundamental change is apparent. Globalisation is proceeding apace and, with it, the level of urbanisation. There is massive expansion of the middle class around the world, and the economic gap between the emerging markets and the industrialised nations is closing. As a consequence, demand for energy is also increasing dramatically. However, reserves of fossil fuels are finite and climate change is a reality. Given that states which until recently persisted in prioritising economic growth over climate protection have now also formulated ambitious targets to cut CO_2 emissions, we are now in the middle of an energy revolution – the world over. This is the response to energy shortage. As early as 1896, the Swedish Nobel Laureate in Chemistry, Svante Arrhenius, wrote that rising CO_2 emissions would lead to global warming and that the use of fossil fuels was unsustainable in the long term. However, it took until the 1970s, when growing ecological awareness coincided with rising oil prices, for the issue to gain traction socially and politically. In 1980 the phase "Energie- Wende" (Energy Revolution) was used by the Freiburg-based Öko-Institut and two decades later was also given political meaning. As a consequence, Germany is one of the pioneers of the energy revolution.

With its highly efficient products and its system solutions, Wilo can make a valuable contribution to solving the global problem of increasing shortage of energy. That is because ensuring significantly increased energy efficiency is every bit as important as making the switch to renewable energies when it comes to reorganising the world's energy sector along sustainable lines. ◀


Globalisation
calls for
intelligent solutions.


Urbanisation
will increase worldwide
demand for water by
104 billion m³ as of 2025.


Energy shortage
requires highly efficient products
and system solutions.


Climate change
is being accelerated
by CO_2 emissions.


Technological
progress
improves water quality
for millions of people.


Water scarcity
restricts access to drinking
water for 780 million people.

China

The land of extremes: on the one hand, China is currently the number one producer of greenhouse gases. On the other hand, more solar energy plants are being installed here than anywhere else in the world. It was only in the summer of 2013 that China started to initiate concrete measures to overcome energy shortage. By 2020, the country wants to cut CO_2 emissions by over 40 percent per unit of gross domestic product.

Germany

Although the International Energy Agency (IEA) has praised German energy policy as progressive, it stated that the self-imposed target of cutting CO_2 emissions by 40 percent compared with 1990 would not be achieved without additional measures. The goals can only be realistically achieved if primary energy consumption can be lowered by at least 20 percent with the help of efficiency increases.

USA

Following years of hesitation, the world power has since developed significant momentum towards a forward-looking energy sector. The goal is to cut CO_2 emissions by 83 percent by 2050. While the expansion of renewable energies is progressing rapidly, there is still a great deal to be done particularly in the private household sector, which has the highest per capita CO_2 emissions worldwide.

Just by replacing out-of-date and non-adjustable pumps, Germany could save up to 14 terawatt hours of electricity per year – a quantity that is roughly equivalent to the electricity generated by four coal-fired power plants and represents a reduction in CO_2 emissions of almost 8.5 million tonnes.

Oliver Hermes

The global energy revolution – an ambitious goal

The world needs a radical energy revolution. In view of the finite fossil fuel resources, combined with constantly rising CO_2 emissions, it is essential to rethink our approach to energy and to reorganise energy systems in an environmentally friendly way.

New study approach
The "Neue Impulse für die Energiewende" (New Impetus for the Energy Revolution) study published by the Handelsblatt Research Institute creates a basis for comparing the progress of the countries examined in terms of achieving climate-friendly energy systems. It covers 24 countries, including established industrialised economies and the BRIC nations.

The trends are alarming: according to the UN World Meteorological Organisation (WMO), the proportion of environmentally harmful gases in the air has been steadily increasing in recent years. Preliminary data from the NOAA (National Oceanic and Atmospheric Administration, USA) indicate that the proportion of CO_2 in the atmosphere once again rose in 2014. In endeavouring to get this worrying development under control, security of supply and economic efficiency in the energy sector must also be ensured as well as climate protection.

Germany has traditionally always been strongly committed to promoting climate protection and has intensified its efforts again since the nuclear disaster in Fukushima in March 2011. Alongside countries such as Italy and Australia, Germany is one of the few economies that are switching to a climate-friendly energy system – with drastically reduced greenhouse gas emissions – while also phasing out nuclear power for electricity generation. As a result, the energy transition has become a kind of trademark for Germany in recent years. One of the reasons for this is that the rest of the world is watching very closely to see how the ambitious goals are implemented and how this once-in-a-lifetime project progresses.

Considerable success has been achieved in making the energy supply more carbon-neutral. According to studies by the German Federal Association of Energy and Water Management (BDEW), the electricity generated from renewable energy sources in Germany accounted for a share of 25.8 percent in 2014. Nonetheless, experts from the Handelsblatt Research Institute have posed the question: Is Germany really in the lead internationally when it comes to restructuring the energy sector? The result was surprising: Germany could lose its pioneering role. Other countries have caught up and are even performing better in some areas.

This study from spring 2014 ascribes high costs and less progress on climate protection to the German energy transition in comparison to other countries' energy policies. Based on 51 indicators, the study measured the success of 24 counties – including OECD states and leading emerging markets from the BRIC group – in moving towards environmentally compatible, economically efficient and secure energy systems.

In the level ranking, which shows the status quo in restructuring energy systems, Germany is in eighth place. A respectable result, since the top positions are occupied by countries that have favourable topographical and meteorological conditions for the use of renewable energies. Tthese are Denmark, Norway and Sweden as well as Switzerland and Austria. France and Spain also came out ahead of Germany.

The results of the study's dynamic ranking, which measures progress in reorganising energy systems over the past five years, give cause for concern. Germany came last here. This was attributable to the high costs and expenses for promoting renewable energies, which did not lead to a correspondingly substantial reduction in CO_2 emissions. On the other hand, it should be taken into account in this context that CO_2 emissions were kept virtually constant despite the shutdown of the first nuclear power plants. Another reason for Germany's weak performance in the dynamic ranking can be found in the energy efficiency of German households and service providers, which was considerably worse than in comparable countries.

The focus of public awareness is usually on the energy transition as it applies to electricity generation and in this context particularly on the expansion of renewable energies. However, focussing the energy transition purely on electricity generation hides the fact that there is significant potential to boost energy efficiency and consequently reduce energy consumption. Just optimising energy supply systems and expanding renewable energies is not enough to achieve the ambitious goals of the energy transition. There needs to be a greater focus on more efficient use of energy on the demand side if the energy transition is to succeed. The German federal government therefore established energy efficiency as a second pillar of the energy transition alongside the expansion of renewable energies with the National Action Plan on Energy Efficiency (NAPE) in December 2014.

In the view of the CEO of the Wilo Group, Oliver Hermes, improving the energy efficiency of buildings is one of the key factors in the energy transition, since when you look at consumption levels the most energy is consumed in buildings with 40 percent of the total requirements. "Just by replacing out-of-date and non-adjustable pumps, Germany could save up to 14 terawatt hours of electricity per year – a quantity that is roughly equivalent to the electricity generated by four coal-fired power plants and represents a reduction in CO_2 emissions of almost 8.5 million tonnes," notes Oliver Hermes. Germany, traditionally a country of technology and innovation, can once again live up to its pioneering role in climate protection in this way. The energy transition offers excellent prospects for high-efficiency technology "made in Germany". The creativity and capability of industry is a key factor in enabling Germany to provide technical solutions in the future as well to make the energy system more climate-friendly and more efficient. "The energy transition is a challenge, but above all an opportunity for efficient technologies that are developed and advanced by German industry," says Hermes. With intelligent products and system solutions, the Wilo Group has set itself the task of contributing to a more energy-efficient world. Over the course of its history spanning almost 150 years, Wilo has continually broken new ground and set milestones in the field of energy and resource efficiency. ◀

The country rankings

Categorised according to level and dynamic, the Handelsblatt Research Institute rated the efforts being made in 24 countries to bring about the energy transition.

L Overall result **Level**

1	Sweden
2	Norway
3	Austria
4	Switzerland
5	Denmark
6	France
7	Spain
8	Germany
9	Italy
10	Canada
11	Brazil
12	USA
13	Australia
14	United Kingdom
15	Netherlands
16	Japan
17	China
18	Russia
19	India
20	Hungary
21	Turkey
22	South Korea
23	South Africa
24	Poland

D Overall result **Dynamic**

1	Denmark
2	USA
3	Italy
4	Hungary
5	Spain
6	Sweden
7	Australia
8	France
9	Canada
10	China
11	United Kingdom
12	Netherlands
13	Poland
14	Switzerland
15	Austria
16	Turkey
17	Brazil
18	Japan
19	South Korea
20	Norway
21	Russia
22	India
23	South Africa
24	Germany

Handelsblatt RESEARCH INSTITUTE

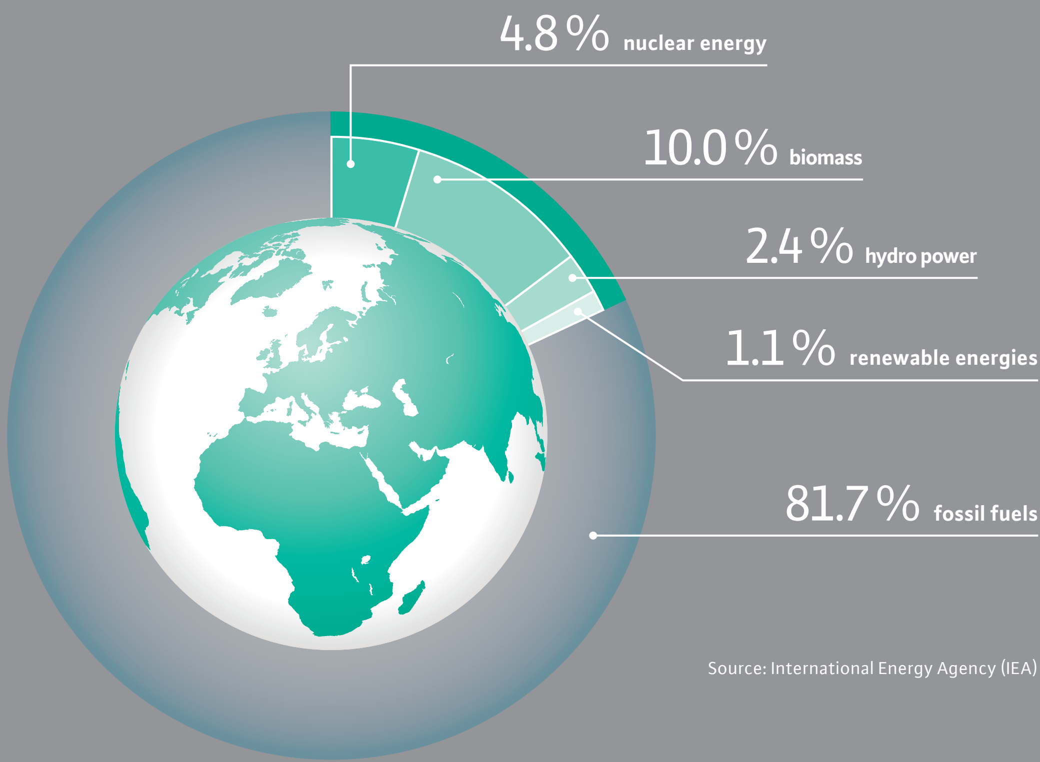
The study's ranking differentiates according to level and dynamic. Consequently, there are countries that have already achieved a great deal and whose transition naturally tends to be less dynamic, and those that are on the way to transform energy systems in an environmentally compatible, economically efficient and secure manner. They have more catching up to do and so find it easier to make significant progress.

Development of world energy consumption

Fossil fuels are dominant.

The world's appetite for energy is continuously growing. Although the issues of climate change and finite fossil resources have long been known about, consumption of coal, gas and oil increases with each passing year and thus produces increasing levels of CO_2 emissions. In recent decades, increases in efficiency have so far prevented the level of consumption from reaching the tipping point. In the meantime, the revolution in the energy sector has become a global movement with the result that the countries with the highest CO_2 emissions are also the ones investing most heavily in alternative energies.

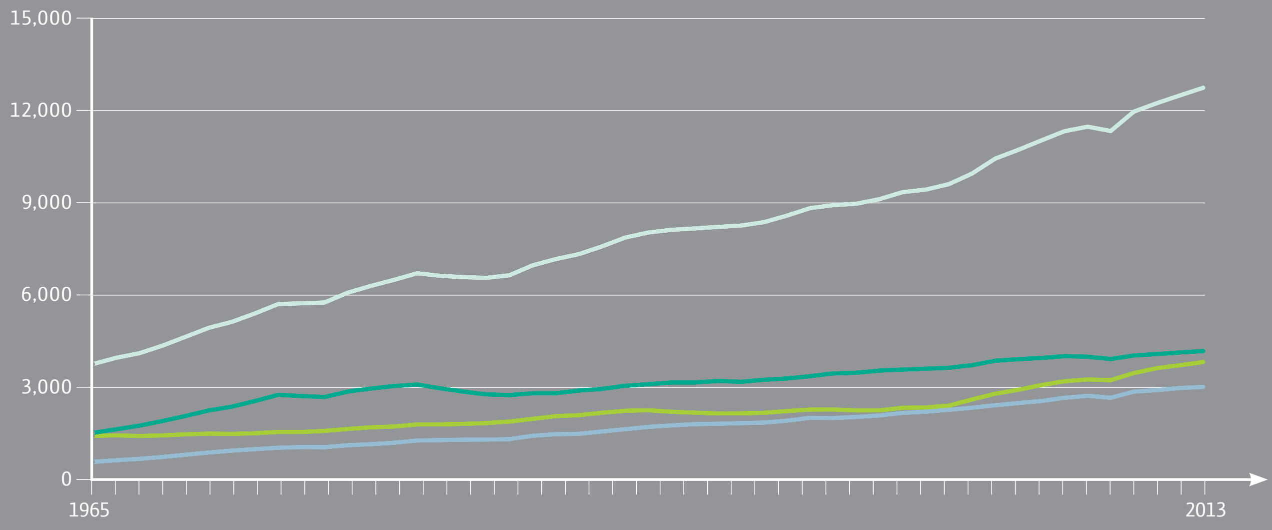
Global energy mix in 2013



Source: International Energy Agency (IEA)

Worldwide primary energy consumption

Million tonnes of oil equivalent



Source: BP Statistical Review of World Energy 2014

The Top 5 countries

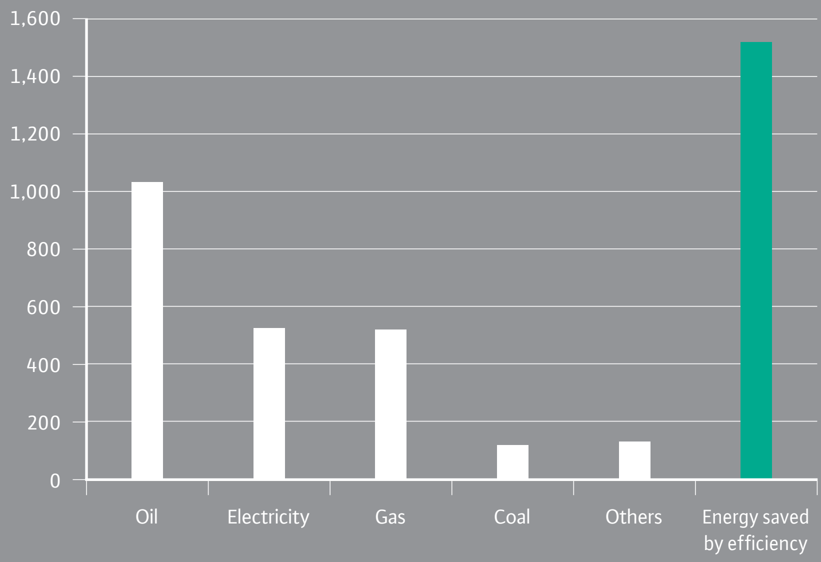
that are investing in renewable energies:

1. China
2. USA
3. Japan
4. United Kingdom
5. Germany

Source: Renewable Energy Policy Network for the 21st Century

Energy Efficiency – the No. 1 energy source

Million tonnes of oil equivalent



Source: IEA

Savings achieved between 1974 and 2010 due to improved energy efficiency outweigh the consumption of all other energy types. As a result, they have become the "Number 1 Energy Source".

The values refer to the following countries: Australia, Denmark, Finland, Germany, Italy, Japan, Netherlands, Sweden, United Kingdom, USA.

Smart efficiency for the world market

Dr Markus Beukenberg
Chief Technology Officer (CTO) of WILO SE

Dr Beukenberg, the development of pump technology in recent years has seen milestones achieved in the area of energy efficiency. In your opinion, has pump technology already been exhausted in this regard?
I can answer that question with an emphatic "no". There is still a great deal to do. In line with our aim of being an innovation leader, we work on a daily basis to expand the limits of what is physically feasible a little further all the time. High-efficiency pumps are, in themselves, very complex systems that in turn form an integrated component of overarching systems – for example in building technology. Cooling circuits, drinking water circulation, pressure booster stations and household water systems are just a few examples of this. In the coordination of the motor and inverter components in particular, I still see a great deal of potential to further improve the efficiency of the pumps and thereby make a key contribution to global energy conservation.

Could this trend translate into a reduced variety of pumps in the long term?
Absolutely, since it should be possible to adapt pumps with greater flexibility to the specific application in the future. In a similar way to the automotive industry, we are increasingly working on the basis of a modular system, which is why the structure of the product range is becoming more and more important in this context. The combination of the various components will grow in importance very significantly in future. If you look at the overall variety of applications in the market segments of building technology, water management and industry, individual solutions that are operated from a modular system are becoming increasingly important.

In response to the trend for the integration of pumps in modern building technology, planning departments pay much greater attention to the issue of pumps today than they did perhaps just five years ago. Do you think that the exchange of information here is sufficient already or is there still scope for improvement in this area?
Pumps still are not given the necessary attention in this context, perhaps because they work relatively inconspicuously. When they do become conspicuous, however, this has significant consequences. Heating circuits stop working or water can no longer be supplied. For this reason, I still see considerable potential for improvement in the exchange with planners. In major projects in particular, it is not a question of individual pumps in the unit, but rather a large number of pumps that form part of a highly differentiated system. This requires perfect coordination of individual components with one another and optimal communication with

"Our products will stand out due to their mastery of an extremely open form of communication."

Oestrich. The in-house electronics production line manufactures up to 2 million circuit boards annually in roughly 350 different versions. They provide the pumps with the intelligence that enables them to communicate and to operate at maximum efficiency.

Münster. By acquiring an equity interest in iEXERGY GmbH, Wilo has entered into a strategic partnership in the area of smart home solutions. The wibutler from iEXERGY enables all products with electronic interfaces to be networked and controlled from a central location.

Qinhuangdao. Approximately 800,000 electric motors are manufactured here annually in up to 400 different variants. These highly efficient drive systems are fitted to a range of products including the energy-saving Wilo system solutions.

Aubigny. Here, Wilo develops OEM solutions for numerous well-known companies. No less than 4.6 million OEM pumps, which operate reliably in an extremely diverse range of systems around the world, were manufactured last year.

Zwönitz. The acquisition of GEP Industrie-Systeme GmbH expands the Wilo Group's existing fields of application in the water supply sector for process water, drinking water and extinguishing water systems on the domestic as well as the international market.

"Intelligent pumps play an indispensable role in realising efficiency goals."

Dr Markus Beukenberg

building management systems, not least in order to improve energy efficiency further. We are therefore working intensively to fit our pumps with interfaces specifically for building technology that ensure communication in the overall system. Our products will stand out by virtue of their ability to communicate all operating characteristics to a wide range of systems. We want to provide our customers with interfaces that are so open that they handle practically all commercially available communication standards.

> ***"Even the pump sector must embrace the Internet of Things."***

On the subject of smart homes: will the Internet of Things change the building technology sector?
I see smart homes as a synonym for tangible added value that stands for comfort, fun, convenience, security and more efficient use of resources. The pioneer in this context is consumer electronics. Building services – such as heating, light, air conditioning and ventilation – are now following suit. To date, process management and control technology are still very much based on industrial applications and are extremely complex. However, the Internet of Things will make these capabilities accessible and simpler for the end user as well. The basic requirement is a degree of system openness. The majority of current systems incorporate proprietary standards, which means that only products from the same modular system can be integrated. This is unhelpful. We need products that offer a wide range of connection options. Customers want to be able to choose from among a wide variety of available products without restrictions. The much-cited Generation Y grew up with the internet and mobile communications. It is difficult for us to explain to these people why, for example, room heating and lighting are not linked to presence detectors, or why heating needs to be adjusted laboriously by hand in the depths of housing technology. I think that only those systems that offer this degree of openness will succeed in the market. Therefore, even the pump sector must embrace the Internet of Things.

What might such solutions look like with regard to pumps?
Pumps in themselves will always be just a component within a system. They must therefore be equipped to communicate. Whether they do so using a wired or a wireless link, they must be able to make contact with a large number of different systems. There is a clear trend towards self-explanatory and self-learning systems that can be networked with one another almost automatically, in a similar way to mobile phones and consumer electronics today. Wilo also actively supports the planning process for buildings. For example, Wilo is the first pump manufacturer to provide an interface for its products that allows them to be integrated in BIM (building information modelling) systems. An important first step that will be followed by others. In summary, it is about pioneering achievements in the system that go beyond the pump as an individual component. ◀

Highly efficient solutions.

Kim Mytysia, Wilo Country Sales Engineer in Denmark, examines customer needs from a holistic perspective. To enable customers to operate their buildings economically, he recommends the use of innovative, energy-saving systems.

THE HIGHEST STANDARDS

Den Blå Planet,
National Aquarium, Denmark

49 + 1

In the fascinating new building of the National Aquarium in Denmark, 49 pumps from the Stratos series and a pressure boosting system by Wilo were installed. As a result, this architectural showpiece is as efficient as it is spectacular. At the planning stage, the operator attached great importance to ensuring that the building's energy balance met the strictest requirements.

Cutting-edge technology.

Valeri Lipovetski, Business Development Engineer, specialises in everything that is used to move water. Across the globe, it is becoming increasingly important to obtain this precious resource efficiently and to use it economically. For these complex challenges, Wilo offers professional solutions that set benchmarks in terms of technical performance and efficiency.

TOTAL COMMITMENT

Wastewater Treatment Plant, Tallinn, Estonia

28,910

In Estonia, there is a growing trend to actually exploit the savings potential in energy usage. For example, Wilo pumps and agitators with exceptionally low energy consumption were installed during the renovation of Estonia's largest wastewater treatment plant in Tallinn. This investment yields potential savings of some EUR 29,000 annually.

Exploiting potential.

Andreas Ahlhelm is a planning consultant at Wilo and knows that every industrial sector has its own specific and complex requirements regarding the production technology and the material of the components used. His customers value the Wilo products because they are reliable, flexible and efficient.

POWERFUL PERFORMANCE

Otto Bock, Duderstadt

100

Otto Bock makes products that provide improved mobility to people with a disability. The company pursues the objective of using energy-saving products in all areas in order to influence the energy balance of its buildings and equipment in a positive way. In doing so it using highly efficient Wilo technology. A total commitment to energy efficiency saves many kilowatt-hours of electricity.

Strengthening the region.

Martin Linge-Boom is an architect and is responsible for location development at Wilo. He is coordinating the construction of the new Wilo Campus, with a new factory complex and an administration building. The end of construction is scheduled for 2020.

NEW DIMENSION

Wilo location expansion, Dortmund

2020

We are investing a double-digit figure in millions in the expansion of our headquarters in Dortmund. In the process, we are developing it into a high-end location that will set new benchmarks on over 50,000 square metres of production space – particularly with regard to sustainability and energy efficiency. The major project meets the strictest environmental and production standards. At the same time, it represents a clear commitment by us to the Ruhr area.

By people. For people.

Helga Kaiser is responsible for the activities in the field of corporate social responsibility at the Wilo Group. For Wilo, responsible actions and social involvement are inseparable elements of sustainable company development.

TAKING RESPONSIBILITY

Commitment

Every year in summer, many employees abandon their cars and cycle to work instead. This has a positive effect on their personal fitness and on the environment. For every 1,000 kilometres completed by bike, Wilo donates a bicycle for children from socially disadvantaged families and sponsors programmes for children.

Wilo is involved in a range of aid projects worldwide – the subsidiaries on the ground decide as local experts which projects are the most worthwhile and then provide the appropriate support. We provide assistance where it is needed.

In cooperation with a Polish environmental organisation, Wilo donated a tree to Poland for every highly efficient pump sold as part of a campaign running over a period of two and a half years. An ambitious reforestation programme in Poland, in which our customers were also heavily involved, was thus supported with over 20,000 trees.

Group management report

The Wilo Group remained firmly on its growth path in the 2014 financial year despite difficult and uncertain political and economic conditions. Although the global economy saw weaker development than forecast, geopolitical risks and crises intensified and the currencies of major emerging economies suffered from depreciation that was extreme in some cases, the Wilo Group recorded profitable growth for the fifth year in succession. The Wilo Group reinforced its technology leadership by launching innovative products and developing its existing product portfolio. Targeted investments in the global sales infrastructure allowed it to expand its presence in the emerging markets.

THE 2014 FINANCIAL YEAR AT A GLANCE

Net sales

EUR 1,234.7 million

The Wilo Group generated net sales of EUR 1,234.7 million in the 2014 financial year, representing a further slight improvement on the record figure reported in the previous year. Adjusted for the negative effects of the depreciation of many of the Wilo Group's key currencies, net sales increased by 3.0 percent.

EBIT

EUR 111.2 million

Consolidated net income

EUR 69.8 million

With EBIT of EUR 111.2 million and consolidated net income of EUR 69.8 million, the Wilo Group continued on its profitable growth path at a slightly lower level.

Strategic partnership

The Wilo Group entered into a strategic partnership with the acquisition of an equity interest in iEXERGY GmbH, an innovative company specialising in the development of smart home solutions, thereby expanding its systems and solutions expertise.

Global market presence

The Wilo Group formed new subsidiaries in Mexico, Tunisia and Nigeria, while a new assembly line and test basin were inaugurated in Brazil. This meant that the Wilo Group reinforced its market presence in the emerging economies.

Employees

7,425

The number of employees in the Wilo Group worldwide as an average for the year as a whole increased by 3.2 percent to 7,425. All of the regions benefited from the creation of new jobs.

Research and development

EUR 50 million

As planned, more than EUR 50 million was invested in research and development and the Wilo Group continued to strengthen its innovation and technology leadership for the long term.

Innovations

The Wilo-Stratos PICO-Smart-Home, the world's first heating circulation pump that can be integrated into a smart home environment via an open radio link, was developed in conjunction with iEXERGY GmbH. The integrated interface allows all pump and system parameters to be read using a smartphone app, and the pump settings can be changed remotely if required.

Ongoing development

The Stratos series was successfully advanced and optimised. Energy efficiency was improved by 15 percent, meaning that all of the individual pumps now have an energy efficiency index that is better than the technical benchmark of 0.20. The new "Q-Limit" operating mode means systems can also be supplied more efficiently. This mode allows the volume flow to be limited, thereby preventing oversupply in the system.

Wilo Group Suppliers' Day

The first international Wilo Group Suppliers' Day, which will be held at regular intervals in future, opened up new possibilities for partnership and cooperation and further intensified relationships with suppliers.

BASIC INFORMATION ON THE WILO GROUP

- **Customer-oriented global network**
- **More than 7,000 employees in over 50 countries**
- **"Ambition 2020" describes strategic focus**
- **A2P strategy implementation programme successfully launched**
- **Research and development activities intensified in 2014**

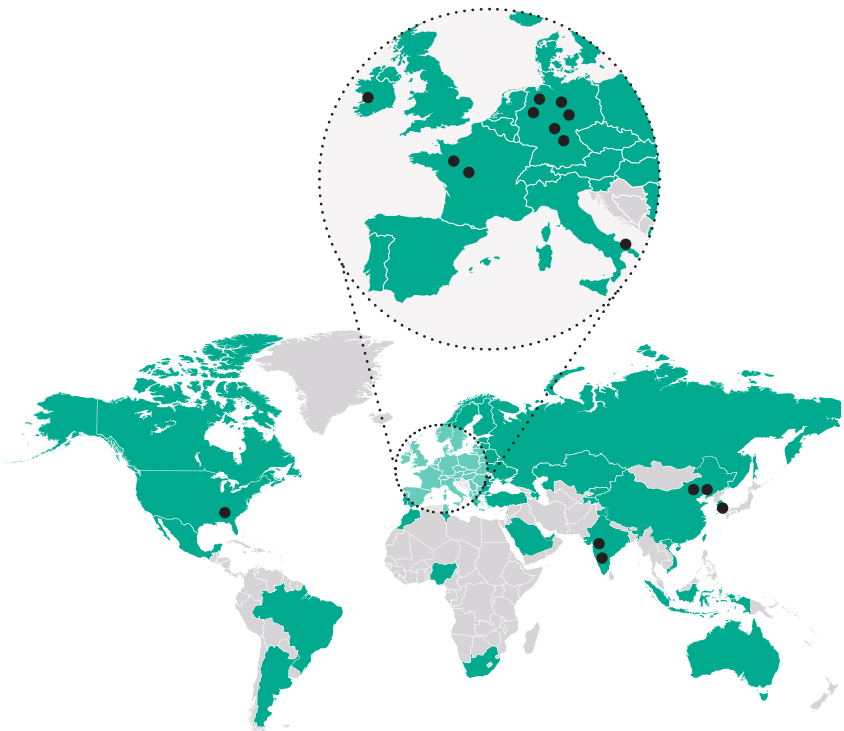
Customers and products

Wilo is a premium provider of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. It is one of the world's leading manufacturers in these markets. The extensive range of products, system solutions and services is tailored to meet every need, from the Wilo Geniax decentralised pump system, which is particularly suitable for detached houses, apartment blocks and commercial buildings, via the high-efficiency pumps in the Wilo Stratos and Wilo Yonos series for use in more complex systems, through 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 the Wilo Group's corporate strategy and the focal point of its more than 7,000 employees. One important factor for market success is the close cooperation with OEM partners, planners, decision-makers, specialist retailers and tradesmen as well as general contractors, investors and end users in a spirit of mutual trust. The Wilo Group aims to develop not only top technology, but also intelligent solutions that make life noticeably easier every single day. This is the principle behind its motto: "Pioneering for You".

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. It has an efficient, customer-oriented network of more than 60 production and sales companies in over 50 countries. In combination with numerous branches and independent sales and service partners, this ensures that customers' needs and requirements are met at all times and to the highest standards of quality worldwide.

Wilo locations



● Production locations ■ Countries in which Wilo is represented by a subsidiary

Market segments

The Wilo Group has systematically tailored its portfolio of products, system solutions and services to the needs of customers in its three market segments: Building Services, Water Management and Industry. Together with its proximity to the customer, this enables the Wilo Group to identify varied and changing requirements worldwide at an early stage and adapt quickly and flexibly.

Building Services

For ecological and economic reasons, energy and resource efficiency is becoming significantly more important worldwide in all areas of life, leading to a greater focus on the aspect of economic efficiency when it comes to building use. This makes it ever more essential to use innovative systems incorporating optimally coordinated components. In the Building Services market segment, Wilo offers the necessary energy-efficient concepts for heating technology, air conditioning, water supply and wastewater disposal. Its product and system solutions are used in detached and semi-detached houses, public buildings, industrial and office buildings, hospitals and hotels.

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.

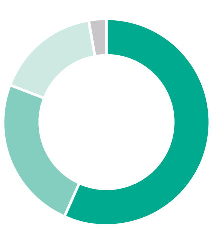
Industry

Wilo develops and manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency, which are vital factors for pumps and pump systems in industrial applications. The Wilo Group's strength in the Industry market segment lies in support applications for processes in the iron and steel industry, mining and power generation in particular. 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. This was the predecessor to WILO SE, the parent company of the Wilo Group. WILO SE is a European stock corporation (Societas Europaea) domiciled in Dortmund, Germany. It performs central management activities for the entire Group as well as its own operations. With around 90 percent of the shares in WILO SE, the majority shareholder is the Caspar Ludwig Opländer Foundation. The issued capital amounts to EUR 26,980 thousand.

Net sales by region in 2014



- **56.8%** Europe
- **24.2%** Asia Pacific
- **16.3%** EMEA
- **2.7%** Others

As at 31 December 2014, in addition to WILO SE, the Wilo Group comprised more than 60 production and sales companies in most of which WILO SE holds a direct majority interest. WILO SE holds an indirect majority interest in only seven Group companies. There are no significant non-controlling interests within the Wilo Group.

The internal organisational and management structure of the Wilo Group is based on the three dimensions: region, market segment and product division. The leading organisational dimension is the region, which also forms the basis for segment reporting. The Europe region is highly important to the Wilo Group, accounting for more than 50 percent of consolidated net sales. The Asia Pacific region accounted for almost a quarter of net sales in the year under review, while the EMEA region accounted for around 16 percent.

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

Organisation and management structure of the Wilo Group

WILO SE			
Europe	Asia Pacific	EMEA	Others
Building Services	Water Management	Industry	
CIRCULATORS			
PUMPS & SYSTEMS			
SUBMERSIBLE & HIGH FLOW			

Management and monitoring

The management of the Wilo Group is the responsibility of the Executive Board of WILO SE, which consists of four members. The schedule of responsibilities below shows the allocation of functional responsibilities within the Executive Board.

Schedule of responsibilities

CEO
Oliver Hermes

- Corporate Strategy & Development
- Corporate Affairs & Communications
- Group Controlling & Accounting
- Group Finance & Legal
- Group Human Resources
- Group Information Management
- Group Internal Audit & Compliance

COO
Eric Lachambre

- Mature Markets
- Division Circulators
- Group Competence Center Building Services
- Group Marketing
- Group Service
- Group Customer Excellence

CTO
Dr Markus Beukenberg

- Group Research & Technology
- Group Production Systems & Technologies
- Group Electronics & Motors
- Group Quality

COO
Carsten Krumm

- Emerging Markets
- Division Pumps & Systems
- Division Submersible & High Flow
- Group Competence Center Water Management
- Group Competence Center Industry
- Group Purchasing & Supply Chain Management

The Executive Board 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. Details of the cooperation between the Executive Board and the Supervisory Board can be found in the Report of the Supervisory Board in this Annual Report.

In its management of the Wilo Group, the Executive Board primarily focuses on the development of net sales and earnings power. The analysis of earnings 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. Net sales, EBIT and the EBIT margin are the central performance indicators for the Wilo Group; accordingly, they are included in the analysis of the course of business, the assessment of the position of the Group and the outlook for the purposes of external financial reporting in accordance with GAS 20.

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

Furthermore, the Wilo Group is required to maintain standard financial ratios (covenants) under its long-term financing agreements. In particular, these financial covenants include the ratio of consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) to consolidated interest expenses (interest cover ratio), the ratio of consolidated net debt to consolidated EBITDA (leverage) and the equity ratio. These figures are also reviewed on a regular basis and reported to the Executive Board in order to ensure compliance with the required minimum values at all times. The Wilo Group continued to comply with the agreed financial ratios in the 2014 reporting year.

More information can be found in the "Non-financial success factors" section on page 65.

Non-financial success factors also play an important role in the successful business development of the Wilo Group. These are also relevant for the strategic and operational management of the Wilo Group, albeit to a lesser extent than the key financial performance indicators described above.

Corporate strategy

The Wilo Group intends to continue to reinforce its position as an innovative, independent manufacturer of pumps and pump systems worldwide, increasing its net sales to more than EUR 2 billion and generating an EBIT margin in excess of 10 percent by 2020. The intended growth path is described in the "Ambition 2020" corporate strategy that was presented in the last financial year. The Wilo Group continued its successful development in the year under review in accordance with this strategy.

Our "Ambition 2020": We accelerate our profitable growth as an independent global player

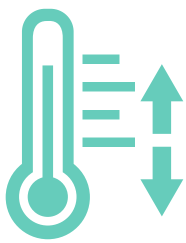
Wilo strengthens its position as a major global player.

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

Wilo continues to be innovation leader.

Wilo remains independent.

Wilo cares to make life easier.

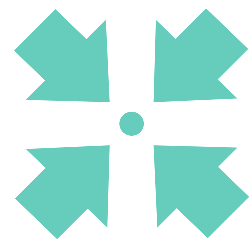


Building Services

We are a global market, innovation and technology leader.

Water Management

We increase our presence as a major market player.



Industry

We intensify our activities in selected branches.

The Wilo Group's strong organic growth will be supplemented by the realisation of external growth opportunities. With the acquisition of GEP Industrie-Systeme GmbH in late 2013 and an interest in iEXERGY GmbH as part of a strategic partnership in the year under review, the Wilo Group is continuing to strengthen its position in the areas of fire-fighting systems and building automation.

The strategic direction has been defined for each market segment as part of "Ambition 2020". The customer is at the heart of this strategy. One of the main goals 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, the Group plans to focus on selected sectors in core markets.

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 involve stepping up the Group's regional presence in Southeast Asia, East/West/Central Africa and Latin America.

The "A2P – Ambition Acceleration Programme" for the further development and implementation of the corporate strategy was launched in 2014. A2P is composed of three key initiatives: Strategy Execution, Business Expansion and Brand Management.

A2P Strategy Execution key initiative

In the A2P Strategy Execution key initiative, specific strategic measures are derived from "Ambition 2020" for implementation in the Building Services, Water Management and Industry market segments. Each of these measures is controlled as a separate project with a project manager. Strategy Execution is supported by the competence centres in the market segments, the regions and the product divisions.

The aim of the A2P Business Expansion key initiative is to prepare and implement acquisitions, strategic partnerships and other alliances that are strategically and economically feasible. This is based on the Wilo Group's mergers and acquisitions strategy, which defines clear priorities and sets out the orientation for expanding the Wilo Group's technological spectrum and geographical presence.

The Brand Management A2P key initiative is intended to drive ahead the multi-brand management of Wilo's brand portfolio in future.

A steering committee meets at regular intervals to track the target-compliant development of the strategic measures and key initiatives and make adjustments as necessary.

Strategic reviews were conducted under the management of the Corporate Development department in January and June 2014. In conjunction with the managers responsible for the key dimensions at the Wilo Group (region, market segment and product division), strategic implementation was reviewed, tightened and, where necessary, adjusted to reflect new challenges and changes in initial conditions. It was established that Wilo will uphold its fundamental, overarching goals and strategic approaches in spite of negative geopolitical developments and, in some cases, unfavourable exchange rate movements. Measures and targets were prioritised and bundled at a local level to reflect changes in conditions.

Long-term strategic development beyond the planning horizon of 2020 will be influenced by the Wilo megatrends. Globalisation, urbanisation, energy shortage, water scarcity, climate change and technological progress will all affect the Wilo business model of tomorrow. To simulate and visualise the effects of these developments, a scenario project entitled "Smart Living 2024" was carried out in the year under review. The scenario describes the European market for intelligent, integrated and intuitive residential and living space. The strategic partnership with iEXERGY GmbH in the area of building automation that was concluded in the year under review reflects this development. The results of "Smart Living 2024" will reinforce Wilo's evolution into a global systems and problem-solving partner for building technology.

Research and development

Strategy and direction

The corporate strategy and business objectives define the primary framework for the Wilo Group's research and development activities. 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 key strategic action areas were defined for the Group's research and development activities: energy and resource efficiency, systems technology and solutions expertise, and communication.

The high complexity of the associated aspects and starting points for implementation in research and development requires intensive cooperation with outside partners. A global research and development network allows the Wilo Group to successfully conduct the various research projects, often in close cooperation with the project partners and with the aid of government grants. The primary focus is on traditionally application-related basic issues. Activities are currently concentrated on advance technological development in particular.

All research and technology activities are conducted on a Group-wide basis by the three central research and technology centres in Dortmund. A new technology centre focusing on production systems and technologies was established in the year under review in order to address the future challenges posed by Industry 4.0 more quickly and intensively. The Wilo Group also optimised its idea and innovation management in 2014. The objective is to harness the innovative strength of the entire Group and its cooperation partners in an even more targeted manner for the benefit of new products and applications. Open innovation is the guiding principle in this respect.

Product series development is carried out locally in the respective product divisions. In this way, the Wilo Group ensures that new innovations and technologies are prepared and planned, and that specific market requirements can be addressed and met in immediate proximity to customers.

Key projects, methods and technological processes were both initiated and continued in the year under review. As in the previous financial years, this relates in particular to all activities and development work involving the efficient use of energy and resources. The Wilo Group also further intensified its efforts in the areas of materials and coatings as well as communication, systems and solutions

Results

The trend towards increasingly efficient, speed-controlled electric motors is continuing unabated. Accordingly, the motor and drive strategy was again implemented with considerable effort in 2014. Strategic dependence on a handful of suppliers for permanent magnets was significantly reduced by the systematic development of expertise and in-house production capacity. In 2014, the Wilo Group began manufacturing these key components for high-efficiency electric motors in-house. Following the first step in the previous year, when a production facility for plastic bonded magnets began production, the significantly more complex system for high performance magnets using hot press moulding went into operation in the year under review. This established the conditions for expanding the series of high-efficiency motors to include higher power levels and further optimising their efficiency and quality, which will be key factors in future.

Conventional asynchronous technology also allows a further increase in quality and efficiency. The global guidelines on the efficiency levels of electric motors are becoming increasingly demanding. To ensure compliance with the rising product requirements at an early stage, Wilo has developed 2-pole asynchronous motors in the power range up to 7.5 kW that satisfy energy efficiency class IE4. As an innovation leader in this sector, the Wilo Group has made an important contribution to the establishment of standards and norms for such drive systems. Work is currently aimed at expanding the power range of the 2-pole motors and introducing 4-pole asynchronous motors in energy efficiency class IE4 in order to provide Wilo Group customers with high-efficiency drive solutions for almost all applications.

In the area of research and development, the Wilo Group pressed ahead with existing subsidised development projects and initiated new projects. These projects cover an extremely broad spectrum, from wastewater processing through to material and production technology. As a general rule, subsidised projects must always fall within the overall strategic framework for research and development. The cooperation with iEXERGY GmbH, in which an interest was acquired in the year under review, was intensified. This strategic partnership is primarily aimed at developing new product features for pumps and Wilo Group services in the future-oriented areas of smart homes and the Internet of Things. One of the results of the cooperation is the Wilo-Stratos PICO-SmartHome, which can be integrated into a smart home environment via an open radio link. The integrated interface allows all pump and system parameters to be read using a smartphone app, and the pump settings can be changed remotely if required.

As in the previous year, another key element of product development activities in 2014 was the expansion and renewal of the product portfolio. Work in the year under review clearly focused on maintaining and improving the existing product range across all product divisions. For example, the Wilo-Yonos MAXO series of larger circulation pumps was completed with the launch of the twin-head pumps.

In addition, the Stratos series was successfully advanced, optimised and, since the third quarter of 2014, gradually launched on the market. In addition to extending the series to include an additional four individual pump types, the energy efficiency index for all of the individual pump types was improved to less than or equal to 0.20. This means the Stratos individual pump complies with the reference value for the most efficient circulation pumps as set out in the Ecodesign Directive. The Wilo Stratos software was expanded to include the new “Q-Limit” operating mode, which can be combined with any control mode and allows the volume flow to be easily limited to a selected value as required. The system-efficient “Q-Limit” operating mode represents a further contribution towards saving energy. Completing the measures is the revised Stratos display, which has been optimised for improved readability and will be rolled out across all types in mid-2015.

For the first time, the key focal points of product development were concentrated in five top development projects for the company as a whole. These are defined on a cross-divisional basis and are intended to significantly increase the pace of development and the customer benefit generated.

The high level of spending on research and development enables the Wilo Group to constantly launch new products on the market. The share of net sales on the European market accounted for by products not older than three years (in terms of their market launch date) increased once again in the year under review.

Employees

In 2014, the employee structure in research and development remained stable compared with the previous year. The proportion of women in research and development remained constant at around 10 percent, while the share of highly qualified academics is still more than 80 percent. Although the needs-driven recruitment of excellent young 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 for the second year in succession, thereby exceeding the pace of net sales growth. This underlines the Wilo Group's desire to consolidate and expand its leading position in terms of technology development and innovation.

Patents and licences

The Wilo Group pursues a patent strategy that is geared towards the current demand for greater customer benefit. New technology and product developments are closely shadowed by the patent strategy in order to ensure the broad-based, comprehensive protection of expertise. Over 25 percent more patents were submitted or filed compared with the same period of the previous year. The total number of patents increased only slightly due to the patents that left the portfolio in 2014, like every year, because their protection expired. As previously, a growing number of industrial design applications were also submitted.

The Wilo Group has granted other companies joint rights of use from its existing patent portfolio and also utilises rights of use for third-party patents.

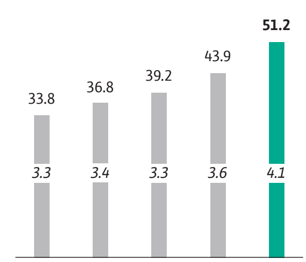
Anti-counterfeiting is pursued systematically and intensively. A number of fake and imitation products are being launched, especially in China, and many highly similar brands are also being registered. The legal measures initiated, such as the prohibition on the use of highly similar logos and the confiscation of entire inventories of pump systems, are increasingly successful.

Investment and expenditure

As in the previous year, investment in research and development focused on expanding laboratory and test facilities and building new types of production facility. Once again, one of the main areas in the year under review was extending test bench capacity. An additional test bed for electronically controlled large pumps was successfully commissioned at the Dortmund site. Further investments were also made in computer hardware as part of the expansion of activities in high performance computing.

Total research and development costs including capitalised development costs increased by 16.6 percent year-on-year to EUR 51.2 million in 2014, equivalent to 4.1 percent of net sales (previous year: 3.6 percent). Development costs of EUR 7.3 million were capitalised in the year under review. Research and development costs were expensed in the amount of EUR 44.1 million.

Research and development costs* in EUR million
and in % of net sales



* including capitalised development costs

BUSINESS REPORT

- **Uneven development in the global economy**
- **Wilo Group continues on profitable growth path**
- **Net sales growth and earnings within strategic target corridor**
- **Figures hit by depreciation of key currencies**

General economic conditions

No tangible upswing in the global economy on the whole

The global economy continued to be dominated by various economic impulses in 2014. On the one hand, there remains a high degree of uncertainty as a result of geopolitical risks, which actually intensified over the course of the year. On the other hand, there was a sustained highly expansive monetary policy and low inflation in the established industrialised nations, as well as a massive slump in oil prices in the second half of the year. The upturn remained muted on the whole with considerable regional variation. According to the International Monetary Fund (IMF), global economic performance is expected to have increased by 3.3 percent in 2014, the same as in the previous year. The Kiel Institute for the World Economy (IfW) estimates growth for 2014 at 3.4 percent.

While the US economy picked up pace over the course of the year, the recovery in the euro area remained tentative. According to the IMF, the industrialised nations achieved only a slight acceleration in economic growth to 1.8 percent in 2014 (previous year: 1.3 percent). The growth paths of the emerging markets are dynamic compared with the rest of the world but flatter than in the previous years. The IMF expects the emerging and developing nations to have recorded growth of just 4.4 percent in 2014 after 4.7 percent in the previous year.

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 139.

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.

Europe – Recovery remains tentative despite low interest rates

Despite further expansionary measures on the part of the European Central Bank (ECB), the IMF figures for the euro area show muted growth of just 0.8 percent after –0.5 percent in the previous year. Unemployment declined slightly but remained at a high level. Fears of an escalation of the geopolitical crises and the high euro exchange rate until the summer served to slow the economic recovery in the euro area. Reforms in the peripheral nations are bearing fruit, with Spain, Portugal, Ireland and Greece returning to a growth path. The British economy saw more dynamic development than in the previous year, with an upturn in investment and the employment market. The Eastern European EU nations with the exception of Croatia enjoyed largely robust growth in 2014. By contrast, France and Italy had a pronounced negative impact on growth in the euro area.

In Germany, the upswing came to a standstill from the second quarter of 2014 onwards, with the uncertainty resulting from the Ukraine crisis and a fall in incoming orders leading to stagnation in the industrial economy. Investment activity among companies, which had been lively at the start of the year, came to an abrupt halt. The residential property market also saw an unexpected slowdown. Unaffected by this, however, robust private consumption continued to drive the domestic economy on the back of increased employment, rising income and low interest rates. According to the German Federal Statistical Office, gross domestic product in Germany increased by 1.6 percent in real terms in 2014 (previous year: 0.1 percent).

Asia Pacific – Stable, above-average growth

In spite of structural deficits, Asia remained the engine of the global economy with growth of 6.6 percent (IfW) in 2014. Development was slowed by the sustained weakness of Japan as well as the lack of dynamic demand in most of the established industrialised nations. The continued slowdown in the pace of expansion in China also had an adverse effect. According to IMF estimates, growth in China slowed to 7.4 percent in 2014 (previous year: 7.8 percent), thereby just falling below the target of 7.5 percent set by the Chinese government. The IMF figures show that the Southeast Asian nations recorded growth of just 4.5 percent in 2014 compared with 5.2 percent in the previous year.

According to the Bank of Korea, the economic recovery in Korea continued in 2014 with growth of 3.3 percent (previous year: 3.0 percent). This development was driven by private consumption, which benefited from increased employment and rising income as well as an upturn in industrial production. India also enjoyed an economic recovery in 2014. The new government initiated comprehensive reforms and the central bank provided financing for infrastructure projects, while the double-digit rate of inflation was curbed. According to current IMF estimates, the Indian economy grew by 5.8 percent in 2014 (previous year: 5.0 percent).

EMEA – Growth hit by higher interest rates and falling oil prices

Following a slowdown in the previous year, the economic growth trend in Russia flattened even further in 2014, with economic performance increasing by just 0.6 percent according to IMF estimates (previous year: 1.3 percent). The main reasons were the dramatic slump in oil and gas prices, significant capital outflows, the depreciation of the rouble and the sharp rise in inflation. The Russian central bank responded by massively increasing its headline interest rate.

The Turkish economy was less dynamic in 2014 than in the previous year. IfW estimates growth at 3.1 percent (previous year: 4.1 percent). To stabilise the currency and limit capital outflows, the central bank almost doubled the headline interest rate to 10.0 percent in January 2014 before reducing it to an extent over the course of the year. Although this helped to curb the explosion in the rate of inflation, unemployment rose significantly, with a corresponding impact on consumer spending. Public-sector demand and private investment activity remained moderate.

In 2014, the oil-exporting nations of the Gulf Region and North Africa initially benefited from the high level of oil production and increased government spending. However, the rapid fall in the oil price, political uncertainty and the spreading conflict with the Islamic State terrorist organisation in particular had a tangible impact as the year progressed. According to the IMF's October forecast, the oil-importing nations of North Africa such as Egypt, Morocco and Tunisia recorded stable growth rates of between a good 2 percent and over 3 percent in 2014. The sub-Saharan African nations enjoyed robust growth on the back of exports and increased public- and private-sector investment, with the exception of the West African nations affected by the Ebola epidemic.

Industry-specific conditions

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 139.

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. Development in these industries is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Europe – Turnaround and moderate recovery

After seven years, some of them spent in crisis, the European construction industry enjoyed a slight recovery in 2014. Supported by low interest rates and falling levels of new government and private debt, there was a tangible upturn in demand in the first half of the year. According to the Euroconstruct industry network and the Ifo Institute, construction output in Europe increased by 1.0 percent in 2014, albeit with considerable regional variations (Western Europe +0.8 percent, Eastern Europe +4.8 percent). While commercial construction and civil engineering saw growth, new construction activity largely stagnated as a result of the sustained high level of unemployment in the euro area. Spending on maintenance and modernisation enjoyed above-average development compared with construction output as a whole. In terms of regional developments, the data published by Eurostat on production in the construction industry in 2014 shows that prolonged downturns in France, Italy and Portugal were offset by substantial growth in the United Kingdom, Ireland, Scandinavia and Switzerland.

According to the German Federal Statistical Office, investment in German construction increased by 3.4 percent in real terms in 2014 (previous year: -0.1 percent). With robust growth in the areas of commercial construction (3.6 percent), public-sector construction (3.7 percent) and residential construction (3.1 percent), the IfW believes that development in the industry is based on a broad footing. Construction investment initially enjoyed double-digit growth; however, a lack of follow-up momentum means there has been little growth since the spring. Companies acted extremely cautiously in light of the growing uncertainty, while private residential construction came to a temporary standstill. According to the IfW, however, residential construction is expected to return to expansion due to sustained low interest rates and the continued high level of demand.

The German Institute for Economic Research estimates that construction investment in the residential housing stock in Germany saw considerable nominal growth of 2.8 percent in 2014 (previous year: 0.7 percent). Investment in existing properties exceeded investment in new construction by a factor of 2.5. Thanks to the positive developments in both new construction and renovation and modernisation, the German sanitary and building technology industries both enjoyed further growth in 2014. According to the Association of the German Sanitary Industry and the Ifo Institute, net sales in the sanitary industry are likely to have risen by 3.7 percent to EUR 22.3 billion in 2014, while net sales in the building technology industry are set to have increased by 2.5 percent to EUR 52.6 billion.

Asia Pacific – Construction industry sees slower growth

The Chinese construction industry continued its expansion, albeit at a considerably slower rate. According to the National Bureau of Statistics of China, property investments increased by 10.5 percent in 2014 (previous year: 19.5 percent). Investments in office and commercial buildings rose by a good 20 percent. Two-thirds of the construction volume was attributable to residential property, which increased by 9.2 percent (previous year: 19.1 percent). The weaker development was driven by urbanisation and the continued relatively strong level of economic growth. Investments as part of the government programme for affordable housing were also stepped up by 14.0 percent. New construction and renovation work began on more than 7 million units, while 4.8 million units were completed. The programme to improve urban drinking water and wastewater disposal, which encompasses the construction and modernisation of several thousands of wastewater and sewage treatment plants and more than 90,000 kilometres of pipes, also continued.

In India, construction activity picked up substantially in the second half of 2014 following the weakness in the previous year as a result of economic factors. This development was supported by falling interest rates and the positive impact of the change of government. In Korea, the construction industry enjoyed an upturn in the early part of 2014 but lost momentum again towards the end of the year.

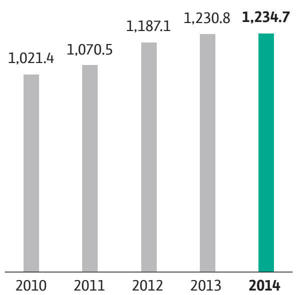
EMEA – Construction industry impacted by various local factors

The Russian construction industry, formerly a powerhouse of growth, contracted once again in 2014. According to the Russian Federal State Statistics Service, construction output in the first eleven months of the year declined by 4.8 percent. The industry and energy sectors continued to see weak development as a result of the negative economic environment and the dramatic deterioration in financing conditions, while infrastructure investments also decreased. A number of planned major industrial and infrastructural projects were postponed. By contrast, building construction enjoyed strong growth in 2014, with investments in commercial property recording double-digit growth. There was also strong growth in the area of residential construction, which rose by 20.9 percent as of the end of November in terms of area, while the number of completed residential units increased by 25.0 percent.

The Turkish construction industry recorded moderate growth in 2014 due to the high interest rates. Building construction output increased at an adjusted average rate of 5.6 percent in the first three quarters, with a downward trend over the course of the year, while civil engineering saw a moderate downturn. Net sales in the construction industry as a whole increased in real terms in the first quarter only.

Business performance

Net sales development
in EUR million



EBIT as % of net sales

The Wilo Group generated net sales of EUR 1,234.7 million in 2014, representing a slight improvement of 0.3 percent on the record figure reported in the previous year and hence within the forecast growth corridor. This is all the more remarkable considering the 2014 financial year was characterised by difficult global political and economic developments. The depreciation of numerous foreign currencies that are important to the Wilo Group alone reduced net sales growth by 2.7 percentage points in 2014. As the year progressed, it also became clear that the forecasts by economic researchers at the turn of 2013/14 were too optimistic. The euro area recovered more slowly than anticipated, while the emerging economies again saw slower growth than in the previous year. With the Crimea crisis and the intensification of the conflict between Russia and Ukraine, the armed conflicts triggered by the Islamic State terrorist organisation in the Middle East and the outbreak of the Ebola epidemic in West Africa, geopolitical risks increased further, leading to a difficult and uncertain business environment in 2014.

Despite the negative exchange rate effects, weaker than expected macroeconomic development and growing geopolitical crises and risks, the Wilo Group continued on its profitable growth path, albeit at a slightly lower level. With earnings before interest and taxes (EBIT) of EUR 111.2 million and consolidated net profit of EUR 69.8 million in the 2014 financial year, the Wilo Group remained below the record results it achieved in the previous year. The EBIT margin declined from 10.2 percent to 9.0 percent, with negative exchange rate effects alone reducing the EBIT margin by 0.4 percentage points and EBIT by EUR 4.9 million in absolute terms. The Executive Board anticipated the volatility on the currency markets, the heightened geopolitical risk situation and muted net sales development at an early stage and took measures to further reduce the Group's risk positions and adjust the planned cost increases to reflect actual business performance. However, strategically important issues were still pursued continuously and as planned, particularly in the area of research and development. The Group also extended its regional presence by expanding its sales infrastructure in Southeast Asia, East/West/Central Africa and Latin America. Accordingly, research and development costs and selling and administrative expenses increased to a greater extent than net sales, thereby reducing profitability slightly in the short term. EBIT in the previous year was also boosted by the gain of EUR 6.2 million on the disposal of a significant portion of the former production facilities in Korea. As a result of these various factors, the Group was unable to achieve the expected EBIT margin of around 10 percent in the 2014 financial year. The EBIT margin of 9.0 percent that was achieved is within the strategic target corridor of nine to eleven percent.

To allow it to continue the development of its profitable growth in future in line with its business strategy, the Wilo Group is pursuing a long-term, sustainable investment policy. In the year under review, the Group therefore invested EUR 66.1 million in increasing capacity, new production technologies and the expansion of the existing sales and production locations. The Wilo Group also entered into a strategic partnership and further expanded its expertise as a systems and solutions provider in the Building Services market segment in a targeted manner with the acquisition of an interest in iEXERGY GmbH.

Net sales development in the individual regions was as follows in the 2014 and 2013 financial years:

Net sales development by region

EUR million	2014	2013	Change %
Europe	700.9	698.1	0.4
Asia Pacific	298.4	288.4	3.5
EMEA	201.9	211.7	-4.6
Others	33.5	32.6	2.8
Total	**1,234.7**	**1,230.8**	**0.3**

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

EBIT development in the individual regions was as follows in the 2014 and 2013 financial years:

EBIT development by region

EUR million	2014	2013	Change %
Europe	71.5	81.5	-12.3
Asia Pacific	22.8	23.6	-3.4
EMEA	22.4	25.8	-13.2
Others	-5.5	-5.2	-5.8
Total	**111.2**	**125.7**	**-11.5**

Regions

EUROPE The Wilo Group generated moderate year-on-year net sales growth of 0.4 percent in the Europe region. Net sales increased by EUR 2.8 million to EUR 700.9 million. The substantial upturn in net sales in the Eastern European EU states, the British Isles and the Benelux nations was sufficient to more than offset the lower net sales in the German-speaking nations, France and the Nordic and Baltic states.

In the Eastern European EU states and the British Isles, net sales increased significantly by 12.5 percent and 11.4 percent respectively thanks to the improvement in the overall economic situation in both regions. This was reflected in particular in the construction sector, which is important for the Wilo Group, as well as on the property market. In the Eastern European nations, considerable net sales growth was generated in the Water Management market segment in particular thanks to European Union infrastructure projects, among other things. The depreciation of the Czech koruna, the Hungarian forint and the Romanian leu against the euro prevented even stronger nominal growth in the Eastern European EU states. Business activity in the British Isles increased as planned on the back of a more intensive market presence. Unlike in the previous year, there were no negative non-recurring effects from the introduction of the ErP Directive. The favourable development of the pound sterling against the euro also supported net sales development in the British Isles.

Net sales in France, the Wilo Group's second largest individual market, and the Benelux nations almost reached prior-year levels in 2014. Although the steady deterioration in the business climate in France during the year under review had a negative impact on project and service business in the Building Services and Water Management market segments, the positive business performance in the Benelux nations was almost enough to offset the downturn in net sales in France.

Net sales in the Mediterranean countries declined by just 0.8 percent year-on-year. The overall economic situation in most of the Mediterranean countries stabilised compared with the previous year, albeit to a lesser extent than forecast by economic researchers at the start of 2014. After weak private and government investment in infrastructure measures and construction projects had led to significantly lower demand for pumps and pump systems in the previous years, there are now signs of a recovery in the Wilo Group's business activities in this region, particularly in Spain, Portugal and Greece. By contrast, Italy remains in a difficult macroeconomic situation, recording a downturn in net sales that was not fully offset by the growth in the other Mediterranean nations.

The Wilo Group's net sales in the German-speaking nations declined moderately by 2.2 percent compared with 2013. Net sales in Germany, the Group's largest individual market, fell by 3.5 percent. The reasons for this development included the unusually mild winter and the lower level of demand for heating pumps in the Building Services market segment, as well as the continued muted development of property and project business as a result of the reluctance to invest that emerged over the course of the year. By contrast, business activities in Austria and Switzerland were boosted by growth in the Water Management market segment.

Net sales in the Nordic and Baltic states declined by 8.5 percent. After the Scandinavian construction industry benefited from tax breaks, low interest rates and government subsidies in the previous years, there are now signs of a property bubble. Net sales declined year-on-year in all three market segments. Net sales development was also impacted by the depreciation of the Swedish krona and the Norwegian krone. Adjusted for exchange rate effects, net sales fell by just 4.8 percent.

Earnings before interest and taxes (EBIT) in the Europe region declined by EUR 10.0 million or 12.3 percent to EUR 71.5 million. The EBIT margin fell from 11.7 percent to 10.2 percent. This was due to changes in the product sales matrix and the regional composition of net sales. Both effects were reflected in a slightly lower gross margin. Selling and administrative expenses also increased to a slightly greater extent than net sales.

ASIA PACIFIC Net sales in the Asia Pacific region increased by 3.5 percent or EUR 10.0 million to EUR 298.4 million, meaning that Asia Pacific was once again the region of the Wilo Group with the highest growth.

In China, the Wilo Group increased its net sales by 5.8 percent year-on-year in 2014. The expansion of the dealer and wholesale network in the Building Services market segment, and the higher level of market coverage achieved as a result, served to offset the weaker growth momentum in the Chinese construction sector. The intensification of project business in the Water Management and Industry market segments also made a substantial contribution to the Wilo Group's positive net sales development on the Chinese market.

In India, the Wilo Group recorded year-on-year net sales growth of 5.2 percent in Group currency. In local currency, net sales rose by as much as 8.2 percent. The continued expansion of the wholesale network and more selective market development were the main factors behind this development, with fire-fighting systems and the oil and gas sector seeing particularly strong growth.

In Korea, the Wilo Group enjoyed stable and sustainable net sales growth of 1.4 percent. This development was driven in particular by energy efficiency measures among industrial customers and a heightened market presence in various industrial sectors. By contrast, the muted performance of the Korean construction industry had a negative impact on business in the Building Services market segment. The Wilo Group's business activities in Korea were boosted by the positive exchange rate effects resulting from the appreciation of the South Korean won.

In the Southeast Asian nations, net sales fell by 2.7 percent as against the previous year. The Wilo Group's business activities in these countries is largely dependent on project business, an area that is naturally subject to considerable fluctuations and that had a lower volume in 2014 than in the previous year. The further expansion of the sales infrastructure in the region, including the establishment of a wholesale network, will reduce dependency on project business in future. Unfavourable exchange rate developments also had a negative impact.

Earnings before interest and taxes (EBIT) in the Asia Pacific region declined slightly by EUR 0.8 million to EUR 22.8 million in the year under review, while the EBIT margin fell from 8.2 percent in the previous year to 7.6 percent. EBIT development was largely driven by the expansion of the sales infrastructure in the Southeast Asian nations and the resulting above-average increase in selling and administrative expenses compared with net sales. EBIT in the previous year also included a positive non-recurring effect of EUR 6.2 million from the disposal of the former production facilities in Korea.

EMEA Net sales in the EMEA region fell by 4.6 percent or EUR 9.8 million year-on-year to EUR 201.9 million. Overall, development in the EMEA region is being substantially impacted by the conflict between Russia and Ukraine, as well as the political uncertainty in Turkey. The resulting sharp depreciation of the Russian rouble, the Ukrainian hryvnia and the Turkish lira represented an additional burden on business development. Adjusted for exchange rate effects, net sales in the EMEA region increased by 10.9 percent.

In 2014, net sales in Russia, Belarus and Ukraine declined by 9.2 percent year-on-year in Group currency. This was largely due to the extreme depreciation of the Russian rouble. While net sales in Russia increased by 12.0 percent in local currency despite the unfavourable economic environment, the decline in the Russian rouble against the euro meant that net sales fell by 7.0 percent in Group currency.

In Turkey, the Wilo Group's second-largest market in the EMEA region, business development was also adversely affected by the strained political situation and the resulting uncertainty among market participants. Net sales for the year as a whole declined by 1.8 percent in Group currency. Many investors waited for the results of the presidential and municipal elections before initiating new projects. Government and private investments were scaled back or postponed, with a corresponding impact on the construction sector that is important for the Wilo Group. Despite this, net sales in local currency increased by 10.8 percent. Negative exchange rate effects were only partially absorbed by price adjustments.

The Wilo Group recorded year-on-year net sales growth of more than 25 percent in the Gulf Region. A larger number of infrastructure projects were initiated and the dealer network was expanded, leading to the acquisition of new customer groups. On the African continent, net sales declined slightly by 0.8 percent year-on-year. Development in the region was curbed by the uncertain political situation in some countries, as well as the spread of the Ebola epidemic in West Africa during the course of the year. Government infrastructure measures were scaled back or postponed, which had a particularly pronounced impact on project business in the Water Management market segment. The depreciation of the South African rand against the euro also led to negative exchange rate effects.

Earnings before interest and taxes (EBIT) in the EMEA region fell by EUR 3.4 million, from EUR 25.8 million in the previous year to EUR 22.4 million. Although the EBIT margin declined from 12.2 percent to 11.1 percent, it remained at a high level. The sharp depreciation of the Russian rouble against the euro alone impacted EBIT in the region to the tune of around EUR 3.3 million. This meant that EBIT in the EMEA region was essentially unchanged year-on-year after adjustment for the negative effects of the depreciation of the Russian rouble.

Market segments

Net sales development in the individual market segments was as follows in the 2014 and 2013 financial years:

Net sales development by market segment

EUR million	2014	2013	Change %
Building Services	928.7	927.4	0.1
Water Management & Industry	306.0	303.4	0.9
Total	**1,234.7**	**1,230.8**	**0.3**

BUILDING SERVICES At EUR 928.7 million, net sales in the Building Services market remained essentially unchanged at the high level recorded in the previous year. Once again, Asia Pacific accounted for the largest net sales growth of 2.7 percent, thanks in particular to the stronger market presence in India. The EMEA region also recorded net sales growth of 1.2 percent despite the difficult economic and political conditions and negative exchange rate effects. By contrast, net sales in the Europe region declined by 0.7 percent. The mild winter led to reduced demand for heating pumps. All in all, demand for energy-efficient products and applications in the mature economies is being spurred by the strong market position and presence of the Wilo Group, as well as the considerably greater awareness among the population of energy sustainability and the responsible use of natural resources. However, energy efficiency is also increasingly becoming a topic in the emerging economies. The prospect of rising heating and energy costs in the medium to long term is improving the savings potential of energy-efficient products and thereby boosting demand.

WATER MANAGEMENT AND INDUSTRY In the 2014 financial year, net sales in the Water Management and Industry market segments increased slightly by EUR 2.6 million or 0.9 percent to EUR 306.0 million, meaning that these two market segments again grew at a faster rate than the Wilo Group's total net sales. The main drivers in the year under review were the Europe and Asia Pacific regions, with net sales growth of 6.5 percent and 4.6 percent respectively. In the Europe region, project business in the Water Management segment was primarily supported by European Union infrastructure measures. In India, the continued expansion of the wholesale network and more selective market development made a major contribution to the positive net sales development in both market segments. Significant growth was recorded in the oil and gas industry in particular. In Korea, energy efficiency measures among industrial customers and the Wilo Group's heightened market presence in different sectors served to boost business activities in the Industry market segment. In the EMEA region, project business in the Water Management and Industry market segments declined by more than 15 percent, with the difficult economic and political conditions in Russia, Ukraine and Turkey having a negative impact on the Wilo Group's business activities.

Results of operations

In the 2014 financial year, the Wilo Group recorded a slight increase in consolidated net sales as against the previous year. Adjusted for exchange rate effects, net sales rose by 3.0 percent. Earnings before interest and taxes (EBIT) declined by EUR 14.5 million to EUR 111.2 million, while the ratio of EBIT to net sales (EBIT margin) fell from 10.2 percent in the previous year to 9.0 percent. One of the reasons for the lower level of profitability was negative exchange rate effects in the amount of EUR 4.9 million, which reduced the EBIT margin to the tune of 0.4 percentage points. Strategically important activities and measures, such as research and development and the expansion of the sales infrastructure in the emerging markets, were pursued as planned, leading to a slightly above-average increase in costs compared with the muted net sales development. EBIT in the previous year was also boosted by the non-recurring gain of EUR 6.2 million on the disposal of a significant portion of the former production facilities in Korea.

The development of earnings is presented below.

Results of operations

EUR million	2014	2013	Change %
Net sales	**1,234.7**	**1,230.8**	**0.3**
Cost of sales	–750.8	–743.0	1.0
Gross profit	**483.9**	**487.8**	**–0.8**
Selling and administrative expenses	–329.0	–327.7	0.4
Research and non-capitalised development costs	–44.1	–43.9	0.5
Other operating income	0.4	9.5	–95.8
Earnings before interest and taxes (EBIT)	**111.2**	**125.7**	**–11.5**
Net finance costs and net income from investments carried at equity	–11.2	–12.6	–11.1
Income taxes	–30.2	–30.1	0.3
Consolidated net income	**69.8**	**83.0**	**–15.9**
EBIT as a % of net sales (EBIT margin)	**9.0**	**10.2**	
Earnings per ordinary share (EUR)	**7.11**	**8.12**	
Earnings per preferred share (EUR)	**7.12**	**8.13**	

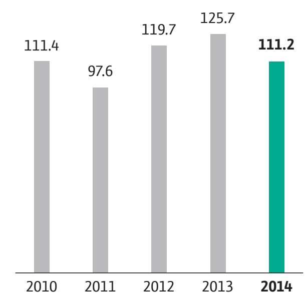
The gross margin, which describes the ratio of gross profit to net sales, declined slightly from 39.6 percent in the previous year to 39.2 percent in 2014. Among other things, this was due to a change in the sales mix, with lower-margin project business in the Water Management and Industry market segments enjoying stronger growth than the higher-margin activities in the Building Services market segment. In addition, there were shifts in the regional distribution of net sales. Intensified price competition in some markets also contributed to the slight reduction in the gross margin. This was partially offset by efficiency improvements in the area of procurement.

Selling and administrative expenses climbed moderately by 0.4 percent year-on-year to EUR 329.0 million, thereby only increasing to a slightly greater extent than net sales. The Executive Board of the Wilo Group recognised the muted net sales performance in individual countries at an early stage and implemented targeted measures to adjust cost developments and increase cost efficiency, as well as pressing ahead with the planned expansion of the sales infrastructure in the emerging markets that are attractive for the Wilo Group, such as Nigeria, Southeast Asia and Mexico.

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 non-capitalised development costs were expensed in the amount of EUR 44.1 million, a slight increase of 0.5 percent on the previous year. In line with forecasts, total spending on research and development, i.e. all research and development costs including capitalised development costs, increased by 16.6 percent to EUR 51.2 million in the 2014 financial year. This meant that they rose to a far greater extent than net sales, accounting for a new record level of 4.1 percent (previous year: 3.6 percent) of net sales.

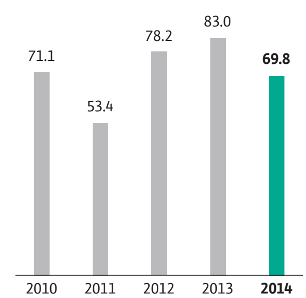
Other operating income fell by EUR 9.1 million year-on-year to EUR 0.4 million. In the previous year, other operating income was boosted in particular by the gain on the disposal of the majority of the former production facilities in Korea in the amount of EUR 6.2 million. Net foreign-currency income from operating activities also declined by EUR 0.5 million year-on-year as a result of the further depreciation of the currencies relevant to the Wilo Group. The Wilo Group reported a negative net operating foreign-currency result of EUR 1.7 million in the year under review. This figure includes realised gains and losses from exchange rate differences between the inception and settlement of intragroup foreign-currency receivables and liabilities on the one hand and unrealised gains and losses from the measurement of intragroup and external foreign-currency receivables and liabilities as at the end of the reporting period on the other.

EBIT in EUR million



The net finance costs of the Wilo Group improved by EUR 1.4 million, from EUR 12.6 million in the previous year to EUR 11.2 million in 2014. One of the reasons for this development was the remeasurement of derivative financial instruments. Net income from the remeasurement of derivative financial instruments improved by EUR 4.2 million in the 2014 financial year; this was offset by net foreign currency losses from the remeasurement of primary, intragroup and external financing instruments, which deteriorated by EUR 2.3 million year-on-year. Net interest expense rose slightly by EUR 0.2 million on the back of the substantial deterioration in investment opportunities due to the sharp reduction in market interest rates for short-term excess liquidity.

Consolidated net income
in EUR million



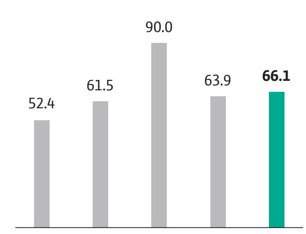
Consolidated net income declined by EUR 13.2 million to EUR 69.8 million, meaning that earnings per ordinary share also fell from EUR 8.12 in the previous year to EUR 7.11. The return on sales, which describes the ratio of consolidated net income to net sales, decreased from 6.7 percent in the previous year to 5.7 percent in the 2014 financial year.

Capital expenditure and cash flow

Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment increased by EUR 2.2 million year-on-year to EUR 66.1 million in the 2014 financial year. Capital expenditure primarily related to capacity expansion, new manufacturing technologies and the expansion of the existing sales and production locations.

Capital expenditure
in EUR million



Once again, one key area of investment activity was the modernisation and expansion of production capacities at key European locations in Germany and France, which accounted for a combined total of EUR 50.6 million. This includes investments in facilities for the production of ErP-compliant products. In addition, the change in the product portfolio and increased product-specific demand for electronics components led to investments in corresponding production capacities. Development costs were also capitalised in the amount of EUR 7.3 million. The investments at the locations in Germany and France cumulatively accounted for more than 75 percent of total capital expenditure in 2014, reflecting the importance of the European locations for the strategic orientation of the Wilo Group.

As planned, the Wilo Group has begun construction work on a new production facility in Russia, including an adequate sales and administrative building. This further reflects the expected above-average growth in the medium to long term, as well as the size and significance of this market for Wilo. This construction project accounted for capital expenditure of EUR 4.6 million in the year under review. Land close to the Russian capital of Moscow had already been acquired in the previous year. The Executive Board of the Wilo Group anticipated and analysed the political and economic developments in Russia in a timely manner and initiated appropriate measures to reduce the impact of potential risks.

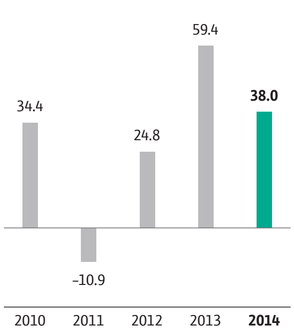
Capital expenditure on intangible assets (excluding goodwill) and property, plant and equipment broke down as follows in the 2014 and 2013 financial years:

Capital expenditure on intangible assets and property, plant and equipment

EUR million	2014	2013	Change
Capital expenditure on intangible assets	**14.2**	**7.0**	**7.2**
Land and buildings	4.0	11.3	-7.3
Technical equipment and machinery	10.2	9.1	1.1
Operating and office equipment	18.2	19.7	-1.5
Advance payments made and assets under construction	19.5	16.8	2.7
Capital expenditure on property, plant and equipment	**51.9**	**56.9**	**-5.0**
Total	**66.1**	**63.9**	**2.2**

In addition to investments in intangible assets and property, plant and equipment, WILO SE acquired 15 percent of the shares in iEXERGY GmbH, Münster, which specialises in the development of innovative smart home solutions.

Free cash flow in EUR million



Cash flow and liquidity

In the 2014 financial year, the positive cash flow from operating activities decreased by EUR 20.4 million to EUR 109.8 million. The lower level of earnings before interest and taxes (EBIT) and the increase in working capital were offset by higher depreciation and amortisation and additions to provisions, among other things. Cash flow from investing activities was largely unchanged year-on-year at EUR 63.7 million. Cash flow from financing activities increased by EUR 13.1 million to EUR 76.3 million; this was due in particular to the impact of purchases of treasury shares on liquidity.

In the 2014 financial year, the Wilo Group generated a positive free cash flow of EUR 38.0 million (previous year: EUR 59.4 million) calculated as the difference between the cash flows from operating and investing activities including interest income and expenses and dividends received. This was the second highest level of free cash flow recorded by the Group in the last five years. These funds are available to the Wilo Group for servicing providers of capital.

Taking into account positive exchange rate effects of EUR 1.8 million, cash fell by EUR 28.4 million to EUR 149.1 million as at 31 December 2014.

The individual cash flows for the 2014 and 2013 financial years were as follows:

Cash flows

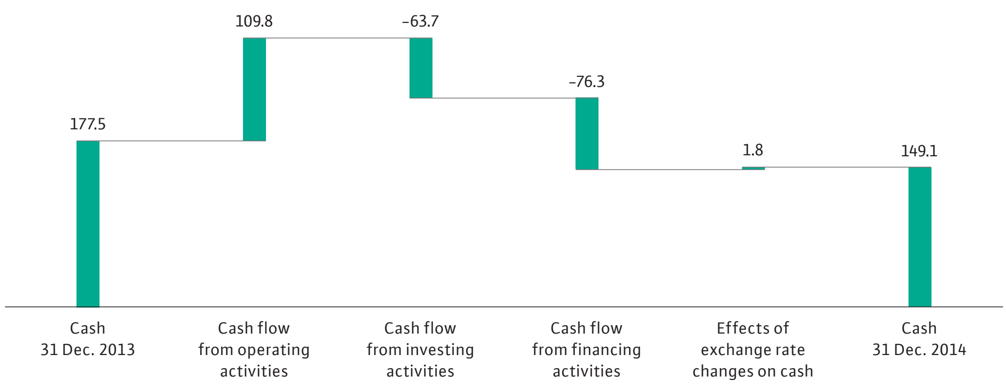
EUR million	**2014**	2013	Change
Cash flow from operating activities	109.8	130.2	-20.4
Cash flow from investing activities	-63.7	-63.1	-0.6
Cash flow from financing activities	-76.3	-63.2	-13.1
Change in cash	**-30.2**	**3.9**	**-34.1**
Cash at the end of the financial year	149.1	177.5	-28.4
Free cash flow	38.0	59.4	-21.4

The EUR 20.4 million reduction in the cash flow from operating activities in the year under review is primarily attributable to the EUR 19.8 million increase in working capital to EUR 318.2 million after adjustment for currency effects. Income taxes paid also increased by EUR 5.7 million compared with the same period of the previous year. These factors were offset by the cash increase in staff liabilities and advance payments on account of orders in the combined amount of EUR 7.6 million.

Cash flow from investing activities in the 2014 financial year was largely unchanged year-on-year at EUR 63.7 million. Capital expenditure on intangible assets increased by EUR 7.2 million to EUR 14.2 million, largely as a result of the capitalised development costs of EUR 7.3 million in the 2014 financial year. Capital expenditure on property, plant and equipment declined by EUR 5.0 million year-on-year to EUR 51.9 million. The investment volume originally planned for 2014 was not fully realised, particularly because project-related updates to the schedules for site development projects led to individual investment components being postponed to subsequent years. In the 2014 financial year, the Wilo Group generated a cash inflow of EUR 6.0 million from the planned disposal of property, plant and equipment that is no longer used, some of which has already been replaced.

Cash flow from financing activities increased by EUR 13.1 million year-on-year to EUR 76.3 million. This was primarily due to payments for purchases of treasury shares, which were EUR 11.9 million higher than in the previous year, while there were no cash disposals of treasury shares in the 2014 financial year. Furthermore, the dividend payment to the shareholders of WILO SE was EUR 1.9 million higher than in the previous year on account of the improved consolidated net income for 2013. The distribution ratio was virtually unchanged as against the previous year. Net interest expense rose slightly by EUR 0.2 million to EUR 8.0 million on the back of the substantial deterioration in investment opportunities for short-term excess liquidity due to the sharp reduction in market interest rates, among other things.

Change in cash in EUR million



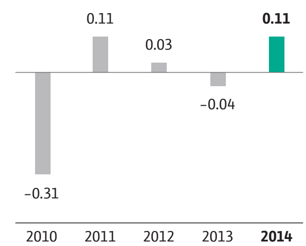
Financial management

The goal of financial management is to maintain the financial independence of the company, ensure liquidity at all times and support the operating activities of the Wilo Group. In addition to its operating cash flow, the Wilo Group has sufficient financing facilities from international banks for this purpose, consisting of short and medium-term cash credit facilities of more than EUR 200 million. This includes a syndicated loan agreement of EUR 120.0 million with a term of five years that was concluded in 2013 and adapted to reflect the Group's requirements and future challenges. EUR 4.5 million of the cash credit facilities had been utilised as at 31 December 2014. 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 7.4 million in the 2014 financial year. This primarily related to the annual repayment of existing promissory note loans in the amount of EUR 6.6 million and was financed in full from the free cash flow for the year under review.

The Wilo Group further reduced its financial liabilities in the year under review to EUR 166.5 million as at 31 December 2014 (previous year: EUR 170.0 million). These mainly 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 each with a volume of EUR 25.0 million, which were taken out in 2008 and 2011 and will be repaid in instalments until 2015 and 2020 respectively. These two promissory note loans had a carrying amount of EUR 17.1 million as at 31 December 2014 (previous year: EUR 23.7 million). The Group also had short-term current account liabilities with a volume of EUR 4.5 million (previous year: EUR 5.2 million).

Leverage



WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans on maturity from its budgeted cash flows from operations. It has no knowledge of whether the uncertainty affecting the global economic and financial market environment will have any material negative impact on the Wilo Group's financing activities. The Wilo Group had cash of EUR 149.1 million (previous year: EUR 177.5 million) as at 31 December 2014. The Wilo Group's leverage, which describes the ratio of consolidated net debt to consolidated EBITDA, increased slightly from -0.04 to 0.11 as at 31 December 2014 but remains at a comfortable low level.

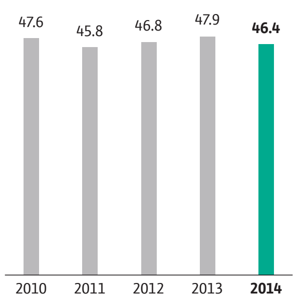
More detailed information on the financing structure can be found in note (9.12) to the consolidated financial statements on page 132.

Financial position

The total assets of the Wilo Group as at 31 December 2014 climbed by 3.3 percent year-on-year to EUR 1,027.7 million, thereby exceeding the one billion mark for the first time. Non-current assets increased by 11.2 percent to EUR 417.2 million. This was due in particular to capital expenditure on intangible assets and property, plant and equipment in the amount of EUR 66.1 million. Investments in property, plant and equipment in the amount of EUR 51.9 million primarily related to measures to increase capacity, new manufacturing technologies and the expansion of the existing sales and production locations. A further EUR 14.2 million was invested in intangible assets, of which EUR 7.3 million relates to capitalised development costs. Depreciation and amortisation of intangible assets and property, plant and equipment amounted to EUR 47.9 million in the year under review. Property, plant and equipment with a carrying amount of EUR 3.4 million was disposed of in the year under review. Positive exchange rate effects also resulted from the remeasurement of intangible assets and property, plant and equipment originally held in foreign currency in the amount of EUR 3.7 million. Intangible assets and property, plant and equipment increased by EUR 18.9 million in net terms. Furthermore, the current and deferred tax assets reported in non-current assets rose by EUR 13.5 million year-on-year.

The carrying amount of current assets declined by EUR 9.1 million year-on-year to EUR 610.5 million as at 31 December 2014. The slight increase in business activities and positive exchange rate effects meant that inventories rose by 1.7 percent to EUR 190.9 million, while current trade receivables increased by 5.4 percent to EUR 227.5 million. Working capital rose by 6.4 percent to total EUR 318.2 million. Cash fell by EUR 28.4 million to EUR 149.1 million as at 31 December 2014.

Equity ratio



At EUR 477.1 million, the Wilo Group's equity was essentially unchanged year-on-year as at 31 December 2014. In particular, the consolidated net income of EUR 69.8 million for the 2014 financial year had a positive impact on equity. The opposing effects primarily included the scheduled dividend distribution of EUR 33.1 million to the shareholders of WILO SE, the increase in purchases of treasury shares with a corresponding impact on equity in the amount of EUR 27.8 million, and the increase in actuarial losses from pension obligations after deferred taxes in the amount of EUR 9.9 million. The equity ratio fell slightly from 47.9 percent to 46.4 percent as at 31 December 2014; this was due to the fact that net assets increased by 3.3 percent year-on-year while equity remained essentially unchanged.

Non-current liabilities as at 31 December 2014 primarily consisted of financial liabilities in the amount of EUR 156.7 million and pension and similar obligations of EUR 80.9 million. The EUR 16.0 million increase in non-current liabilities to EUR 269.8 million was due in particular to the fact that pension obligations rose by EUR 17.8 million to EUR 78.3 million. This was mainly attributable to the reduction in the discount rate from 2.95 percent to 1.86 percent as at 31 December 2014.

The carrying amount of current trade receivables of EUR 106.9 million as at 31 December 2014 was almost unchanged as against the previous year's figure.

Other current liabilities increased by EUR 16.2 million to EUR 173.9 million. This was primarily due to the EUR 5.0 million increase in advance payments on account of orders and the EUR 4.4 million rise in tax liabilities. Staff liabilities also increased by EUR 2.6 million.

The net assets of the Wilo Group were as follows as at 31 December 2014 and 2013:

Financial position

EUR million	2014	%	2013	%
Non-current assets	417.2	40.6	375.3	37.7
Inventories	190.9	18.6	187.8	18.9
Trade receivables	227.5	22.1	215.8	21.7
Cash	149.1	14.5	177.5	17.8
Other current assets	43.0	4.2	38.5	3.9
Total assets	**1,027.7**	**100.0**	**994.9**	**100.0**
Equity	477.1	46.4	476.9	47.9
Non-current liabilities	269.8	26.3	253.8	25.6
Trade payables	106.9	10.4	106.5	10.7
Other current liabilities	173.9	16.9	157.7	15.9
Total equity and liabilities	**1,027.7**	**100.0**	**994.9**	**100.0**

Non-financial success factors

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

Employees

The Wilo Group's core competencies are technologically advanced products and system solutions for the efficient use of water as a resource. Qualified employees are the basis and the driving force for the company's sustainable economic success worldwide, while innovative strength and a high degree of technological expertise serve to secure its future prospects. The Wilo Group's engineers, technicians and commercial employees contribute their various strengths and competencies with passion and a pioneering spirit every single day.

The focal points in HR work are selected and realised on the basis of the corporate strategy, taking societal social and human resources developments into account. Long-term trends such as globalisation, work virtualisation and demographic change influence the HR strategy to a considerable extent. 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.

In light of demographic change and the accompanying shortage of specialist staff, it is vital to ensure continuous development as an employer. The Wilo Group seeks to be perceived as an employer of choice, both internally and externally, so that it can continue to attract and retain highly qualified employees. It is also important to maintain and promote employees' productivity and willingness to work.

The Wilo Group sets different focal points within its HR work in order to meet these challenges. Some examples include:

TALENT 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 the Group's competitive capability.

At the Wilo Academy campus in the Wilo Group's various international locations, individual career paths are developed as part of global talent management in order to ensure that employees have the necessary skills and knowledge for their current and future tasks. Personal skills and competencies and professional qualifications are developed by way of targeted further education measures. In addition to face-to-face seminars, activities in the area of eLearning were intensified further in the year under review and the range of available modules was expanded.

The Wilo Group relies on the emergence of young managers from its own ranks. Special support programmes allow talented employees to focus on internal career development. The "middle and senior management pool" Group-wide talent management programme that was initiated in 2013 was successfully concluded in the year under review. The results show that programmes like this can be used to substantially support the development and promotion of talented young managers.

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

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

HEALTH MANAGEMENT "Focusing on people" is a guiding principle in Wilo's business activities. Accordingly, HR management activities are also geared towards the needs of the company and its employees. The Wilo Group is aware of its social responsibility and considers the health and wellbeing of its employees to be a priority. In a similar vein, business success can be guaranteed only by maintaining and promoting the health of employees and their ability to work and perform on a long-term, sustainable basis. To this end, occupational health management has been introduced with the aim of increasing health awareness and implementing preventive measures above and beyond the statutory requirements. Starting with the Dortmund site, activities in this area will be gradually rolled out worldwide over the coming years in line with employee requirements. Managers will bear a particular responsibility in terms of their duty of care. They will be sensitised and trained in their area of responsibility in order to allow them to make a direct contribution to health promotion through their management behaviour.

In the 2014 financial year, the Wilo Group increased its global workforce by 3.2 percent to an average of 7,425 employees.

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

Number of employees by region

	2014	2013	Change %
Europe	4,697	4,500	4.4
Asia Pacific	2,183	2,175	0.4
EMEA	440	421	4.5
Others	105	98	7.1
Total	**7,425**	**7,194**	**3.2**

Production

With the Wilo Production System (WPS) that was implemented in 2006 and has been developed on an ongoing basis ever since, the principles and methods of streamlined production systems are firmly established in the Wilo Group. They are adapted to reflect the company-specific conditions at each location. The basis for all location reorganisation and development activities is close cooperation between the Group-wide staff department and the respective local WPS representatives at the global production locations.

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

The corporate strategy and the annual divisional and plant targets derived on this basis provide the framework and direction for continuous improvement activities and the targeted use of WPS methods. To this end, each of the operating organisational units defines an annual policy deployment process with the support of the Group-wide staff department. Strategic activities are derived incrementally from the organisational goals and broken down at the level of the individual departments. The associated controlling rounds handle the ongoing monitoring, coordination and communication of all WPS activities across all departments and check them against the priority objectives. Annual audits review the degree of implementation and the targeted use of WPS methods in line with goal planning.

To ensure waste-free processes at the planning stage, the WPS philosophies are firmly established and provide orientation for concept design for new locations. For example, the new production layout for the location that is set for expansion in Moscow was designed on the basis of the principles of streamlined and efficient material flows.

A new production building is planned for WILO SE's headquarters in Dortmund on the basis of the requirements in terms of growth, infrastructure and modernisation, which were determined with the assistance of internal and external specialists. Completion is scheduled for 2018. Production is being redesigned to meet the highest standards in terms of energy efficiency, thereby underlining Dortmund's importance as a high-tech location.

To establish the dimensions of the production areas at the Dortmund site, a future-oriented production and logistics concept reflecting the basic principles of versatile, low-waste production was developed in 2014 together with the production and logistics managers. An optimal material flow, a corresponding building layout and further steps for the implementation of the production location were derived on the basis of this concept. To ensure the successful realisation of the location's transformation into a factory of the future, five overarching projects along the entire supply chain will be launched in 2015 with the aim of establishing end-to-end process synchronisation. The further development of the production system towards Industry 4.0 is guaranteed within these projects on the basis of Wilo-specific requirements.

In 2013 and 2014, Wilo conducted a comprehensive project to develop and define a global production strategy (GPS). All development activities for the 16 production locations and the other subsidiaries must be based on the design principles contained in the GPS in future. The aim is to ensure that customers worldwide are supplied with the right products and services quickly and efficiently. In addition to detailed brand knowledge, this requires a transparent production network. Based on the relevant key production figures from this network, strategic decisions such as volume allocations and investments are coordinated, thereby allowing production processes to be harmonised within the Wilo Group.

Procurement

As a production company, Wilo is dependent on the development of material costs to a large extent. In addition, the success and quality of Wilo's products are already sustainably influenced by the performance of its partners along the entire supply chain. This means that efficient, integrated procurement and supplier management is an important factor when it comes to successfully achieving the defined business targets, particularly with regard to the acceleration of profitable growth. All procurement activities are focused on achieving a permanent balance between quality, innovation, flexible and secure supply structures, and competitive costs.

To this end, the Group Purchasing & Supply Chain Management Group function has established a clearly structured product group management system with corresponding product group-specific strategies and implemented an international partner and supplier network with the aim of bundling procurement centrally to a greater extent and expanding it into a global organisational unit. In the period under review, these activities were intensified further and additional product groups, e.g. copper and sensors, were added to the Group-wide commodity and material management system.

Efficient, standardised procurement processes are important when it comes to achieving high reliability and substantial economic efficiency. Accordingly, the Wilo Group continually develops its purchasing and procurement processes and the necessary tools and methods in the area of both production materials and non-production materials and services. One focal point in the year under review was the optimisation of supplier relationship management (SRM) and the standardisation and automation of the corresponding business processes. The introduction of the WILO Purchasing Collaboration Portal (WPC), a powerful electronic procurement system, has led to significantly reduced process times.

Activities in the area of procurement for non-production materials and services in the 2014 financial year also focused on internationalisation and the accompanying implementation of product group-specific processes. Cross-functional intragroup cooperation was also optimised and made more professional, allowing cost optimisation potential to be increased further.

In the area of supplier management, the aim is to generate cost savings through the further optimisation of the supplier structure while maintaining maximum quality and reliability of supply. The ongoing automation and standardisation of procurement processes are making an important contribution to achieving this aim. The Wilo Group strives to ensure long-term, fair partnerships with its suppliers based on the highest possible degree of commitment, capability and motivation on both sides. The Wilo Group Suppliers' Day, which was held for the first time in 2014 and will be repeated at regular intervals in future, is an event that has been established in order to further strengthen supplier relationships. As part of this event, suppliers were recognised for outstanding performance for the first time in 2014. The agenda also included presentations, plant tours and workshops aimed at optimising mutual cooperation.

Quality

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

The creation of the Group Quality division served to optimise the systematic approach to quality management based on the House of Quality, with its four pillars/processes of preventive quality, production quality, customer quality and supplier quality. The House of Quality builds on the areas of system quality, HSE (Health, Safety, Environment) and IPC (International Product Compliance). The House of Quality is being continuously developed and expanded.

Preventive quality activities are aimed at identifying product risks early in the development phase and preventing them by way of suitable constructive measures and the optimal design of production processes. This removes the need for expensive corrective measures at a later stage in exchange for just a small cost. One of the focal points of preventive quality activities in 2014 was the introduction of systematic tolerance management as part of one of the Wilo Group's most important development projects. The interconnection of all of the development departments enabled the establishment of a uniform understanding of tolerance management and a high degree of transparency in terms of goals and methods. In turn, this is having a positive impact on the entire value chain. The efficient orientation of all activities also serves to ensure that heightened customer requirements are met to the best possible extent.

In 2014, activities in the production quality process concentrated on achieving a further improvement in the transparency of global reject and reworking costs, with a tangible positive outcome at the Asian production locations in particular. Optimisation projects in the individual product business units (PBU) led to a significant reduction in reject costs. The cross-divisional processes between the individual organisational units were also improved.

The aim of customer quality activities is to further enhance customer satisfaction by reducing or avoiding warranty costs and complaint rates. The collection of global complaint data and regular close contact with the subsidiaries in the form of monthly field return calls are important elements. Top quality topics are derived on the basis of this information. Potential deficiencies are intercepted at an early stage and in a structured manner in cooperation with the production locations and using established quality management methods such as 8D, Ishikawa and 5 Why, and the resulting improvements are communicated to customers. After extensive optimisation measures were implemented in the previous year, with the number of quality updates totalling 26, activities in 2014 focused on tracking the effectiveness of these measures. It was established that the product improvements were more than 90 percent effective. A further 14 top quality topics were also addressed in 2014, bringing the total number of quality updates to 40. This means that the Wilo Group's subsidiaries obtain open, structured and proactive information on the quality deficiencies that have been remedied. This is an important cornerstone of sustainable customer relationships on a basis of mutual trust.

Supplier quality management, the fourth pillar in the House of Quality, is used to control supplier quality throughout the entire product lifecycle systematically and in close cooperation with procurement and production. The aim is to keep the quality costs caused by quality deficiencies in purchased parts 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 an important element of this. In 2014, the data transparency of parts per million (PPM) rates at the Wilo Group was increased to over 95 percent. Critical suppliers were identified at Group level on the basis of automated data collection. Quality development work is performed with these suppliers under the management of Group Quality and using various Group-wide tools that have been harmonised over the past two years. This is an important prerequisite for continuing to meet the steadily rising requirements of Wilo's customers in future.

The integrated management system for QHSEE (Quality, Health, Safety, Environment, Energy) is tasked with defining standards and methods for ensuring compliance with all internal and external requirements in terms of quality, the environment and occupational health and safety. In this context, measures such as the development and introduction of the quality performance model to ensure maximum quality along the entire value chain and the audit system, which is used to regularly review and improve the implementation of standards, play a central role. With the introduction of a new, worldwide QHSEE policy in 2014, Wilo also continued to harmonise the Group-wide management system with a uniform understanding across all locations. One of the next important milestones is Group certification in early 2015. This involves the audit and certification of the implementation of the QHSEE system at selected locations.

The establishment of International Product Compliance (IPC) and its integration into Group Quality in 2014 reflected the growing statutory requirements in terms of technical provisions, particularly from non-EU countries. IPC's activities are aimed at supporting the Wilo Group's subsidiaries through the preparation and transfer of expertise on country-specific laws and guidelines with regard to technical provisions in order to ensure sales continuity, allow new market potential to be leveraged unimpaired and achieve a high degree of customer satisfaction. Activities in the year under review focused on the planning and implementation of strategic and operational activities in the area of product certification as well as the preparation of country-specific technical provisions and systematic, organisation-wide communication, among other things.

Resource efficiency

The globalisation megatrend that the Wilo Group considers to be 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 extremely high resource efficiency.

Resource efficiency is a goal that the Wilo Group has been successfully pursuing for many years. The company has set international technology and product standards relating to efficiency in a number of its 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 material.

In the area of logistics, outbound and inbound structures in Europe were analysed. As well as reducing delivery times by one day and stabilising logistical delivery performance, optimised utilisation and the generation of synergy effects between inbound and outbound freight have resulted in significant resource savings. More than 500 fewer trucks a year are now being used, corresponding to annual CO_2 savings of several hundred tons.

Product recycling is another key area of resource efficiency. One long-term goal in this respect is resource-conserving activity at the end of a product's life. The aim is for old products to be removed from the market and recycled having first been separated as much as possible. There are also areas to tackle resource efficiency in early phases of the product lifecycle. Building on Ecodesign specifications, Wilo uses recycling-appropriate construction taking into account the aspects of disassembly and reuse as well as recycling-appropriate production processes for every new product developed. This creates the conditions for a product that can be effectively and efficiently recycled at the end of its lifecycle. For example, magnets have been reintroduced to the Wilo Group's production process 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 year under review, a recycling centre was established at the Dortmund location under the management of the Quality Group function and work began on the development of Group-wide standards for recycling under the motto "prevention through use before recycling and disposal". Among other things, these standards are aimed at leveraging potential in the areas of production and product returns. Product development is also supported through the preparation of requirements for recycling-friendly product design. To this end, the existing processes have been analysed on a Group-wide basis and suitable performance indicators have been established with a view to enabling the evaluation and prioritisation of recycling activities. The primary objective is to design and coordinate recycling activities so that they are beneficial both ecologically and economically.

The new production and administration buildings of the Wilo Group that are yet to be built will be constructed and operated in accordance with building standards geared towards low environmental impact and sustainability. The buildings completed in Korea, 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.

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 of integrity, respect and 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 international and national laws, regulations and standards,
- sustainable corporate development taking into account economy, ecology and social issues,
- a commitment to fair competitive practices,
- compliance with laws and regulations in dealings with our business partners,
- a commitment to fair working conditions and the trusting treatment of 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.

Activities in 2014 focused in particular on the expansion and intensification of preventive measures. An amended code of conduct for suppliers was presented at the Wilo Suppliers' Day 2014 and a preliminary evaluation was performed on the basis of self-assessment by the suppliers in attendance. Since then, a multi-disciplinary project group has been addressing the standardisation and harmonisation of methods for assessing supplier compliance with the material compliance standards and integration into the supplier management and audit processes.

Statement by the Executive Board on the economic situation

Taking into account the difficult and uncertain political and macroeconomic conditions in many regions of the world, the Executive Board of the Wilo Group considers business performance in 2014 to have been satisfactory overall. The Wilo Group continued on its profitable growth path in the year under review. Net sales increased slightly as against the previous year in 2014, falling within the target corridor. Adjusted for the negative effects of the – in some cases substantial – depreciation of key currencies of the Wilo Group, net sales increased by as much as 3.0 percent year-on-year. In particular, the sharp depreciation of the Russian rouble, the Turkish lira and the Ukrainian hryvnia against the euro impaired net sales growth in reporting currency.

The Asia Pacific region again proved to be the growth engine of the Wilo Group with year-on-year net sales growth of 3.5 percent. However, the Asia Pacific region has seen a slowdown in growth momentum, largely as a result of the slower pace of expansion of the Chinese economy. Despite this, business in India and China in particular enjoyed encouraging development.

In the Europe region, the Wilo Group increased its net sales slightly by 0.4 percent overall, with the double-digit growth rates in the Eastern European EU states and the British Isles more than outweighing the weaker business performance in Germany and the Nordic and Baltic states. The outlook for the Mediterranean nations was optimistic, with the Wilo Group's net sales declining by just 0.8 percent in spite of the sustained difficult macroeconomic situation and some countries showing clear signs of recovery.

Business in the EMEA region in 2014 was dominated by the intensification of the prevailing geopolitical crises and the resulting uncertain and difficult political and economic situation, which also led to substantially negative exchange rate effects. These external factors were the main reasons for the 4.6 percent downturn in net sales in the extremely heterogeneous EMEA region. Our business activities enjoyed robust and highly satisfactory development under these circumstances, particularly in Russia and Turkey, which saw growth in local currency.

In the course of 2014, the Executive Board identified and analysed the lack of an economic upturn and the negative exchange rate development, as well as the rising geopolitical risks due to the escalation of the crisis, at an early stage. This allowed it to initiate and implement corresponding risk mitigation measures at short notice and adjust the planned cost increases to reflect actual business performance. Further progress was made in the optimisation of structural costs and long-term cost-cutting measures in 2014.

Strategic topics such as research and development and the intensification of the Group's market presence in the emerging economies were pursued as planned in spite of the muted net sales development. As a result, research and development costs including capitalised development costs reached a new record high of EUR 51.2 million, while capital expenditure also continued at a high level. Both of these facts serve as a clear demonstration of the Wilo Group's strategic aim of strengthening its innovation and technology leadership in order to provide further support for its sustainable, profitable growth in future. With an EBIT margin of 9.0 percent, the Wilo Group's profitability remains at a high level, particularly in light of the deterioration in external conditions. In addition, a strong positive free cash flow was again achieved in the year under review at EUR 38.0 million. The balance sheet structures remain very solid. This also underlines the successful implementation of the Wilo Group's strategy and its high degree of flexibility.

In the 2014 financial year, WILO SE entered into a pioneering strategic partnership with iEXERGY GmbH. The innovative company specialises in the development of smart home solutions and is supported by the German Federal Ministry for Economic Affairs and Technology. With this strategic partnership, which is underpinned by the interest acquired by WILO SE in iEXERGY GmbH, the Wilo Group has further expanded its systems and solutions expertise.

The Executive Board considers the economic situation of the Wilo Group to be highly stable and sustainable. This assessment is based on the results in the consolidated financial statements and the separate financial statements of WILO SE for 2014 and takes into account business performance up until the preparation of the 2014 Group management report. At the time of this Group management report being prepared, business performance in early 2015 is in line with the Executive Board's expectations.

REPORT ON RISKS AND OPPORTUNITIES

- **Integrated risk management system creates transparency**
- **Portfolio contains no risks that could jeopardise the future of the Group**
- **Opportunities highlighted by megatrends**
- **Overall risk situation largely unchanged**

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 entered into.

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 at an early stage in order to derive and exploit any opportunities that may arise from them. Opportunities are analysed and assessed as part of the planning process and incorporated directly into medium-term planning via scenario calculations. Resources are coordinated and allocated at Group level.

Opportunities of elevated strategic significance, such as acquisitions, partnerships or even changes in strategy, are analysed, assessed and implemented at Executive Board level with the support of Corporate Development. 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.

Opportunities management is not directly integrated into the risk management system, and hence is 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 at an early stage and 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 audited annually by Internal Audit on the basis of Audit Standard No. 2 promulgated by Deutsches Institut für Interne Revision (IIR).

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 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 divisions 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. It also 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 ensure that all relevant risk areas are always tracked, the risk atlas is checked for completeness on an ongoing basis and adjusted as required.

The Group risk manager coordinates the risk management process and, in this function, reports regularly to the WILO SE Executive Board on a quarterly basis and on an ad hoc basis as necessary. Risk management officers are responsible for tracking and controlling risks in their divisions. In this way, risks are identified and reported on for the individual sales regions, product divisions 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 respective probability of occurrence and 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%

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

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

In the event of the assumed occurrence of a risk, the possible financial impact on EBIT that can be derived is classified into one of three groups (low, medium, high) based on the forecast percentage deterioration of EBIT. An EBIT deterioration of between 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	Potential impact on EBIT
General risks		
Economic environment	Possible	Medium
Extraordinary external disruptions	Unlikely	Medium
Legal and regulatory environment	Possible	Medium
Industry-specific risks		
Competition	Possible	Medium
Company-specific risks		
Research and development	Possible	Low
Production	Unlikely	Medium
Human resources	Possible	Low
Information technology	Unlikely	Medium
Acquisitions and strategic partnerships	Possible	Medium
Financial risks		
Exchange rates	Likely	Low
Interest rates*	Unlikely	None
Commodities	Possible	Low
Credit risk	Possible	Low
Financing and liquidity	Unlikely	Low

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

General risks and opportunities

Economic environment

Economic and market risks can arise due to general economic, political and social trends. 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 situation of the Wilo Group as well as possible. Special attention is paid 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 extremely good growth opportunities, though these markets also have elevated risks. The Wilo Group reduces this risk potential considerably by adopting organisational changes, expanding and optimising the utilisation of local production capacity and leveraging synergies.

In 2014, the global economy developed with the same low momentum as in the previous year. Hopes of an upturn were not fulfilled, and there was extremely varied development in both the established industrialised nations and the emerging economies. In 2015, too, the economy is expected to pick up only slightly, with great uncertainty remaining due to the prevailing geopolitical risks. Monetary policy in the industrialised nations is also expected to see contrasting developments. While interest rates in Europe will remain low, rates in the USA and the United Kingdom are likely to rise. This may lead to a long-term redirection of international cash flows away from the emerging markets, which could jeopardise stability and growth prospects in these countries, and hence also the wider global economic outlook. The Wilo Group is closely monitoring these developments and, if necessary, will selectively adjust business policy decisions in a timely manner in order to limit the financial risks to the Group and reassess the opportunities. All in all, the Wilo Group considers the potential negative impact of the economic environment on the company's results of operations to be moderate (medium earnings impact according to risk classification).

Extraordinary external disruptions

As a 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. Targeted measures have been taken to minimise the impact of the current geopolitical crises and the resulting anticipated risks for the Wilo Group's business. In the event of a further escalation, additional steps will be taken to limit the risk to which the Group is exposed. To the extent possible and reasonable, the Wilo Group is also adequately insured against operational shutdowns and property damage, 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).

Legal and regulatory environment

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

On the one hand, restrictions on trade could make commodity procurement more difficult or more expensive and the sale of products in certain markets or regions may be restricted. Heightened requirements as a result of product quality or safety standards may lead to increased production or research and development costs. At the same time, changes in legal conditions and the regulatory environment can also give rise to opportunities. For example, the introduction or tightening of energy efficiency directives could lead to increased demand for energy-efficient products. With its broad range of high efficiency pumps, the Wilo Group is in an ideal position to serve the respective markets quickly and comprehensively.

The Wilo Group continuously observes the legal conditions and the regulatory environment in all of its key markets in order to ensure that it can identify potential problem areas or opportunities at an early stage and quickly adapt its business activities accordingly. The occurrence of risks arising from the legal or regulatory environment is possible. The impact on the Wilo Group's results of operations is considered to be moderate (medium earnings impact according to risk classification).

Urbanisation

Over the past 60 years, the proportion of the global population who live in cities has steadily risen to over 50 percent, and 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. 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 in this area 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 remained largely unchanged compared with 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, particularly in the area of 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 the competitive environment and differ from corporate planning as moderate (medium earnings impact according to risk classification).

Energy shortage and the Ecodesign Directive

The Ecodesign or Energy-related Products Directive sets the framework for defining uniform regulations on the environmentally sound design of energy-related products in the European Union. The specific product requirements are stipulated in implementing measures for the individual product groups and enacted by regulations in the individual member states. Regulation (EC) No 641/2009, amended by Regulation (EU) No 622/2012, stipulates the requirements for the environmentally sound design of glandless circulation pumps. Accordingly, since 1 January 2013, manufacturers may market only those external glandless circulation pumps that do not exceed an energy efficiency index (EEI) of 0.27. The maximum EEI will be reduced further to 0.23 with effect from 1 August 2015 and will then also apply to glandless circulation pumps that are integrated into heat generators and other products.

Regulation (EU) No 547/2012 stipulates the requirements for the environmentally sound design of water pumps. In contrast to the regulation on glandless circulation pumps, the efficiency of the pump section is the only determining factor. This is expressed by the minimum efficiency index (MEI), which was not permitted to be lower than 0.10 from 1 January 2013 onwards and has not been permitted to be lower than 0.40 since 1 January 2015. The reference MEI for water pumps with the highest efficiency is MEI ≥ 0.70. In addition, the drive part of water pumps are governed by Regulation (EC) No 640/2009, amended Regulation (EU) No 4/2014, which defines minimum efficiency classes for motors. Standard motors have had to comply with a minimum efficiency class of IE2 since 16 June 2011. Since 1 January 2015, motors with a rated output of between 7.5 kW and 375 kW have had to comply with a minimum efficiency class of IE3, or IE2 if the motor is fitted with a frequency converter. From 1 January 2017, motors below 7.5 kW will also have to comply with these requirements.

The Wilo Group has been committed to energy-efficient products for some time, meaning that it was well positioned to adapt to these fundamental changes in legislation at an early stage. The Wilo Group's high-efficiency pumps and particularly the products in the Wilo Stratos and Wilo Yonos series meet or even exceed the strict requirements for the European single market. The Wilo Group expects the stipulation of binding energy efficiency requirements to continue to result in market opportunities in the Europe segment. Energy efficiency legislation often also serves as a beacon for markets outside Europe. However, it is presently hard to assess the extent to which the forecast positive effects will take hold in the expected period.

Technological progress in building management

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. With the strategic partnership and the corresponding interest that it has acquired in iEXERGY GmbH, which focuses on the development of smart home solutions, the Wilo Group is further expanding its systems and solutions expertise in this area. 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 2014, research and development costs including capitalised development costs amounted to 4.1 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 paying 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 results of operations of the Wilo Group is considered low.

Production

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

Human resources

The Wilo Group's success is built on its 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 demographic management, which includes active succession planning and the development of new staff as part of Group-wide talent management. The occurrence of HR risks is generally possible. However, the impact on EBIT is classified as low.

Information technology

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.

Acquisitions and strategic partnerships

In order to expand its technological spectrum and geographical presence, the Wilo Group's corporate strategy also provides for the realisation of external growth opportunities. Company acquisitions are taken into consideration only if they appear beneficial from a strategic and economic perspective. In addition to the opportunities resulting, among other things, from the expected synergies, company acquisitions also entail risks. Accordingly, each investment decision is preceded by a careful assessment and analysis of the legal, technical, tax and financial conditions (due diligence) in order to identify, quantify and limit the risks associated with the acquisition. In addition, an individual integration strategy is developed for each acquisition and corresponding measures are planned and implemented.

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

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

The opportunities arising from acquisitions and strategic partnerships are varied. Acquisitions and strategic partnerships offer additional potential for growth and efficiency and can provide access to new sales channels and markets. With regard to research and development in particular, the Wilo Group enters into strategic partnerships in order to advance joint technology projects. It cooperates with prominent universities and research institutes in this area.

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.

Further information on currency risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in note (13.) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 146 et seq.

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

Interest

The interest rate risk mainly results from floating rate financial liabilities and the investment of cash. Both rises and falls in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. The occurrence of interest rate risk is considered 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 in note (13.) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 148.

Commodities

A major factor in the commodity price risk of the Wilo Group is price fluctuations on the global markets for copper, aluminium, 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 extremely closely.

The prices for most of the copper procurement volume for the 2015 financial year have already been determined in order to minimise the impact on earnings from the change in copper prices for the Wilo Group.

In contrast, the prices for the procurement volume for stainless steels and their alloys are not hedged as the available financial instruments are not suitable for effectively minimising the risk of price changes for these commodities. According to current information, the Wilo Group's results of operations could primarily be affected by price fluctuations on the global markets for copper and aluminium from the 2016 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 in note (13.) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 149.

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 the Group does not generate more than 10 percent of its total net sales with any one customer. The Wilo Group did not experience any significant negative influence from its customers' payment practices in the past financial year. The possible effect on earnings of default is currently also considered low for 2015. However, there were delays in payment by customers based in the Mediterranean countries due to the ongoing crisis in the euro area.

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

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.

This includes 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. Only EUR 4.5 million of the cash credit facilities had been utilised as at 31 December 2014. Furthermore, as at 31 December 2014, there were also promissory note loans of EUR 17.1 million and senior notes of EUR 144.9 million that were issued in US private placements.

At 31 December 2014, the Wilo Group reported net financial liabilities (financial liabilities less cash) of EUR 17.4 million. The ratio of net financial liabilities to EBITDA (leverage) amounted to 0.11 at 31 December 2014.

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 2014 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 is required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. If it fails to meet certain minimum values, the lenders are entitled to demand early repayment, among other things. As such, a failure to meet the agreed minimum values would have a substantial potential financial impact. To this end, these figures are regularly reviewed, planned and reported to the Executive Board in order to ensure compliance with the required minimum values at all times and to enable suitable countermeasures to be initiated at an early stage as necessary. Due to its strong equity base and profitability, the Wilo Group currently expects to comply with its financial covenants throughout the term of the existing financing agreements.

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 note (12.) on page 141 et seq. and note (13.) on page 146 et seq. of the notes to the consolidated financial statements.

Overall assessment

The risk situation of the Wilo Group is largely unchanged as against 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 could jeopardise the company as a going concern.

SUBSEQUENT EVENTS

Since the end of the 2014 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

- **Growth prospects for the global economy remain mixed**
- **Economic environment remains challenging and fraught with risk**
- **Moderate net sales growth forecast for 2015**
- **Profitability at stable level**

General economic conditions

Global economy to see only moderate growth in 2015
Generally speaking, the global economy is expected to remain heterogeneous and susceptible to disruption, although the prospects of a – possibly only moderate – upturn in growth had improved slightly as of the turn of 2014/15. The International Monetary Fund (IMF) is forecasting global growth of just 3.5 percent in 2015 (previous year: 3.3 percent). The Kiel Institute for the World Economy (IfW) estimates growth at 3.7 percent, while the figure issued by Deutsche Bundesbank is as high as 4.0 percent. Risks relate in particular to geopolitical crises, the possibility of turbulence on the financial and currency markets and the risk of a new political acid test in the euro area.

Regionally, the USA is expected to be the engine of the global economy in 2015, with growth forecast at 3.6 percent (IMF). The euro area is also expected to gradually pick up speed, with low oil prices providing tangible impetus for growth in the industrialised nations. The IMF is forecasting growth in the industrialised nations of 2.4 percent in 2015 (previous year: 1.8 percent). Developments in the emerging economies are expected to diverge even further. China is likely to see flatter growth, while the oil-exporting nations are set to encounter difficulties. Other countries will benefit from infrastructure programmes and the upturn in demand in the industrialised nations. All in all, the IMF expects growth in the developing and emerging nations to slow to 4.3 percent in 2015 (previous year: 4.4 percent).

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 139.

The expected economic development in the Europe, Asia Pacific and EMEA regions in 2015 is described below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Europe – Slight upturn, but risks remain
The slight rise in global growth is expected to reinforce the economic upturn in the euro area in 2015. This development will be driven in particular by sustained low interest rates, the weaker euro, the fiscal policy impetus provided by the European Union and falling energy prices. Inflation

is likely to remain low. If there is a move away from the structural adjustments and budget consolidation measures that are still required in individual member states of the euro area at a political level, however, this could have an adverse effect on the upswing. The consequences of the change of government in Greece and the sovereign bond purchase by the European Central Bank for the stability of the euro area are uncertain, and the risk of a renewed escalation of the Ukraine crisis has not been curbed. As such, the environment remains fragile.

The IfW is also forecasting a reduction in unemployment in the euro area, which will have a stimulating effect on private consumption. Investment activity is expected to pick up in combination with export growth. According to IMF calculations, economic growth in the euro area is set to rise from 0.8 percent in the previous year to 1.2 percent. The Eastern European EU nations are expected to see a further economic upturn; in some countries, however – such as Poland – this development may be adversely impacted by the recession in Russia. The outlook for the United Kingdom remains positive, although momentum in 2015 could be reined in by higher interest rates and the appreciation of the pound sterling.

Asia Pacific – Strong expansion but upturn curbed by China

According to IMF estimates, the pace of economic expansion in China is expected to slow to 6.8 percent in 2015. The long-term reforms involving the cautious liberalisation of market mechanisms in order to support the private economy and the controlled containment of inefficient and, in some cases, massive overcapacity at state-owned government companies are expected to gradually strengthen domestic demand. Although this may curb growth momentum in the short term, the economic foundations of the world's second-largest economy will be expanded and reinforced in the long term. To prevent a pronounced economic slowdown, China also resolved a new package of comprehensive infrastructure measures in early 2015.

At around 3.4 percent (Bank of Korea), economic growth in Korea is expected to be only slightly higher than in the previous year thanks to a moderate rise in private consumption and investment. India is set to enjoy dynamic growth of 6.3 percent in 2015 on the back of currency stabilisation and the containment of inflation, as well as the further reforms introduced by the new government, additional infrastructure projects and export growth. Furthermore, growth is expected to accelerate to 5.2 percent in the Southeast Asian nations, which are likely to benefit in particular from lively demand in the industrialised nations.

EMEA – Mixed outlook with high risk in places

Russia is in political and economic crisis, meaning that the outlook for the country is uncertain. The national budget and economic output depend to a large extent on income from fossil fuels and agriculture. Inflation is high, while confidence among companies and consumers is falling. Further capital outflows could additionally impact the economy. In light of these circumstances, Russia is likely to enter a recession in 2015. The IMF expects the Russian economy to contract by 3.0 percent, while the Russian Ministry of Finance is not ruling out a downturn in economic output of 4 percent if oil prices remain low.

The Turkish central bank is still giving priority to returning the high level of inflation to normal levels and stabilising the currency, meaning its fiscal policy is likely to remain largely restrictive. Political uncertainty and the country's geographical proximity to the armed conflicts with the Islamic State terrorist organisation have curbed consumer and investor confidence. This is inhibiting industrial production, private construction investment and consumer spending. A growth rate of a good 3 percent is forecast for 2015.

Uncertainty in the nations of the Gulf region and Africa remains high due to sustained structural deficits and social imbalance, as well as the economic impact of regional conflicts (including in Iran, Iraq, Syria and Nigeria). The oil-exporting nations are also feeling the impact of the slump in oil prices. The Ebola epidemic is likely to continue to have a negative effect in West Africa. According to the IMF, inflation in most countries will remain high.

In its detailed outlook for the global economy published in October 2014, the IMF forecast economic growth of 3.9 percent for the oil-exporting nations of North Africa and the Gulf region in 2015. In light of the generally lower expectations in terms of oil prices, however, actual economic development may now be considerably less dynamic. Accordingly, the IMF significantly lowered its growth forecast for Saudi Arabia in January 2015. Reflecting this development, the oil-importing nations of North Africa (including Egypt, Morocco and Tunisia) could enjoy additional momentum in 2015. The IMF's October growth forecast for this region was 3.7 percent. Meanwhile, the IMF expects the sub-Saharan nations to see similar development to the previous year, with growth of 4.9 percent on the back of government and private investment.

Industry-specific conditions

More detailed information on the definition of segments can be found in note (11.) on p. 139 to the consolidated financial statements.

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 expected development in these industries is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

Europe – Increasingly solid growth in the construction industry

The Euroconstruct network and the Ifo Institute are confident with regard to the period from 2015 to 2017. According to their forecast, the European construction industry will expand by 2.1 percent in 2015 and 2.2 percent in each of the two following years as a result of the economic recovery. The markets of Eastern Europe are likely to continue to enjoy more dynamic growth than their Western European counterparts due to the impetus from EU-funded infrastructure projects. With growth of almost 4 percent p.a. until 2017, new residential construction activity in Europe is expected to pick up to a far greater extent than commercial construction and civil engineering, while modernisation and maintenance are likely to see uninterrupted positive development. The key drivers resulting from the European Union's new environmental protection targets for 2020 are expected to be government-supported measures for CO_2 reductions such as heat insulation as well as the modernisation of heating and air conditioning systems.

In light of the recent downturn in incoming orders for building construction and civil engineering, growth momentum in the German construction industry in 2015 is likely to be lower than it has been lately. However, the sustained favourable financing conditions, high employment and low inflation mean the outlook remains positive. The IfW expects construction investment to rise by 1.4 percent in real terms in 2015 (previous year: 3.3 percent). Rising rents and property prices, the sustained high level of demand for residential space and positive net migration are likely to further stimulate new residential construction and conversion, particularly in conurbations. This will be partially offset by the government's rent brake legislation. The IfW expects to see a successive recovery in investment in residential construction over the course of the year and is forecasting growth of 2.3 percent for 2015 as a whole. Modernisation and renovation measures and improvements to energy efficiency are set to increase. To support the ambitious climate targets for 2020, the German Federal Government initiated the National Energy Efficiency Action Plan (NAPE) in late 2014. This includes subsidy programmes for the conversion of heating systems. The German heating industry expects this to provide additional momentum to counteract the long-standing modernisation bottleneck, as three quarters of the around 20 million heating systems in the country are obsolete and use too much energy.

Asia Pacific – Construction industry set for continued but slower growth

The long-term outlook for the Chinese construction industry remains fundamentally positive. The overheated market with booming rents and property prices has been cooling again for around a year and vacancy rates in cities have risen, meaning the property market is likely to continue to return to normal. Government programmes for affordable housing and the water industry will also continue in 2015. Despite this, the growth trend in the Chinese construction sector is likely to flatten somewhat. This forecast is also supported by the recent slowdown in the volume of new construction activity.

The change of government in India generated tangible momentum that could have a positive impact on the construction industry in the form of increased investment in infrastructure in particular. The recent upturn in residential construction is likely to continue. The number of private real estate loans granted by government banks has increased considerably. However, high financing costs may curb the upward trend. The Korean central bank expects the construction industry to weaken as a result of lower incoming orders and property sales in the previous year. By contrast, Southeast Asia expects to see further impetus for the construction industry as a result of private investment and government infrastructure programmes. Indonesia is planning to make extensive investments in water supply and disposal, among other things.

EMEA – Mixed outlook for the construction industry

The Russian construction industry is expected to continue to contract in 2015 on the back of the macroeconomic downturn, the depreciation of the rouble and extremely high interest rates. Vacancy rates for office and warehouse space have risen recently and the industry has reported lower levels of incoming orders. However, private and social housing construction has enjoyed comparatively more robust development, with projects in this area set to continue. Investments in infrastructure construction will also be boosted by the preparations for the 2018 FIFA Football World Cup.

The Turkish construction industry could enjoy more dynamic growth once again in 2015. This is reflected in the improved sentiment in the industry of late and the sharp rise in construction permits in the previous year. According to the Turkish Statistical Institute, a quarter more construction projects and a third more residential units were approved to the end of September 2014. Construction permits increased by 39 percent in terms of total space, a good half of which was attributable to residential construction projects. The prospects for a strong expansion in the Turkish construction industry will improve as the economic and political uncertainty is gradually resolved. However, high interest rates currently still pose an obstacle to a rapid upturn in construction.

Above and beyond the short-term economic and, in some cases, political conditions, the structural growth prospects for the construction industry in Africa and the Middle East are attractive, with population growth and urbanisation as the main drivers. Given the booming population growth that is expected to be seen in cities over the next ten years – particularly in the conurbations south of the Sahara – demand for residential construction, infrastructure and the water industry and the corresponding requirements are likely to increase rapidly.

Outlook for the Wilo Group

Future orientation

The Wilo Group performed well in a difficult political and global economic environment that was characterised by considerable uncertainty at times. The requirements 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 net sales and earnings achieved in recent years, the technological innovations and the global increase in workforce illustrate the stronger position of the Wilo Group compared with 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, the nations of East/West/Central Africa and Latin America.

The Wilo Group is confident that its strategic orientation, long-term innovation policy and effective crisis management will ensure its lasting future prospects. One 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 currency markets and the intensification of geopolitical crises 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

EUROPE The economic researchers from the International Monetary Fund (IMF) and renowned economic research institutes (including the IfW) are unanimously forecasting a slight increase in growth in the Europe region in 2015. In addition to private consumer demand, investment activity among companies is expected to see a recovery, with construction activity in particular feeling the benefit of this development. This is likely to result in positive impetus for the Wilo Group's business activities on the whole. However, regional development in 2015 is set to see further variation. The highest levels of net sales growth in the European region are again expected to be recorded in the Eastern European EU nations, where infrastructure investments supported by the European Union will continue. The Wilo Group expects to record a slight increase in net sales on the whole in the German-speaking countries. In the southern EU states, most of which have seen a recovery recently, the prospects for robust market growth are largely positive. However, the political and economic risks in Greece in particular are still extremely high, while the environment remains difficult in Italy and especially in France. Above and beyond the short-term economic and market influences, the positive growth trend in terms of awareness among the population of energy sustainability and the responsible use of natural resources is continuing. The Building Services market segment is likely to benefit from this to a particularly large extent. The expansion of the Wilo Group's activities as a systems and solutions provider for building technology is also likely to pay off. Business is also expected to be stimulated by the gradual intensification of regulatory provisions on CO_2 savings in the EU. With its substantial investments in Germany and France in recent years, the Wilo Group has laid the structural foundations for sustainable growth, more efficient production, flexibility and proximity to the customer. It will systematically press ahead on this growth path with the additional new buildings at its production location and administrative headquarters in Dortmund that will be constructed over the coming years at a total cost of more than EUR 60 million. Building work is set to begin in 2015. All in all, the Wilo Group expects to be able to generate moderate net sales growth in the Europe region in 2015.

ASIA PACIFIC The Asia Pacific region is expected to remain the Wilo Group's primary growth driver in 2015. The environment for the Group's business activities in this region is characterised by continued above-average macroeconomic growth by global standards and the sustained trend towards urbanisation. Although the pace of economic expansion in China is expected to continue to slow, momentum is likely to still be comparatively high and will remain attractive in light of the size of the market. It is expected that the Chinese property market, and hence the level of new construction activity, will see slower growth in 2015 than in recent years.
By contrast, demand in Korea is likely to see robust development in 2015. With its new location in Korea, the Wilo Group is well positioned to enjoy growth in this market. India and the Southeast Asian nations are expected to see particularly strong momentum in 2015, with increased investment in infrastructure and heightened construction activity in particular boosting demand for Wilo Group products. In addition to further growth in the Building Services market segment, this will also benefit activities in the water supply sector of the Water Management market segment in particular, as well as the Industry market segment. Overall, the Wilo Group is anticipating positive business performance in the Asia Pacific region and above-average growth compared with consolidated net sales in 2015.

EMEA The EMEA region is extremely heterogeneous both politically and economically, meaning that the business outlook for the Wilo Group in the individual countries in 2015 is also extremely varied. On the Russian market, growing political uncertainty, the recession and the depreciation of the rouble mean the business challenges are particularly pronounced. However, construction activity in the residential sector and around the infrastructure projects for the 2018 FIFA Football World Cup is expected to remain comparatively stable. Nevertheless, the political risks arising from the Ukraine conflict and sanctions are high. The Wilo Group has taken precautions to allow it to respond flexibly to changes in the environment and limit the risks for the company. If the situation does not escalate, the Wilo Group will continue its planned investments in Russia with due prudence in order to enable it to benefit from the above-average growth prospects in the country in the medium to long term. Turkey continues to be subject to political uncertainty, but the indicators for the construction industry have improved recently despite the high interest rates. The outlook for the Gulf region and various African countries is favourable despite the slump in oil prices, with strong population growth and urbanisation likely to act as long-term drivers for the construction industry. However, some African nations are suffering from the impact of the Ebola epidemic and terrorist conflicts. All in all, the Wilo Group expects to be able to generate slight growth in the EMEA region in 2015 in spite of the current adverse factors, although the growth rate is likely to be below-average for the Group as a whole.

Statement by the Executive Board on forecast development

The general conditions for the economy as a whole and the industry are signalling a moderate and heterogeneous recovery in global economic activities for the new financial year. At the same time, the risks arising from the prevailing geopolitical crises and a potential acid test for the European Monetary Union are especially high. As such, although the economic outlook has improved slightly, it remains uncertain and developments in the Wilo Group's markets are subject to disruption. Economic uncertainty may curb demand, particularly in light of the investment-intensive nature of key industries for the Wilo Group such as the construction and water industries. Despite the attractive long-term prospects, this could result in a temporary slowdown in business activities. The Executive Board exercises due prudence when it comes to these circumstances. Net sales and cost planning for 2015 takes these uncertainties into account, while current developments are anticipated, analysed and evaluated in a timely manner. This means the Wilo Group is well prepared to leverage the growth potential in regions that are enjoying positive development on a targeted basis, as well as rapidly implementing additional risk mitigation measures in regions that could be affected by potential setbacks. All in all, 2015 will be a year of considerable challenges. Despite this, the Executive Board of the Wilo Group is confident that the company will enjoy further positive development in this difficult environment and successfully continue on its profitable growth path.

With a high level of investment in the past three financial years, the Wilo Group has established good conditions for continuing to expand its business volume in future. Given its own strong market position and the rising demand for energy-efficient products, the Wilo Group is forecasting moderate net sales growth of up to 3 percent in the 2015 financial year, providing that the global economy develops as forecast in 2015 and there is no major volatility on the currency markets. The continued streamlined management of working capital and the targeted implementation of strategic measures will help to safeguard the company's high earnings power. Systematic cost management will also be continued and adjusted flexibly and in a timely manner as required. The Wilo Group's goal for the 2015 financial year is to grow profitably. The EBIT margin is expected to amount to around 9 percent, thereby falling within the strategic target corridor of nine to eleven percent.

The Executive Board is confident that the long-term financing structure, the extremely high equity ratio of over 45 percent, cash of almost EUR 150 million and the low level of leverage constitute a solid basis for the long-term profitable growth of the Wilo Group. Under the terms of the long-term financing instruments in place as at 31 December 2014, WILO SE is required to comply with certain standard financial ratios. WILO SE fully complied with these covenants in the 2013 and 2014 financial years and there are currently no indications that it will be unable to comply with them in future.

Overall, the risks and the impact of any possible forecasting inaccuracies regarding the development of the sales and procurement markets, and the currency markets in particular, are higher than in the past. This means the net 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 offset. However, a slowdown in global economic momentum or massive changes in the relevant exchange rates or political crises could substantially influence the growth targets of the Wilo Group.

The business targets for 2015 are embedded in the corporate strategy with "Ambition 2020". They are based on a professional and detailed planning process and take into account information on and knowledge of internal and external factors that was available at the time of this management report being prepared. Future unforeseeable developments and events may lead to changes in expectations and deviations from forecasts.

Consolidated financial statements

Consolidated income statement

for the period 1 January to 31 December 2014

EUR thousand	Note	2014	2013
Net sales	(8.1)	1,234,700	1,230,823
Cost of sales	(8.2)	–750,814	–742,976
Gross profit		**483,886**	**487,847**
Selling expenses	(8.3)	–236,639	–242,962
Administrative expenses	(8.4)	–92,375	–84,723
Research and non-capitalised development costs	(8.5)	–44,051	–43,865
Other operating income	(8.6)	20,278	22,438
Other operating expenses	(8.7)	–19,902	–13,059
Earnings before interest and taxes (EBIT)	(8.10)	**111,197**	**125,676**
Net income from investments carried at equity	(9.4)	–147	0
Net finance costs	(8.8)	–11,065	–12,582
Consolidated net income before taxes	(8.10)	**99,985**	**113,094**
Income taxes	(8.9)	–30,169	–30,123
Consolidated net income	(8.10)	**69,816**	**82,971**
of which: attributable to non-controlling interests		425	182
of which: attributable to shareholders of WILO SE		69,391	82,789
Basic and diluted earnings per share amount to EUR 7.11 (previous year: EUR 8.12) per ordinary share. EUR 7.12 (previous year: EUR 8.13) per preferred share.	(8.11)		

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2014

EUR thousand	2014	2013
Consolidated net income	**69,816**	**82,971**
Losses not reclassified to the income statement		
Remeasurement of pension obligation and plan assets	–15,455	–2,281
Income taxes	5,549	737
	–9,906	**–1,544**
Gains/losses that may be reclassified to profit or loss		
Currency translation differences	1,104	–18,980
Cash flow hedges – effective portion of changes in fair value	0	–152
Cash flow hedges – reclassification to profit or loss	152	0
Income taxes	–47	47
	1,209	**–19,085**
Other comprehensive income	**–8,697**	**–20,629**
Total comprehensive income	**61,119**	**62,342**
of which: attributable to non-controlling interests	207	132
of which: attributable to shareholders of WILO SE	60,912	62,210

Consolidated statement of financial position

as at 31 December 2014

Assets

EUR thousand	Note	31 Dec. 2014	31 Dec. 2013
Non-current assets			
Intangible assets	(9.1)	82,063	71,413
Property, plant and equipment	(9.2)	269,527	261,330
Investments carried at equity	(9.4)	5,625	2,640
Trade receivables	(9.6)	7,805	3,109
Other financial assets	(9.7)	6,026	3,875
Other receivables and assets	(9.8)	16,489	8,208
Deferred tax assets	(8.9)	29,766	24,748
		417,301	**375,323**
Current assets			
Inventories	(9.5)	190,906	187,775
Trade receivables	(9.6)	227,493	215,787
Other financial assets	(9.7)	5,257	4,674
Other receivables and assets	(9.8)	36,605	30,921
Cash	(9.9)	149,073	177,468
Assets held for sale	(9.10)	1,055	2,951
		610,389	**619,576**
Total assets		**1,027,690**	**994,899**

Equity and liabilities

EUR thousand	Note	31 Dec. 2014	31 Dec. 2013
Equity	(9.11)		
Issued capital		26,980	26,980
Capital reserves		14,527	14,527
Other reserves		476,414	448,686
Treasury share reserve		-40,849	-13,086
Equity attributable to the shareholders of WILO SE		477,072	477,107
Non-controlling interests		49	-158
		477,121	**476,949**
Non-current liabilities			
Financial liabilities	(9.12)	156,729	157,241
Trade payables	(9.13)	1,076	1,091
Other financial liabilities	(9.14)	6,538	10,330
Other liabilities	(9.15)	1,096	1,347
Provisions for pensions and similar obligations	(9.16)	80,906	62,983
Other provisions	(9.17)	3,909	3,225
Deferred tax liabilities	(8.9)	19,546	17,602
		269,800	**253,819**
Current liabilities			
Financial liabilities	(9.12)	9,735	12,734
Trade payables	(9.13)	106,931	106,490
Other financial liabilities	(9.14)	40,124	37,239
Other liabilities	(9.15)	85,529	69,030
Other provisions	(9.17)	38,450	38,638
		280,769	**264,131**
Total equity and liabilities		**1,027,690**	**994,899**

Consolidated statement of cash flows

for the period 1 January to 31 December 2014

EUR thousand	2014	2013	Change
Earnings before interest and taxes (EBIT)	**111,197**	**125,676**	**–14,479**
Depreciation and amortisation of intangible assets and property, plant and equipment	47,880	44,183	3,697
Increase/decrease in provisions	992	–7,116	8,108
Gains on the disposal of property, plant and equipment	–711	–6,180	5,469
Increase in inventories	–2,823	–5,326	2,503
Increase/decrease in trade receivables	–14,370	2,906	–17,276
Decrease/increase in trade payables	–2,403	14,402	–16,805
Increase/decrease in other assets/liabilities not attributable to investing or financing activities	8,736	–5,218	13,954
Other non-cash income	–3,263	–3,303	40
Operating cash flow before income taxes	**145,235**	**160,024**	**–14,789**
Income taxes	–35,463	–29,809	–5,654
Cash flow from operating activities	**109,772**	**130,215**	**–20,443**
Purchases of intangible assets	–14,207	–6,952	–7,255
Disposals of property, plant and equipment	5,968	8,476	–2,508
Purchases of property, plant and equipment	–51,890	–56,967	5,077
Purchases of consolidated companies	–253	–7,277	7,024
Other purchases attributable to investing activities	–3,361	–419	–2,942
Cash flow from investing activities	**–63,743**	**–63,139**	**–604**
Dividend payments	–33,120	–31,233	–1,887
Proceeds from borrowings of financial liabilities	0	37,000	–37,000
Repayment of financial liabilities	–7,367	–48,748	41,381
Purchases of treasury shares	–27,763	–15,840	–11,923
Disposals of treasury shares	0	3,375	–3,375
Interest received	1,561	2,288	–727
Interest paid	–9,569	–10,052	483
Dividends received	0	45	–45
Cash flow from financing activities	**–76,258**	**–63,165**	**–13,093**
Change in cash	–30,229	3,911	–34,140
Effects of exchange rate changes on cash	1,834	–2,965	4,799
Cash at beginning of period	177,468	176,522	946
Cash at end of period	**149,073**	**177,468**	**–28,395**

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

Consolidated statement of changes in equity

for the period 1 January 2013 to 31 December 2014

EUR thousand	Issued capital	Capital reserve	Retained earnings	Currency translation reserve	Hedging reserve	Reserve for remeasure-ment of pensions	Treasury share reserve	Equity attributable to WILO SE shareholders	Non-con-trolling interests	**Equity**
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**
1 Jan. 2014	**26,980**	**14,527**	**490,507**	**–27,978**	**–105**	**–13,738**	**–13,086**	**477,107**	**–158**	**476,949**
Consolidated net income 2014	0	0	69,391	0	0	0	0	69,391	425	69,816
Other comprehensive income	0	0	0	1,322	105	–9,906	0	–8,479	–218	–8,697
Dividend payment	0	0	–33,120	0	0	0	0	–33,120	0	–33,120
Purchases of treasury shares	0	0	0	0	0	0	–27,763	–27,763	0	–27,763
Other changes	0	0	–64	0	0	0	0	–64	0	–64
31 Dec. 2014	**26,980**	**14,527**	**526,714**	**–26,656**	**0**	**–23,644**	**–40,849**	**477,072**	**49**	**477,121**

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

Notes to the consolidated financial statements

(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 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with all interpretations of the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee, IFRIC) applicable for the 2014 financial year. WILO SE exercises the option provided for in section 315a(3) of the Handelsgesetzbuch (HGB – German Commercial Code) and is therefore not required to prepare consolidated financial statements in accordance with German commercial law. To ensure equivalence with consolidated financial statements prepared in accordance with German commercial law, the disclosure requirements of section 315a (1) HGB are met in addition to the IFRS disclosure requirements. The consolidated financial statements are 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 following standards, interpretations and amendments to existing standards were adopted for the first time in the 2014 financial year, but had no material effect on the consolidated financial statements of WILO SE:

- 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 and Continuation of 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

The first-time adoption of IFRS 12 "Disclosure of Interests in Other Entities" meant that the corresponding disclosures in the notes to the financial statements were expanded.

The following standards, amendments to existing standards and interpretations issued by the IASB and the IFRS Interpretations Committee are not yet effective in the 2014 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 1 “Presentation of Financial Statements” – Disclosures
- Amendment to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendment to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Bearer Plants
- Amendment to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions
- Amendment to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements
- IFRS 9 “Financial Instruments” – Classification of Financial Assets and Financial Liabilities and subsequent amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures, Hedge Accounting
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates” – Investment Entities: Applying the Consolidation Exception
- Amendment to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 “Regulatory Deferral Accounts”
- IFRS 15 “Revenue from Contracts with Customers”
- IFRIC 21 “Levies”
- Various amendments as part of the “Improvements to International Financial Reporting Standards 2010–2012, 2011–2013 and 2012–2014”

The effects of the first-time adoption of IFRS 9 and IFRS 15 and the amendments to IAS 1 are currently still being investigated. The first-time adoption of the other standards, interpretations and amendments to existing standards listed above are not expected to have an effect on the consolidated financial statements of WILO SE.

(4.) Basis of consolidation

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

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

In addition to WILO SE, the consolidated financial statements as at 31 December 2014 include six (previous year: five) German entities and 54 (previous year: 54) foreign subsidiaries. In addition, one associate (previous year: none) and one joint venture (previous year: one) are included in the consolidated financial statements using the equity method.

One German and three foreign subsidiaries were formed in the 2014 financial year. However, on account of their immateriality, they were not included in the consolidated financial statements as at 31 December 2014. One German and one foreign subsidiary, which were immaterial in the previous year, were consolidated for the first time. In addition, all of the shares held by WILO SE in a foreign subsidiary were sold. The income accompanying the loss of control amounted to EUR 313 thousand and was recognised in other operating income.

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 final purchase price allocation: goodwill (EUR 6,620 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. Acquisition cost was EUR 8,313 thousand; the purchase price was settled in full by the transfer of cash. Acquisition cost was EUR 253 thousand higher than in the preliminary purchase price allocation, meaning that goodwill was also EUR 253 thousand higher.

In April 2014, WILO SE acquired all of the shares in OL Objekt Leasing GmbH Co. KG, Dortmund, for a purchase price of EUR 3,045 thousand. It also acquired all of the shares in the limited liability general partner OL Objekt Leasing Verwaltungsgesellschaft mbH, Dortmund, for a purchase price of EUR 50 thousand. OL Objekt Leasing GmbH & Co. KG was the owner of a property that was leased to WILO SE together with the office building and production hall built on the property. The assets and liabilities of OL Objekt Leasing GmbH & Co. KG were transferred to WILO SE by way of accretion. The purchase price, which was paid in cash in full, primarily relates to the property and cash acquired.

In April 2014, WILO SE acquired 15 percent of the shares in iEXERGY GmbH, Münster. iEXERGY is an innovative company supported by the German Federal Ministry for Economic Affairs and Technology specialising in the development of smart home solutions. Further information can be found in note (9.4) of the notes to the consolidated financial statements.

(5.) Consolidation methods

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

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

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

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

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

(6.) Currency translation

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

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

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

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

Exchange rates

		Annual average rate		Rate as at 31 December	
	EUR 1 =	**2014**	2013	**2014**	2013
Pound sterling	GBP	0.8028	0.8497	0.7818	0.8331
Chinese renminbi (yuan)	CNY	8.1575	8.1686	7.5550	8.3314
Indian rupee	INR	80.7777	78.5205	77.4729	85.2246
Polish zloty	PLN	4.1955	4.2159	4.2902	4.1508
Russian rouble	RUB	51.5000	42.5912	67.5895	45.2582
Swedish krona	SEK	9.1184	8.6664	9.4275	8.8263
Swiss franc	CHF	1.2124	1.2288	1.2024	1.2267
South Korean won	KRW	1,391.4131	1,455.7913	1,337.3534	1,452.9692
Turkish lira	TRY	2.8937	2.5646	2.8327	2.9450
US dollar	USD	1.3219	1.3301	1.2166	1.3767

(7.) Accounting policies

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

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

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 are 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 62,662 thousand as at the end of the reporting period (previous year: EUR 61,683 thousand). Further information can be found in "Intangible assets" and "Impairment of assets" (note (7)) and note (9.1).

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

Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. The discounted future cash flow of the asset in question must be determined to calculate its value in use. The estimate of discounted future cash flows includes significant assumptions, e.g. the discount rate. Although the management presumes that its assumptions of general economic conditions, estimates of discounted future cash 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 the future if the trends identified by the management reverse or if its assumptions or estimates prove to be incorrect. The Wilo Group reported property, plant and equipment of EUR 269,527 thousand as at the end of the reporting period (previous year: EUR 261,330 thousand).

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 14,192 thousand (previous year: EUR 12,968 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 42,359 thousand (previous year: EUR 41,863 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 are formed and defined by products and applications and are subject to management judgement.

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

EXPENSE AND REVENUE RECOGNITION Revenue is normally recognised when service is rendered or goods are delivered and the associated risks and rewards are substantially transferred to customers. Net sales 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. On a cumulative basis, the recognition criteria for the capitalisation of development costs in accordance with IAS 38 were met for the first time in 2014. In the year under review, development costs were capitalised in the amount of EUR 7,342 thousand, including EUR 196 thousand in capitalised borrowing costs.

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

If this is the case, these direct borrowing costs are capitalised as incidental costs of acquisition of the qualified asset. Qualifying assets are assets which require a substantial period of time to bring them to a condition suitable for use or sale. In the 2014 financial year, borrowing costs were capitalised in the amount of EUR 196 thousand (previous year: 0). This figure related solely to capitalised development costs. The borrowing cost rate, which forms the basis for determining the capitalisable borrowing costs, was 3.75 percent in the year under review (previous year: 3.96 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 10 and 60 years; leasehold improvements and buildings on third-party land are depreciated over the shorter of the lease term or their useful life. The useful lives for technical equipment and machinery are up to 14 years. Operating and office equipment subject to normal use are depreciated over 3 to 13 years. Significant parts of an asset that meet the criteria set out in IAS 16 are accounted for using the component approach. The depreciation for the financial year is allocated to the corresponding functional areas.

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

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

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

IMPAIRMENT OF ASSETS Assets are tested for impairment at the end of each reporting period. 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 12.6 percent before income taxes was used in the 2014 financial year (previous year: between 11.9 percent and 12.5 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:

2014 financial year

Division	Goodwill in EUR thousand	Long-term growth factor %	Discount rate before taxes %
Submersible & High Flow	30,201	0.9	11.9
Pumps & Systems	25,238	0.5	12.3
Circulators	7,223	0.1	12.6

2013 financial year

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

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 key parameters, in particular the discount rate before tax and the long-term growth rate, are implemented in a sensitivity analysis.

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

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

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

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

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

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

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

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

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

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

- *Held-to-maturity investments* are non-derivative financial assets that are quoted on an active market with fixed or determinable payments and a fixed maturity to which they are held. These are measured at amortised cost using the effective interest method. No financial assets of this category were reported by the Wilo Group as at 31 December 2014 or 2013.

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

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

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

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

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

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

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

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

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

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

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

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

Non-derivative financial instruments are used to a small extent to hedge future cash flows from hedged items against currency fluctuations. For those 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, employer pension liability assets, deferrals, and receivables from employees that are not financial assets. These other receivables and assets are measured at amortised cost.

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

Deferred tax assets are also recognised in respect of the expected utilisation of unused tax loss carryforwards in subsequent years provided the tax loss carryforwards are sufficiently likely to be utilised. Deferred tax assets are tested for impairment as at the end of the reporting period. The Wilo Group also recognises deferred tax liabilities for the tax expenses to arise on the expected profit distributions by the consolidated subsidiaries to WILO SE in 2015.

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 2014 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 financial instruments with negative fair values. Derivative liabilities are classified as financial liabilities at fair value through profit and loss or financial liabilities held for trading in accordance with IAS 39. In the Wilo Group, financial liabilities consist of liabilities due to banks, trade payables and liabilities reported under other financial liabilities.

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

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

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

Financial assets and financial liabilities are generally reported without offsetting.

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

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

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

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

Calculation parameters for pension obligations

Figures in %	31 Dec. 2014	31 Dec. 2013
Discount rate	1.86	2.95
Pension adjustment	2.00	1.79
Salary increase	3.30	3.96

The net interest expense is calculated by multiplying the net pension liability by the discount rate of 1.86 percent (previous year: 2.95 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

	2014		2013	
	EUR thousand	%	EUR thousand	%
Europe	700,922	56.8	698,061	56.7
Asia Pacific	298,427	24.2	288,436	23.5
EMEA	201,889	16.3	211,748	17.2
Others	33,462	2.7	32,578	2.6
Total	**1,234,700**	**100.0**	**1,230,823**	**100.0**

(8.2) Cost of sales

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

Cost of sales

EUR thousand	2014	2013
Cost of materials	-520,295	-524,063
Staff costs	-131,161	-121,872
Depreciation and amortisation of intangible assets and property, plant and equipment	-31,381	-28,954
Third-party maintenance	-8,562	-8,938
Rental payments	-4,028	-3,824
Other staff costs	-3,485	-3,581
Travel and entertainment expenses	-2,785	-2,897
Other	-49,117	-48,847
Total	**-750,814**	**-742,976**

(8.3) Selling expenses

Selling expenses

EUR thousand	2014	2013
Staff costs	-125,627	-123,818
Outgoing freight	-23,884	-25,271
Advertising costs	-22,936	-25,209
Sales force	-17,937	-17,942
Rental payments	-10,222	-11,034
Depreciation and amortisation of intangible assets and property, plant and equipment	-5,950	-5,671
Legal and consulting costs	-2,440	-3,619
Write-downs on trade receivables (net)	-1,904	-2,049
Defaults	-806	-931
Other	-24,933	-27,418
Total	**-236,639**	**-242,962**

(8.4) Administrative expenses

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

Administrative expenses

EUR thousand	2014	2013
Staff costs	-49,138	-45,026
Depreciation and amortisation of intangible assets and property, plant and equipment	-8,008	-7,355
Legal and consulting costs	-8,227	-6,563
Rental payments	-3,368	-3,077
Travel and entertainment expenses	-2,934	-3,131
Other staff costs	-2,759	-2,739
Communication costs	-1,732	-2,043
Other	-16,209	-14,789
Total	**-92,375**	**-84,723**

(8.5) Research and non-capitalised development costs

Research and non-capitalised development costs

EUR thousand	2014	2013
Staff costs	-33,495	-27,967
External services	-5,237	-4,621
Depreciation and amortisation of intangible assets and property, plant and equipment	-2,541	-2,203
Legal and consulting costs	-1,113	-1,148
Other	-8,811	-7,926
	-51,197	-43,865
Capitalised development costs	7,146	0
Research and non-capitalised development costs	**-44,051**	**-43,865**

(8.6) Other operating income

Other operating income

EUR thousand	2014	2013
Foreign-currency gains from operating activities	10,412	8,270
Income from disposals of intangible assets and property, plant and equipment	2,609	6,731
Government grants	2,093	2,291
Insurance compensation	502	182
Rental income	495	459
Gain from deconsolidation	313	0
Other	3,854	4,505
Total	**20,278**	**22,438**

The foreign-currency gains from operating activities of EUR 10,412 thousand (previous year: EUR 8,270 thousand) mainly consist of gains due to exchange rate changes between the inception and settlement of foreign-currency receivables and liabilities, and foreign-currency gains resulting from measurement at the exchange rate as at the end of the reporting period. Foreign-currency losses of EUR 12,066 thousand (previous year: EUR 9,448 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.

(8.7) Other operating expenses

Other operating expenses

EUR thousand	2014	2013
Foreign-currency losses from operating activities	-12,066	-9,448
Losses on disposals of intangible assets and property, plant and equipment	-1,898	-551
Other	-5,938	-3,060
Total	**-19,902**	**-13,059**

(8.8) Net finance costs

Net finance costs break down as follows:

Net finance costs

EUR thousand	2014	2013
Net interest costs	-8,008	-7,764
Other net finance costs	-3,057	-4,818
Total	**-11,065**	**-12,582**

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

Net interest costs

EUR thousand	2014	2013
Interest income on cash and on loans granted	1,299	1,848
Settlement of derivative financial instruments	262	440
Interest income	**1,561**	**2,288**
Interest expenses on financial liabilities	-9,276	-9,763
Interest on finance leases	-293	-289
Interest expenses	**-9,569**	**-10,052**
Total	**-8,008**	**-7,764**

Other net finance costs break down as follows:

Other net finance

EUR thousand	2014	2013
Gains on derivative financial instruments	3,747	935
Foreign-currency gains from financing activities	711	1,360
Dividends from associates	0	45
Other financial income	**4,458**	**2,340**
Losses on derivative financial instruments	-1,437	-2,806
Foreign-currency losses from financing activities	-4,120	-2,488
Interest rate effects from pensions, non-current liabilities and receivables	-1,955	-1,863
Other	-3	-1
Other financial expenses	**-7,515**	**-7,158**
Total	**-3,057**	**-4,818**

Gains and losses on derivative financial instruments in the financial years 2014 and 2013 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 2014 financial year, the net utilisation and measurement of commodity derivatives reduced net other financial income by EUR 1,155 thousand. In the previous year, this effect reduced net financial income by EUR 1,270 thousand.

Secondly, the gains and losses from derivative financial instruments are significantly influenced by the change in the fair value of the cross-currency interest rate swaps that hedge the bonds 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 749 thousand (previous year: EUR 4,158 thousand) as at the end of the reporting period. The gain on the remeasurement of this cross-currency interest rate swap of EUR 3,409 thousand is reported under gains on derivative financial instruments. A loss of EUR 1,290 thousand was reported under losses on derivative financial instruments in the previous year.

The gain on the remeasurement of the cross-currency interest rate swap is offset by a loss from the translation of the senior note maturing in 2016 of EUR 3,855 thousand, which is shown under foreign-currency losses from financing activities in the amount of EUR 4,120 thousand. In the previous year, the gain on the translation of the senior note amounted to EUR 1,287 thousand and was 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

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

Income taxes

EUR thousand	2014	2013
Current tax expenses/income		
– reporting year	–26,454	–28,680
– adjustments for prior periods	–1,241	145
Current income taxes	**–27,695**	**–28,535**
Deferred tax income/expense		
– from unutilised loss carryforwards	–1,055	–189
– from changes in tax rates	405	–404
– from the creation and reversal of temporary differences	–1,796	–514
– from write-downs and reversals of write-downs on deferred tax assets	–28	–481
Deferred tax income/expense	**–2,474**	**–1,588**
Income taxes	**–30,169**	**–30,123**

The calculation of current income taxes in Germany for 2014 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 balance sheet item

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

Deferred taxes by balance sheet item

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	**2014**	2013	**2014**	2013
Intangible assets	105	446	3,420	989
Property, plant and equipment	1,761	1,010	6,105	5,089
Inventories	4,268	3,840	154	142
Receivables and other assets	2,548	2,018	694	257
	8,682	**7,314**	**10,373**	**6,477**
Financial liabilities	0	0	554	1,849
Trade payables	443	372	3	4
Pensions and similar obligations	14,867	8,945	0	6
Other provisions and liabilities	5,060	6,290	9,225	9,817
Tax loss carryforwards	1,323	2,378	0	0
	21,693	**17,985**	**9,782**	**11,676**
Offsetting of deferred tax assets and liabilities	–609	–551	–609	–551
Carrying amount	**29,766**	**24,748**	**19,546**	**17,602**

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. 2013	Recognised in profit or loss	Recognised in other comprehensive income	**Net amount of deferred tax assets/liabilities as at 31 Dec. 2014**
Intangible assets	–543	–2,772	0	–3,315
Property, plant and equipment	–4,079	–265	0	–4,344
Inventories	3,698	416	0	4,114
Receivables and other assets	1,760	94	0	1,854
Financial liabilities	–1,849	1,295	0	–554
Trade payables	368	72	0	440
Pensions and similar obligations	8,939	380	5,549	14,867
Other provisions and liabilities	–3,526	–639	0	–4,165
Tax loss carryforwards	2,378	–1,055	0	1,323
Total	**7,146**	**–2,474**	**5,549**	**10,220**

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

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2012	Recognised in profit or loss	Recognised in other comprehensive income	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
Total	**7,997**	**–1,588**	**737**	**7,146**

Deferred tax expenses and income recognised in other comprehensive income relates exclusively to the actuarial changes of the present value of the pension obligations and the remeasurement of the related plan assets. Relevant deferred tax assets total EUR 13,094 thousand (previous year: EUR 7,576 thousand).

Unutilised tax loss carryforwards amounted to EUR 63,653 thousand (previous year: EUR 56,798 thousand) as at the end of the reporting period, EUR 7,289 thousand of which (previous year: EUR 4,158 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 56,364 thousand (previous year: EUR 52,640 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 21,546 thousand (previous year: EUR 19,420 thousand). EUR 20,223 thousand (previous year: EUR 17,042 thousand) of this total was not recognised as at the end of the reporting period as it was not sufficiently likely that they will be utilised in future.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, deferred tax liabilities of EUR 3,109 thousand (previous year: EUR 2,550 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 118,937 thousand at subsidiaries as at 31 December 2014 (previous year: EUR 110,712 thousand) intended for long-term investment, for which no deferred tax liabilities were therefore recognised.

RECONCILIATION OF INCOME TAXES The combined statutory tax rate of 15.8 percent consisting of corporation tax and the solidarity surcharge plus the trade tax of approximately 15.0 percent (previous year: 30.8 percent) was used to calculate deferred taxes in Germany for the 2014 financial year. The Wilo Group reported tax expenses of EUR 30,169 thousand (previous year: EUR 30,123 thousand) in its consolidated income statement for 2014. This is EUR 627 thousand lower (previous year: EUR 4,710 thousand lower) than the expected tax expense of EUR 30,796 thousand (previous year: EUR 34,833 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	2014	2013
Consolidated net income before taxes	99,985	113,094
Expected tax expense	**-30,796**	**-34,833**
Tax rate changes	405	-404
Difference from foreign tax rates	6,377	4,294
Goodwill impairment and temporary differences arising on consolidation	-81	878
Other permanent differences	-9,433	-6,375
Tax-free income	9,688	8,200
Unrecognised deferred tax assets on tax loss carryforwards	-1,606	80
Withholding tax	-3,001	-2,140
Prior-period taxes	-1,241	145
Other	-481	32
Current tax expense	**-30,169**	**-30,123**

(8.10) Consolidated net income

Consolidated net income

EUR thousand	2014	2013
Earnings before interest and taxes (EBIT)	**111,197**	**125,676**
Net income from investments carried at equity	-147	0
Net finance costs	-11,065	-12,582
Consolidated net income before taxes	**99,985**	**113,094**
Income taxes	-30,169	-30,123
Consolidated net income	**69,816**	**82,971**

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

(8.11) Earnings per share

Earnings per share are determined by dividing consolidated net income attributable to WILO SE shareholders by the weighted average number of shares outstanding in the financial year. Both basic and diluted earnings per ordinary share amount to EUR 7.11 (previous year: EUR 8.12). Both basic and diluted earnings per preferred share amount to EUR 7.12 (previous year: EUR 8.13). Both figures were calculated after deducting income attributable to non-controlling interests.

Earnings per share

	2014	2013
Consolidated net income in EUR thousand	69,816	82,971
of which: attributable to non-controlling interests	425	182
of which: attributable to shareholders of WILO SE	69,391	82,789
Number of ordinary shares as at 31 Dec.	9,640,000	9,868,290
Weighted average number of ordinary shares outstanding	9,698,975	9,738,148
Number of preferred shares as at 31 Dec.	0	259,418
Weighted average number of preferred shares outstanding	67,016	259,418
Earnings per ordinary share (EUR)	**7.11**	**8.12**
Earnings per preferred share (EUR)	**7.12**	**8.13**

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

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2014 and 2013:

Intangible assets

EUR thousand	Patents and property rights	Goodwill	Capitalised development costs	Advance payments	Total
Cumulative cost					
As at 1 January 2013	29,274	63,560	0	548	93,382
Currency translation	–8	–552	0	168	–392
Additions	4,440	0	0	2,512	6,952
Additions due to business combinations	7	6,367	0	0	6,374
Disposals	–622	0	0	0	–622
Reclassifications	219	0	0	–219	0
As at 31 December 2013	**33,310**	**69,375**	**0**	**3,009**	**105,694**
As at 1 January 2014	33,310	69,375	0	3,009	105,694
Currency translation	165	902	0	0	1,067
Additions	4,289	253	7,342	2,576	14,460
Disposals	–183	–2,099	0	0	–2,282
Reclassifications	4,400	0	0	–4,400	0
As at 31 December 2014	**41,981**	**68,431**	**7,342**	**1,185**	**118,939**
Cumulative amortisation					
As at 1 January 2013	23,258	7,780	0	0	31,038
Currency translation	–142	–88	0	0	–230
Amortisation in the financial year	4,099	0	0	0	4,099
Disposals	–626	0	0	0	–626
As at 31 December 2013	**26,589**	**7,692**	**0**	**0**	**34,281**
As at 1 January 2014	26,589	7,692	0	0	34,281
Currency translation	239	176	0	0	415
Amortisation in the financial year	4,462	0	0	0	4,462
Disposals	–183	–2,099	0	0	–2,282
As at 31 December 2014	**31,107**	**5,769**	**0**	**0**	**36,876**
Residual carrying amounts					
As at 1 January 2013	6,016	55,780	0	548	62,344
As at 31 December 2013	**6,721**	**61,683**	**0**	**3,009**	**71,413**
As at 1 January 2014	6,721	61,683	0	3,009	71,413
As at 31 December 2014	**10,874**	**62,662**	**7,342**	**1,185**	**82,063**

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 2014 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 2014 financial year:

Development of goodwill per division

EUR thousand	1 Jan. 2014	Additions	Currency translation	**31 Dec. 2014**
Division				
Submersible & High Flow	30,054	0	147	30,201
Pumps & Systems	24,481	253	504	25,238
Circulators	7,148	0	75	7,223
Total	**61,683**	**253**	**726**	**62,662**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2014 and 2013 financial years:

Property, plant and equipment

EUR thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments made and assets under construction	Total
Cumulative cost					
As at 1 January 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 December 2013	**163,089**	**175,734**	**231,433**	**14,294**	**584,550**
As at 1 January 2014	163,089	175,734	231,433	14,294	584,550
Currency translation	1,904	3,079	1,722	54	6,759
Additions	3,967	10,159	18,252	19,512	51,890
Reclassifications	3,520	3,907	7,026	–14,453	0
Disposals	–2,975	–3,789	–8,764	–1,079	–16,607
As at 31 December 2014	**169,505**	**189,090**	**249,669**	**18,328**	**626,592**
Cumulative depreciation					
As at 1 January 2013	44,729	108,071	150,583	0	303,383
Currency translation	–547	–1,304	–1,177	0	–3,028
Depreciation in the financial year	5,644	11,433	23,007	0	40,084
Reclassifications	0	65	–65	0	0
Disposals	–2,616	–4,529	–10,074	0	–17,219
As at 31 December 2013	**47,210**	**113,736**	**162,274**	**0**	**323,220**
As at 1 January 2014	47,210	113,736	162,274	0	323,220
Currency translation	677	1,590	1,407	0	3,674
Depreciation in the financial year	5,294	12,737	25,387	0	43,418
Reclassifications	238	–12	–226	0	0
Disposals	–1,370	–3,390	–8,487	0	–13,247
As at 31 December 2014	**52,049**	**124,661**	**180,355**	**0**	**357,065**
Residual carrying amounts					
As at 1 January 2013	97,092	57,789	59,578	41,485	255,944
As at 31 December 2013	**115,879**	**61,998**	**69,159**	**14,294**	**261,330**
As at 1 January 2014	115,879	61,998	69,159	14,294	261,330
As at 31 December 2014	**117,456**	**64,429**	**69,314**	**18,328**	**269,527**

Property, plant and equipment includes leased assets in the amount of EUR 4,839 thousand (previous year: EUR 5,494 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. 2014	31 Dec. 2013
Buildings	579	674
Operating and office equipment	4,260	4,820
Total	**4,839**	**5,494**

The total future minimum lease payments and the reconciliation to their present value are shown in the table below. The carrying amount of the corresponding liabilities as at the end of the reporting period was EUR 4,462 thousand (previous year: EUR 5,247 thousand).

Minimum lease payments

EUR thousand	31 Dec. 2014	31 Dec. 2013
Total minimum lease payments	4,945	5,747
Interest portion	-483	-500
Present value	**4,462**	**5,247**
Due within one year	1,800	2,213
Due in one to five years	2,662	3,034

(9.3) Operating leases

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

Operating leases

EUR thousand	31 Dec. 2014	31 Dec. 2013
Total minimum lease payments	**43,077**	**38,066**
Due within one year	12,568	14,427
Due in one to five years	27,160	21,415
Due after five years	3,349	2,224

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 17,726 thousand (previous year: EUR 18,036 thousand) were recognised in profit or loss in the year under review.

(9.4) Investments carried at equity

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

WILO Middle East has not had any operating activities since November 2008. The official liquidation process for this company was opened in the 2011 financial year and is expected to be concluded in 2015.

In April 2014, WILO SE acquired a minority interest in IEXERGY GmbH. WILO SE holds less than 20 percent of the voting rights. Despite this, WILO SE is considered to exercise significant influence as it is entitled to appoint a member of management or, respectively, the advisory board.

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

Investments carried at equity

EUR thousand	2014	2013
Carrying amount of investments in associates	5,625	2,640
Interest in net loss for the year	-147	0

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

(9.5) Inventories

Inventories

EUR thousand	31 Dec. 2014	31 Dec. 2013
Raw materials and supplies	69,718	71,221
Work in progress	17,562	20,638
Finished goods and goods for resale	103,454	95,727
Advance payments	172	189
Total	**190,906**	**187,775**

The write-down on inventories results from the difference between the lower of cost and the net realisable value. As at 31 December 2014, the write-down on inventories amounted to EUR 20,414 thousand (previous year: EUR 20,464 thousand) with a gross carrying amount of EUR 211,320 thousand (previous year: EUR 208,239 thousand). Reversals of write-downs of EUR 50 thousand (previous year: EUR 1,167 thousand) were recognised in profit or loss under cost of sales in the 2014 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 in the Wilo Group. Current trade receivables of EUR 227,493 thousand (previous year: EUR 215,787 thousand) are due in the 2015 financial year. Non-current trade receivables of EUR 7,805 thousand (previous year: EUR 3,109 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 2014 and 2013 financial years:

Specific valuation allowances

EUR thousand	2014	2013
As at 1 January	10,571	10,085
Additions	1,557	2,365
Utilisation	-664	-1,678
Reversals	-301	-201
As at 31 December	**11,163**	**10,571**

General valuation allowances

EUR thousand	2014	2013
As at 1 January	2,397	2,648
Additions	962	336
Utilisation	-16	-136
Reversals	-314	-451
As at 31 December	**3,029**	**2,397**

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

(9.7) Other financial assets

Other financial assets break down as follows as at 31 December 2014 and 2013:

Other financial assets

	31 Dec. 2014			31 Dec. 2013		
		of which with a remaining term			of which with a remaining term	
EUR thousand	Total	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year
Receivables from unconsolidated subsidiaries, jointly controlled entities and associates	303	303	0	348	348	0
Receivables from derivative financial instruments	426	324	102	1,190	870	320
Loans	1,041	0	1,041	118	0	118
Available-for-sale financial assets	1,286	0	1,286	367	0	367
Other financial receivables	8,227	4,630	3,597	6,526	3,456	3,070
Total	**11,283**	**5,257**	**6,026**	**8,549**	**4,674**	**3,875**

Available-for-sale financial assets include equity securities of EUR 1,279 thousand (previous year: EUR 359 thousand) whose fair value could not be derived from stock exchange or market prices, or from discounting reliably determined future cash flows. These equity securities were measured at amortised cost.

The 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 2014 and 2013:

Other receivables and assets

	31 Dec. 2014			31 Dec. 2013		
		of which with a remaining term			of which with a remaining term	
EUR thousand	Total	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year
Tax assets	41,339	27,196	14,143	29,217	23,610	5,607
Advance payments	7,116	7,100	16	4,617	4,602	15
Employer pension liability assets	2,299	0	2,299	2,457	0	2,457
Deferred expenses	1,652	1,634	18	2,197	2,107	90
Employee receivables	688	675	13	641	602	39
Total	**53,094**	**36,605**	**16,489**	**39,129**	**30,921**	**8,208**

(9.9) Cash

The cash of EUR 149,073 thousand (previous year: EUR 177,468 thousand) mainly comprises cash and sight deposits at banks. There are restrictions on title of EUR 684 thousand (previous year: EUR 316 thousand).

(9.10) Assets held for sale

The assets held for sale in the amount of EUR 1,055 thousand (previous year: EUR 2,951 thousand) include land and buildings of the previous location in Beijing, China, which is no longer used. The disposal process for these assets began in the previous 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

	2014	2013
As at 1 January	9,868,290	10,117,331
Purchases of treasury shares	-228,290	-311,302
Disposals of treasury shares	0	62,261
As at 31 December	**9,640,000**	**9,868,290**

Number of preferred shares

	2014	2013
As at 1 January	259,418	259,418
Purchases of treasury shares	-259,418	0
As at 31 December	**0**	**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 2014 and 2013:

Other reserves

EUR thousand	2014	2013
As at 1 January	448,686	416,795
Attributable to the shareholders of WILO SE		
Consolidated net income	69,391	82,789
Other comprehensive income	-8,479	-20,579
Dividend payment	-33,120	-31,233
Other changes	-64	914
As at 31 December	**476,414**	**448,686**

TREASURY SHARES The company reported 477,331 ordinary shares and 259,418 preferred shares as treasury shares as of 31 December 2014. In the previous year, it reported 249,041 ordinary shares and no preferred shares as treasury shares.

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

DIVIDENDS Dividends of EUR 33,120 thousand (previous year: EUR 31,233 thousand) were distributed to the shareholders of WILO SE in the 2014 financial year. This corresponded to a dividend per ordinary share of EUR 3.27 (previous year: EUR 3.04) and a dividend per preferred share of EUR 3.28 (previous year: EUR 3.05).

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 2014 was EUR 477,121 thousand (previous year: EUR 476,949 thousand). This is mostly accounted for by EUR 524,016 thousand (previous year: EUR 487,809 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 2014 and 2013 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 2014 and 2013:

Financial liabilities

EUR thousand	31 Dec. 2014	31 Dec. 2013
Non-current financial liabilities		
with a remaining term		
of between one and five years	42,330	40,389
of more than five years	114,399	116,852
Total	**156,729**	**157,241**
Current financial liabilities		
with a remaining term		
of less than one year	**9,735**	**12,734**

WILO SE reported the following material financing agreements as at 31 December 2014:

- **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 40.0 million each) maturing in 2013 and 2016 and with fixed annual 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 32.9 million as at the end of the reporting period (previous year: EUR 29.1 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") 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 15.0 million (previous year: EUR 17.5 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 2.1 million (previous year: EUR 6.2 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 2014 and 2013 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 897 thousand (previous year: EUR 1,103 thousand).

The fair value of the financial liabilities, calculated by banks using net present value models, was EUR 197,021 thousand (previous year: EUR 194,806 thousand) as at 31 December 2014.

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2015 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 2014 and 2013:

Maturity structure of financial liabilities

As at 31 Dec. 2014

EUR million	Nominal amount	Carrying amount	Maturity structure 2015	2016	2017	2018	2019–20	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	32.9	0.0	32.9	0.0	0.0	0.0	0.0	0.0	32.9
Promissory note loan 2020	EUR 25.0 million	15.0	2.5	2.5	2.5	2.5	5.0	0.0	0.0	15.0
Promissory note loan 2015	EUR 25.0 million	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	2.1
		162.0	**4.6**	**35.4**	**2.5**	**2.5**	**5.0**	**75.0**	**37.0**	**162.0**
Overdraft		4.5	4.5	0.0	0.0	0.0	0.0	0.0	0.0	4.5
Financial liabilities		**166.5**	**9.1**	**35.4**	**2.5**	**2.5**	**5.0**	**75.0**	**37.0**	**166.5**

As at 31 Dec. 2013

EUR million	Nominal amount	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**

(9.13) Trade payables

Trade payables break down as follows as at 31 December 2014 and 2013:

Trade payables

EUR thousand	31 Dec. 2014	31 Dec. 2013
Trade payables		
with a remaining term		
of between one and five years	1,076	1,091
of less than one year	106,931	106,490
Total	**108,007**	**107,581**

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 2014 and 2013:

Other financial liabilities

EUR thousand	31 Dec. 2014	31 Dec. 2013
Non-current other financial liabilities		
Liabilities from derivative financial instruments		
with a remaining term of between one and five years	749	4,170
Finance lease liabilities		
with a remaining term of between one and five years	2,662	3,034
Miscellaneous financial liabilities		
with a remaining term of between one and five years	2,366	3,103
with a remaining term of more than five years	761	23
Total	**6,538**	**10,330**
Current other financial liabilities		
Bills payable	11,093	11,742
Liabilities to unconsolidated subsidiaries, jointly controlled entities and associates	3,697	2,723
Finance lease liabilities	1,800	2,213
Liabilities from derivative financial instruments	1,565	424
Miscellaneous financial liabilities	21,969	20,137
Total	**40,124**	**37,239**

Current other financial liabilities have a remaining term of less than one year. Sundry 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 2014 and 2013 break down as follows:

Other liabilities

EUR thousand	31 Dec. 2014	31 Dec. 2013
Non-current other liabilities		
Deferred income	1,096	1,347
Total	**1,096**	**1,347**
Current other liabilities		
Tax liabilities	29,267	24,888
Staff liabilities	27,559	24,996
Advance payments received	15,013	9,988
Social security liabilities	6,049	6,220
Deferred income	20	991
Miscellaneous other liabilities	7,621	1,947
Total	**85,529**	**69,030**

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) Provisions for pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2014 and 2013:

Provisions for pensions and similar obligations

EUR thousand	31 Dec. 2014	31 Dec. 2013
Provisions for pensions	78,349	60,496
Similar obligations	2,557	2,487
Total	**80,906**	**62,983**

Provisions for pensions are composed as follows:

Provisions for pensions

EUR thousand	31 Dec. 2014	31 Dec. 2013
Present value of the defined benefit obligation	87,895	69,713
Fair value of plan assets	–9,546	–9,217
Provisions for pensions	**78,349**	**60,496**

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 revaluation of plan assets are recognised in full in other comprehensive income.

WILO SE's defined benefit plan was discontinued on 31 December 2005. A defined contribution plan has been set up in its place for WILO SE employees for whom a pension obligation has existed from 1 January 2006. An expense of EUR 2,442 thousand (previous year: EUR 2,114 thousand) was recognised in the reporting year for defined contribution plans in the Wilo Group.

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

The present value of benefit obligation developed as follows:

Present value of the benefit obligation

EUR thousand	2014	2013
As at 1 January	**69,713**	**63,519**
Current service cost	2,771	2,565
Past service cost	91	139
Interest expense	2,168	2,055
Remeasurement		
Actuarial gains/losses from the change in demographic assumptions	3,184	767
Actuarial gains/losses from the change in financial assumptions	12,857	723
Actuarial gains/losses from experience adjustments	–274	825
Pension payments	–3,498	–3,070
Settlement of defined benefit plan	0	–3,523
Transfers	0	5,925
Currency effects and other changes	883	–212
As at 31 December	**87,895**	**69,713**

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 47,212 thousand (previous year: EUR 34,891 thousand)
- Deferred members: EUR 7,168 thousand (previous year: EUR 6,042 thousand)
- Pensioners: EUR 33,515 thousand (previous year: EUR 28,780 thousand)

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

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

Sensitivity analysis

		Present value of defined benefit obligation Change in %	
		2014	2013
Discount rate	+0.5%	-7.9	-7.3
	-0.5%	9.0	8.3
Pension factor	+0.25%	2.6	2.6
	-0.25%	-2.5	-2.5
Salary factor	+0.25%	0.6	0.4
	-0.25%	-0.6	-0.3
Life expectancy	+10%	6.5	6.1

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 2014 was 15.4 years (previous year: 15.4 years).

76.8 percent of pension obligations of EUR 87,895 thousand (previous year: EUR 69,713 thousand) relate to Germany (previous year: 78.1 percent).

The fair value of plan assets changed as follows:

Fair value of plan assets

EUR thousand	**2014**	2013
As at 1 January	**9,217**	**6,719**
Interest income	348	298
Remeasurement		
Return on plan assets (excluding interest income)	312	34
Payments	-1,272	-688
Amounts paid in by employer	641	1,336
Settlement of defined benefit plan	0	-3,114
Transfers	0	4,819
Currency effects and other changes	300	-187
As at 31 December	**9,546**	**9,217**

Plan assets break down as follows:

Elements of plan assets

EUR thousand	**2014**	2013
Cash	7,383	7,536
Qualifying insurance policies	1,808	1,325
Investment funds	355	356
As at 31 December	**9,546**	**9,217**

Furthermore, there are employee pension liability policies to hedge provision-funded pension obligations in the amount of EUR 1,302 thousand (previous year: EUR 1,262 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 2,557 thousand for 2014 (previous year: EUR 2,487 thousand). They include gross obligations for WILO SE of EUR 2,897 thousand (previous year: EUR 2,725 thousand). The EUR 2,012 thousand (previous year: EUR 1,880 thousand) fair value of plan assets as at the end of the reporting period is deducted insofar as it relates to obligations under the partial retirement scheme. The remaining plan assets of EUR 997 thousand (previous year: EUR 1,194 thousand) not attributable to obligations under the partial retirement scheme are reported under employer pension liability assets in non-current other assets. The present value of the obligations under the partial retirement scheme at 31 December 2014 was determined using a discount rate of 2.20 percent (previous year: 2.95 percent). Furthermore, an annual wage and salary increase of 1.60 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 2014 financial year. The Wilo Group expects that the corresponding repayments of EUR 18,103 thousand (previous year: EUR 17,559 thousand) will be almost fully paid to customers by the middle of 2015.

Other provisions

EUR thousand	1 Jan. 2014	Currency translation	Utilisation	Reversal	Additions	31 Dec. 2014
Non-current						
Guarantees	**3,225**	**31**	**247**	**73**	**973**	**3,909**
Current						
Guarantees	15,082	102	2,729	2,077	3,731	14,109
Bonuses and rebates	17,599	214	18,181	1,233	19,704	18,103
Other	5,957	-165	1,909	415	2,770	6,238
Total	**38,638**	**151**	**22,819**	**3,725**	**26,205**	**38,450**

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

The consolidated statement of cash flows is broken down according to cash flows from operating, investing and financing activities. Cash flows from operating activities are calculated using the indirect method and reported after adjustment for currencies. The effects of exchange rate changes and changes in the composition of the consolidated group on cash are shown separately. Cash as at 31 December 2014 consisted of EUR 149,073 thousand (previous year: EUR 177,468 thousand) in cash and sight deposits with banks, EUR 684 thousand (previous year: EUR 316 thousand) of which was subject to restrictions on title.

The consolidated statement of cash flows starts with earnings before interest and taxes (EBIT) derived from the income statement (see note (8.10)). The changes in cash due to exchange rate changes of EUR 1,834 thousand (EUR -2,965 thousand) relate to the effect of translating foreign-currency items of cash into the reporting currency. Detailed information on the consolidated statement of cash flows can be found under "Financial position" in the Group management report. Purchases of intangible assets includes payments in connection with capitalised development costs of EUR 7,342 thousand (previous year: EUR 0 thousand).

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

(11.) Segment reporting

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

The composition of the reportable segments changed with effect from 1 January 2014. Some results that were allocated to the "Others" segment in the 2013 financial year have been reallocated to the respective reportable segments "Europe", "Asia Pacific" and "EMEA" in line with their geographical distribution since 1 January 2014. "Others" is now used solely to report the results generated in nations of the American continent. The comparative figures for the 2013 financial year have been restated accordingly.

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

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

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

Net sales by segment 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 232,250 thousand (previous year: EUR 240,667 thousand) was generated with external customers in the 2014 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 2014 and 2013 financial years is as follows:

Segment information

2014

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**700,922**	**298,427**	**201,889**	**33,462**	**1,234,700**
Segment EBIT	**71,472**	**22,811**	**22,389**	**-5,475**	**111,197**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	28,861	10,584	6,697	1,738	47,880
of which non-cash expenses	24,946	3,669	911	295	29,821

2013

EUR thousand	Europe	Asia Pacific	EMEA	Others	Total
Net sales by segment	**698,061**	**288,436**	**211,748**	**32,578**	**1,230,823**
Segment EBIT	**81,475**	**23,606**	**25,820**	**-5,225**	**125,676**
of which depreciation, amortisation and impairment on intangible assets and property, plant and equipment	26,504	9,860	6,178	1,641	44,183
of which non-cash expenses	22,531	4,243	628	385	27,787

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

Earnings before interest and taxes (EBIT)

EUR thousand	2014	2013
Earnings before interest and taxes (EBIT)	**111,197**	**125,676**
Net income from investments carried at equity	-147	0
Net finance costs	-11,065	-12,582
Consolidated net income before taxes	**99,985**	**113,094**
Income taxes	-30,169	-30,123
Consolidated net income	**69,816**	**82,971**

Net sales breaks down as follows among the market segments:

Net sales by market segment

EUR thousand	2014	2013
Building Services	928,679	927,372
Water Management & Industry	306,021	303,451
Total	**1,234,700**	**1,230,823**

(12.) Disclosures on financial instruments

(12.1) Derivative financial instruments

The following table shows the fair values of derivative financial instruments as at 31 December 2014 and the changes as against the previous year:

Derivative financial instruments

	Fair value				Nominal amount	
	Maturity from 31 Dec. 2014					
EUR thousand	Within 1 year	Between 1 and 5 years	Previous year	Total change	31 Dec. 2014	31 Dec. 2013
Forward exchange contracts	-157	102	-68	13	17,562	13,347
Cross-currency interest rate swaps	219	-749	-3,177	2,647	34,750	37,750
Commodity derivatives	-1,303	0	-159	-1,144	14,165	15,592

Net finance costs include gains of EUR 3,747 thousand (previous year: EUR 935 thousand) and losses of EUR 1,437 thousand (previous year: EUR 2,806 thousand) (see note (8.8)).

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

The following tables show the financial assets and liabilities with their carrying amounts as at 31 December 2014 and 2013 per measurement category under IAS 39 or statement of financial position category.

Finance lease liabilities have also been included, even though they are not assigned to an IAS 39 measurement category.

Financial assets and liabilities as at 31 December 2014

		Carrying amount under IAS 39			
	Measurement category under IAS 39	Amortised cost	Fair value	Carrying amount under IAS 17	**Carrying amount as at 31 Dec. 2014**
Current and non-current financial assets					
Trade receivables	Loans and receivables	235,298			235,298
Other financial assets					
Receivables from subsidiaries, jointly controlled entities and associates	Loans and receivables	303			303
Receivables from derivative financial instruments	Financial assets held for trading		426		426
Loans	Loans and receivables	1,041			1,041
Available-for-sale financial assets	Available for sale	1,279	7		1,286
Miscellaneous financial receivables	Loans and receivables	8,227			8,227
Cash	Loans and receivables	149,073			149,073
Current and non-current financial liabilities					
Financial liabilities	Financial liabilities at amortised cost	166,464			166,464
Trade payables	Financial liabilities at amortised cost	108,007			108,007
Other financial liabilities					
Bills payable	Financial liabilities at amortised cost	11,093			11,093
Liabilities to subsidiaries, jointly controlled entities and associates	Financial liabilities at amortised cost	3,697			3,697
Finance lease liabilities	n/a			4,462	4,462
Liabilities from derivative financial instruments	Financial liabilities held for trading		2,314		2,314
Miscellaneous financial liabilities	Financial liabilities at amortised cost	25,096			25,096
of which aggregated by measurement category under IAS 39					
Loans and receivables		393,942			393,942
Available for sale		1,279	7		1,286
Financial assets held for trading			426		426
Financial liabilities measured at amortised cost		314,357			314,357
Financial liabilities held for trading			2,314		2,314

Financial assets and liabilities as at 31 December 2013

	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. 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 and 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 and 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

The carrying amounts of the financial assets and liabilities in the scope of IFRS 7 are the same as their fair value per class. This is not the case only for financial liabilities, which have a carrying amount of EUR 166,464 thousand (previous year: EUR 169,975 thousand) and a fair value of EUR 197,021 thousand (previous year: EUR 194,806 thousand).

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

The financial assets in the available-for-sale category of EUR 1,279 thousand as at 31 December 2014 (previous year: EUR 359 thousand) are measured at amortised cost and essentially relate to companies in which WILO SE directly or indirectly holds 100 percent of the shares and which have not been consolidated for reasons of materiality. The fair values of these other financial assets, which are carried at amortised cost, cannot be reliably determined as they are shares in companies for which there are no quoted or other market prices. It would only be possible to reliably determine their fair value as part of concrete negotiations on their disposal. There are currently no plans to dispose of these companies.

The fair values of assets in the available-for-sale category of EUR 7 thousand (previous year: EUR 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 426 thousand (previous year: EUR 1,190 thousand) and EUR 2,314 thousand (previous year: EUR 4,594 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 2014 and 2013 financial years in line with IFRS 7, consisting of interest, dividends, changes in fair value, impairment, impairment reversals and the effects of currency translation on each measurement category of financial assets and liabilities. This does not include the earnings effects of finance leases as finance leases do not belong to any IAS 39 measurement category.

Net gains and losses

Measurement category EUR thousand	Carrying amount as at 31 Dec.	Interest and dividends	Change in fair value	Impairments	Impairment reversals	Effects of currency translation	Net gains/ losses
2014 financial year							
Loans and receivables	393,942	1,299		-2,519	615	-920	-1,525
Available for sale	1,286	0					0
Financial assets/ liabilities held for trading	-1,888	262	2,310				2,572
Financial liabilities at amortised cost	-314,357	-9,276				-4,143	-13,419
Total		**-7,715**	**2,310**	**-2,519**	**615**	**-5,063**	**-12,372**
2013 financial year							
Loans and receivables	403,356	1,848		-2,701	652	-661	-862
Available for sale	367	45					45
Financial assets/ liabilities held for trading	-3,404	440	-1,446				-1,006
Financial liabilities at amortised cost	-315,284	-9,763				-1,645	-11,408
Total		**-7,430**	**-1,446**	**-2,701**	**652**	**-2,306**	**-13,231**

(12.4) Fair value hierarchy of financial assets and liabilities

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

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

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

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

The following table shows the allocation of financial assets and liabilities that existed within the Wilo Group as at 31 December 2014 and 2013 that were recognised at fair value or for which the fair value was disclosed.

Fair value hierarchy

	31 Dec. 2014 Level 2	31 Dec. 2013 Level 2
Available-for-sale financial assets	7	8
Receivables from derivative financial instruments (financial assets held for trading)	426	1,190
Liabilities from derivative financial instruments (financial liabilities held for trading)	2,314	4,594
Financial liabilities (loans and receivables)	197,021	194,806

The Wilo Group did not report any financial assets or liabilities classified as level 1 or 3 based on the method by which their fair value was determined as at 31 December 2014 and 2013.

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

(13.) Risk management and derivative financial instruments

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

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

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

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 and the resulting earnings effects are generally expected within a year of agreeing to the contract in question. There were no export credits as at 31 December 2014. In the previous year, the export credits had a carrying amount of EUR 2,072 thousand and a fair value of EUR 2,051 thousand. In 2014, EUR 0 thousand (previous year: EUR -152 thousand) was reported in other comprehensive income and EUR 152 thousand was reclassified from other comprehensive income to profit or loss. The consolidated net income for 2014 contains no expenses or income relating to the ineffective portion of the hedge.

The following table shows the foreign-currency risk position of the Wilo Group as at 31 December 2014 and 2013 in the respective foreign currency. This consists of foreign-currency transactions in operating activities and foreign-currency financing activities up to 31 December 2014 and 2013, as well as expected foreign-currency transactions in operating activities in 2015 and 2014. This analysis does not take into account the effects of the translation of the financial statements of subsidiaries into reporting currency (translation risk).

Foreign currency risk position as at 31 December 2014

in million	EUR	USD	GBP	PLN	RON	RUB	SEK
Cash	7.3	6.4	1.9	0.1	0.0	0.0	5.5
Trade and other receivables	6.9	8.5	0.8	0.0	0.0	0.0	0.0
Receivables from affiliated companies	2.5	21.4	0.8	8.3	16.4	50.0	29.2
Trade and other payables	–2.1	–2.8	0.0	0.0	–0.2	0.0	0.0
Liabilities due to affiliated companies	–18.7	–17.9	–0.4	0.0	0.0	–0.4	–0.2
Financial liabilities	–1.0	–40.6	0.0	0.0	0.0	0.0	0.0
Currency risk from assets and liabilities (gross)	**–5.1**	**–25.0**	**3.1**	**8.4**	**16.2**	**49.6**	**34.5**
Expected sales in 2015	58.1	100.7	12.4	80.3	53.5	3,089.1	169.0
Expected acquisitions in 2015	–94.0	–109.4	–0.3	–0.6	0.0	–18.1	–1.2
Currency risk from expected transactions in operating activities in 2015 (gross)	**–35.9**	**–8.7**	**12.1**	**79.7**	**53.5**	**3,071.0**	**167.8**
Hedging	1.0	42.3	–8.4	0.0	0.0	0.0	0.0
Currency risk (net)	**–40.0**	**8.6**	**6.8**	**88.1**	**69.7**	**3,120.6**	**202.3**

Foreign currency risk position as at 31 December 2013

in million	EUR	USD	GBP	PLN	RON	RUB	SEK
Cash	4.3	5.7	0.8	0.1	0.0	0.0	6.9
Trade and other receivables	5.5	7.7	0.8	0.0	0.0	0.0	0.0
Receivables from affiliated companies	3.3	21.9	1.2	6.6	16.8	112.4	9.4
Trade and other payables	–3.0	–4.8	0.0	0.0	0.0	0.0	–0.1
Liabilities due to affiliated companies	–18.8	–22.6	–0.6	0.0	0.0	–0.1	–15.9
Financial liabilities	–4.0	–40.6	0.0	0.0	0.0	0.0	0.0
Currency risk from assets and liabilities (gross)	**–12.7**	**–32.7**	**2.2**	**6.7**	**16.8**	**112.3**	**0.3**
Expected sales in 2014	47.9	93.6	11.6	76.5	51.1	2,942.0	161.0
Expected acquisitions in 2014	–82.2	–114.1	–0.3	–0.6	0.0	–0.1	–0.1
Currency risk from expected transactions in operating activities in 2014 (gross)	**–34.3**	**–20.5**	**11.3**	**75.9**	**51.1**	**2,941.9**	**160.9**
Hedging	1.6	45.6	–3.0	0.0	0.0	0.0	0.0
Currency risk (net)	**–45.4**	**–7.6**	**10.5**	**82.6**	**67.9**	**3,054.2**	**161.2**

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

Sensitivity analysis

	2014		2013	
EUR million	+10%	-10%	+10%	-10%
EUR	-4.6	3.8	-5.0	4.3
USD	0.8	-0.6	-0.5	0.5
GBP	1.0	-0.8	1.4	-1.2
PLN	2.3	-1.9	2.2	-1.8
RON	1.7	-1.4	1.7	-1.4
RUB	5.1	-4.2	7.5	-6.1
SEK	2.4	-2.0	2.0	-1.7

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

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

If the market interest rate had been 100 basis points higher (lower) as at 31 December 2014, this would have had a positive effect on net finance costs of EUR 7 thousand (negative effect of EUR 8 thousand). The same change in the previous year would have had a positive effect on net finance costs of EUR 78 thousand (negative effect of EUR 83 thousand). The change in earnings in this sensitivity analysis of EUR 7 thousand and EUR 8 thousand (previous year: EUR 78 thousand and EUR 83 thousand) relates exclusively to measurement of the interest component of cross-currency interest rate swaps as at the end of the reporting period. There is no 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 value remaining constant as at the end of the reporting period. The calculations are performed using net present value and option pricing models. An increase of the interest level by 100 basis points would improve net interest costs from the investment of cash by approximately EUR 500 thousand. If interest rates declined with the consequence of negative interest rates on deposits, Wilo would align its investment strategy accordingly in order to minimise the negative impact on net interest costs.

COMMODITY PRICE RISK The Wilo Group is subject to commodity price risk primarily from price fluctuations on the global markets for copper and aluminium and their alloys. The Wilo Group uses commodity derivatives in a targeted manner to control this risk. The prices for most of the copper procurement volume for the 2015 financial year have already been fixed. Currently, the Wilo Group's result of operations would be influenced by price fluctuations on the global markets for copper and aluminium and their alloys from the 2016 financial year onwards.

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

Sensitivity analysis

	Copper		Aluminium		Total	
EUR thousand	**2014**	2013	**2014**	2013	**2014**	2013
Price increase (10%)						
Impact on earnings	–590	–661	–185	–232	–775	–893
Price decrease (10%)						
Impact on earnings	590	661	185	232	775	893

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

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

The maximum credit risk is equal to the carrying amount of financial instruments. The table below shows the maximum credit risk on and the age structure of financial assets classified as loans and receivables as at 31 December 2014 and 2013. 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. 2014							
Trade receivables	235,298	195,008	20,557	6,984	2,724	2,266	1,181
Other financial assets*	9,571	9,571	0	0	0	0	0

EUR thousand	Carrying amount	of which neither past due nor impaired	of which past due in stated time band (days), but not yet impaired				
			up to 30	31 – 60	61 – 90	91 – 180	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

*) 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 249,444 thousand (previous year: EUR 231,865 thousand). As at 31 December 2014, EUR 11,163 thousand (previous year: EUR 10,571 thousand) in specific write-downs was recognised on past due trade receivables of EUR 21,099 thousand (previous year: EUR 28,326 thousand). A further EUR 3,029 thousand (previous year: EUR 2,397 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 1,286 thousand (previous year: EUR 367 thousand) on available-for-sale financial assets and of EUR 426 thousand (previous year: EUR 1,190 thousand) on financial assets held for trading, which consist exclusively of derivative financial instruments. With regard to other financial assets that are neither impaired nor past due, there are no indications as at the end of the reporting period that debtors will fail to make payment. As in the previous year, no impairment was recognised on other financial assets as at 31 December 2014.

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

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

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

Offsetting financial assets and liabilities

EUR thousand	Carrying amount	Assets/liabilities with a right of set-off that do not however meet the criteria for offsetting in the statement of financial position	Net values
31 Dec. 2014			
Receivables from derivative financial instruments	426	–207	219
Liabilities from derivative financial instruments	–2,314	207	–2,107
31 Dec. 2013			
Receivables from derivative financial instruments	1,190	–208	982
Liabilities from derivative financial instruments	–4,594	208	–4,386

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 4.5 million as at 31 December 2014 (previous year: EUR 5.2 million). In addition, WILO SE has secured its long-term financial requirements by issuing promissory note loans, which were also placed with financially sound, reputable financial partners (see note (9.12)).

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

The following table shows the remaining contractual maturities and corresponding cash outflows, including estimated interest payments, for financial liabilities as at 31 December 2014 and 2013.

Cash outflows for financial liabilities as at 31 Dec. 2014

31 Dec. 2014	Carrying amount	Agreed payments	Maturities: Less than 1 year	Between 1 and 5 years	More than 5 years
Financial liabilities					
Non-current	156,729	-190,956	-6,811	-62,146	-121,999
Current	9,735	-9,735	-9,735	0	0
Trade payables	108,007	-108,007	-106,931	-1,076	0
Finance lease liabilities	4,462	-4,945	-1,972	-2,973	0
Other financial liabilities	39,886	-30,593	-27,466	-2,366	-761
Derivative financial instruments	2,314	-1,971	-1,336	-635	0
Total	**321,133**	**-336,317**	**-150,307**	**-63,250**	**-122,760**

Cash outflows for financial liabilities as at 31 Dec. 2013

31 Dec. 2013	Carrying amount	Agreed payments	Maturities: Less than 1 year	Between 1 and 5 years	More than 5 years
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**

(14.) Other disclosures

(14.1) Waiver of disclosure

The following Group companies waived disclosure in accordance with section 264 (3) HGB: WILO-Mitarbeiter-Beteiligungs-gesellschaft mbH, Dortmund, WILO Nord Amerika GmbH, Dortmund, Wilo Financial Services GmbH, Dortmund, GEP Industrie-Systeme GmbH, Zwönitz, and WILO-Mitarbeiter Invest 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. 2014	31 Dec. 2013
Contingent liabilities		
from guarantees	0	600
from warranties	4,915	3,980
Total	**4,915**	**4,580**

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 1,284 thousand (previous year: EUR 1,937 thousand) had an agreed remaining term of less than one year as at 31 December 2014, while nominal obligations of EUR 1,434 thousand (previous year: EUR 837 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 2,197 thousand (previous year: EUR 1,206 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amount to EUR 8,068 thousand as at 31 December 2014 (previous year: EUR 11,077 thousand). 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

	2014	2013
Production	4,279	4,163
Sales and administration	3,146	3,031
Total	**7,425**	**7,194**
Germany	2,634	2,454
Other countries	4,791	4,740
Total	**7,425**	**7,194**

The average number of employees rose by 3.2 percent (previous year: 4.3 percent) as against the previous year. Staff costs amounted to EUR 339.4 million in the 2014 financial year (previous year: EUR 318.7 million).

(14.4) Proposal for the appropriation of profits

At the Annual General Meeting of WILO SE on 13 April 2015, the Executive Board will propose a resolution for the unappropriated surplus of WILO SE to be carried forward to new account in full.

(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 2015. 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 and associates of WILO SE are settled at standard market conditions. The outstanding trade receivables from these companies amount to EUR 303 thousand (previous year: EUR 348 thousand). Liabilities to these companies amounted to EUR 3,697 thousand (previous year: EUR 2,723 thousand) as at the end of the reporting period. Sales and services passed on to these companies amounted to EUR 796 thousand (previous year: EUR 768 thousand).

In the 2014 financial year, the members of the Supervisory Board and the Executive Board conducted the following sales of shares in WILO SE:

Sales of shares in WILO SE

	Supervisory Board		Executive Board		Total	
	Number of shares	Payment in EUR thousand	Number of shares	Payment in EUR thousand	Number of shares	Payment in EUR thousand
As at 31 Dec. 2013	259,418		228,290		487,708	
Sale	-259,418	-14,767	-228,290	-12,996	-487,708	-27,763
As at 31 Dec. 2014	**0**		**0**		**0**	

As at 31 December 2014, this meant that no preferred shares in WILO SE were held by members of the Supervisory Board (previous year: 259,418) and no ordinary shares were held by members of the Executive Board (previous year: 228,290). As a result of these transactions, WILO SE reported 477,331 ordinary shares (previous year: 249,041) and 259,418 preferred shares (previous year: 0) as treasury shares as at 31 December 2014.

In 2014, there was only one remaining approved consulting agreement with a member of the Supervisory Board with a volume of EUR 20 thousand. In the previous year, the total volume of consulting agreements with members of the Supervisory Board was EUR 207 thousand.

One member of the Supervisory Board 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 2014 (previous year: 0). The company generated revenues of EUR 437 thousand (previous year: EUR 1,157 thousand) with WILO SE in the 2014 financial year.

One of the shareholders owns a heating and air conditioning installation company that purchases standard quantities of pumps from the reporting entity. The same company installs and maintains the heating and air conditioning systems of the reporting entity. These services are remunerated at standard market conditions. Revenues of EUR 85 thousand (previous year: EUR 180 thousand) were generated with the heating and air conditioning installation company in the 2014 financial year. At the same time, the Wilo Group procured goods and services in the amount of EUR 1,036 thousand (previous year: EUR 1,731 thousand) from this company. Receivables from this company of EUR 5 thousand (previous year: EUR 5 thousand) were reported as at 31 December 2014.

There are also leases relating to land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 893 thousand (previous year: EUR 836 thousand) were made to these shareholders in 2014. The rent was agreed in line with market conditions. In addition, there was a lease agreement for a building owned by a limited partnership in which a family member of a former managing director and one shareholder had an ownership interest until 30 March 2014. WILO SE acquired both the limited partnership and its limited liability general partner with effect from 1 April 2014. The shareholder accounts for EUR 761 thousand of the purchase price of EUR 3,045 thousand that was paid for the limited partnership and EUR 13 thousand of the purchase price of EUR 50 thousand that was paid for the limited liability general partner. EUR 130 thousand (previous year: EUR 518 thousand) was paid in rent in 2014.

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 61 thousand from this service agreement in 2014 (previous year: EUR 78 thousand). There were receivables against the Foundation of EUR 4 thousand (EUR 2 thousand) as at 31 December 2014.

(14.7) Auditor's fees

The following fees were recognised as an expense in the 2014 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

Auditor's fees

EUR thousand	**2014**	2013
Audits of financial statements of which for the previous year: EUR 10 thousand (2012: EUR -1 thousand)	378	362
Other assurance services of which for the previous year: EUR 5 thousand (2012: EUR 8 thousand)	42	133
Other services of which for the previous year: EUR 8 thousand (2012: EUR 0 thousand)	1,044	461
Total	**1,464**	**956**

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

The total remuneration of the Executive Board for the 2014 financial year was EUR 3.5 million (previous year: EUR 2.8 million). EUR 1.4 million (previous year: EUR 1.1 million) of this total relates to fixed remuneration and EUR 1.7 million (previous year: EUR 1.2 million) to variable remuneration, EUR 0.7 million (previous year: EUR 0.8 million) of which was reported as a liability as at the end of the reporting period and will not be paid out until the approval of the consolidated financial statements in the subsequent financial year. EUR 0.4 million was paid in the 2014 financial year as part of defined contribution pension plans for members of the Executive Board (previous year: EUR 0.5 million). The remuneration of the Supervisory Board amounted to EUR 0.5 million (previous year: EUR 0.1 million) in the 2014 financial year.

The total remuneration paid to former members of the Executive Board amounted to EUR 0.9 million in the 2014 financial year (previous year: EUR 1.8 million). In the previous year, the total remuneration paid to former members of the Executive Board included a benefit under IAS 24.17 (d) in the amount of EUR 0.9 million. Furthermore, contributions of EUR 0.1 million (previous year: EUR 0.1 million) were paid into defined contribution pension plans for former members of the Executive Board in the 2014 financial year. As at the end of the reporting period, a pension provision of EUR 9.7 million (previous year: EUR 9.1 million) was recognised for former members of executive bodies.

(14.9) Executive bodies of the company

SUPERVISORY BOARD

Prof Dr Norbert Wieselhuber
– Chairman since 2 April 2014 –
Managing Director of Dr Wieselhuber & Partner GmbH
Management Consultancy
Planegg

Prof Dr Hans-Jörg Bullinger
– Deputy Chairman since 2 April 2014 –
Former President of Fraunhofer-Institute
Stuttgart

Jean-François Germerie
European Works Council
Laval, France

Dr Hinrich Mählmann
Personally liable partner and
Managing Director of Otto Fuchs KG
Wiehl
since 2 April 2014

Daniela Mohr
European Works Council
Dortmund

Felix Opländer
Businessman
Verden/Aller

Dr Heinz-Gerd Stein
– Chairman until 2 April 2014 –
Former CFO of ThyssenKrupp AG
and management consultant
Wollerau, Switzerland
until 2 April 2014

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

EXECUTIVE BOARD

Oliver Hermes
– Chairman –
Essen

Eric Lachambre
Düsseldorf

Dr Markus Beukenberg
Mülheim/Ruhr

Carsten Krumm
Dortmund
since 1 October 2014

Dortmund, 19 February 2015

The Executive Board

Oliver Hermes | Eric Lachambre | Dr Markus Beukenberg | Carsten Krumm

Shareholdings

Shareholdings of WILO SE as of 31 December 2014

	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
iEXERGY GmbH, Münster/Germany****	15.0
OL Objekt Leasing Verwaltungs GmbH, Dortmund/Germany*	100.0
PT. WILO Pumps Indonesia, Jakarta/Indonesia	100.0
S.E.S.E.M. S.A.S., Saint-Denis/France	100.0
STEMMA S.R.L., Trissino/Italy	100.0
WILO (Singapore) Pte. Ltd, Singapore/Singapore	100.0
WILO (UK) Ltd., Burton-on-Trent/Great Britain	100.0
WILO Adriatic d.o.o., Ljubljana/Slovenia	100.0
WILO Australia PTY Ltd, Brisbane City QLD/Australia	100.0
WILO Baltic SIA, Riga/Latvia	100.0
WILO Bel o.o.o., Minsk/Belarus	100.0
WILO Beograd d.o.o., Belgrade/Serbia	100.0
WILO Bulgaria EOOD, Sofia/Bulgaria	100.0
WILO Canada Inc., Calgary/Canada	100.0
WILO Caspian LLC, Baku/Azerbaijan	100.0
WILO Central Asia TOO, Almaty/Kazakhstan	100.0
WILO China Ltd., Beijing/China	100.0
WILO CS s.r.o., Prague/Czech Republic	100.0
WILO Danmark A/S, Karlslunde/Denmark	100.0
WILO Eesti OÜ, Tallin/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 Financial Services GmbH, Dortmund/Germany*	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 Indústria, Comércio e Importação LTDA, City of São Paulo/Brazil	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)/Italia	100.0
WILO Lebanon S.A.R.L., Beirut/Lebanon	100.0
WILO Lietuva UAB, Vilnius/Lithuania	100.0

Shareholdings of WILO SE as of 31 December 2014

	Shareholding in %
WILO Magyarország Kft., Törökbálint/Hungary	100.0
WILO Maroc S.A.R.L., Casablanca/Morocco	100.0
WILO Mather and Platt Pumps Private Ltd., Pune/India	99.9
WILO Mexico Bombas Centrifugas, S.A. de C.V., Querétaro/Mexico*	100.0
WILO Middle East FZE, Dubai/United Arab Emirates	100.0
WILO Middle East LLC i.L., Riad/Saudi Arabia***	50.0
WILO Mitarbeiter Invest GmbH, Dortmund/Germany	100.0
WILO N.V./S.A., Ganshoren (Brussels)/Belgium	100.0
WILO Nederland b.v., Westzaan/The Netherlands	100.0
WILO Nord Amerika GmbH, Dortmund/Germany	100.0
WILO Nordic AB, Växjö/Sweden	100.0
WILO Norge AS, Oslo/Norway	100.0
WILO Polska Sp. z o.o., Lesznowola/Poland	100.0
WILO Pompa Sistemleri San. Ve Tic. A.S., Istanbul/Turkey	100.0
WILO Pumpen Österreich GmbH, Wiener Neudorf/Austria	100.0
WILO Pumps Ltd., Busan/Korea	100.0
WILO Pumps Ltd., Limerick/Ireland	100.0
WILO Pumps Nigeria Ltd., Gbagada/Nigeria*	100.0
WILO PUMPS SA (PTY) LTD, Johannesburg/South Africa	100.0
WILO Romania s.r.l., Bucharest/Romania	100.0
WILO Rus o.o.o., Moscow/Russia	100.0
WILO SALMSON Argentina S.A., Buenos Aires/Argentina	100.0
WILO Saudi Arabia Ltd., Riad/Saudi Arabia*	100.0
WILO SYSTEMS ITALIA S.R.L., Bari/Italy	100.0
WILO Taiwan Company Ltd., New Taipei/Taiwan	100.0
WILO Tunisia SUARL, Tunis/Tunisia*	49.0
WILO Ukrainia t.o.w., Kiev/Ukraine	100.0
WILO USA LLC, Rosemont, IL/USA	100.0
WILO Vietnam Co. Ltd., Ho Chi Minh City/Vietnam	100.0
WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund/Germany	100.0
WILO-SALMSON France S.A.S., Chatou/France	100.0

* These companies were not included in the 2014 consolidated financial statements.
** This is an associate accounted for at cost.
*** This is a joint venture accounted for using the equity method.
**** This is an associate accounted for using the equity method.

AUDITOR'S REPORT

We 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 2014. 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 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer	Huperz
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board monitored the work of the Executive Board on an ongoing basis while providing intensive support and advice throughout the 2014 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 five in-person meetings of the Supervisory Board in 2014. The meeting on 1 April 2014 focused on the annual financial statements and the consolidated financial statements as at 31 December 2013. The situation on the global economy and the business development of the Wilo Group were discussed in detail. The political situation in Ukraine and Russia was discussed intensively, as were the associated business repercussions. Furthermore, the status of the development of the Dortmund location was examined in more detail.

In accordance with Article 16 of the Articles of Association of WILO SE, on 2 April 2014 the Supervisory Board met after the Annual General Meeting where new elections were held as scheduled for the members of the Supervisory Board.

Following the departure due to age of Dr Heinz-Gerd Stein, whom Dr Jochen Opländer, as the Honorary Chairman of the Supervisory Board, expressly thanked for his many years of successful and trusting work, the Supervisory Board of WILO SE now consists of Prof Dr Norbert Wieselhuber, Prof Dr Hans-Jörg Bullinger, Felix Opländer, Dr Hinrich Mählmann and the representatives elected by the employees, Mr Jean-François Germerie and Ms Daniela Mohr.

The term in office of the members of the Supervisory Board lasts until the end of the Annual General Meeting that resolves official approval of their actions for the fourth financial year after their appointment.

Prof Dr Norbert Wieselhuber was elected as the new Chairman of the Supervisory Board.

Mr Felix Opländer, Prof Dr Hans-Jörg Bullinger and Dr Hinrich Mählmann were appointed as members of the Audit Committee, with Mr Felix Opländer being named as its Chairman.

In addition, the Supervisory Board resolved various amendments to the Rules of Procedure for the Supervisory Board and the Audit Committee.

At its meeting on 24 June 2014 the Supervisory Board mainly discussed the business situation, development and M&A strategy of the Wilo Group.

On 23 October 2014 the Supervisory Board particularly dealt with the issues compiled by the Executive Board and the results of the annual, international executive conference. In particular, it discussed M&A activities, the Group-wide production strategy and the planned expansion of the service organisation.

On 22 December 2014 the Supervisory Board dealt in depth with the integrated planning 2015 – 2019 and the issues of product and location development.

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 2014 financial year presented with the annual report and the separate financial statements of WILO SE for the 2014 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 23 March 2015 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 13 April 2015, which was also attended by the auditor. The annual financial statements were thereby adopted. The Supervisory Board also approved the proposal for appropriation of the net profit of WILO SE.

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

On 24 June 2014 the Supervisory Board appointed Mr Carsten Krumm as a further member of the Executive Board for a period of five calendar years effective 1 October 2014.

The responsibilities and duties of Mr Carsten Krumm comprise the Asia Pacific and EMEA sales regions, the Pumps & Systems and Submersible & High Flow production areas, the central function Group Purchasing & Supply Chain Management and the Group Competence Centre for Water Management and Industry.

On 22 December 2014 the Supervisory Board resolved to revoke the appointment of Mr Oliver Hermes as the CEO of WILO SE by mutual arrangement effective 31 December 2014, and to appoint him as a member of the Executive Board of WILO SE and, as a member, as its Chairman for the duration of six years effective 1 January 2015. In doing this the Supervisory Board is documenting its considerable interest in keeping Mr Oliver Hermes with the company as its CEO in the long term, thereby reflecting the positive development of the Wilo Group under his management.

The Supervisory Board wishes both of them every continuing happiness and success in their roles.

In the interests of good, responsible corporate governance, WILO SE and its executive bodies voluntarily comply with the current version of the German Corporate Governance Code. There are departures from the Code relating to the specific nature of the company (primarily as to the preparation and holding of Annual General Meetings, the publication of reports, Supervisory Board committees) on the one hand and the individual disclosure of Executive Board and Supervisory Board remuneration on the other, in which connection the statutory provisions are complied with. Detailed information on the few departures from the Code has again been compiled in full for banks and institutional partners in a declaration of compliance in line with section 161 of the German Stock Corporation Act.

Subject to the above qualification, WILO SE intends to continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code in future.

Taking into consideration the difficult and uncertain political and general economic conditions, 2014 was a satisfactory financial year for the Wilo Group. The Wilo Group successfully continued its profitable and sustainable growth course.

The Supervisory Board wishes to thank the members of the Executive Board, the employees and employee representatives of the Wilo Group for their work and tremendous loyalty, which played a key part in this success.

Dortmund, April 2015

N. Wieselhuber

The Supervisory Board
Prof Dr Norbert Wieselhuber
Chairman

GLOSSARY

5 Why
Iterative Q&A technique for quality management for determining cause and effect. The aim is to determine the 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.

Asia Pacific
The Asia Pacific segment comprises the following countries/regions: India, China, South Korea, Southeast Asian nations, Australia and Oceania.

Asynchronous motor
An asynchronous motor is the most widely used electric motor by virtue of its simple, reliable and cost-effective design. Also at Wilo the asynchronous motor as squirrel-caged motor is a fixed part of the product portfolio.

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

Cash flow
Net inflow of cash generated from business activities.

Cash pooling
Instrument for optimisation of liquidity management. Daily liquidity equalisation is performed within the Group by the parent company, whereby excess liquidity is siphoned from Group companies to cover liquidity shortages.

Corporate foresight process
In the corporate foresight process, both risks and opportunities are derived and analysed from forecast future developments with respect to the global megatrends and thereby systematically taken into account in the ongoing development of corporate strategy.

EBIT/EBIT margin
EBIT is earnings before net income from investments carried at equity, net finance costs and income taxes. The EBIT margin describes the ratio of EBIT to revenue.

EBITDA
EBITDA is earnings before net income from investments carried at equity, net finance costs, income taxes and depreciation and amortisation.

EMEA
The EMEA segment comprises the following countries/regions: Russia, Belarus, Ukraine, Caucasus nations, Gulf nations, African nations.

Equity method
Method of accounting for investments in entities over which the investor has a significant influence. Changes in equity at these companies influence the corresponding carrying amounts of the investments.

ErP directive
The ErP Directive is entitled “Eco-Design Requirements for Energy-Related Products” and aims to increase awareness of energy use during the entire life-cycle of a product from its manufacture to its disposal.

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

Glandless pumps
In this design, the rotating part of the electric motor is located in the pumped fluid independent of the motor technology. This construction principle does not need any rotating seals and is extremely quiet.

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 interpretations of the IFRS Interpretations Committee, formerly IFRIC (International Reporting Interpretations Committee).

Industry 4.0
The Industry 4.0 future project is part of the German government's high-tech strategy. Industry 4.0 stands for the fourth industrial revolution, in which the intelligent networking of machinery, products and storage systems finds its way into industrial value added. They exchange information autonomously, trigger actions and control each other independently. This allows the fundamental improvement of industrial processes in production and logistics. The basis for their networking is the “Internet of Things”.

Internet of Things
The real and the virtual world are increasingly growing together into what is known as the Internet of Things. By embedding information technologies, things such as machinery, household appliances or vehicles are becoming intelligent and can autonomously provide status information to a network for processing, or carry out actions without active human involvement. Application areas for the Internet of Things include building automation, industrial manufacturing, logistics or transport.

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

Megatrend
This term describes far-reaching, long-lasting trends that have a significant impact on society, the economy, the environment and technology. Megatrends are long-term i.e. observable over a period of decades and tend to have a global effect. As part of our strategic management process, megatrends enable us to take a systematic view of the future and also help us identify opportunities and risks which inform the overall strategy.

Netting
Offsetting of receivables and liabilities between two or more partners. Payment, foreign currency, credit liquidity risks between partners can be reduced by way of netting agreements.

Open innovation
The term open innovation describes the opening up of the innovation process beyond company boundaries. The outside world is actively brought in, customers, suppliers, research institutes or even other companies directly supplement internal innovation processes and thereby increase innovation potential. Conversely, a company's own technologies and expertise are incorporated into new cooperations and innovation projects – sometimes beyond industry boundaries – to tap new business areas or to find strategic partners.

Others
The Others segment comprises the countries of North and South America.

Second-source suppliers
In the materials management and manufacturing sector, the term second-source supplier (secondary supplier) is used to describe one or more alternative suppliers of a product that is structurally identical and therefore interchangeable or compatible with another product.

Smart Home
This umbrella term refers to intelligent networking of housing technology (heating, lighting, air conditioning, safety and security technology, etc.) and household appliances and networking of consumer electronics components (audio/video). Intelligent management of these components using the internet and/or mobile devices can bring about significant efficiency gains in day-to-day life and increase comfort and safety.

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.

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