wilo

# is going digital

ANNUAL REPORT 2015

## Wilo Group key indicators

| | | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| Net sales | EUR million | 1,317.1 | 1,234.7 | 1,230.8 | 1,187.1 | 1,070.5 |
| Net sales growth | % | 6.7 | 0.3 | 3.7 | 10.9 | 4.8 |
| EBIT | EUR million | 121.2 | 111.2 | 125.7 | 119.7 | 97.6 |
| (as % of net sales) | % | 9.2 | 9.0 | 10.2 | 10.1 | 9.1 |
| Consolidated net income | EUR million | 80.5 | 69.8 | 83.0 | 78.2 | 53.4 |
| (as % of net sales) | % | 6.1 | 5.7 | 6.7 | 6.6 | 5.0 |
| Earnings per ordinary share | EUR | 8.35 | 7.11 | 8.12 | 7.63 | 5.19 |
| Cash flow from operating activities | EUR million | 132.3 | 109.8 | 130.2 | 120.8 | 54.4 |
| Free cash flow | EUR million | 19.9 | 38.0 | 59.4 | 24.8 | -10.9 |
| Cash | EUR million | 165.8 | 149.1 | 177.5 | 176.5 | 166.0 |
| Capital expenditure | EUR million | 106.4 | 66.1 | 63.9 | 90.0 | 61.5 |
| R & D expenses[1)] | EUR million | 62.4 | 51.2 | 43.9 | 39.2 | 36.8 |
| (as % of net sales) | % | 4.7 | 4.1 | 3.6 | 3.3 | 3.4 |
| Equity | EUR million | 560.9 | 477.1 | 476.9 | 458.0 | 407.2 |
| Equity ratio | % | 49.3 | 46.4 | 47.9 | 46.8 | 45.8 |
| Employees (annual average) | number | 7,383 | 7,425 | 7,194 | 6,900 | 6,708 |

1) Including capitalised development costs.

WILO SE is one of the world's leading premium providers of pumps and pump systems for the building technology, water and industrial sectors. As a supplier, our focus is increasingly shifting from components to systems, and we aim to set a benchmark for high tech in the pump segment as a leading innovator at international level. With smart solutions that connect people, products and services, the Wilo Group aims to be a digital pioneer in the sector by 2020. The company has an average of around 7,400 employees at over 60 subsidiaries worldwide.

## BUILDING SERVICES

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

## WATER MANAGEMENT

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

## INDUSTRY

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

**1.3**

**EUR billion net sales**

The Wilo Group's net sales increased by 6.7 percent to a new all-time high of EUR 1.3 billion. This represented stronger growth than originally forecast.

**121.2**

**EUR million EBIT**

Profitability was significantly improved in the last financial year. EBIT rose to EUR 121.2 million, and the EBIT margin increased to 9.2 percent.

**80.5**

**EUR million consolidated net income**

Consolidated net income rose sharply by over 15 percent to EUR 80.5 million. The return on net sales increased to 6.1 percent.

**132.3**

**EUR million cash flow from operating activities**

Cash flow from operating activities was increased by over EUR 20 million. Consequently, a significantly positive free cash flow was achieved despite record levels of investment.

**106.4**

**EUR million capital expenditure**

The capital expenditure volume reached a new all-time high at EUR 106.4 million.

**62.4**

**EUR million R & D expenses[1)]**

As planned, spending on research and development activities came to EUR 62.4 million in 2015 – more than ever before.


2p
01
90
x5

# wilo

## *is going digital*

**Digitalisation is causing fundamental changes in customer requirements, manufacturing techniques, workflows and production methods. It also provides opportunities for new functions and applications that seemed inconceivable just a few years ago.**

**Big data is the valuable raw material for digitalisation that we process in a productive manner. To fully exploit the vast potential of the fast-growing volumes of data, we are transforming our processes to make them fit for the digital world: anticipatory, networked and diverse. We analyse the relevant data and evaluate it in a targeted way. Big data thus becomes smart data. Based on our systematic assessment of existing data, we develop new business models as well as customised digital product features for our pumps, applications and services.**

**We do all this with a clearly formulated aim in mind. At Wilo, digitalisation is producing smart solutions through intelligent networking of people, products, services, factories and machinery.**

**We are on course to become the digital pioneer in the pump sector.**

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# EDITORIAL OF THE EXECUTIVE BOARD

WILO HAS TAKEN SIGNIFICANT STEPS TOWARDS PREPARING FOR THE DIGITAL ERA IN THE PAST YEAR. FOR INSTANCE, WE HAVE RIGOROUSLY PURSUED OUR CORPORATE STRATEGY AND SUPPLEMENTED IT WITH A DIGITALISATION STRATEGY.

## DEAR LADIES AND GENTLEMEN,

This report on the 2015 financial year contains figures, data and facts concerning the recent past while also looking well ahead. Digitalisation is the future, and it started some time ago. Every second, around 4,550 searches are made via the Google search engine alone. This equates to data traffic of around a million gigabytes per minute – and rising. Wilo is accounting for this development and has taken significant steps towards preparing for the digital era in the past year. For instance, we have rigorously pursued our corporate strategy and supplemented it with a digitalisation strategy.

### Wilo is going digital

Digitalisation is now regarded as a significant key factor in a company's success – including in the pump sector. It changes the entire value chain, especially production processes and workflows. Wilo sees considerable challenges as well as even greater opportunities in the implementation of digitalisation in products and processes.

This year's annual report is entitled "Wilo is going digital". With this title, we are emphasising the fact that we are fully focused on digitalisation and technological progress. The biggest location development programme in the company's history at our headquarters in Dortmund and our new products are setting new standards in the digital age. They are cementing Wilo's top position in the market and underlining our innovation leadership. The foundation stone of Wilo's new headquarters in Dortmund will be laid this autumn. The Wilo smart factory is the most visible expression of intelligent networking and our step towards new processes and technologies. As part of the digital transformation, we are concentrating on three core processes:

customer relationship management, supply chain management and product lifecycle management. Networking these three core processes will generate relevant data regarding suppliers, production processes and customers. Structures can be adapted as required. As we pursue our aim of optimising our value chains, big data will become smart data.

## Wilo continues to grow

In commercial terms, the Wilo Group enjoyed a hugely successful 2015 financial year. Although the overall economic situation remains strained, uncertain and dominated by numerous geopolitical conflicts, we met or even exceeded our set targets. Net sales grew more strongly than expected, rising by 6.7 percent to a new all-time high of EUR 1.31 billion. We also improved our profitability, with EBIT and consolidated net income up even more sharply than net sales. Our strong international market presence and regional diversification were key factors in this success.

We continued our location development in Dortmund and Moscow as planned and further expanded our activities in the emerging economies. At EUR 60 million, we invested more on research and development than ever before, thus strengthening our innovation and technology leadership. We incorporated the cooperation with iEXERGY GmbH into our digitalisation strategy and intensified it. Marking one of the key products of this cooperation, in 2015 the Wilo Group presented the world's first smart home-compatible heating circulation pump – the Wilo Stratos PICO SmartHome – at the ISH, the leading global trade fair for building technology. However, this is just one element of numerous digital systems and solutions in all areas of application. As a pioneer in the pump sector, Wilo sets benchmarks and is actively involved in shaping standards and guidelines, including in drive technology. Our current technical developments are centred on expanding the power range of motors and introducing asynchronous motors in the highest energy efficiency class, IE4. Consequently, we can offer our customers highly efficient drive solutions with various technologies for almost all applications.

## A strong team

Digitalisation also constitutes a cultural shift as it involves major changes in our professional and personal lives. Such a fundamental shift can only be effected if all those involved place their trust in each other. Every single member of the Wilo Group feels a sense of belonging to an international community – regardless of national borders or religious or ethnic affiliations. Respect, trust and a willingness to embrace change are firmly rooted in our corporate culture. As a result, we are confident that we can successfully overcome the challenges of the digital transformation and the consistently high geopolitical risks together.

We would like to thank all employees worldwide for their hard work and commitment. The huge success achieved in 2015 would not have been possible without them. Our strong corporate culture, our future-oriented developments and our constant commitment to remain better than the rest continue to spur us on.

Yours,
The Executive Board

Dr Markus Beukenberg
Chief Technology Officer (CTO)

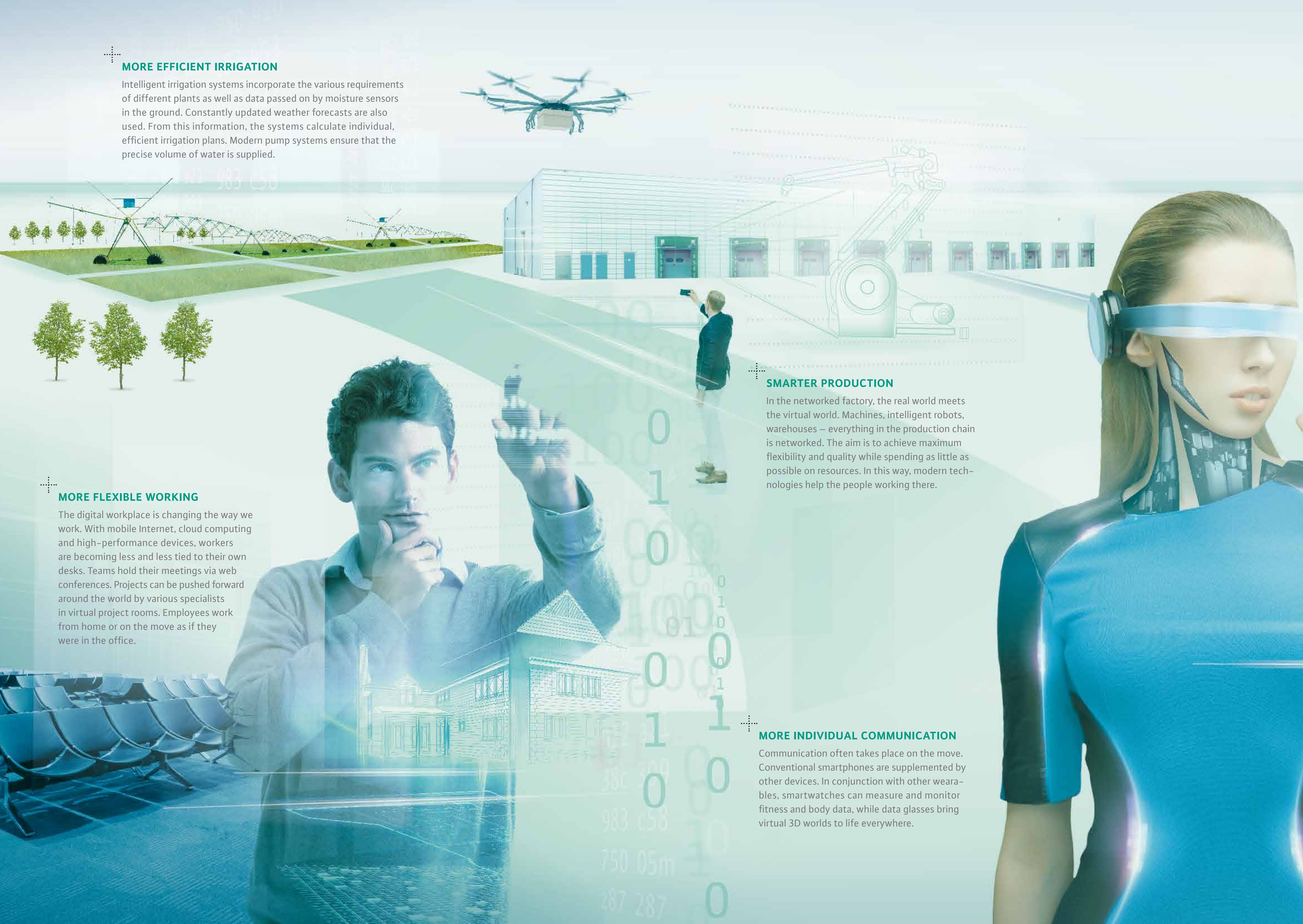
Eric Lachambre
Chief Operating Officer (COO)

**Oliver Hermes**
Chief Executive Officer (CEO)

**Carsten Krumm**
Chief Operating Officer (COO)

# LIVING AND WORKING IN THE DIGITAL AGE

The real world and the virtual world are becoming increasingly entwined. This transformation also affects Wilo. From individual communication to intelligently networked cities, from smart factories to decentralised electricity generation – digitalisation covers almost all aspects of life. In the future, it will be a key success factor – for companies and societies. The step from big data to high-quality smart data is essential to overcoming social and economic challenges. This is the only way to ensure implementation of modern energy and mobility management or Industry 4.0, for example.



## MORE EFFICIENT IRRIGATION

Intelligent irrigation systems incorporate the various requirements of different plants as well as data passed on by moisture sensors in the ground. Constantly updated weather forecasts are also used. From this information, the systems calculate individual, efficient irrigation plans. Modern pump systems ensure that the precise volume of water is supplied.

## SMARTER PRODUCTION

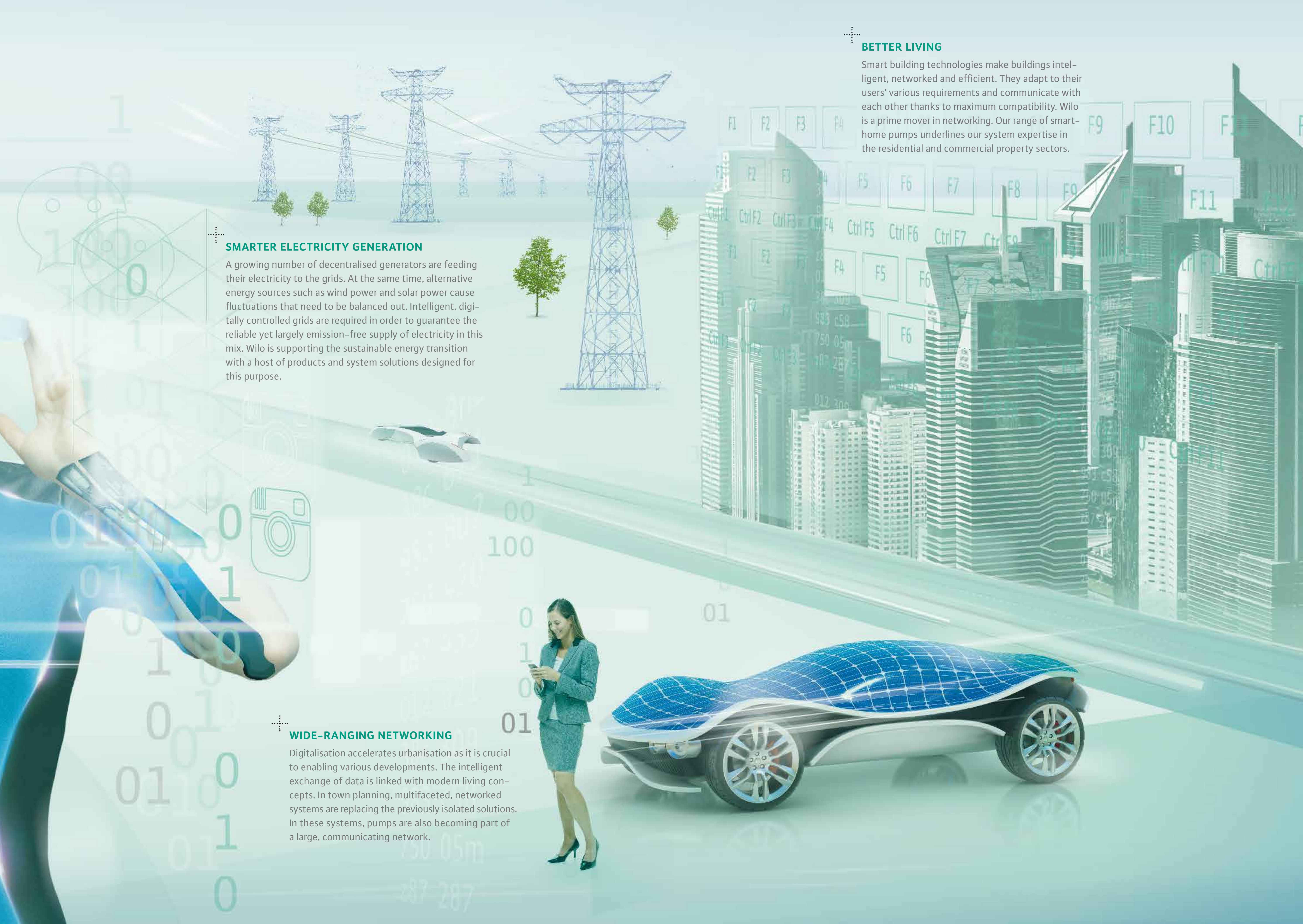
In the networked factory, the real world meets the virtual world. Machines, intelligent robots, warehouses – everything in the production chain is networked. The aim is to achieve maximum flexibility and quality while spending as little as possible on resources. In this way, modern technologies help the people working there.

## MORE FLEXIBLE WORKING

The digital workplace is changing the way we work. With mobile Internet, cloud computing and high-performance devices, workers are becoming less and less tied to their own desks. Teams hold their meetings via web conferences. Projects can be pushed forward around the world by various specialists in virtual project rooms. Employees work from home or on the move as if they were in the office.

## MORE INDIVIDUAL COMMUNICATION

Communication often takes place on the move. Conventional smartphones are supplemented by other devices. In conjunction with other wearables, smartwatches can measure and monitor fitness and body data, while data glasses bring virtual 3D worlds to life everywhere.



### SMARTER ELECTRICITY GENERATION

A growing number of decentralised generators are feeding their electricity to the grids. At the same time, alternative energy sources such as wind power and solar power cause fluctuations that need to be balanced out. Intelligent, digitally controlled grids are required in order to guarantee the reliable yet largely emission-free supply of electricity in this mix. Wilo is supporting the sustainable energy transition with a host of products and system solutions designed for this purpose.

### BETTER LIVING

Smart building technologies make buildings intelligent, networked and efficient. They adapt to their users' various requirements and communicate with each other thanks to maximum compatibility. Wilo is a prime mover in networking. Our range of smart-home pumps underlines our system expertise in the residential and commercial property sectors.

### WIDE-RANGING NETWORKING

Digitalisation accelerates urbanisation as it is crucial to enabling various developments. The intelligent exchange of data is linked with modern living concepts. In town planning, multifaceted, networked systems are replacing the previously isolated solutions. In these systems, pumps are also becoming part of a large, communicating network.

# DATA, FACTS AND FORECASTS

THE WORLD IS GETTING MORE NETWORKED.
Digitalisation is up and running – and will accelerate in the years ahead.

## INTERNET USERS

The number of Internet users has almost trebled in the last five years and is set to keep on rising sharply. It is estimated at some 3.1 billion today, and is likely to increase to around 3.9 billion people by 2019.

**+25%**

Source: Statista

## MOBILE ONLINE

The world's population will be **7.6 billion** in 2020.

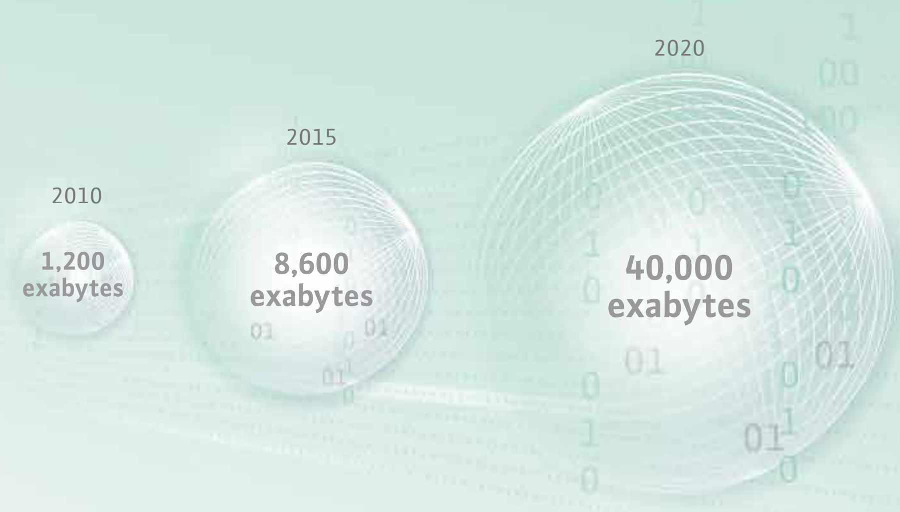
There will be **10 billion** mobile devices with Internet access by then.

Source: Cisco

## MASSIVE DATA GROWTH

By 2020, the volume of generated electronic data will mushroom to 40,000 exabytes. This amount of bytes is equivalent to 57 times the number of grains of sand on all the beaches on Earth.

Source: T-Systems




## SUCCESS STORY OF THE SMART HOME IN GERMANY

According to a study by the German Federal Ministry for Economic Affairs, the smart-home market is set to grow by more than 23 percent per year until 2025 from EUR 2.3 billion to EUR 19 billion.


## DIGITAL ECONOMY IN DEUTSCHLAND

The digital economy generated **EUR 221 billion** in Germany in 2014.

Germany stands **sixth** in the international rankings on global performance in digital economy.

**37 percent** of German companies are very pleased with their level of digitalisation.

Source: German Federal Ministry for Economic Affairs

## ADDED VALUE

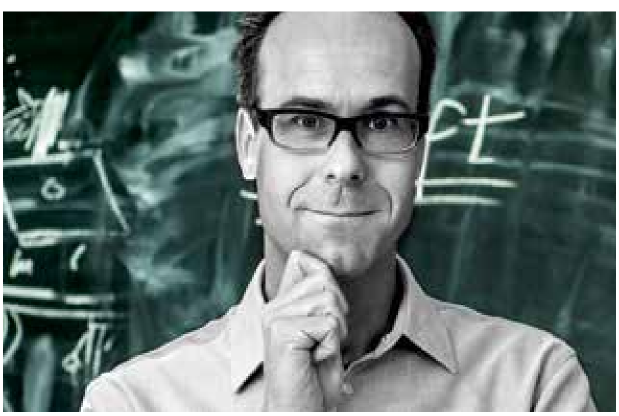
Added value of USD 11 trillion is likely to be generated by the Internet of Things by 2025. Around 90 percent of this will benefit users, mainly in the form of lower prices or time savings.

**USD 11 trillion**

Source: McKinsey Global Institute

# FROM OPERATIONAL EXCELLENCE TO BUSINESS MODEL INNOVATION

Digitalisation is all around. Changes that were almost entirely confined to automated industrial production not so long ago have been the subject of discussion at global economic, social and political level ever since the 2016 World Economic Forum in Davos. But there are tangible differentiation options.



**PROF. FRANK PILLER** (45) has been Professor of Technology and Innovation Management at RWTH Aachen University since 2007.

Digitalisation is actually as old as the hills. What is new is the potential of IT-related opportunities as we have now reached dimensions of performance that were unimaginable just a short time ago. In addition, the opportunities of IT networking have increased to such an extent that – in theory – we have more than 60,000 IP addresses for every square centimetre of our planet, so almost all things can be put on the Internet. This technical change is creating new potential – and challenges.

Competitive advantages through digitalisation can essentially be achieved in three areas:

- **Process optimisation** by introducing digital, automated processes, overcoming complexity and expanding process analysis.
- **Product development**, e.g. by adding sensors, processors and actuators to previously “non-smart” products.
- **Business model innovation** by identifying new markets or proposing new value to customers and partners.

To date, process optimisation is at its most advanced among German companies. Often, added value is apparent in production, logistics, sales and after-sales processes and can easily be generated with existing or increasingly available software and hardware products. In addition, the value drivers of this operational efficiency are well known and clear. However, in the long term, the possibilities it presents for strategic differentiation will be fairly limited.

When it comes to the development of new products that are either supplemented by corresponding sensors and actuators or boosted by smart services – i.e. supplementary, intelligent services – that enhance the value of the product from the customers' perspective, the picture is different. While some companies are already doing a lot of development work here, in many cases, there is still a lack of firm product and service ideas. "Smart" additions can lead to some considerable unique selling points in many everyday products. For instance, in the industrial sector, there are production machines that retain their core functionality but are fitted with appropriate technical components that enable them to be integrated in a production network and report utilisation, performance and wear data in real time, for instance.

Data streams such as these can be hugely valuable in terms of optimising consumption of energy and raw materials, but they can also generate independent datasets that can be used in other ways or even sold. For instance, components that are responsible for regulating the flow of fluids simultaneously measure related flows, make this data available for analysis and optimise the process by being automatically regulated as required.

There is still considerable potential at most companies in all sectors when it comes to developing totally new business models on the basis of digitalisation technologies. This situation is mainly due to several barriers:

- **Lack of awareness:** At SMEs in particular, digitalisation is often only considered in terms of process optimisation and technical connectivity with customers' logistics and production chains, if at all. Companies are frequently unaware of the threat to their own niche from innovative start-ups.

- **Lack of process:** Business model innovation is often pursued in a relatively unsystematic way and mostly without a clearly defined process "alongside day-to-day business" at companies of all sizes. While there is generally an elaborate process for product innovation, there is no corresponding business model innovation process – although research has progressed significantly here in recent years with the development of corresponding processes and methods.

- **Lack of resources:** The scope and reach of digitalisation and the sometimes drastic reduction in product and technology lifecycles require the innovation process to be adapted in order to attain greater flexibility and faster development steps. Many companies particularly lack the human resources as well as the technical and methodological understanding required to achieve this.

Consequently, the developments of digitalisation provide a host of opportunities for established companies. While short-term success can be gained through process optimisation, a viable long-term strategy requires the development of new products and services as well as new business models that use the potential of digitalisation in a new way to create value. Accordingly, innovative companies should seek to address and implement all three innovation dimensions as part of a holistic, flexible and dynamic digitalisation strategy.

> THE DEVELOPMENTS OF DIGITALISATION PROVIDE HUGE OPPORTUNITIES FOR COMPANIES. SMART ADDITIONS CAN LEAD TO SOME CONSIDERABLE UNIQUE SELLING POINTS IN MANY EVERYDAY PRODUCTS.


CUSTOMER RELATIONSHIP MANAGEMENT
CRM
wilo
PLM
SCM
PRODUCT LIFECYCLE MANAGEMENT
SUPPLY CHAIN MANAGEMENT

# *Wilo's core processes*

**Wilo focuses on core processes that are geared towards the requirements and preferences of our stakeholders and customers. This enables us to keep on offering the best products and solutions and become a digital pioneer in the sector.**

**The digital transformation at Wilo involves a fundamental, permanent realignment of structures and technologies. This requires flexible and fast action in order to cement Wilo's leading position on the market. In the context of digitalisation, we are focused on three core processes in order to significantly increase customer benefit. The aim is clear: even greater efficiency and strength through digital, networked processes. We want to tap into new business opportunities and develop innovative business models. At the same time, Wilo is building up a new dimension in customer proximity through digitalisation.**

Wilo's digital team: **Peter Hermann,** Group Purchasing & Supply Chain, **Sven Prochowski,** Group Information Management, J**an Radzey,** Group Marketing, **Georg Weber,** Group Electronics & Motors and Group Production Systems & Technologies

## FROM BIG DATA TO SMART DATA – WHAT LINKS THE CORE PROCESSES

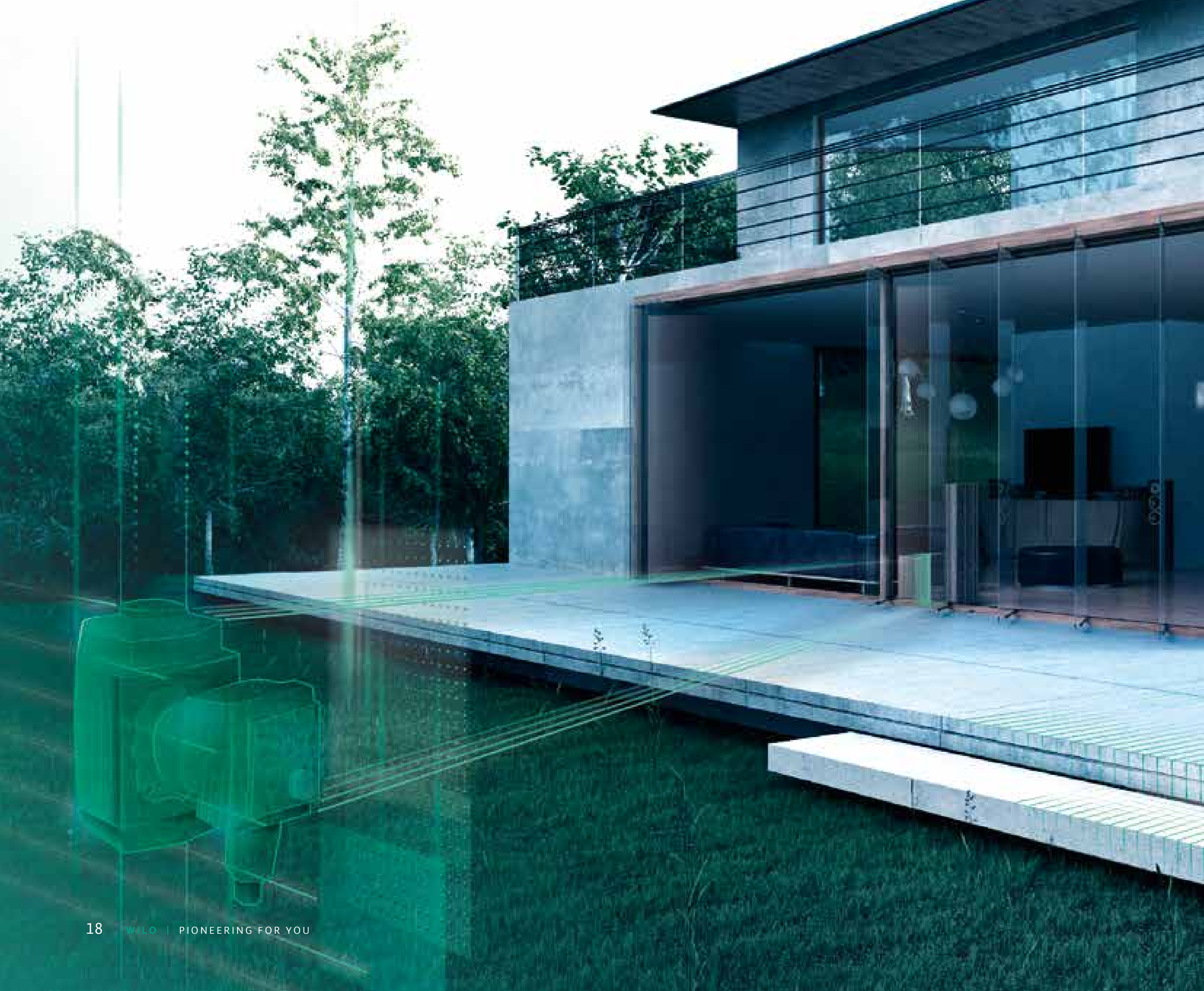
**Huge volumes of data are produced day after day at Wilo, not to mention the data generated outside of Wilo. The challenge is to use the rapidly growing data streams with the greatest possible economic efficiency. That is why systematic analysis of the relevant data is essential for Wilo. The crucial factor here is not the immeasurable volume of data but seeking out the relevant content. Only then does big data become smart data and therefore a key competitive advantage. This results in real added value for our company and our customers. Real-time remote diagnosis of systems together with preventive maintenance is just one example of how smart data will change Wilo's business models and services in future. This will make us even faster, more productive, more efficient and more innovative.**

# SMART DATA

# OPENNESS MEANS MORE PROXIMITY

## CUSTOMER RELATIONSHIP MANAGEMENT

We are putting our relationship with our customers on a new footing with individualised and customised products. Wilo is redefining customer proximity.



CRM

## CUSTOMER RELATIONSHIP MANAGEMENT

The world is getting ever more complex. At the same time, it has become increasingly individualised in many areas of life and work. Our customers are also turning towards customised solutions more and more – a trend that is set to grow significantly in future.

That is why Wilo is using digitalisation to build up a new dimension in customer proximity that has never been seen before in the pump sector. Customers are already right at the heart of our operations. Now, we are taking the logical next step towards the future and opening up the interfaces between our customers' world and Wilo's world. We are inviting customers to configure their products themselves. The idea behind this is to make this as individual as necessary and as efficient as possible. By making customer-specific products, we are constantly laying the foundations for new customer solutions.

In doing so, we are networking all customer information with product and service data in real time. The connection via the Wilo cloud is intended to remain constant seven days a week. Even after delivery and installation, our pump systems are in contact – with Wilo and the customer. Location and operating data can be exchanged and updated in the future. This enables functionality and monitoring of all systems at any time.

Our employees can check data on-site, update it immediately and work from anywhere. All information is available to everyone – from the sales team to the service employees. In this way, we guarantee fast, professional customer contact. If there are any queries, an employee retrieves the customer data and thus has a precise grasp of the matter. Wilo's CRM system enables targeted and, above all, individual customer care, and ultimately a high level of customer satisfaction.

Knowledge
Product
Benefit
Wilo
Customer
Relationship
Management
Customer
Service
Support

# NETWORKING OPENS UP NEW POSSIBILITIES

SUPPLY CHAIN MANAGEMENT

Digitalisation of the value chain allows Wilo to establish new business processes – from raw-material suppliers to end customers.



## SUPPLY CHAIN MANAGEMENT

Wilo uses digitalisation to integrate the most important processes in logistics and production. Continuous data streams guarantee future transparency along the entire value chain. With the Wilo cloud, we will connect our suppliers and evaluate data in real time.

The new “smart factory” to be built at the Dortmund location by 2020 is geared towards the groundbreaking production technologies in the context of Industry 4.0. Wilo is setting new standards with this high-end location. For instance, modern technologies will help our employees in their work in the future. These can include automated transportation systems as well as smart robots and 3D printing systems. With products fully networked and constant communication, it is possible to align individual components and customised solutions to customers’ requirements as closely as possible.


Wilo is farsighted in its planning. In the factory of the future, the pump configured online is directly incorporated in the production plan. The necessary components are ordered immediately from the supplier. The resultant acceleration in material availability guarantees continuous, unimpeded production. At the same time, the materials used are sure to be constantly in stock. Everybody wins. Suppliers have planning and production reliability, and our customers benefit from outstanding delivery reliability and adherence to deadlines.

At the end of each production process, the finished Wilo product is given another digital fingerprint: individual encoding for maximum transparency and control. This prepares the customised solution of the future for its subsequent journey to the customer.


Module

# SYSTEMISATION FOR MORE EFFICIENCY

## PRODUCT LIFECYCLE MANAGEMENT

We have developed a strategic concept for holistic management of a product through all phases of its lifecycle – supported by digital processes.

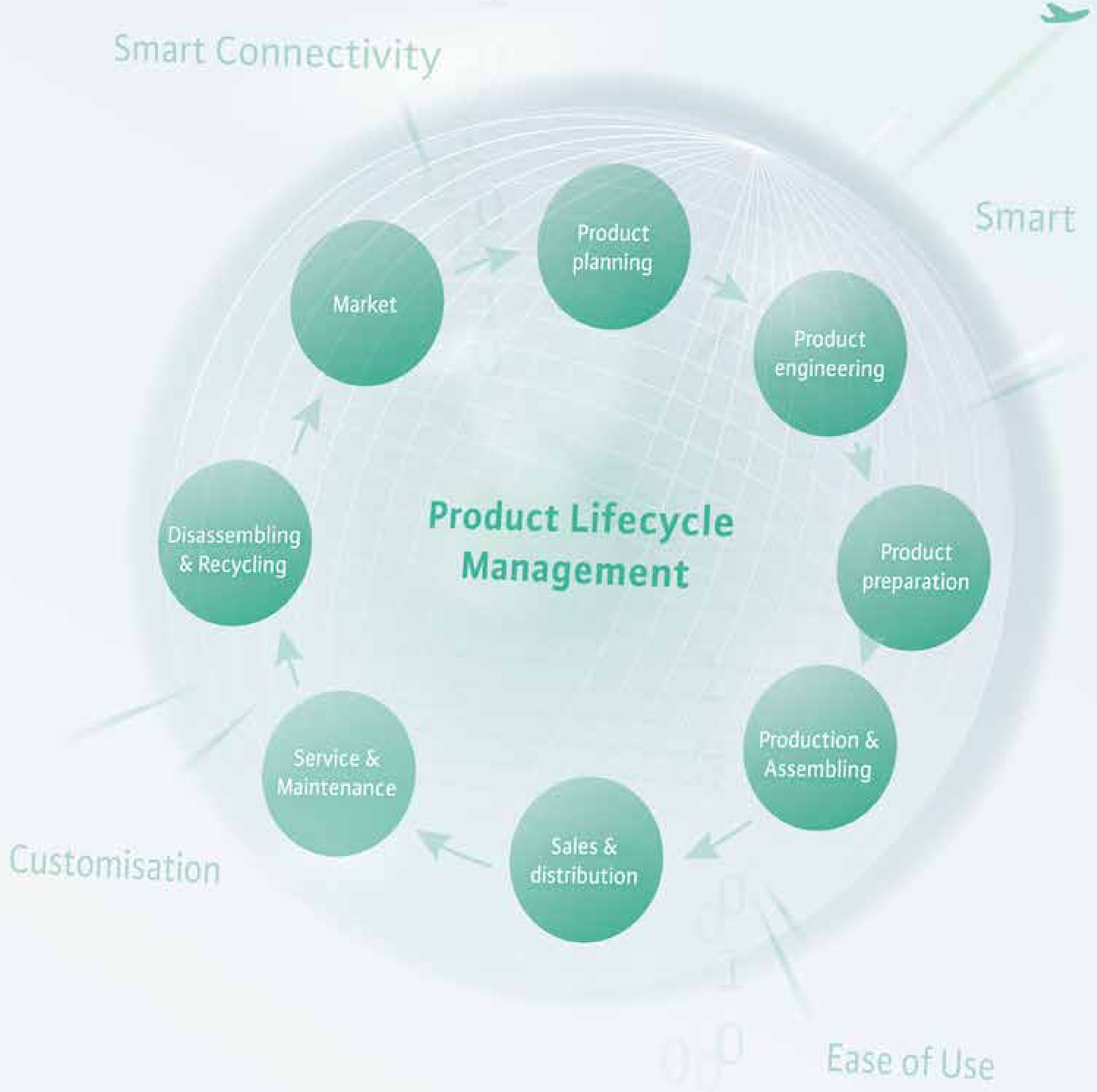
PLM

## PRODUCT LIFECYCLE MANAGEMENT

These days, companies in the process of rapid digitalisation face many new challenges: product lifecycles are getting ever shorter, products and services are developed on an increasingly cross-sectoral basis, and solutions are getting more and more individual. We have devised the right answers for these developments. Wilo's product lifecycle management is a strategic concept for effective, efficient management of a product and the product data through all phases of the lifecycle, from the initial idea to production to the end of its use. This concept covers much more than the IT systems. It incorporates the processes in our company holistically and also embraces methods, processes and organisational structures.

For the digital Wilo world, this approach means providing all relevant information on a product in a compact manner, particularly because the wide-ranging requirements for our pumps and their electronics make development and production much more complex.

Wilo's modern product lifecycle management provides extensive information for all departments involved, from Research & Development, Production, Sales and Purchasing to Controlling and Marketing. We can and will use the "smart" data gained to design the products of the future to an even higher standard. Through digitally supported processes and a uniform, shared data pool, we develop solutions and produce in line with the same standards across all locations. As a globally operating company, this enables us to offer customer-specific, intelligently networked and communicating products that are also easy to use. We will also launch our products on the markets more quickly and continue to respond flexibly to changed situations in future, giving us another advantage in the intensely competitive global marketplace.


Smart Connectivity
Smart
Product Lifecycle Management
Market
Product planning
Product engineering
Product preparation
Production & Assembling
Sales & distribution
Service & Maintenance
Disassembling & Recycling
Customisation
Ease of Use

# TRANSFORMATION AT THE DORTMUND LOCATION

FORWARD-LOOKING INVESTMENT PLANS OF THE WILO GROUP

Wilo's new headquarters will play a big part in shaping the future of our Group in many respects, including on a global level, to the benefit of our customers and our workforce.


wilo
wilo

**In Dortmund, where Wilo's history began nearly 150 years ago, we are building a factory with intelligent production processes and innovative technologies as well as progressive office blocks and functional buildings.**

In the past, in the context of globalisation – a megatrend that is a decisive influence on our corporate strategy – we have invested heavily in the main centres of economic growth: a new plant in Korea, a new plant in China, and modern assembly and logistics platforms in Turkey, Brazil and South Africa. In the Middle East, we have expanded our location in Dubai into a sales hub, and we will be opening a new plant in Moscow in summer 2016. At present, though, the biggest future investment is the expansion of our Group's nerve centre. Our headquarters in Dortmund is to become a high-end location.

We aim to set new benchmarks in the pump industry with our Vision 2020 project, pursuing our strategic goal of building on our position as leading innovators. To create the necessary framework, the entire 180,000-square-metre site has been completely rethought and replanned. We are building the base for our digital future. It will consist of factory premises in the north and office blocks and functional buildings in the south. In preparation for the biggest construction project in the company's history, temporary lightweight halls with additional space for ongoing production were built in 2015. In anticipation of Wilo's digitalised future, the new production and logistics concept is already being developed, tested and refined there. At the same time, old buildings have been demolished and construction preparations are progressing swiftly. The foundation stone will be laid in autumn 2016.

Industry 4.0-compatible production facilities will then be built on the north construction site. These are flexible and convertible in order to allow adjustments to changes in our product range or new production technologies. Electronics production will also find a new home on the totally revamped factory premises. Alongside this, the new office block is emerging on the construction site in the south.


In a few years' time, the state-of-the-art Wilo location in Dortmund will be a reality.

The plans have been adapted to employees' wishes and needs in order to create optimum working conditions. The office concept devised in collaboration with the Fraunhofer Institute is based on the requirements of a working reality that is changing rapidly in the context of the digital transformation. It takes into account new communication requirements as well as the shift towards flexible, mobile working-time models.

When the headquarters in Dortmund is complete, production will commence in the factory of the future with state-of-the-art IT and mechanical support. Administrative staff will move into a building with architecture and equipment designed with digitalisation in mind. In the next stage of construction, further important buildings will be erected in the south of the site in time for the company's 150th anniversary in 2022. They will include an innovation centre for our product development and a customer centre that contains a showroom as well as display and demonstration space. There will also be a health and employee centre with integrated child care here. A project centre will bundle the company's research and development resources and continue to nurture interdisciplinary product development. In addition, there will still be room on the site for future expansions.

All over Wilo's premises, ergonomic and efficient buildings are being constructed that can be flexibly adapted to changing requirements and guarantee maximum cost-effectiveness. The site is set in an open park where water features prominently. Here, products from Wilo's own range ensure visible, tangible, intelligent use of rainwater. The factory of the future with lean manufacturing processes as well as modern office blocks and functional buildings for networked working. With the Vision 2020 project, a high-end location setting new benchmarks in the age of digitalisation is taking shape in Dortmund.

# A REVIEW OF 2015 AT WILO

## 01 JANUARY

### Maximum efficiency in drive technology

Wilo has set new benchmarks in energy saving once again. The series of motors developed and produced in-house with asynchronous technology attain the highest energy efficiency class, IE4, across the board. Wilo is breaking new ground with its permanent magnet motor technology. Efficiency levels of over 97 percent are achieved here even with less powerful motors. This figure is well above the worldwide standards.

## 03 MARCH

### Wilo is going beyond pumps

We are pressing ahead with intelligent networking of our systems. For instance, at the ISH 2015 in Frankfurt, Wilo demonstrated its system expertise in the digital systems and residential & commercial property sectors with the Wilo Stratos PICO SmartHome, the first in a series of smart home-compatible products from Wilo.

## 05 MAY

### WILO SE extends sponsorship of the German eight-man rowing team until 2020

Wilo remains committed to sponsoring top sporting events and will stay on board with the German eight-man rowing team beyond the 2016 Olympics. The team's entire fleet now lines up in boats in Wilo green with the logo "Wilo – Pioneering for You".

## 06 JUNE

### Groundbreaking ceremony for the new Wilo Central Asia building in Kazakhstan

Wilo's new sales and service centre in Almaty is designed to reflect the company's market-leading position.

On a site covering over 2,000 square metres, the new complex will provide space for production, logistics, administration and training. It will also meet the LEED standards for energy-efficient and environmentally sound construction.

## 09 SEPTEMBER

### Wilo involved as lead sponsor

As a member of B.A.U.M. e.V., a corporate network for sustainable business, WILO SE is the lead sponsor of the 28th B.A.U.M. annual conference and awards ceremony. The B.A.U.M. association has been closely involved in sustainable management of resources for over 30 years.


## 09 SEPTEMBER

### Topping-out ceremony of the new Wilo branch in Berlin

Wilo's new branch in Berlin is currently being built on the EUREF Campus in the German capital. EUREF is regarded as "Europe's energy transition centre" and already meets the German federal government's climate targets for 2050. The building for Wilo's new home officially received LEED platinum status at the end of 2015, partly because of Wilo's own pump system. In the future, the EUREF Campus will be Wilo's global network headquarters: for meetings involving figures from national and international politics, business and the media. Long-term energy efficiency for "urban area life" is the mission statement of the EUREF Campus in the German capital, Berlin.

## 11 NOVEMBER

### Anniversary celebrations in Beijing

To mark 20 years of Wilo's presence in China, Wilo China held a press conference and an anniversary banquet with prestigious guests from the fields of politics and business.

# GROUP MANAGEMENT REPORT

**The Wilo Group can look back on a successful 2015 financial year. Despite an extremely challenging macroeconomic environment with various geopolitical conflicts, the Wilo Group recorded significant growth in net sales and earnings. The Wilo Group's innovation and technology leadership was strengthened with the launch of innovative products and services and the further development of the existing product portfolio. Targeted investments in key European production locations and the emerging economies increased the Group's international market presence and further improved its regional diversification, thereby sustainably expanding the basis for accelerated, profitable growth.**

# THE 2015 FINANCIAL YEAR AT A GLANCE

## NET SALES

**EUR 1,317.1 million**

The Wilo Group's net sales increased by 6.7 percent to a new all-time high of EUR 1,317.1 million. This represented stronger growth than originally forecast.

## EBIT

**EUR 121.2 million**

## CONSOLIDATED NET INCOME

**EUR 80.5 million**

The Wilo Group improved its profitability in the past financial year. Earnings before interest and taxes (EBIT) and consolidated net income rose by 9.0 percent to EUR 121.2 million and by 15.3 percent to EUR 80.5 million respectively, thereby significantly outpacing the growth in net sales.

## CAPITAL EXPENDITURE

**EUR 106.4 million**

Investments of EUR 106.4 million were made in growth-oriented capacity expansion, new manufacturing technologies, and the construction and expansion of new and existing sales and production locations. A large portion of these investments was attributable to strategic location development projects at the Group's headquarters in Dortmund and in Moscow.

## RESEARCH AND DEVELOPMENT

**EUR 62.4 million**

The Wilo Group's innovation and technology leadership has been strengthened for the long term. As planned, research and development costs increased to EUR 62.4 million, the highest figure in the Group's history.

EMPLOYEES

# 7,400

Employees are the basis and the driving force for the Wilo Group's sustainable economic success. The Group had an average of around 7,400 employees worldwide in the year under review.

# Digitalisation strategy

The digitalisation strategy that was defined in 2015 sets out guidelines for the digital transformation of the Wilo Group. As part of the digitalisation process, Wilo will optimise existing business processes while developing new and innovative business models.

# Building Information Modelling

Wilo is one of the first pump manufacturers in the world to provide product data in digital form for Building Information Modelling (BIM). This allows products and their properties to be used and taken into account directly in the 3D CAD planning process for a building.

# Wilo is going digital

Wilo is going beyond pumps and pump systems to offer digital systems and solutions based on intelligent networking. Among other things, the Wilo Group presented a smart home-compatible pump portfolio in 2015.

# BASIC INFORMATION ON THE WILO GROUP

- **Premium provider for building services, water management and industry**
- **Around 60 production and sales companies in over 50 countries**
- **Around 7,400 employees worldwide**
- **Digital transformation to support "Ambition 2020"**
- **Research and development activities at record level**

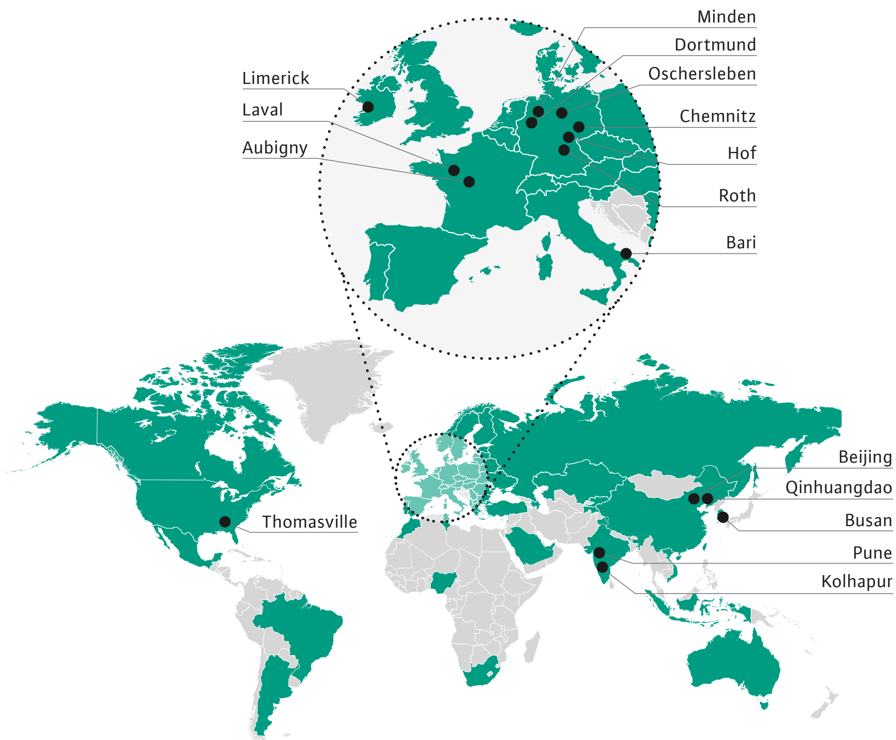
## Customers and products

Wilo is a premium provider of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. The Wilo Group is one of the world's leading manufacturers in these markets. Its products, system solutions and services are tailored to meet every need. The extensive product range extends from the Wilo Geniax decentralised pump system, which is specially designed 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 pumps and pump systems for industrial applications such as large cooling water pumps for power plants.

The Wilo Group's corporate strategy and the operational focus of its around 7,400 employees are systematically geared towards customers and their specific needs and requirements for products, applications and services. The close cooperation with OEM partners, planners, specialist retailers and tradesmen as well as general contractors, investors and end users in a spirit of mutual trust forms the basis for the Wilo Group's market success. As a premium provider, Wilo aims to develop both leading technology and intelligent solutions that make life noticeably easier every single day. This is the principle behind our claim: "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. The company also 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 is active in the Building Services, Water Management and Industry market segments and has systematically tailored its portfolio of products, system solutions and services to the needs of customers in these three market segments. With a clear focus, impressive innovative strength and proximity to the customer accompanied by a local presence, the Wilo Group is able to identify varied and changing requirements worldwide at an early stage and adapt quickly and flexibly.

### Building Services

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

### Water Management

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

### Industry

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

## Group structure

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

**Net sales by region in 2015**

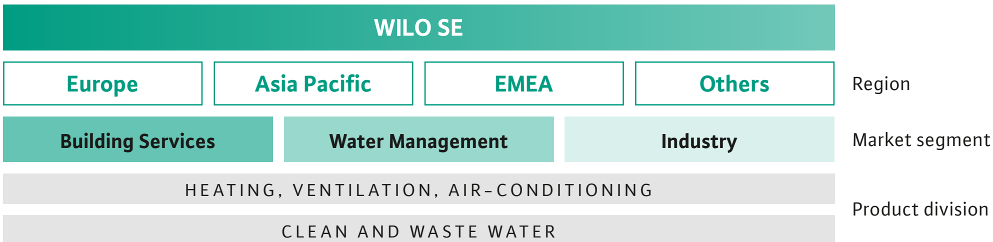
- 56.5% Europe
- 26.2% Asia Pacific
- 14.4% EMEA
- 2.9% Others

As at 31 December 2015, the Wilo Group encompassed WILO SE and more than 60 production and sales companies. WILO SE holds a direct majority interest in most of its subsidiaries; there are only six Group companies in which WILO SE holds an indirect majority interest.

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

In the individual regions, the respective regional management works in close cooperation with the heads of the market segments and product divisions to ensure that the needs of the individual customer groups are met optimally. In the 2015 financial year, the Wilo Group restructured and optimised its organisation at the level of the product divisions in order to establish an even more pronounced focus on customer and market requirements. The three previous divisions – Circulators, Pumps & Systems and Submersible & High Flow – were reorganised into the new HVAC (Heating, Ventilation, Air-Conditioning) and CWW (Clean and Waste Water) divisions. The HVAC division adopts a targeted focus on heating, air conditioning

**Organisation and management structure of the Wilo Group**




and cooling applications in the Building Services market segment in particular. The CWW division covers clean water, sewage and wastewater applications for the Building Services, Water Management and Industry market segments.

## Management and monitoring

The management of the Wilo Group is the responsibility of the Executive Board of WILO SE, which 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 Heating, Ventilation, Air-Conditioning (HVAC)
- Group Marketing & Customer Excellence
- Group Service
- Market segment Building Services

**CTO**
**Dr Markus Beukenberg**

- Group Innovation, Technology & Quality
- Group Production Systems & Technologies
- Group Electronics & Motors

**COO**
**Carsten Krumm**

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

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

In its management of the Wilo Group, the Executive Board focuses in particular on the development of net sales and earnings power. Earnings power is based on operating earnings, i.e. earnings before interest and taxes (EBIT), and the EBIT margin. These key performance indicators are applied consistently to management at Group level and at the level of the three organisational and management dimensions of the Wilo Group, i.e. regions, market segments and product divisions. 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.

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

Furthermore, the Wilo Group is required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. In particular, this includes the ratio of consolidated net debt to consolidated EBITDA (leverage), the equity ratio and the ratio of consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) to consolidated interest expenses (interest cover ratio). These ratios are also regularly reviewed and reported to the Executive Board in order to ensure compliance with the required minimum values at all times. The Wilo Group continued to comply with the agreed financial ratios in the 2015 reporting year.

Further information can be found in the “Non-financial success factors” section on page 68 et seq.

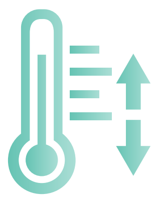
Non-financial aspects also play an important role in the Wilo Group’s successful business development. Accordingly, these are fundamentally relevant for the strategic and operational management of the Wilo Group, albeit to a lesser extent than the key financial performance indicators described above.

## Corporate strategy

The “Ambition 2020” corporate strategy sets out the company’s development and the strategic growth path of the Wilo Group for the coming five years. The Group intends to increase its net sales to more than EUR 2 billion and generate an EBIT margin in excess of 10 percent by 2020. Corresponding strategic directions have been defined for each of the three market segments in which the Wilo Group is active: Building Services, Water Management and Industry. One of the

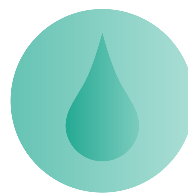
**Our "Ambition 2020": We accelerate our profitable growth as an independent global player**

| | | | | |
|---|---|---|---|---|
| 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. |



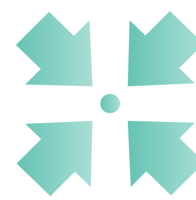
**BUILDING SERVICES**

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.

main goals in Building Services remains to extend the Group's market, technology and innovation leadership. The Group's international market presence will be increased further in the Water Management market segment, while the Industry market segment will see a focus on selected industries in key markets. The customer is always at the heart of "Ambition 2020".

In 2015, the Wilo Group developed in line with its strategy and further reinforced its position as an innovative, independent manufacturer of pumps and pump systems worldwide. The Group remains on a profitable growth path. Growth in net sales of 6.7 percent was generated in 2015, while an EBIT margin of 9.2 percent meant Wilo again remained within its strategic target corridor.

The Wilo Group systematically developed its corporate strategy in the year under review. "Ambition 2020" was specified and defined in greater detail for mature and emerging markets. In addition to innovation leadership, Wilo is pursuing a clear focus on operating efficiency improvements and optimised sales and services in the mature markets. The emerging economies are intended to be the growth driver. In these markets, Wilo is seeking to continue its expansion across all market segments, strengthen its global presence and gain market share.

To implement the corporate strategy, the "Ambition Acceleration Program (A2P)" was launched in 2014. The program is composed of three key initiatives: Strategy Execution, Business Expansion and Brand Management. In 2015, a total of 15 strategic campaigns were pursued and systematically tracked as part of A2P. The implementation of the program is a success and the results are within the planned strategic target corridor on the whole. One key factor in this success is the interconnection of the strategic campaigns with the Group-wide planning and budget process.

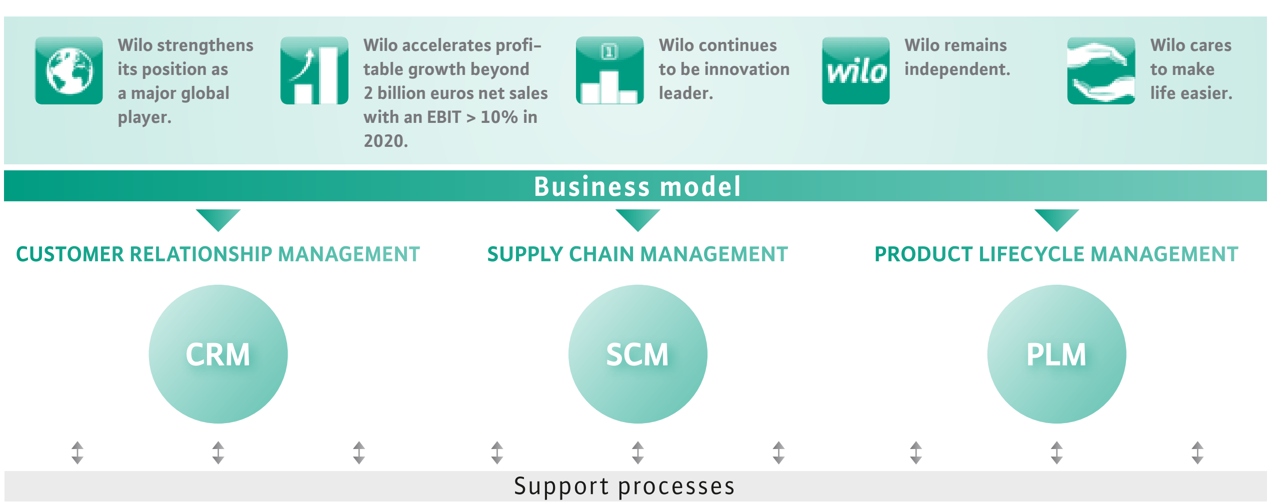
**A2P Strategy Execution key initiative**


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 have a significant impact on the Wilo business model of tomorrow, as well as the company's current development. In particular, technological progress proved to be an important strategic driver for the entire Wilo Group in the year under review.

The current and future trends in the technological segments of "Digitalisation", "Sensor Technologies", "Smart Systems and Infrastructures" and "New Production Processes", which are seeing dynamic global development, will lead to dramatic changes in markets and business processes that will have a considerable influence on Wilo's future business. As an anticipatory measure, the Executive Board therefore appointed an interdisciplinary internal group of experts to define a digitalisation strategy for Wilo in the year under review. The digital transformation at Wilo will include the creation of intelligent systems and solutions to generate value added for the company and its customers. This will be achieved by connecting people, products and services as well as factories and their machinery.

In line with our claim "Pioneering for you", Wilo is aiming to be the digital pioneer in the pump industry. This means leveraging the opportunities provided by digitalisation for optimising existing processes and developing new business models to support "Ambition 2020" with the aid of the digital transformation. Wilo will develop into a digitally transformed company that continuously tests its processes and business models against the state of the art. The digitalisation process at Wilo will focus on the business processes of customer relationship management, supply chain management and product life cycle management. Key projects include the development of the Group's headquarters in Dortmund into a smart factory and the development of a new digital customer interface as part of customer relationship management.

**We accelerate our profitable growth as an independent global player**



## 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 were 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, key strategic action areas were defined for the Group's research and development activities. As previously, these are energy and resource efficiency, systems technology and solutions expertise, and communication. In the 2015 financial year, the relevant action areas were expanded to include digitalisation.

The associated aspects and starting points for specific implementation in research and development are extremely complex. This is particularly true of digitalisation, which affects practically every area of the company. One significant challenge relates to technology and product development, as digitalisation requires entirely new processes and tools. The strategic action areas are addressed in intensive cooperation with outside partners. The Wilo Group has access to a global research and development network to help it to conduct the various research projects that are necessary, often in close cooperation with project partners, other industrial companies and increasingly also customers, as well as with the aid of government grants. The primary focus traditionally involves application-related basic issues. At present, many of the insights gained are increasingly being applied in product development projects.

All research and technology activities are conducted on a Group-wide basis by the three central research and technology centres in Dortmund. Key content includes traditional mechanical and hydraulic technologies, microelectronics and software, and production systems and technologies. The aim is to address the new challenges arising from the digital transformation in every area of the company more intensively and quickly. To this end, the core technology centre for mechanics and hydraulics has been restructured and idea and innovation management has been expanded and stepped up further.

As a matter of principle, responsibility for product series development lies with the respective local product divisions. This two-tiered structure ensures that both innovations and new technologies are prepared and planned, and that specific market requirements can be quickly addressed and met in immediate proximity to the customer. Due to the digitalisation strategy and its impact on all areas of the company, cross-divisional and interdisciplinary project teams are increasingly also being included in product series development.

Key projects, methods and technological processes were initiated and continued in the 2015 financial year. This relates in particular to all activities and development work involving digitalisation.

## Results

In the year under review, considerable effort was made to further refine and implement the motor and drive strategy in line with the unabated trend towards increasingly efficient, speed-controlled electric motors. The Group's strategic dependence on a handful of suppliers for permanent magnets was again significantly reduced by the continued systematic development of expertise and in-house production capacity. Having started in 2014, the in-house manufacturing of permanent magnets, a key component for high-efficiency electric motors, was extended to incorporate additional sizes in the year under review. In particular, this involved the significantly more complex technology for high-performance magnets produced using hot press moulding, which are characterised by the consistent quality of their magnetic properties. At the same time, work began on extending in-house permanent magnet production to additional series of high-efficiency motors with higher power levels.

Conventional asynchronous technology also allows a further improvement in quality and efficiency. Driven by the increasingly demanding global guidelines on the efficiency levels of electric motors, 2-pole asynchronous motors in energy efficiency class IE4 in the power range up to 7.5 kW were developed and included in the product range for the first time in the year under review. As one of the innovation leaders in this sector, WILO SE has also made an important contribution to the establishment of standards and norms for such drive systems. As previously, 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 Group also 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 was incorporated into the digitalisation strategy and continued in the year under review. Marking one of the key products of this cooperation, in 2015 the Wilo Group presented the world's first smart home-compatible heating circulation pump – the Wilo Stratos PICO SmartHome – at the ISH, the leading global trade fair for building technology. The service water circulation pump Wilo-Star-Z Nova-SmartHome can also be easily integrated into a modern smart home environment. Other products with smart home functions are in preparation. As part of the implementation of its digitalisation strategy, the Wilo Group also became one of the first pump manufacturers in the world to provide product data in digital form for Building Information Modelling (BIM). This allows products and all of their properties to be used and taken into account directly in the 3D CAD planning process for a building.

A digital building model generated in this way offers significant benefits for planners, architects and operators. Continuous data availability and processing throughout the entire building life cycle is guaranteed. The Group also presented WiloCare, software that continuously monitors the operating status of pump systems remotely and that can also be used for third-party products.

As in the previous year, another key element of product development activities in 2015 was the expansion and renewal of the product portfolio. Work in the year under review focused on maintaining and improving the product range across all product divisions.

The key focal points of new product development are concentrated on five top development projects for the Group 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. In addition, work began on the definition of interconnected long-term technology, module and product roadmaps. This approach will give rise to a company-wide platform and module system that will enable the results of the various projects to be used on a cross-project basis and ensure the transfer of technology, thereby sustainably reducing development costs.

### Employees

In 2015, 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. Furthermore, the number of people employed in research and development as a whole was largely unchanged following substantial increases in the two previous years, meaning that the proportion of the total workforce accounted for by research and development remained stable at a high level. The needs-driven recruitment of excellent young candidates in the disciplines of technology and the natural sciences is still a challenge. The Wilo Group seeks to be perceived as an employer of choice in its human resources activities so that it can continue to successfully attract and retain highly qualified employees in future.

### Patents and licences

The Wilo Group pursues a patent strategy that is geared towards the current demand for greater customer benefit. In addition, new technology and product developments are closely shadowed by the patent strategy in order to ensure the broad-based, comprehensive protection of expertise. The number of patents submitted remained at the same level as in the previous years, while the total number of patents held declined slightly year-on-year. Reflecting the technological change in recent years, technically obsolete property rights have been removed from the patents held.

Other companies have been granted joint rights of use from the existing patent portfolio, while the Wilo Group also utilises rights of use for third-party patents.

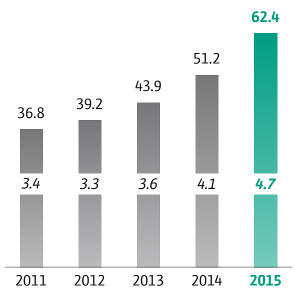
The Group continues to intensively pursue anti-counterfeiting. A number of fake and imitation products are being launched, especially in China, and many highly similar brands are also being registered. The legal measures initiated, such as the prohibition on the use of highly similar logos and the confiscation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

## Investment and expenditure

Investment in research and development again focused on expanding laboratory and test facilities and building new types of production facility. The main area in the year under review was extending test bench capacity with a focus on the pre-qualification of new product developments.

Total research and development costs including capitalised development costs again increased significantly by 22.0 percent year-on-year to EUR 62.4 million in 2015, corresponding to 4.7 percent of net sales (previous year: 4.1 percent). This was the highest level of investment in research and development in the history of the Wilo Group. Development costs of EUR 20.0 million were capitalised in the 2015 financial year (including borrowing costs). Research and development costs were expensed in the amount of EUR 43.1 million.

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




* including capitalised development costs

# BUSINESS REPORT

- **Global economic growth slows on the back of lower momentum in the emerging economies**
- **Wilo Group's net sales growth stronger than forecast**
- **Profitability improves within strategic target corridor**
- **Significant increase in consolidated net income and operating cash flow**
- **Investments reach new all-time high**

## General economic conditions

**Global economy again fails to enjoy tailwind**
Contrary to forecasts, the global economy saw slower growth in 2015 than in either of the two previous years. Although growth in the industrialised nations picked up slightly, the upturn was less pronounced than expected. Meanwhile, growth in the emerging economies continued to decline on the back of the further slowdown in economic momentum in China in particular, as well as the recessions in Brazil and Russia. All in all, the year was characterised by a further fall in oil and commodity prices, the strong appreciation of the US dollar and considerable volatility on the financial markets. As previously, additional uncertainty was provided by geopolitical risks such as the instability in the Middle East, Ukraine and parts of Africa. The International Monetary Fund (IMF) and the Kiel Institute for the World Economy (IfW) agree that the global economy grew by just 3.1 percent in 2015 (2013 and 2014: each 3.4 percent).

The US economy enjoyed an upturn, although growth momentum was weaker than forecast due to the substantial appreciation of the US dollar. The US Federal Reserve initiated the long-anticipated turnaround in its interest rate policy only at the end of the year. According to the IMF, total growth in the industrialised nations accelerated modestly to 1.9 percent in 2015 (previous year: 1.8 percent). Momentum in the emerging and developing economies remained high, but development again flattened considerably compared with previous years, with growth amounting to 4.0 percent (previous year: 4.6 percent).

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.

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 148.

### Europe – Upturn with improved momentum and a broader regional base

In 2015, the euro area benefited from the extremely expansive fiscal policy of the European Central Bank, which launched an extensive bond purchase programme, as well as the depreciation of the euro and falling energy prices. Private consumption was the main driver of the upturn. By contrast, investment activity among companies was curbed by the lower level of demand in key export markets and geopolitical risks. In particular, uncertainty was driven by the instability in the Middle East and Ukraine, as well as the renewed exacerbation of the Greek crisis during the course of the year. According to IMF estimates, real growth in the euro area increased from 0.9 percent in the previous year to 1.5 percent.

The economies of former crisis-hit nations, such as Spain and Ireland, enjoyed substantial growth. Italy also returned to moderate expansion, with only Greece still failing to record growth. A lack of reforms meant that the French economy saw extremely moderate growth, whereas the robust upturn continued in the United Kingdom and the EU member states in Eastern Europe.

The upward economic trend in Germany continued on the back of private consumption. Growing demand from the euro area and the depreciation of the euro had a positive impact on the German economy, thereby offsetting the lower level of demand in key emerging economies. According to the German Federal Statistical Office, gross domestic product in Germany increased by 1.7 percent in real terms in 2015 (previous year: 1.6 percent).

### Asia Pacific – High growth despite further slowdown in China

According to the IfW, Asia again enjoyed strong economic growth in 2015, although the figure of 6.5 percent was lower than in previous years (2014: 6.9 percent). In particular, economic development in the region was adversely affected by the tangible slowdown in growth momentum in China. Despite government support, the key Chinese economic sectors of construction, industry and foreign trade suffered from the consequences of structural change, while domestic demand was curbed by the slump on the Chinese stock markets in the summer. According to the IMF, growth in China slowed to 6.9 percent (previous year: 7.3 percent).

The economic drivers in India remained intact, with the IMF estimating growth of 7.3 percent for the country's economy in 2015. In particular, growth was driven by multiple reductions in the key interest rate and substantial government investment in infrastructure projects.

According to the national central bank, the Korean economy enjoyed solid growth of 2.6 percent in 2015 (previous year: 3.3 percent) despite the impact of weakening exports and the outbreak of the MERS infection. The Bank of Korea lowered the key interest rate twice to help stabilise the economy. Increased employment and low inflation led to growth in private consumption, while the construction industry provided impetus for the domestic economy.

The emerging economies of Southeast Asia suffered from weak domestic demand and the downturn in exports to China and the industrialised nations. According to the IMF, growth in the ASEAN nations amounted to 4.7 percent in 2015 (previous year: 4.6 percent).

### EMEA – Performance impaired by falling oil prices and political crises

The Russian economy experienced a severe recession in 2015. The IMF estimates that the country's economic output contracted by 3.7 percent (previous year: growth of 0.6 percent). According to the Central Russian Bank, unemployment has risen, inflation has doubled to over 16 percent in the meantime, and consumer purchasing power has declined significantly. This led to a downturn in private consumption and investment activity.

Despite high levels of corporate debt and political risks, economic output in Turkey increased to 3.0 percent in 2015 after 2.9 percent in the previous year according to the IfW. Domestic demand remained the growth driver in spite of the sustained high unemployment rate.

In the oil-exporting nations of the Gulf region and North Africa, economic performance in 2015 was impaired by falling oil prices and the escalation of regional conflicts. According to the IMF, growth in these countries is expected to have declined from 2.6 percent in the previous year to just 1.8 percent. By contrast, oil-importing nations in the region, such as Egypt and Morocco, enjoyed stronger growth on the back of low commodity costs, economic reforms and rising demand from the euro area. The sub-Saharan nations saw a broad-based slowdown in growth.

## Industry-specific conditions

In addition to the general economic development of individual countries and regions, the performance of the Wilo Group is especially influenced by the construction and sanitary industries among others. Development in these industries in the 2015 financial year is presented below. The country-specific definition of the regions is based on the segment reporting of the Wilo Group.

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 148.

### Europe – Stable growth in the European construction industry

According to estimates by the Euroconstruct industry network and the Ifo Institute, construction output in Europe increased by 1.6 percent in real terms in 2015 (previous year: 1.3 percent). While the pace of growth in Western Europe improved slightly to 1.3 percent, construction output in the major nations of Eastern Europe climbed by as much as 6.0 percent (previous year: 4.7 percent). The strongest growth rates in Western Europe were recorded in Ireland, the Netherlands, Sweden and the United Kingdom. Alongside slight downturns in Finland and Switzerland, development in France remained disappointing, declining by 1.3 percent. All in all, growth in Europe was driven by civil engineering and the upturn in residential construction. As well as new construction, maintenance and modernisation projects saw extremely lively activity, increasing their share of the entire residential construction market to 60 percent. However, a reluctance to invest meant there was a lack of momentum from commercial construction.

According to the German Federal Statistical Office, construction investment in Germany increased by just 0.2 percent in real terms in 2015 (previous year: 2.9 percent). In the early part of the year, construction activity was initially down on the high prior-year level due to adverse weather conditions and growing uncertainty affecting commercial construction in particular, returning to a strong growth path only in the summer. According to the IfW, total investment in commercial and public-sector construction declined by 2.1 percent and 1.9 percent respectively in 2015. Only residential construction saw further growth of 2.7 percent.

According to estimates by the German Institute for Economic Research, the new residential construction volume increased by 7.6 percent to EUR 57.1 billion in 2015, while construction activity involving existing buildings (including improvements to energy efficiency) increased by 3.3 percent to EUR 134.5 billion. In the area of commercial and public-sector building construction, work on existing buildings rose slightly by 0.9 percent, while investment in new construction declined by 0.5 percent. All in all, spending on maintenance and modernisation of existing buildings was several times higher than investment in new construction. In this environment, the German sanitary and building technology industries both enjoyed further growth in 2015. According to preliminary figures from the Association of the German Sanitary Industry and the Ifo Institute, net sales in the sanitary industry rose by 1.8 percent to EUR 22.9 billion in 2015, while net sales in the building technology industry increased by 1.3 percent to EUR 53.6 billion.

### Asia Pacific – Growth in the construction industry outside China

The Chinese construction industry deteriorated substantially in 2015. The crisis affecting residential construction intensified in the wake of several years of overheating on the real estate market and financing problems, while commercial construction suffered from the general slowdown in growth. The Chinese government also scaled back its infrastructure investments, although the government programme for the construction and renovation of affordable housing was intensified. Despite this, the National Bureau of Statistics of China (NBS) stated that construction investment increased by just 1.0 percent, with office properties the only segment to enjoy any growth of note. Meanwhile, investments in commercial properties (+1.8 percent) and residential properties (+0.4 percent) did little more than stagnate.

The economic climate in India continued to improve in 2015, which had a positive impact on the construction industry. Infrastructure investments increased thanks to the removal of administrative barriers, among other things. However, the substantial oversupply in the high-end segment, particularly in the area of residential property, meant that development on the real estate market remained heterogeneous with only moderate growth in demand.

According to the Bank of Korea, construction investment in the country increased by 4.6 percent in real terms in 2015 (previous year: 1.0 percent). Among other things, momentum increased significantly on the back of expansionary fiscal policy and falling interest rates in the second half of the year.

The construction industry in Southeast Asia enjoyed positive development, with substantial infrastructure investments in Indonesia, Thailand, Malaysia and the Philippines.

### EMEA – Russian construction industry slumps while Turkey increasingly recovers

The Russian construction industry contracted significantly in 2015 on the back of the economic crisis affecting the country. According to the Russian Federal State Statistics Service (Rosstat), the construction volume for the first eleven months fell by around 10 percent on an annualised basis in real terms. Government infrastructure investments were reduced with just a few exceptions, while private construction investment was impacted by restrictions on financing, less favourable financing conditions and the reduced level of consumer purchasing power. This led to a decline in commercial construction, whereas residential construction saw further growth despite the difficult conditions.

The Turkish construction industry increasingly recovered over the course of 2015. Following a downturn in the first quarter, construction output improved in each of the next two quarters according to TurkStat, with real year-on-year growth rates of 1.5 percent and 3.3 percent.

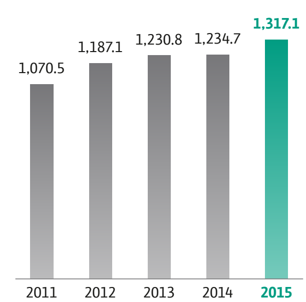
# Business performance

The Wilo Group systematically and successfully continued on its profitable growth path in a volatile and challenging macroeconomic environment characterised by growing geopolitical uncertainty. In the 2015 financial year, net sales increased significantly by 6.7 percent to EUR 1,317.1 million, thereby clearly exceeding the original forecast for the year of growth of up to 3 percent. In addition to the strong net sales growth in Asia Pacific, the Europe region was an important growth driver in 2015, contributing a high absolute increase in net sales on the back of the lively upturn in demand in some individual countries. Building on its strong market presence and competitive position in Europe, Wilo took advantage of the resulting opportunities efficiently and organically.

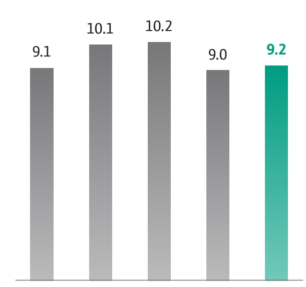
The growth in net sales in the year under review primarily resulted from the successful organic expansion of the Wilo Group's business activities. Adjusted for exchange rate effects, the Wilo Group's net sales increased by 5.1 percent. Positive net exchange rate effects contributed 1.6 percentage points to the Group's net sales growth.

The past financial year again demonstrated that the targeted expansion of the Wilo Group's international market presence in line with the corporate strategy and its regional diversification are important factors in the company's economic performance. This is a major advantage particularly in years with substantial variations in regional development and growing risks and uncertainties. In the mature markets of Europe and Asia (Korea), the Wilo Group enjoyed solid and sustainable growth on the whole. This was based on its strong market presence, pronounced customer focus and substantial innovative strength. Wilo occupies an extremely good market position thanks to its wide range of products, individual system solutions and services. The emerging economies in the Asia Pacific and EMEA regions saw varied development in 2015. Demand in these countries is generally increasing to an above-average extent, due among other things to catch-up investments. At the same time, the relevant markets for Wilo are highly susceptible to economic developments. Accordingly, the slowdown in the economies of important countries such as China and Russia had an adverse effect on growth at Wilo's subsidiaries in the year under review that was substantial in some cases. By contrast, Wilo continued to enjoy considerable growth in other regions and countries in 2015, such as Southeast Asia and Turkey, thereby demonstrating the way in which regional opportunities and risks offset each other. Exchange rate fluctuations also play a major role in the emerging economies. The Group also succeeded in offsetting these effects through regional diversification. On balance, exchange rate effects had a slight positive impact on net sales in 2015.

**Net sales development**
in EUR million




**EBIT** as % of net sales




The Wilo Group also significantly improved its profitability. Earnings before interest and taxes (EBIT) increased by 9.0 percent to EUR 121.2 million, while consolidated net income saw double-digit growth of 15.3 percent to EUR 80.5 million. This meant that the growth in both EBIT and consolidated net income far outstripped the increase in net sales. The EBIT margin fell within the strategic corridor, increasing from 9.0 percent to 9.2 percent and hence meeting the target of around 9 percent. This development clearly shows that the measures initiated by the Executive Board to limit cost increases and improve cost efficiency are having the desired effect. Strategically important issues were still pursued continuously and as planned, particularly in the area of research and development. The Wilo Group also made systematic investments in growth markets such as Russia, Southeast Asia, Africa and Latin America, thereby reinforcing the basis for accelerated growth outside of its established European markets.

The Wilo Group is pursuing a long-term, sustainable investment policy in order to allow it to continue the development of its profitable growth in future in line with its corporate strategy. In the year under review, the Group therefore invested EUR 106.4 million in increasing capacity, new production technologies and new and expanded sales and production locations. In particular, this investment policy included pressing ahead with the strategic location development project at the company's headquarters. Accordingly, Wilo acquired land and initiated preparatory construction measures in Dortmund in the 2015 financial year. In Russia, meanwhile, the construction of the new branch near Moscow continued as planned.

Net sales development in the individual regions was as follows in the 2015 and 2014 financial years:

**Net sales development by region**

| EUR million | 2015 | 2014 | Change % |
|---|---|---|---|
| Europe | 744.7 | 700.9 | 6.2 |
| Asia Pacific | 344.6 | 298.4 | 15.5 |
| EMEA | 190.1 | 201.9 | -5.8 |
| Others | 37.7 | 33.5 | 12.5 |
| **Total** | **1,317.1** | **1,234.7** | **6.7** |

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

EBIT development in the individual regions was as follows in the 2015 and 2014 financial years:

**EBIT development by region**

| EUR million | 2015 | 2014 | Change % |
|---|---|---|---|
| Europe | 95.1 | 79.0 | 20.4 |
| Asia Pacific | 15.6 | 13.8 | 13.0 |
| EMEA | 15.2 | 23.3 | -34.8 |
| Others | -4.7 | -4.9 | 4.1 |
| **Total** | **121.2** | **111.2** | **9.0** |

The allocation formula for oncharging intragroup services to the individual regions changed as of 1 January 2015. The comparative figures for the 2014 financial year have been restated accordingly.

## Regions

**EUROPE** The Wilo Group generated year-on-year net sales growth of 6.2 percent in the Europe region. Net sales increased by EUR 43.8 million to EUR 744.7 million. The EU states in Eastern Europe and the British Isles again saw significant growth in net sales, while the Mediterranean nations also enjoyed extremely positive business development. This more than offset the downturn in net sales in France and the Nordic and Baltic states. The Group's performance in the German-speaking region was moderately positive.

In the Eastern European EU states and the United Kingdom and Ireland, the Group recorded clear double-digit net sales growth of 24.6 percent and 20.5 percent respectively. In the former countries, the Wilo Group benefited from the continuation of the European Union's infrastructure projects in the Water Management market segment and the recovery of the construction industry. Additional positive effects also resulted from the next phase of the ErP/Ecodesign Directive coming into force (ErP effect). Since 1 August 2015, the Directive has also applied to glandless circulation pumps that are integrated into heat generators and other products. The EEI energy efficiency index was also lowered further. This resulted in a corresponding anticipatory effect up until the end of July 2015 as models exceeding the new, binding and more stringent energy efficiency level, whose sale in the European Union has been prohibited since 1 August 2015, enjoyed increased demand among customers. The growth in the United Kingdom and Ireland was concentrated in particular on the Building Services market segment, which benefited from the upturn in the construction industry. The development of the pound sterling also had a positive impact on business performance.

Net sales in the Mediterranean countries increased by 16.6 percent year-on-year. With the exception of Greece, the macroeconomic situation in the Mediterranean countries stabilised further compared with the previous year. 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 past, there are now clear signs of a recovery in Spain in particular, where there was an upturn in exchange business as well as project business in the Water Management market segment. Italy also saw growth in the project and OEM business in particular. Although business development in Greece was initially substantially impaired by the renewed exacerbation of the economic crisis, a recovery emerged as the year progressed, with net sales for the year as a whole ultimately increasing compared with the previous year. The Wilo Group benefited from municipal infrastructure projects in the Water Management market segment and catch-up effects in the Building Services market segment.

The Wilo Group's net sales in the German-speaking countries increased slightly as against the previous year. In Germany, the Wilo Group's largest individual market, net sales saw moderate year-on-year growth. Lively construction activity meant that capacity in the sanitary industry was fully utilised. However, sanitary firms concentrated more on bathroom extensions than on the proactive exchange of pumps. Another unusually mild winter and the lower level of demand for heating pumps were also among the reasons for the muted development in Germany.
In Switzerland, net sales rose by 3.3 percent as against the previous year, thereby largely offsetting the downturn in net sales in Austria.

Net sales in the Nordic and Baltic states remained essentially unchanged year-on-year and actually increased slightly by 1.4 percent after adjustment for exchange rate effects. Project business in the Baltic nations in the Water Management market segment, which is naturally subject to stronger fluctuations, was weaker in 2015 than in the previous year. The construction sector in Scandinavia saw uneven development. While Sweden observed an upturn in the construction industry, there was a slowdown in construction activity in Finland. The Norwegian economy suffered from falling oil prices.

Net sales in France, the Wilo Group's second largest individual market, and the Benelux nations declined by 2.0 percent year-on-year in 2015. In France, the deterioration in the business climate had a negative effect on project business in the Building Services and Water Management market segments. This also led to growing price pressure. In Belgium and the Netherlands, the Building Services market segment enjoyed positive development, with business performance also being boosted by the ErP effect; however, growing price pressure was also observed in these nations. The positive performance in the Benelux states partially offset the downturn in net sales in France.

Earnings before interest and taxes (EBIT) in the Europe region increased by 20.4 percent or EUR 16.1 million to EUR 95.1 million. The EBIT margin improved from 11.3 percent to 12.8 percent. Although the gross margin declined slightly due to changes in the product sales matrix and the regional composition of net sales, the cost efficiency measures that were initiated in previous years and continued in a targeted manner in 2015 had the planned positive effect, meaning that selling and administrative expenses remained almost unchanged as against the previous year despite the considerable increase in net sales.

**ASIA PACIFIC** Net sales in the Asia Pacific region increased by 15.5 percent or EUR 46.2 million year-on-year to EUR 344.6 million. Adjusted for exchange rate effects, net sales rose by 1.6 percent.

In Korea, the Wilo Group recorded net sales growth of 15.6 percent; this was due in part to the positive exchange rate effects resulting from the appreciation of the South Korean won against the euro. In local currency, net sales increased by 3.9 percent. The Korean construction industry recovered during the course of the year, leading to growth in the Building Services market segment. Project business in the Industry market segment also expanded on the back of an increased market presence in different industrial sectors.

The Wilo Group improved its net sales in India by 15.3 percent. The continued expansion of the dealer network and the intensification of more selective market development led to growth in the Building Services market segment. The construction industry was also boosted by the economic upturn. In the Water Management and Industry market segments, which are more dependent on project business, net sales were down slightly on the previous year. Among other things, this was due to the sluggish recovery of the industrial sector in India. The appreciation of the Indian rupee compared with the previous year also contributed to this positive development. Adjusted for exchange rate effects, net sales rose by 1.3 percent.

In China, the Wilo Group increased its net sales by 15.2 percent year-on-year in 2015. However, this was primarily due to positive exchange rate effects. In local currency, net sales in China declined slightly. All in all, there was a slowdown in growth momentum in the Chinese economy generally, and especially the construction sector. This curbed development in the Building Services market segment in particular, with a number of planned construction projects being postponed or cancelled. By contrast, project business in the Water Management market enjoyed positive development. Among other things, this was due to a more focused sales strategy in this market segment.

In the Southeast Asian nations, net sales increased substantially by 16.4 percent compared with 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 more considerable fluctuations. The positive performance was due in part to the major projects in Vietnam and Singapore that were completed in the year under review.

Earnings before interest and taxes (EBIT) in the Asia Pacific region increased by EUR 1.8 million to EUR 15.6 million in the year under review. The EBIT margin declined slightly, from 4.6 percent in the previous year to 4.5 percent. This was largely attributable to the slight year-on-year reduction in the gross margin. Selling and administrative expenses increased to a slightly lesser extent than net sales.

**EMEA** In 2015, net sales in the EMEA region fell by 5.8 percent or EUR 11.8 million year-on-year to EUR 190.1 million. The positive business development in Turkey, the Gulf region and parts of Africa was outweighed by the recession in Russia and Ukraine as a result of the sustained economic and political crisis in the region, as well as the fall in oil prices. The resulting sharp depreciation of the Russian rouble and the Ukrainian hryvnia represented an additional burden on net sales performance. The Turkish lira also declined slightly during the year under review following an initial recovery. Adjusted for exchange rate effects, net sales in the EMEA region increased by a substantial 9.4 percent.

Net sales in Russia, Belarus and Ukraine fell by more than 20 percent year-on-year. This was largely due to the extreme depreciation of the respective currencies. In Russia, net sales increased slightly by 1.3 percent in local currency but declined by more than 20 percent in Group currency. These negative exchange rate effects were only partially absorbed by price adjustments. A sharp downturn in investment activity is being observed on the Russian market at present. The Building Services market segment saw falling net sales as customers increasingly turned to cheaper products from the low-price segment. In addition, the Russian pump market is currently seeing a trend towards substituting imports with domestic products. The investment in the Moscow location will be harnessed to strengthen the Wilo brand in the Russian market by highlighting the Group's connection to the region and the "made in Russia" argument. This is intended to reflect the greater incentives for consumers to buy domestic products. The effects of the crisis were also visible in the Water Management market segment, with many government-funded infrastructure projects being temporarily suspended.

In prior periods, the Turkish market was adversely affected by the strained political situation, forthcoming elections and the resulting uncertainty among market participants. The country also saw restraint in terms of government investment, with a corresponding negative impact on the construction sector that is important for the Wilo Group's development. The investment bottleneck started to resolve itself in early 2015, gradually leading to the realisation of major projects that had previously been postponed. Wilo also restructured and expanded its sales organisation in Turkey, leading to growth in the Water Management and Building Services market segments in particular. Net sales increased by 25.5 percent year-on-year, or by more than 30 percent in local currency.

In the Gulf region, net sales climbed by over 30 percent compared with the previous year. A number of new construction projects were launched in the United Arab Emirates, while some major projects were completed in the Water Management market segment. The picture in Africa was varied. Net sales increased by 5.8 percent overall. South Africa saw growth in the Building Services and Water Management market segments and the agriculture sector in particular. By contrast, net sales declined in Central Africa and the North African states. The oil-producing African nations, such as Nigeria, Angola and Algeria, were hard hit by the fall in oil prices, scaling back planned government investments in infrastructure as a result. This affected the Water Management market segment in particular.

Earnings before interest and taxes (EBIT) in the EMEA region fell by EUR 8.1 million, from EUR 23.3 million in the previous year to EUR 15.2 million. The EBIT margin declined from 11.5 percent to 8.0 percent. The sharp depreciation of the Russian rouble against the euro alone impacted EBIT in the region to the tune of around EUR 3.8 million. In addition, the gross margin declined due to changes in the product sales matrix and the regional distribution of business activities.

## Market segments

Net sales development in the individual market segments was as follows in the 2015 and 2014 financial years:

**Net sales development by market segment**

| EUR million | **2015** | 2014 | Change % |
|---|---|---|---|
| Building Services | 1,014.6 | 948.9 | 6.9 |
| Water Management & Industry | 302.5 | 285.8 | 5.8 |
| **Total** | **1,317.1** | **1,234.7** | **6.7** |

The composition of the market segments changed as at 1 January 2015. Some results that were allocated to the Water Management and Industry market segments up until the end of the 2014 financial year were reallocated to the Building Services market segment from this date. The comparative figures for the 2014 financial year have been restated accordingly.

**BUILDING SERVICES** Net sales in the Building Services market segment increased by 6.9 percent or EUR 65.7 million to EUR 1,014.6 million, thereby exceeding the one billion mark for the first time. Once again, Asia Pacific accounted for the largest net sales growth of 17 percent, thanks in particular to exchange rate effects. In the Europe region, the 5.9 percent expansion of business activities in the Building Services market segment was driven by the recovery in the construction industry and positive effects resulting from the next phase of the ErP/Ecodesign Directive coming into force. The EMEA region suffered to a large extent from the recession in Russia and the depreciation of the Russian rouble. Net sales in the Building Services market segment declined by 5.3 percent in this region. In the mature economies, there was steady growth in demand for energy-efficient products and applications. This long-term trend is being driven by growing awareness among the population of the need for energy sustainability and the responsible use of natural resources, as well as political objectives and requirements on $CO_2$ reductions. The Wilo Group can benefit from this thanks to its strong market position and presence. Energy efficiency is increasingly also playing an important role in the dynamic emerging economies. On the one hand, stricter regulatory requirements on $CO_2$ savings are expected in the wake of the Climate Change Conference in Paris, including for the emerging economies. On the other hand, 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 2015 financial year, net sales in the Water Management and Industry market segments increased by 5.8 percent or EUR 16.7 million to EUR 302.5 million. The main net sales growth was recorded in the Eastern European nations of the Europe region, where project business in the Water Management market segment benefited from the infrastructure measures funded by the European Union. All in all, net sales in the Europe region across the two market segments increased by 8.4 percent. In the Asia Pacific region, the two market segments enjoyed substantial combined growth of 11.7 percent. This growth was supported by positive exchange rate effects. In the EMEA region, the Wilo Group's performance was impaired by the difficult macroeconomic and political conditions in Russia and Ukraine as well as the depreciation of the Russian rouble. All in all, net sales in the two market segments declined by 7.2 percent. Although the Gulf region and Africa in particular saw growth in the Water Management market segment, this trend was overshadowed by the negative performance in Russia, where a number of government-funded infrastructure projects were halted or postponed.

## Results of operations

In the 2015 financial year, the Wilo Group increased its consolidated net sales by 6.7 percent year-on-year. Net sales rose by 5.1 percent after adjustment for exchange rate effects. 1.6 percentage points of the net sales growth was attributable to positive exchange rate effects, with the vast majority resulting from the organic expansion of the Group's business activities. Earnings before interest and taxes (EBIT) increased by 9.0 percent or EUR 10.0 million to EUR 121.2 million. The ratio of EBIT to net sales (EBIT margin) rose from 9.0 percent in the previous year to 9.2 percent.

The development of earnings is presented below.

**Results of operations**

| EUR million | 2015 | 2014 | Change % |
|---|---|---|---|
| **Net sales** | **1,317.1** | **1,234.7** | **6.7** |
| Cost of sales | –815.1 | –750.8 | 8.6 |
| **Gross profit** | **502.0** | **483.9** | **3.7** |
| Selling and administrative expenses | –341.0 | –329.0 | 3.6 |
| Research and non-capitalised development costs | –43.1 | –44.1 | –2.3 |
| Other operating income | 3.3 | 0.4 | > 100 |
| **Earnings before interest and taxes (EBIT)** | **121.2** | **111.2** | **9.0** |
| Net finance costs and net income from investments carried at equity | –8.1 | –11.2 | 27.7 |
| Income taxes | –32.6 | –30.2 | 7.9 |
| **Consolidated net income** | **80.5** | **69.8** | **15.3** |
| | | | |
| **EBIT as a % of net sales (EBIT margin)** | **9.2%** | **9.0%** | |
| **Earnings per ordinary share (EUR)** | **8.35** | **7.11** | |
| **Earnings per preferred share (EUR)** | **8.36** | **7.12** | |

The gross margin, which describes the ratio of gross profit to net sales, declined from 39.2 percent in the previous year to 38.1 percent in 2015. This was due to a change in the product sales mix with a larger share of low-margin products, as well as shifts in the regional distribution of net sales. Intensified price competition in some markets also contributed to the reduction in the gross margin.

Selling and administrative expenses climbed moderately by 3.6 percent year-on-year to EUR 341.0 million, thereby increasing to a considerably lower extent than net sales. This is the result of the measures initiated in past years to adjust cost development and improve cost efficiency, which continued to be implemented in a targeted manner in 2015.

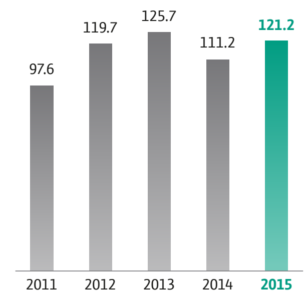
Research and development play a central role at Wilo. In line with forecasts, total spending on research and development, i.e. all research and development costs including capitalised development costs, increased by 22.0 percent to EUR 62.4 million in the 2015 financial year. This meant that they rose to a far greater extent than net sales, reaching a new record level of 4.7 percent (previous year: 4.1 percent) of net sales. Research and non-capitalised development costs were expensed in the amount of EUR 43.1 million, a slight decrease of 2.3 percent on the prior-year figure of EUR 44.1 million. This was because a larger proportion of development costs met the criteria for mandatory capitalisation in the year under review.

Other operating income increased by EUR 2.9 million year-on-year to EUR 3.3 million. Other operating income primarily includes net foreign-currency income from operating activities, gains and losses on disposals of intangible assets and property, plant and equipment, and government grants.

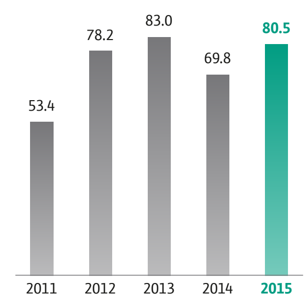
The net finance costs of the Wilo Group (including net income from investments carried at equity) improved by EUR 3.1 million, from EUR 11.2 million in the previous year to EUR 8.1 million in 2015. This was due to the EUR 2.0 million improvement in net income from the remeasurement of derivative financial instruments. Net interest costs also improved by EUR 1.3 million or 16.0 percent to EUR 6.7 million. This was offset by the EUR 0.8 million deterioration in net foreign-currency income from the remeasurement of primary, intragroup and external financial instruments compared with the previous year.

As a result of the above developments, consolidated net income improved significantly by 15.3 percent or EUR 10.7 million to EUR 80.5 million. Accordingly, earnings per ordinary share also increased from EUR 7.11 in the previous year to EUR 8.35. The return on sales, which describes the ratio of consolidated net income to net sales, increased from 5.7 percent in the previous year to 6.1 percent in the 2015 financial year.

**EBIT** in EUR million




**Consolidated net income**
in EUR million




## Capital expenditure and cash flows

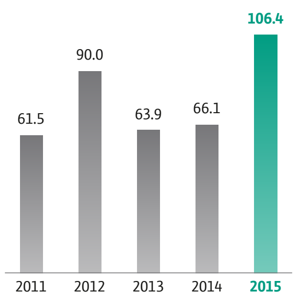
### Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment increased by EUR 40.3 million year-on-year to EUR 106.4 million in the 2015 financial year, thereby reaching a new record high. Capital expenditure primarily related to growth-oriented capacity expansion, new manufacturing technologies, and the construction and expansion of new and existing sales and production locations.

As previously, one key area of investment activity was the modernisation and expansion of production capacities at key European locations in Germany and France. As part of the strategic location development project, a state-of-the-art smart factory incorporating various elements of the Industry 4.0 vision will be realised at the Wilo Group's headquarters in Dortmund over the coming years, among other things. Accordingly, land was acquired and preparatory construction measures were initiated in the year under review. In addition to these investments in the location development project, capital expenditure concentrated on facilities for the production of ErP-compliant products, as well as investments in production capacities tailored to current and future changes in the product portfolio. Development costs including borrowing costs were also capitalised in the amount of EUR 20.0 million. As a result, capital expenditure on property, plant and equipment and intangible assets at the locations in Germany and France totalled EUR 79.2 million in 2015. This corresponds to around 75 percent of the Wilo Group's total capital expenditure in the year under review, a fact that reflects the importance of the Group's Western European locations in terms of its strategic focus. With these future-oriented investments, the Group is seeking to actively strengthen these locations even further.

In recent years, sales and production locations in Korea, China, India and Turkey have been expanded in order to reflect the substantial growth potential in these markets. Investments in 2015 concentrated in particular on the sales infrastructure in Southeast Asia, Africa and Latin America with the aim of further expanding the foundations for accelerated growth outside of the Group's established markets in Europe.

**Capital expenditure**
in EUR million




Another significant investment focus was the construction of a new production location in Russia including an adequate sales and administrative building, which began in 2014 and encompasses a total area of more than 20,000 square metres. This construction project accounted for capital expenditure of EUR 14.5 million in 2015. The total investment volume including production machinery and resources is around EUR 35 million.

The construction work in Russia was largely completed as at 31 December 2015, and the employees are scheduled to move into the new building and begin production in mid-2016. This investment reflects the expected above-average growth in the medium to long term, as well as the size and significance of the Russian market for Wilo. Adequate measures have been taken to reduce the potential risk of political influence, which could have a negative impact on the investment.

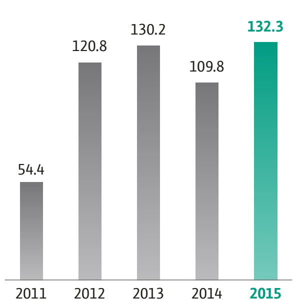
Capital expenditure on intangible assets (excluding goodwill) and property, plant and equipment broke down as follows in the 2015 and 2014 financial years:

**Capital expenditure on intangible assets and property, plant and equipment**

| EUR million | 2015 | 2014 | Change |
|---|---|---|---|
| **Capital expenditure on intangible assets** | **25.3** | **14.2** | **11.1** |
| Land and buildings | 17.7 | 4.0 | 13.7 |
| Technical equipment and machinery | 8.9 | 10.2 | -1.3 |
| Operating and office equipment | 20.7 | 18.2 | 2.5 |
| Advance payments made and assets under construction | 33.8 | 19.5 | 14.3 |
| **Capital expenditure on property, plant and equipment** | **81.1** | **51.9** | **29.2** |
| **Total** | **106.4** | **66.1** | **40.3** |

## Cash flow and liquidity

**Cash flow from operating activities** in EUR million




In the 2015 financial year, the positive cash flow from operating activities increased by EUR 22.5 million to EUR 132.3 million. This was due to the EUR 10.0 million increase in earnings before interest and taxes (EBIT) compared with the previous year, as well as a year-on-year reduction in income tax payments of EUR 15.1 million as a result of tax refunds, among other things. These factors were offset by the increase in working capital of EUR 5.0 million to EUR 323.2 million after adjustment for exchange rate effects, as well as the cash decrease in advance payments on account of orders in the amount of EUR 6.2 million.

Net cash used in investing activities in the 2015 financial year increased by EUR 41.3 million year-on-year to EUR 105.0 million. In the year under review, purchases of property, plant and equipment increased by EUR 29.2 million and purchases of intangible assets increased by EUR 10.5 million. This was due in part to the investments made in connection with the location development projects in Dortmund and Russia. Capitalised development costs (excluding borrowing costs) also increased by EUR 12.2 million year-on-year.

Net cash used in financing activities decreased significantly by EUR 65.9 million year-on-year to EUR 10.4 million. This improvement was largely due to the fact that no dividend payments or purchases of treasury shares were made in 2015. Dividends of EUR 33.1 million were distributed in the 2014 financial year, while treasury shares were purchased in the amount of EUR 27.8 million. Net interest expense decreased slightly by EUR 0.6 million to EUR 7.4 million.

The individual cash flows for the 2015 and 2014 financial years were as follows:

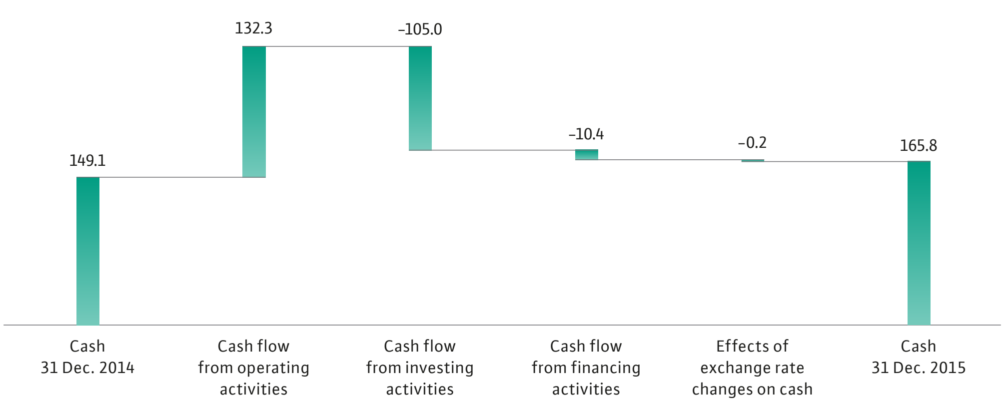
**Cash flows**

| EUR million | **2015** | 2014 | Change |
|---|---|---|---|
| Cash flow from operating activities | 132.3 | 109.8 | 22.5 |
| Cash flow from investing activities | –105.0 | –63.7 | –41.3 |
| Cash flow from financing activities | –10.4 | –76.3 | 65.9 |
| **Change in cash** | **16.9** | **–30.2** | **47.1** |
| Cash at the end of the financial year | 165.8 | 149.1 | 16.7 |
| Free cash flow | 19.9 | 38.0 | –18.1 |

Despite the record levels of investment, the Wilo Group again generated a positive free cash flow of EUR 19.9 million in the 2015 financial year, calculated as the difference between the cash flows from operating and investing activities including interest income and expenses and dividends received. The funds generated are available to the Wilo Group for servicing providers of capital.

Taking into account negative exchange rate effects of EUR 0.2 million, cash increased by EUR 16.7 million to EUR 165.8 million as at 31 December 2015.

**Change in cash** in EUR million

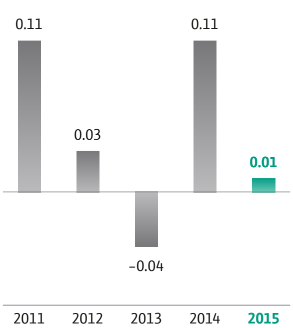


## Financial management

The goal of financial management is to maintain the financial independence of the company, ensure liquidity at all times and support the operating activities of the Wilo Group. In addition to its operating cash flow, the Wilo Group still has sufficient financing facilities from international banks for this purpose, consisting of short and medium-term cash credit facilities of more than EUR 200 million as previously. This includes a syndicated loan agreement of EUR 120.0 million with a term of five years that was concluded in 2013 and adapted to reflect the Group's requirements and future challenges. EUR 6.1 million of the cash credit facilities had been utilised as at 31 December 2015. The Wilo Group operates active portfolio management with regard to the origin, type and maturity structure of its borrowings. Financing policy focuses primarily on both return and security targets.

The Wilo Group repaid scheduled financial liabilities of EUR 4.6 million in the 2015 financial year. This related to the annual repayment of existing promissory note loans and was financed in full from the free cash flow for the year under review.

**Leverage**




At EUR 167.3 million, the Wilo Group's financial liabilities were essentially unchanged year-on-year as at 31 December 2015. They primarily consist of senior notes of EUR 75.0 million and EUR 37.0 million as well as a senior note of USD 40.0 million maturing in 2016, which had a carrying amount of EUR 36.7 million as at 31 December 2015 (previous year: EUR 32.9 million). All senior notes were issued by WILO SE in the context of US private placements in 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. The Group also has a promissory note loan with a volume of EUR 25.0 million, which was taken out in 2011 and will be repaid in instalments until 2020. This promissory note loan had a carrying amount of EUR 12.5 million as at 31 December 2015 (previous year: EUR 15.0 million). A promissory note loan taken out in 2008 with a volume of EUR 25.0 million was repaid in full in the year under review. The Group also had short-term current account liabilities with a volume of EUR 6.1 million (previous year: EUR 4.5 million).

More detailed information on the financing structure can be found in note (9.12) to the consolidated financial statements starting on page 141.

WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans on maturity from its budgeted cash flows from operations, as well as from refinancing measures as required. It has no knowledge of whether the uncertainty affecting the global economic and financial market environment will have any material negative impact on the Wilo Group's financing activities. The Wilo Group had cash of EUR 165.8 million (previous year: EUR 149.1 million) as at 31 December 2015. This means that the Group is virtually net debt-free. The Wilo Group's leverage, which describes the ratio of consolidated net debt to consolidated EBITDA, decreased from 0.11 at the end of the previous year to 0.01 as at 31 December 2015.

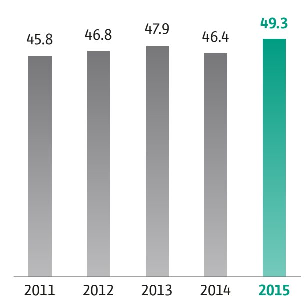
## Financial position

The total assets of the Wilo Group as at 31 December 2015 climbed by 10.6 percent year-on-year to EUR 1,136.7 million. Non-current assets increased by 14.2 percent to EUR 476.3 million. This was due in particular to capital expenditure on intangible assets and property, plant and equipment in the amount of EUR 106.4 million. Investments in property, plant and equipment in the amount of EUR 81.1 million primarily related to growth-oriented capacity expansion measures, new manufacturing technologies, and the construction and expansion of new and existing sales and production locations. A further EUR 25.3 million was invested in intangible assets, of which EUR 19.3 million relates to capitalised development costs plus capitalised borrowing costs of EUR 0.7 million. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 50.3 million in the year under review. Positive exchange rate effects also resulted from the remeasurement of intangible assets and property, plant and equipment originally held in foreign currency in the amount of EUR 2.5 million. Intangible assets and property, plant and equipment increased by EUR 57.6 million in net terms.

The carrying amount of current assets rose by EUR 49.9 million year-on-year to EUR 660.4 million as at 31 December 2015. The slight increase in business activities meant that inventories increased by 4.8 percent to EUR 200.1 million, while current trade receivables rose by 12.0 percent to EUR 254.7 million. Working capital increased only slightly by 1.6 percent to a total of EUR 323.2 million, thereby rising to a considerably lesser extent than net sales. Cash amounted to EUR 165.8 million as at 31 December 2015, an increase of EUR 16.7 million as against the end of the previous year.

The Wilo Group's equity increased by 17.6 percent or EUR 83.8 million year-on-year to EUR 560.9 million as at 31 December 2015. In particular, the consolidated net income of EUR 80.5 million for the 2015 financial year had a positive impact on equity. Furthermore, actuarial losses taken to the reserve for remeasurement of pensions declined by EUR 4.6 million. The unappropriated surplus for the 2014 financial year was carried forward to new account in full, meaning that no dividend was distributed in the year under review. The equity ratio improved substantially from 46.4 percent to 49.3 percent.

**Equity ratio** in %




As at 31 December 2015, non-current liabilities primarily consisted of financial liabilities in the amount of EUR 121.5 million and pension and similar obligations of EUR 76.1 million. The EUR 33.3 million reduction in non-current liabilities to EUR 236.5 million was due in particular to the reclassification to current financial liabilities of the senior note maturing in 2016 with a volume of USD 40.0 million. In addition, pension obligations declined by EUR 4.8 million to EUR 76.1 million, largely as a result of the increase in the discount rate from 1.86 percent to 2.32 percent as at 31 December 2015. By contrast, deferred tax liabilities rose by EUR 7.2 million to EUR 26.8 million. This was primarily due to the higher level of capitalised development costs compared with the previous year, for which corresponding deferred taxes were recognised.

The carrying amount of current trade payables rose by EUR 32.9 million year-on-year to EUR 139.8 million as at 31 December 2015. This was mainly attributable to the expansion of business and investment activity.

Other current liabilities increased by EUR 25.6 million to EUR 199.5 million, largely as a result of the reclassification of the senior note maturing in 2016 with a volume of USD 40.0 million. By contrast, advance payments on account of orders declined by EUR 6.2 million.

The net assets of the Wilo Group were as follows as at 31 December 2015 and 2014:

**Financial position**

| EUR million | **2015** | **%** | 2014 | % |
|---|---|---|---|---|
| Non-current assets | 476.3 | 41.9 | 417.2 | 40.6 |
| Inventories | 200.1 | 17.6 | 190.9 | 18.6 |
| Current trade receivables | 254.7 | 22.4 | 227.5 | 22.1 |
| Cash | 165.8 | 14.6 | 149.1 | 14.5 |
| Other current assets | 39.8 | 3.5 | 43.0 | 4.2 |
| **Total assets** | **1,136.7** | **100.0** | **1,027.7** | **100.0** |
| Equity | 560.9 | 49.3 | 477.1 | 46.4 |
| Non-current liabilities | 236.5 | 20.8 | 269.8 | 26.3 |
| Current trade payables | 139.8 | 12.3 | 106.9 | 10.4 |
| Other current liabilities | 199.5 | 17.6 | 173.9 | 16.9 |
| **Total equity and liabilities** | **1,136.7** | **100.0** | **1,027.7** | **100.0** |

## Non-financial success factors

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

### Employees

The Wilo Group stands for technologically advanced products and system solutions for the efficient use of water as a resource. 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 every single day and demonstrate a pioneering spirit.

The focal points in HR work are selected and realised on the basis of the corporate strategy, taking social and human resources developments into account. Long-term trends such as globalisation and the scarcity of resources, as well as the challenges and opportunities of growing diversity, influence the HR strategy to a considerable extent. These developments have a critical influence on which HR activities will be assigned special significance in future in order to ensure that the Wilo Group remains competitive on the labour market in the long term.

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.

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

**DIVERSITY MANAGEMENT** Globalisation and the growing diversity of the workforce are presenting the Wilo Group with a wide range of opportunities in terms of cooperation and resource utilisation. Promoting intercultural exchange and creating working conditions that promote diversity leads to opportunities and new tasks that are addressed as part of HR management.

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

Various measures have been initiated for the Group-wide implementation of the diversity principle. This includes establishing heterogeneous management teams at the various locations, enforcing equality of opportunity irrespective of gender, age, religion, ethnicity, sexual orientation or disability, and preventing the social discrimination of minorities. Global training measures such as the international welcome events for new employees or the management development pools also support the promotion of diversity.

In order to ensure sustainable diversity management, the conceptual aggregation of the individual measures and their integration within the HR strategy are planned. This is intended to establish a Group-wide commitment to promoting diversity, with specific measures derived in line with regional focal points.

**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.

With the management development pools, the Wilo Group focuses on the emergence of young managers from its own ranks. The first management development pools in 2014 were a big success. A large number of the participants entered further professional development within the Group. All in all, the results show that the programmes can be used to substantially support the development, promotion and retention of talented young managers within the company. Building on the success of the first management development pools, a new edition of the programme was launched in 2015.

**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 ensure that employees are deployed in line with the respective requirements at all times.

**REMUNERATION** Appropriate employee remuneration is an important component of HR policy at the Wilo Group. The remuneration of employees under collective agreements in Germany is based on the applicable regional collective agreement regulations. In addition to their basic salary, employees not covered by collective agreements receive a bonus linked to both company goals and the achievement of personal targets. The basis of remuneration is formed by clearly documented job profiles that are formulated uniformly throughout the Group. The remuneration of employees at subsidiaries is also based on these job profiles, taking into account local practices, country-specific regulations and guidelines. The Wilo Group assists its employees in their pension provision and offers pension benefits in line with the specific circumstances and regulations of individual countries. More detailed information can be found in note (9.16.) to the consolidated financial statements.

The Wilo Group had an average of around 7,383 employees worldwide in the 2015 financial year. The number of employees as at 31 December 2015 was 7,400.

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

**Number of employees by region**

| | 2015 | 2014 | Change % |
|---|---|---|---|
| Europe | 4,686 | 4,697 | -0.2 |
| Asia Pacific | 2,104 | 2,183 | -3.6 |
| EMEA | 477 | 440 | 8.4 |
| Others | 116 | 105 | 10.5 |
| **Total** | **7,383** | **7,425** | **-0.6** |

### Production

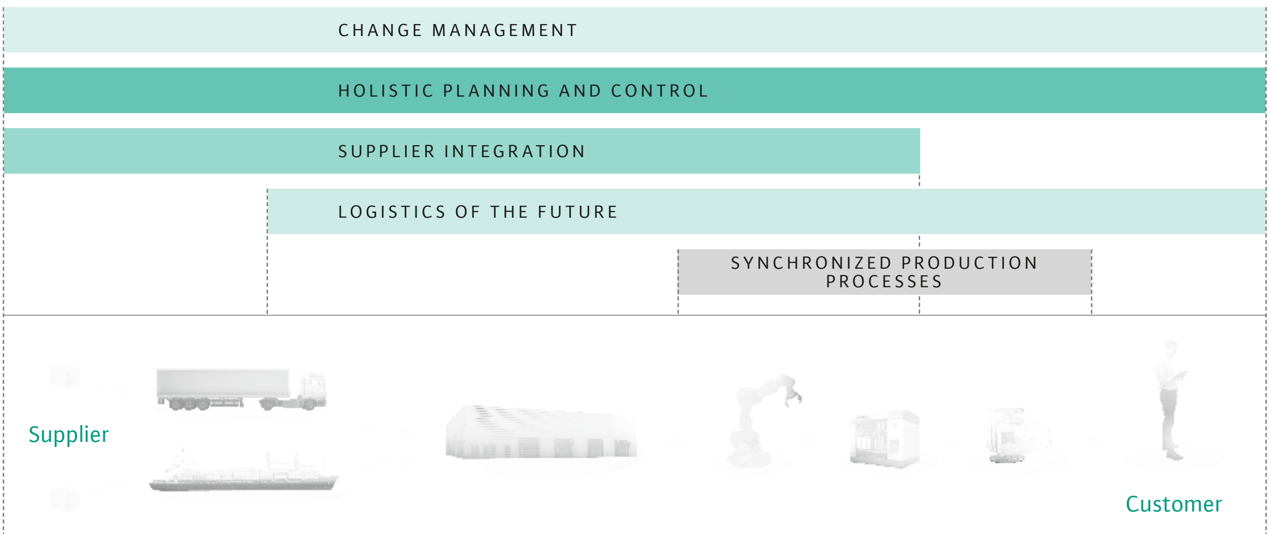
With the Wilo Production System (WPS), the principles and methods of streamlined production systems are firmly established in the Wilo Group. The WPS sets out binding requirements for the design, implementation, control and improvement of production processes at all production locations. They are adapted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

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

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

At the Wilo Group's headquarters in Dortmund, activities include investment in a new production complex (smart factory) on the basis of the requirements in terms of growth, infrastructure and modernisation. Production is being fundamentally redesigned in order to lay a milestone in terms of digital transformation and Industry 4.0 and to underline Dortmund's importance as a high-tech location. As part of this strategic location development project, a future-oriented production and logistics concept reflecting the basic principles of versatile, low-waste production was already developed in 2014. 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 were launched in 2015 with the aim of establishing end-to-end process synchronisation.

**The five sub-projects for the implementation of the new production and logistics concept**




The aim of these projects is to develop and implement a standardised, resilient, non-location-specific and consistent planning and control process (Holistic Planning and Control) as well production that is synchronised with customer cycles (Synchronized Production Processes). This will lead to smooth production with low time cycle losses and minimal inventories of processed components. The establishment of optimised production processes at the new production site requires the production lines to be supplied in a coordinated manner and with a high frequency. To this end, a sub-project has been initiated to address the realisation of future-oriented logistics with a transparent, highly cyclical material and information flow, thereby ensuring high security of supply accompanied by short turnaround times (Logistics of the Future). Close, systematic supplier integration is also necessary. Integrating suppliers within a partnership structure will enable minimal inventories to be held while ensuring a 100 percent supply service (Supplier Integration). All of the sub-projects are managed via a superordinate change management project to ensure that the change process results in new processes and ways of working and thinking both during the project phase and beyond. The further development of the production system towards digital transformation and Industry 4.0 is supported within these projects on the basis of Wilo-specific requirements.

The global production strategy (GPS) sets out design principles to be followed by the 16 production locations and other subsidiaries. The aim is to ensure that customers worldwide are supplied with the right products and services quickly and efficiently. This is built on a detailed knowledge of the market and a transparent production network. Strategic decisions such as volume allocations and investments are systematically coordinated, thereby allowing production processes to be harmonised worldwide within the Wilo Group.

Wilo is committed to permanently maintaining the operating efficiency of its global production locations at the highest possible level while adopting a pioneering role in terms of production technology. With this aim in mind, global production technology management was initiated in 2015 to develop the Group's production technology focus based on its corporate strategy, competitive situation and technological core competencies. This means that the optimal production solution technology solutions are identified for each production location and their planned deployment is ensured. In addition, current trends and developments such as Industry 4.0 and additive production processes are being intensively investigated in order to ensure that potential is identified at an early stage and made usable for 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 and prices.

To this end, the Group Purchasing & Supply Chain Management 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. These activities were intensified further in the period under review. As well as the established product groups that were added in the previous year, e.g. copper and sensors, additional sub-product groups were integrated into the Group-wide commodity and material management system in the year under review.

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 procurement for both production materials and non-production materials and services. The Group has pressed ahead with the optimisation of supplier relationship management (SRM), and hence the standardisation and automation of the corresponding business processes, in recent years. The WILO Purchasing Collaboration Portal (WPC), a powerful electronic procurement system, allows significantly reduced process times to be achieved. In this context, additional digitalisation tools were implemented in the past financial year. A systematic EDI (electronic data interchange) and WebEDI connection with the Wilo Group's suppliers was established in order to ensure efficient electronic data exchange. In addition, a pilot project was conducted for the introduction of a system-based request process (Rfx) to increase the standardisation and automation of the procurement process.

In addition to the focal points discussed above, activities in the area of procurement for non-production materials and services in the 2015 financial year also focused on the expansion of internationalisation and the accompanying implementation of product group-specific processes. China, Korea and parts of Russia were integrated and cross-functional intragroup cooperation was optimised and made more professional. The integration of the additional regions served to further increase the cost optimisation potential. In terms of processes, work is progressing on the optimisation of the electronic procurement system and the content of the e-catalogues provided. These measures are intended to improve user friendliness and hence increase usage of the system in order to further reduce process costs. As a matter of principle, process modelling and optimisation adopts a particularly pronounced focus on sustainable and energy-conscious workflows. For example, output management was comprehensively restructured and re-implemented in the period under review, starting in Germany. This served to substantially reduce printing costs while also explicitly taking sustainability aspects into account.

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. Following on from the success of the first Group Suppliers' Day in 2014, a similarly promising China Suppliers' Day was held in 2015. As well as recognising suppliers for outstanding performance, the agenda for this event included various workshops and presentations aimed at optimising customer-supplier relations.

## Quality

As a premium provider, the Wilo Group sets itself the highest standards when it comes to ensuring the reliably high quality of its products and services for its 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.

Group Quality ensures systematic quality management throughout the company, thereby making a significant contribution to the strategic corporate objective of profitable growth. Quality management is 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 expanded continuously and the individual processes are subject to permanent development. As part of this process, the focus is shifting away from reactive quality management towards preventive quality management.

The preventive quality process is aimed at identifying potential product risks early in the development phase of new products and preventing them by way of suitable measures and the optimal design of production processes. This will enable positive effects to be generated not only for the entire value chain, but also in terms of the Wilo Group's aspiration to satisfy heightened customer requirements to the best possible extent. In 2015, preventive quality activities concentrated among other things on the development and introduction of a uniform process for the creation and use of production control plans in order to sustainably control identified process risks. These measures are connected to the Group-wide harmonisation of failure mode and effects analysis (FMEA) that was initiated in the previous year.

Activities concerning the production quality process focused on the continuation of an optimisation project at the Dortmund location in 2015, the aim of which was to significantly reduce reject and reworking costs. In addition to the cost reduction achieved, this project resulted in important insights for the planning of the current strategic location development project in Dortmund. All in all, other targeted activities at the international production locations reduced Group-wide reject and reworking costs by 19.2 percent year-on-year.

The aim of customer quality activities is to further enhance customer satisfaction by reducing or avoiding warranty costs and complaint rates. These activities are focused on the global collection and evaluation of complaint data and regular close contact with the subsidiaries in the form of monthly field return calls. Top quality topics are derived on the basis of this information. Potential deficiencies are intercepted at an early stage and in a structured manner in cooperation with the production locations using established quality management methods such as 8D, Ishikawa and 5 Why, and the resulting improvements are communicated to customers. The Wilo Group's subsidiaries receive structured information on the causes of identified quality deficiencies and measures and repairs in the form of quality updates so that they can permanently rectify the deficiencies. Eleven top quality topics were addressed in 2015, bringing the total number of quality updates to 51. In addition, the introduction of standardised reporting structures for global complaint data served to further improve the professionalism with which the Group tracks the effectiveness of these measures. Among other things, the data can now be accessed via an automated system. Activities in the area of customer quality helped to reduce warranty costs in selected reference markets by more than 10 percent between 2013 and 2015.

The fourth pillar in the House of Quality, supplier quality management is used to control supplier quality throughout the entire product life cycle systematically and in close cooperation with procurement and production. The 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 data transparency of parts per million (PPM) rates at the Wilo Group was increased further in the year under review. Areas for action at the respective production locations are identified on the basis of this data and addressed by way of supplier improvement programmes (SIPs). These SIPs are used to structure and sustainably develop the Wilo Group's suppliers. In addition to performing eleven SIPs, including nine in the focus area of casting, activities in 2015 also focused on establishing additional Group-wide standards, such as the introduction of additional key figures as the basis for a standardised supplier balanced scorecard and the development of a Group-wide process for the reimbursement of costs caused by suppliers. In addition, a superordinate harmonisation project was initiated in the Asia Pacific region with the aim of streamlining, bundling and reorienting processes in order to conserve resources.

The integrated management system for QHSEE (Quality, Health, Safety, Environment, Energy) defines standards and methods for ensuring compliance with all internal and external requirements in terms of quality, the environment and occupational health and safety. One important milestone in this respect was Group-wide certification in early 2015. This involved the audit and certification of the implementation of the QHSEE system at all Wilo production locations in accordance with uniform standards. In addition, the implementation and certification of an energy management system in accordance with DIN ISO EN 50001:2011 began in Germany. Activities in the area of health, safety and environment (HSE) in 2015 focused on the development and implementation of Group-wide key figures, the development of shared standards and the harmonisation of the corresponding HSE processes. At the German production locations, a uniform legal source information system was introduced with the support of the HSE unit in order to provide access to all of the relevant sources for environmental, energy and occupational safety law for the respective location at all times. In connection with the strategic location development project in Dortmund, the HSE unit ensures that all of the statutory and legal requirements in terms of occupational safety and environmental protection are met for current and forthcoming construction measures.

The International Product Compliance (IPC) unit analyses and evaluates the heightened statutory requirements in terms of technical provisions, particularly in non-EU countries. Country-specific guidelines and legislation are prepared in terms of the resulting technical provisions and the relevant expertise is provided for the Wilo Group's subsidiaries. This is intended to ensure continuity of sales and remove barriers to harnessing new market potential while achieving a high degree of customer satisfaction. The product-related regulatory intelligence process, which defines the collection and preparation of country-specific technical provisions and systematic, organisation-wide communication, was further refined and rolled out in the year under review. This process is driven by the business requirements to which the Wilo Group is subjected and serves to ensure product conformity in the respective markets. In addition, IPC expanded its activities to include additional countries and focal topics, such as Ecodesign and energy efficiency or wireless communication.

## Resource efficiency

The megatrend of globalisation and the resulting scarcity of resources, which is becoming more pronounced worldwide, are particularly relevant for the Wilo Group. The tangible reduction in the availability of resources requires an increasingly systematic focus on achieving outstanding efficiency when it comes to handling and using resources.

Accordingly, resource efficiency has been a firmly established objective of the Wilo Group for a number of years, and one which it pursues with success. The company has set international technology and product standards relating to efficiency in a number of its product innovations. One example is the Wilo-Stratos GIGA. Thanks to its high-efficiency drive, it requires around 40 percent less energy than its predecessor product, which was also electronically regulated, while also using around 50 percent less material.

The Wilo Group has also optimised its logistics structures in Europe. Significant resource savings, reduced delivery times and the stabilisation of logistical delivery performance resulted in optimised utilisation and the leveraging of synergy effects between inbound and outbound freight. More than 500 fewer trucks a year are now being used as a result, corresponding to annual $CO_2$ savings of several hundred tons.

Product recycling is another important 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 that have been removed from the market to be separated to the greatest possible extent and recycled. There are areas for tackling resource efficiency even in early phases of the product life cycle. Building on Ecodesign specifications, Wilo uses recycling-appropriate construction taking into account the aspects of disassembly and reuse as well as recycling-appropriate production processes for every new product developed. In this way, the conditions for a product that can be effectively and efficiently recycled at the end of its life cycle are put in place at an early stage. The potential recycling quota for a Wilo pump is now between 90 percent and 98 percent. In addition, magnets have been reintroduced to the Wilo Group's production process to a large extent since 2012. In the year under review, a new research project was initiated with partners from science and industry to investigate the possibilities for even more extensive and efficient magnet recycling.

Manufacturers of electrical and electronic equipment in Europe have been responsible for the proper disposal of their electronics products since 2003. This is governed by the European Waste Electrical and Electronic Equipment Directive (WEEE). From 2018 at the latest, this Directive will also apply to all pumps and their drives. The Wilo Group is taking responsibility and ensuring that the most sensible ways of reusing or recycling its old products are put in place at an early stage.

In 2014, a state-of-the-art recycling centre managed by the Quality Group function was established at the Dortmund location 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. In 2015, returns processing was optimised in terms of turnaround times and quality assurance and more closely aligned with the recycling centre. In addition, an IT-based process was established to enable the customer service teams to use certain spare parts directly from returns processing in a more targeted manner.

Recycling also supports product development by defining precise requirements for recycling-friendly product design. Above and beyond this, the recycling centre analyses the existing processes on a Group-wide basis and establishes suitable performance indicators with a view to enabling the evaluation and prioritisation of recycling activities. The primary objective is to design and coordinate recycling activities so that they are beneficial both ecologically and economically. In the year under review, processes in the area of recycling were developed and optimised so that products being scrapped are now separated even more effectively than before without increasing the resources used. This enabled more targeted recycling, leading to income from recycling increasing several times over.

The Wilo Group has set high ecological standards for all newly constructed production and administrative buildings. As a matter of principle, buildings worldwide are planned, constructed and operated in accordance with building standards that are geared towards sustainability and low environmental impact. The new buildings completed by Wilo 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 sets standards for environmentally friendly, resource-conserving and sustainable construction. The planned production and administrative building at the Dortmund location is also subject to high standards in terms of resource efficiency.

### 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 have since become binding standards 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 employees.

The compliance organisation at Wilo currently comprises the compliance director and the compliance officer. 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.

The evaluation of adherence to the material compliance standards within the value and supply chain that began in 2014 was intensified in 2015. Group Purchasing & Supply Chain Management has initiated an annual supplier survey that includes questions on compliance with the code of conduct for suppliers.

For the coming years, the Wilo Group is seeking to obtain certification for its compliance management system (CMS) in accordance with Audit Standard 980 “Principles for the Proper Audit of Compliance Management Systems” promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). To this end, the existing CMS is currently being developed and refined, including to meet the recommendations of ISO 19600:2014 “Compliance Management Systems”.

## Statement by the Executive Board on the economic situation

The Wilo Group can look back on a successful 2015 financial year in which it met or exceeded its targets. With net sales rising by 6.7 percent, the Wilo Group grew for the sixth year in succession and systematically and successfully continued on its profitable growth path. Net sales reached a new record high of EUR 1,317.1 million. The vast majority of this increase was attributable to organic growth in the Group's business activities. Positive net exchange rate effects contributed 1.6 percentage points to the net sales growth.

Earnings before interest and taxes (EBIT) and consolidated net income increased by 9.0 percent and 15.3 percent respectively, thereby significantly outpacing the growth in net sales. This is not least the result of the measures initiated in past years to optimise structural costs and improve cost efficiency.

The targeted expansion of the Wilo Group's international market presence is a central element of its strategy. The regional diversification it has achieved means it can balance the different trends and fluctuations in individual countries and regions while taking advantage of the resulting opportunities in a targeted manner. This is a key factor in the Group's success particularly in the current climate of major economic challenges, escalating crises and growing uncertainty. In 2015, Wilo more than offset the slowdown in some major emerging economies with its strong performance in other dynamic markets, as well as enjoying generally solid and sustainable growth in the established economies.

Net sales in the Europe region increased by 6.2 percent. Wilo recorded double-digit net sales growth in the Eastern European nations, the British Isles and the Mediterranean nations. This more than offset the downturn in net sales in France and the Nordic and Baltic states. Net sales in the Group's core market of Germany increased slightly as against the previous year.

Supported by substantial positive exchange rate effects, the Asia Pacific region saw a significant expansion in business activity with net sales growth of 15.5 percent. Despite the deterioration in the economic situation, growth in local currency was also moderately positive on the whole. The exception was China, where Wilo was unable to escape the effects of the slowdown in economic growth. In Korea, a relatively mature market in terms of the Asia Pacific region, the Wilo Group enjoyed solid and sustainable net sales growth of 3.9 percent in local currency.

Net sales in the EMEA region declined by 5.8 percent, with performance in 2015 again adversely affected by negative exchange rate effects, particularly concerning the Russian rouble. Adjusted for exchange rate effects, net sales in the EMEA region increased by a substantial 9.4 percent. Business development in the region continued to be affected by the ongoing political crisis in Russia in 2015. This was offset by positive developments in other countries in the region; for example, Turkey and the Gulf region both recorded comfortably double-digit growth rates.

As intended by the Executive Board, the net sales performance in the regions demonstrates the Wilo Group's ability to limit the impact of adverse developments in individual countries thanks to a strong local market presence and at least counteract these effects through strong growth in other countries.

Another strategic aim of the Wilo Group is to strengthen its innovation and technology leadership in order to secure its sustainable, profitable growth in future. Total research and development costs including capitalised development costs again increased significantly to EUR 62.4 million in 2015, corresponding to 4.7 percent of net sales. This was the highest level of investment in research and development in the Wilo Group's history.

Capital expenditure also reached a new all-time high. The Wilo Group invested a total of EUR 106.4 million in the 2015 financial year. This related to growth-oriented capacity expansion, new manufacturing technologies, and the construction and expansion of new and existing sales and production locations. As part of the strategic location development project, Wilo will construct a state-of-the-art factory at its headquarters in Dortmund over the coming years, among other things. Production is being fundamentally redesigned in order to lay a milestone in terms of digital transformation and Industry 4.0 and to underline Dortmund's importance as a high-tech location. Wilo is also adopting a far-sighted approach with its expenditure on the new location near Moscow. Russia offers above-average growth potential in the medium to long term, and its size alone means that the Russian market is extremely important for Wilo.

Despite the sharp rise in capital expenditure, a strong positive free cash flow was again achieved in the year under review at EUR 19.9 million, thereby clearly underlining the company's capacity for self-financing. In addition, the balance sheet structures remain extremely solid. This also demonstrates the successful implementation of the Wilo Group's strategy and its high degree of flexibility.

The digitalisation process will bring fundamental changes for society and the economy. The Wilo Group is taking advantage of the opportunities of digitalisation to optimise existing processes and develop new business models. The Group has laid the foundations for meeting these challenges by specifically incorporating a future-oriented digitalisation strategy into its wider corporate strategy.

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 2015 and takes into account business performance up until the preparation of the 2015 Group management report. At the time of this Group management report being prepared, business performance in early 2016 is in line with the Executive Board's expectations.

# REPORT ON RISKS AND OPPORTUNITIES

- **Integrated risk management system ensures transparency and security**
- **No risks to the Group's continued existence**
- **Digitalisation opens up numerous opportunities**
- **Overall risk situation largely unchanged**

## Risk and opportunities policy

The business policy of the Wilo Group is aimed at ensuring the independence of the company, profitable growth and increasing enterprise value in the long term. As a globally active company, the Wilo Group is exposed to various risks on the one hand, but also enjoys access to numerous opportunities on the other. Business activity therefore requires the careful monitoring of all relevant risks and opportunities. As a matter of principle, the Wilo Group makes strategic and operational decisions 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.

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

## Opportunities management

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

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

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

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

## Risk management system

The Wilo Group has a state-of-the-art, integrated, globally available risk management system. 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. This is based on the following central principle – once identified, risks are assessed, managed as far as possible, and monitored at all times. The risk management system is audited annually by Internal Audit on the basis of Audit Standard No. 2 promulgated by Deutsches Institut für Interne Revision (DIIR).

Risk management at the Wilo Group is 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 by Controlling. The use of checklists and risk classification ensure uniform risk assessment and procedural compatibility throughout the entire company. Software in line with Group requirements serves as the basis for the relevant communication and information platform.

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

Integral components of the risk management system are:

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

The Risk Management Directive of the Wilo Group sets out the principles for handling risks. 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. The respective risk management officers ensure that risks are tracked and controlled in the divisions for which they are responsible. In this way, specific risks are identified and reported on for the individual sales regions, product divisions and central functions 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 also aggregated at Group level in the risk management system. The Executive Board receives quarterly and, if necessary in individual cases, immediate reports on the findings of risk analyses. In addition, the Supervisory Board and the Audit Committee it appoints are comprehensively and constantly informed of the status and development of the risk management system.

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

## Risk classification and risk assessment

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

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

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

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

In the event of the assumed occurrence of a risk, the possible financial impact on EBIT that can be derived is classified into one of three groups (low, medium, high) based on the forecast percentage deterioration of EBIT. An EBIT deterioration of between 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 |
| Defaults | Possible | Low |
| Financing and liquidity | Unlikely | Low |

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

## General risks and opportunities

### Economic environment

Economic and market risks can arise due to general economic, political and social trends. In terms of industries, the specific development of the construction sector and the sanitary industry in the respective countries and regions is considered particularly important. The Wilo Group is dependent on these developments to a significant extent. 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 that are required 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 extremely uncertain conditions on some global markets at present 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 targeted organisational changes, expanding and optimising the utilisation of local production capacity and leveraging synergies.

The global economy saw slower growth in 2015 than in the previous years. While growth was muted in the industrialised nations, momentum in the emerging economies again slowed, in some cases significantly. The outlook for 2016 remains unfavourable. The forecast slowdown in growth in China and rising US interest rates could further curb economic development in the emerging and developing nations. Falling oil and commodity prices are expected to have a growing impact on the oil-producing nations. The uncertainty resulting from political risks has increased in light of the refugee crisis and escalating tensions in the Middle East and North Africa. This could endanger the stability and growth prospects of the affected countries, and hence the global economic outlook as a whole. 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 (further information can be found in the "Energy shortage and the Ecodesign Directive" section of this report on risks and opportunities).

With its broad range of high efficiency pumps, the Wilo Group is in an ideal position to serve the respective markets quickly and comprehensively. It 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. The United Nations expects the Earth will be home to more than nine billion people in 2050. Around 70 percent of people will live in cities by then. In addition to the existing, constantly growing cities and metropolitan regions, other entirely new cities will be built. According to analyses by Strategy& (formerly Booz & Company), more than USD 350 trillion will be invested in urban and infrastructure development worldwide over the next 30 years. The emerging economies, particularly in the Asia Pacific region, will account for much of this. This megatrend is the source of considerable long-term growth potential, particularly for the Building Services and Water Management market segments, which the Wilo Group is tapping with targeted investments.

### Water shortages

Water is a scarce resource. More than 780 million people worldwide currently have no access to clean drinking water, and the number is rising. In future, it will therefore be all the more important to use the available resources efficiently and to utilise intelligent technologies for water extraction and purification. Wilo has responded to this megatrend with its products and system solutions in the Water Management market segment and provides professional solutions for the complex requirements in drinking water extraction, water pumping and wastewater transportation and processing, giving rise to substantial growth opportunities in the EMEA and Asia Pacific regions in particular.

### Climate change

The threats from global warming and the growing incidence of extreme weather conditions are becoming increasingly visible and tangible around the world. 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 relevant effects of climate change. Drastic action is required to stop, or at least limit, climate change and its consequences. One of the most important measures in this area is the reduction of greenhouse gases. The Climate Change Conference in Paris in 2015 could be the trigger for the future intensification of protective measures at a government level around the world. In addition to the increased use of renewable energies, the focus is on developing and using more energy-efficient processes and technologies.

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

### Digitalisation

The digital transformation is ubiquitous. The fundamental changes driven by the establishment of new technologies are affecting almost every section of society. Modern information and communication technologies are finding their way into all areas of life. New digital technologies are changing traditional production methods and business processes. Companies' entire value chains are being affected by the digital transformation. Established business models are being called into question and new, innovative business models are emerging. The process of digitalisation presents significant opportunities for the Wilo Group. In addition to efficiency and productivity improvements and the corresponding optimisation of existing business processes, it also opens up the possibility of new and innovative business models for the pump industry. A fundamental and sustainable reorganisation of the value chain and business processes is required in order to digitalise the company and take advantage of the resulting opportunities. To this end, Wilo has developed a digitalisation strategy that is specifically incorporated into its wider corporate strategy. An interdisciplinary internal group of experts has also been formed and tasked with pressing ahead with the Wilo Group's digital transformation.

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

## Industry-specific risks and opportunities

### Competition

Competition risk remained largely unchanged compared with the previous year. Although the growing price competition for major projects involves uncertainties, the Wilo Group mainly mitigates these risks by making increased use of product lines with unique selling propositions. It also ensures a high level of competitive capability through its technological edge 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 August 2015, manufacturers may market only those external glandless circulation pumps that do not exceed an energy efficiency index (EEI) of 0.23. Starting from this date, the Regulation also applied for the first time to glandless circulation pumps that are integrated into heat generators and other products. These are also subject to an EEI of 0.23.

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 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. Regulation (EU) No. 547/2012 is currently being revised by the European Commission. The Wilo Group expects this to result in more stringent requirements and an expanded scope of application in the medium term.

In addition, the drive part of water pumps are governed by Regulation (EC) No 640/2009, amended Regulation (EU) No 4/2014, which defines minimum efficiency classes for motors. 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 current 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 region. 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

Manufacturers and consumers are increasingly focusing on 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. In 2014, the Wilo Group acquired an interest in iEXERGY GmbH, which focuses on the development of smart home solutions, as part of a strategic partnership with the aim of further expanding its systems and solutions expertise in this area. The opportunities arising from this can positively influence the business activities of the Wilo Group in the medium to long term. However, it is currently difficult to estimate the effects on earnings and liquidity, and they can therefore not yet be included in the specific earnings and financial planning of the Wilo Group.

## Company-specific risks and opportunities

### Research and development

Wilo is firmly committed to technological progress. The company continuously invests in the development of new technologies and products to strengthen its market position. In 2015, research and development costs including capitalised development costs amounted to 4.7 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 qualified 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

The business processes that are important to the Wilo Group are integrated into IT systems. In extreme circumstances, the failure of key systems or substantial data losses could lead to business interruptions. WILO SE mitigates these IT risks with daily backups of all critical business data. In particular, 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 financial activities. The currency risk that mainly relates to the supply of goods and services to Group companies is hedged by using same-currency offsetting transactions and derivative financial instruments.

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

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

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

Further information on currency risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in section (13.) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 154 et seq.

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

### Interest

The interest rate risk mainly results from floating rate financial liabilities and the investment of cash. Both rises and falls in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. The occurrence of interest rate risk is considered 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. Group Treasury monitors and analyses developments on the financial markets in order to optimise the balance between liquidity retention and the investment of cash in term money with a maximum time horizon of up to twelve months.

Further information on interest rate risks in accordance with IFRS 7 can be found in section (13.) "Risk management and derivative financial instruments" of the notes to the consolidated financial statements on page 156.

### 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 2016 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 2017 financial year.

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

The Wilo Group regards the commodity price risk arising from the procurement of rare earth elements as low at this time. Despite this risk classification and given the lack of corresponding derivative financial instruments to hedge this commodity price risk, the Wilo Group is 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.

### Defaults

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 2016.

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

### Financing and liquidity

Liquidity risk stems from a potential lack of cash for paying due liabilities in full and on time in the agreed currency. 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 6.1 million of the cash credit facilities had been utilised as at 31 December 2015. Furthermore, as at 31 December 2015, there were also promissory note loans of EUR 12.5 million and senior notes of EUR 148.7 million that were issued in US private placements.

At 31 December 2015, the Wilo Group reported net financial liabilities (financial liabilities less cash) of EUR 1.5 million. The ratio of net financial liabilities to EBITDA (leverage) amounted to 0.01 at 31 December 2015.

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. Rolling three-month liquidity planning is also prepared on a monthly basis for each Group company. The cash directly available to the Wilo Group over the course of 2015, including committed cash credit facilities, was at all times higher than the minimum reserve of EUR 100.0 million defined by the Executive Board of WILO SE.

Cash pooling, netting and borrowing arrangements are used at the Wilo Group to the extent advisable and 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. These figures are regularly reviewed, planned and reported to the Executive Board of WILO SE in order to ensure compliance with the required minimum values at all times and to enable suitable countermeasures to be initiated at an early stage as necessary. Due to its strong equity base and profitability, the Wilo Group currently expects to comply with its financial covenants throughout the term of the existing financing agreements.

More detailed information on the use of derivative financial instruments can be found in note (12.) on page 150 et seq. and note (13.) on page 154 et seq. of the notes to the consolidated financial statements.

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

## Overall assessment

The risk situation of the Wilo Group is largely unchanged as against the previous year. The 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. Combined with the attractive opportunities in the medium and long term in particular, the Wilo Group has a balanced, forward-looking risk and opportunity profile that will allow it to continue to record profitable growth in line with the corporate strategy.

# SUBSEQUENT EVENTS

Since the end of the 2015 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

- **Only moderate growth in the global economy forecast for 2016**
- **Rising economic risk and uncertainty due to geopolitical crises**
- **Digital transformation will boost profitable growth in the medium to long term**
- **Wilo Group remains on its growth path**
- **Profitability planned within strategic target corridor**

## General economic conditions

### Global economy to see continued moderate growth in 2016

The International Monetary Fund (IMF) expects 2016 to be a difficult year. The main reasons are the sustained economic slowdown in China and rising interest rates in the USA. This could have a massive impact on the emerging and developing economies in particular. Falling oil and commodity prices are also increasingly likely to be problematic for the oil-producing nations. This uncertainty is also magnified by the refugee crisis and the escalating tensions in the Middle East and North Africa. Volatile financial markets pose an additional risk. Accordingly, the IMF has lowered its global growth forecast for 2016 to 3.4 percent.

The upturn in the USA is set to remain patchy but solid thanks to private consumption. Providing there is no further significant appreciation in the US dollar, investments are likely to trigger additional growth momentum. The IMF expects economic growth in the US to improve slightly to 2.6 percent in 2016. As the upturn in the other established regions is also likely to stabilise, the IMF is anticipating somewhat more dynamic development in the industrialised nations than in the previous years, with growth forecast at 2.1 percent. This could also lead to a stabilisation in the emerging economies in spite of low commodity prices and structural problems. Russia and Brazil are expected to remain in a recession in 2016, but the worst of the downturn is now likely to be over. The IMF expects economic growth in the emerging and developing nations to improve slightly to 4.3 percent in 2016.

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

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 148.

### Europe – Solid upturn reinforced

Economic researchers expect the moderate upturn in the euro area to continue in 2016, supported by private consumption. The low value of the euro is also set to benefit the industrial economy and exports. The European Central Bank is planning to continue on its expansionary path despite the turnaround in US interest rate policy. As such, investment activity is likely to be increasingly stimulated by good financing conditions and moderate but steadily improving global demand. The IMF and the IfW agree that the euro area will see growth of 1.7 percent in 2016. In regional terms, the pace of expansion within Europe is expected to converge, with above-average growth forecast for most of the Eastern European EU nations, Ireland and Sweden. The outlook for Italy and Greece is expected to improve. According to the economic researchers, France will continue to see extremely moderate growth. In the Netherlands and the United Kingdom, the previously high growth rate is likely to slow somewhat. However, the prospects for Europe remain uncertain and highly susceptible to disruption. The structural problems in the crisis-hit euro area member states have not yet been overcome, the crisis in Russia and Ukraine remains unresolved, and there is a question as to whether the United Kingdom will remain in the European Union. Political cooperation between EU nations is also being adversely affected by the significant challenge of dealing with the mass influx of refugees.

At 1.7 percent, the IMF's growth forecast for Germany involves sustained robust performance but little in the way of a dynamic upturn. However, domestic economic researchers have a more positive outlook, with the IfW in Kiel forecasting an increase in growth to 2.2 percent in 2016 and Deutsche Bundesbank is anticipating a growth rate of 2.0 percent. If this proves to be the case, the German economy would continue to outperform the euro area in terms of growth. All of the forecasts assume increased investment in equipment and construction, with low interest rates and the sharp rise in exports having an increasingly positive effect.

### Asia Pacific – Slower momentum but still the growth engine of the global economy

In adopting reforms with a long-term horizon, China is continuing its transformation with the gradual strengthening of the private economy and domestic demand and a focus on technology. This comes at the expense of the core industries that had previously driven growth, as well as exports and frequently large-scale infrastructure investments. The pace of expansion is expected to slow as a result. The government is committed to taking a range of measures to prevent a sharp downturn in growth during the period of its new five-year plan (2016–2020). The IMF expects growth in China to flatten to 6.3 percent in 2016. Accordingly, Asia as a whole will see only moderate performance compared with recent years, with the IMF forecasting growth of 6.3 percent. Despite this, the region will remain the growth engine of the global economy.

According to the IMF, India's economy will benefit from political reforms, increased investment and lower commodity costs. In light of these factors, the country is expected to see growth of 7.5 percent in 2016.

The Bank of Korea believes that the Korean economy will grow by 3.0 percent on the back of rising exports, higher employment and an upturn in private consumption. Investments are likely to enjoy robust growth, albeit at a slightly lower rate than in the previous year.

Southeast Asia is set to benefit from the increased demand in the industrialised nations. The IMF expects the ASEAN nations to see a slight increase in growth to 4.8 percent in 2016.

### EMEA – Region still adversely affected by low commodity prices, political uncertainty and escalating crises

Russia's national budget and economic output depend to a large extent on the domestic oil and gas industry and agriculture. Companies have above-average financing in USD-denominated bonds, meaning that the depreciation of the rouble has dramatically increased the financial burden on them. As a result, investment activity is expected to remain weak with the exception of the mining sector. However, Russia is seeking to strengthen and expand domestic production as a means of substituting imports. Private consumption is expected to decline further. Increased government spending and exports are likely to be the only pillars for the economy. The Central Russian Bank expects the economy to contract by a further 0.5 percent to 1.0 percent in 2016. The IMF is forecasting a figure of -1.0 percent.

The IfW expects Turkey to initially remain on a stable growth path of 3.0 percent in 2016 thanks to the strength of the domestic economy. The high level of corporate debt, the recent uptick in inflation and the need to secure the Turkish lira mean that the central bank has little in the way of scope in terms of relaxing its fiscal policy to generate additional growth momentum. Consumer and investor confidence is also being adversely affected by political uncertainty, the country's proximity to the crisis-hit regions of the Middle East and the new conflict with Russia.

The growing escalation of armed conflicts in the Gulf region and terrorist attacks in parts of North Africa are further destabilising the region, weakening government structures and limiting the possibilities for planned economic activity. Oil-exporting countries are also being impacted by the low oil price. By contrast, the oil-importing nations in the region such as Egypt, Tunisia and Morocco, which have not yet been the focus of armed conflict, are currently enjoying a relatively stable environment. All in all, the IMF is forecasting growth in economic output in the Middle East and North Africa of 3.6 percent in 2016. The sub-Saharan nations are expected to see varied development. Due to low commodity prices and the more moderate economic development in China, the IMF believes that growth will only recover slightly to 4.0 percent in 2016.

## Industry-specific conditions

More detailed information on the definition of segments can be found in note (11.) to the consolidated financial statements on page 148.

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

### Europe – Extremely good outlook for the construction industry

The latest forecasts for the European construction industry issued by the Euroconstruct industry network and the Ifo Institute show an extremely positive outlook. Thanks to a sustained positive industry environment, European construction output is expected to see substantial growth of 3.0 percent in real terms in 2016. The six major markets (Germany, United Kingdom, France, Italy, Spain, Poland) are expected to account for around three-quarters of this growth combined. Residential and commercial construction and civil engineering are expected to see positive growth rates until 2018 without exception throughout Europe, while the modernisation and maintenance of existing buildings is also set to enjoy additional tailwind. Additional government measures to promote $CO_2$ savings are expected following the success of the UN Climate Conference in 2015. This is likely to stimulate investments in heat insulation and the modernisation of heating and air conditioning systems.

The order situation in the German civil engineering and building construction industry – and particularly residential construction – recovered towards the end of 2015, in some cases significantly. Prospects are improving considerably thanks to the favourable environment of low interest rates, high employment and the upturn in the industrial economy. Additional public and private investments in residential construction will be required to curb the shortage of supply affecting residential property in conurbations and to cope with immigrants. The IfW expects construction investment to rise by 3.0 percent in real terms in 2016. Residential construction, the largest segment, is set to remain the dominant driver of the industry with strong forecast growth of 3.6 percent. Public construction and commercial construction are also expected to see in some cases significant growth.

According to estimates by the German Institute for Economic Research (DIW), the main construction sector as a whole is set to see growth of 2.3 percent in 2016, with the finishing trades enjoying growth of 1.6 percent. Modernisation and renovation measures are expected to continue to increase. To achieve its interim target of cutting primary energy consumption in the building sector by 20 percent between now and 2020, the German federal government has initiated subsidy programmes such as grants under the market incentive programme (MAP) for the installation of modern heating systems, as well as a national plan of action for energy efficiency; however, these have had little effect to date. The DIW believes that the favourable subsidy conditions mean the backlog in terms of improvements to energy efficiency will be resolved in the medium term despite the low price of heating oil at present. The Federal Association of the German Heating Industry also expects this to lead to additional impetus in terms of counteracting the long-standing modernisation backlog.

## Asia Pacific – Construction industry boosted by infrastructure investments

The trend towards urbanisation in China is continuing unabated, meaning that the demand in terms of constructing residential, commercial and administrative buildings and the requirements being made of the air conditioning and water industry remain immense. China is also intensifying its investments in environmental protection. The new five-year plan (2016–2020) is likely to set ambitious targets in this area. This means the long-term outlook for the Chinese construction industry remains favourable. However, as yet there are no signs of a recovery in 2016. The negative factors, such as vacant properties at excessive prices, financing problems and the economic slowdown, remain acute. By contrast, government initiatives to expand affordable housing and increased investment in the water and wastewater industry are set to continue. The German Federal Ministry for Economic Affairs and Energy (BMWi) believes that this development will offer significant market potential for German suppliers of filters, valves and pumps.

The Indian government has set aside a budget of USD 1 trillion for the construction and infrastructure sector until 2017. According to a study by PricewaterhouseCoopers, the Indian construction industry is expected to see annual growth of between 7 and 8 percent between now and 2023. Every year, around 10 million Indians move from the countryside to the city. To ensure sufficient affordable housing, some 40 to 45 million additional residential units will have to be built by 2028. The real estate market is expected to see annual growth of 15 percent in the period from 2008 to 2028. India is also seeking to improve its inadequate water and wastewater network. According to the BMWi, the investment required in the sub-segment of urban drinking water supply alone will be a good EUR 2 billion per year between now and 2031.

The upturn in the Korean construction industry is intact. Rising demand for mortgage loans and increased property prices are signifiers of a robust demand situation. The Bank of Korea expects investment in construction to grow by 3.3 percent in real terms in 2016.

In Southeast Asia, the construction industry is expected to be driven by substantial investments in infrastructure. To this end, Indonesia has adopted an extensive development plan for the period to 2019, while the Philippines are planning to increase investment in public infrastructure by 29 percent in 2016. Indonesia is massively expanding its tourism sector with new hotels and the healthcare sector with new hospitals. Malaysia is planning to strongly promote the construction industry in 2016 with increased spending on affordable housing and, in particular, extremely substantial infrastructure investments, including on the construction of water purification plants.

## EMEA – Weaker outlook for the regional construction industry

The prospects for the Russian construction industry for 2016 remain muted. This is due to the extension of economic and financial sanctions, the pressure on the public budget, and high inflation and mortgage rates. Residential construction has proved to be comparatively resilient, at least in Moscow and St. Petersburg. In addition, major strategic projects are continuing such as the multi-year construction of the Vostochny Cosmodrome and infrastructure investments for the Football World Cup in 2018.

The prospects for the Turkish construction industry have deteriorated significantly once again. The sharp fall in the number of building permits is a sign of a downturn in the industry in 2016. According to TurkStat, building construction permits saw a substantial double-digit reduction in the period to September 2015. However, this trend may be curbed in 2016 by projects that have already begun.

In the short term, the conditions for the construction industry in Africa and the Middle East remain subject to risk and uncertainty. In the longer term, however, the region remains promising on account of the structural growth prospects for the construction industry. This will be driven by strong population growth and urbanisation. The population of sub-Saharan conurbations is set to explode in the medium term. This will require massive investments in residential construction, infrastructure and the water industry.

## Outlook for the Wilo Group

### Future orientation

2015 was characterised by weaker than expected development in the global economy and growing political and economic uncertainties. The outlook for 2016 remains subject to considerable uncertainty. The economic risks from the slowdown in growth in China and the impact of the turnaround in US interest rate policy on the stability of the emerging economies and financial markets have increased further, while there is a danger that geopolitical crises will escalate. The Wilo Group has been systematically pursuing a sustainable, future-oriented business policy for many years in order to ensure that it can generate profitable growth in times of political and economic uncertainty in particular. 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. One particularly important aspect is the Wilo Group's ability to anticipate and analyse changes in conditions and new developments at an early stage and initiate appropriate measures in good time. This can be essential in crisis situations in particular. The significant increases in net sales and earnings achieved in recent years, the technological innovations and the global increase in workforce serve as an impressive demonstration of this adaptability and 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. In future, the international expansion will continue to focus in particular on activities in the emerging markets of Southeast Asia, Africa and Latin America.

In addition, the Wilo Group is systematically focusing on the new medium-term and long-term challenges arising from the continued digitalisation of the economy, among other things. Industry 4.0, which describes the intelligent and digital networking of production methods, products and logistics, represents a significant opportunity for the Wilo Group that it intends to take advantage of in a targeted manner. New customer models will also arise in the medium to long term. Wilo is progressively orienting its innovation, which is focused on the customer benefits, and its sales organisation towards these developments. Wilo is leading the way in the digital transformation and is planning to fundamentally restructure its value chain and its existing business processes. To successfully implement the digital transformation of the company, the Wilo Group has developed a digitalisation strategy that is specifically incorporated into its wider corporate strategy.

The Wilo Group's clear strategic orientation, its long-term policy of innovation and effective crisis management are the main criteria used by the company to ensure that it is fit for the future. 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 economic downturn both globally and in certain regions. 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 continue to initiate appropriate countermeasures from this position of strength in future.

## Outlook for the regions

**EUROPE** The economic research institutes expect the Europe region to see a continued economic upturn in 2016 on the back of low interest rates and inflation as well as the depreciation of the euro. In regional terms, growth rates within Europe are set to converge in 2016. Construction activity in Europe is also expected to pick up substantially in 2016. Industry experts are anticipating significant growth in construction output across all segments and all major regional markets – including France for the first time in many years. Migration is expected to lead to substantial government measures in the area of residential construction, particularly in Germany. The trend towards heat insulation and renovation is also expected to lead to increased demand for energy-saving, environmentally friendly heating and air conditioning systems.

In addition to these positive short-term economic and market factors, the Wilo Group's business activities are expected to benefit from the effective expansion and intensification of the Ecodesign Directive for energy-related products (ErP). The Wilo Group's business is also expected to be stimulated by the stricter regulatory provisions on the energy efficiency of glandless circulation pumps in the European Union. In addition, a further intensification of the regulations on $CO_2$ savings and corresponding government energy efficiency subsidy programmes are anticipated in the wake of last year's Climate Change Conference in Paris. Accordingly, the Wilo Group expects demand for high-quality energy-efficient pumps to continue to grow significantly over the coming years.

All in all, this is likely to result in positive impetus for the Wilo Group's business activities in the Europe region in 2016 and beyond. Driven by the upturn in residential and commercial construction and robust demand for the renovation and modernisation of existing buildings, the Wilo Group expects to see significantly higher net sales growth in the German-speaking nations than in the previous year. In the Eastern European EU states and the southern EU states, which are likely to see a further economic recovery in 2016, the prospects for robust net sales growth are also largely positive.

The Building Services market segment is set 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 likely to pay off. 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 and increased flexibility and proximity to the customer. This growth path is being systematically continued with the strategic location development project at the company's headquarters in Dortmund. All in all, the Wilo Group expects to be able to generate net sales growth in the Europe region in 2016 that is slightly below its overall consolidated net sales growth on account of base effects. Despite this, the Europe region is likely to make the largest absolute contribution to the Wilo Group's growth once again in 2016.

**ASIA PACIFIC** The Asia Pacific region is expected to remain the Wilo Group's primary growth driver in 2016. Although the pace of expansion in China is generally slowing, economic momentum in the Asia Pacific remains above-average compared with the rest of the world. The structural drivers remain intact: the sustained process of urbanisation and the immense and ever-growing need for catch-up investments in the expansion of functional urban infrastructures. Substantial investment is required to establish and ensure a powerful drinking water supply and wastewater disposal network, while government-funded measures to reduce $CO_2$ emissions are being intensified, including in China, in response to the substantial environmental impact. In the short term, however, there is a possibility that currency turbulence and upheaval on the financial and capital markets will increase uncertainty in the countries making up the region and temporarily curb investment activity.

The Chinese real estate market is initially expected to see further consolidation in 2016. The most recent downturn in new building construction projects even signifies a reduction in private construction activity, particularly in the area of residential construction. However, the government is pressing ahead with its initiatives aimed at stimulating the construction of affordable apartments, as well as its investments in the drinking water and wastewater network. By contrast, the other countries of the Asia Pacific region largely look set to enjoy growth in demand in the construction and water industry in 2016. The Korean construction industry is expected to see stronger growth in 2016. Thanks to its new location in Korea, the Wilo Group is well positioned to participate in this market growth. In India and the emerging economies of Southeast Asia, substantial government investment projects for the expansion and modernisation of infrastructure have been initiated for 2016. This is likely to have a positive impact on the Wilo Group's business activities. 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. Despite the deterioration in the near-term outlook for China, the Wilo Group is anticipating positive overall business performance in the Asia Pacific region and above-average growth compared with consolidated net sales in 2016.

**EMEA** The EMEA region is extremely heterogeneous both politically and economically. This is also reflected in the outlook for the Wilo Group's business development in the individual countries in 2016. On the Russian market, the recession, the depreciation of the rouble and the deterioration in the government budget situation mean the business challenges will remain particularly pronounced in 2016. Construction activity, particularly in the residential sector, is suffering from inflation and extremely high mortgage rates. However, government infrastructure projects such as those in connection with the Football World Cup 2018 are set to continue unabated. The Wilo Group has continued 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. The newly constructed location near Moscow is expected to start operations in mid-2016. Risks due to potential political measures that could have a negative impact on the investments made are reduced using suitable risk-mitigating instruments.

In Turkey, the short-term conditions for the construction industry have deteriorated following a sharp downturn in incoming orders. The outlook for 2016 for the Gulf region and various African countries has also become more negative as a result of the fall in oil prices and political instability. Despite this, individual countries in the region are likely to benefit from the economic upturn in Europe and are expected to see growth in 2016 according to the IMF's estimates. In the longer term, the construction industry in Africa will see significant structural expansion on the back of the strong growth in the population and the process of urbanisation. The Wilo Group is well positioned to take advantage of the resulting opportunities in the EMEA region and to minimise short-term risks. All in all, the Wilo Group expects business in the EMEA region to see at least stable development in 2016 in light of the current burdens. Slight growth is expected to be achievable providing the current crises do not escalate further.

### 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 in 2016. At the same time, the risks arising from the prevailing geopolitical crises and the potential challenges of handling the influx of refugees in Europe are continuing to rise. The European Union is under considerable pressure to secure political unity and the rules on freedom of movement under the Schengen Agreement. The problem areas of necessary structural reforms in southern Europe and the conflict between Ukraine and Russia have taken more of a back seat recently but remain unresolved. The prospect of turbulence on the financial and capital markets also represents a global economic risk. All in all, 2016 will be another year of considerable challenges.

More than ever, this environment requires anticipatory, risk-conscious and flexible company management. The Wilo Group has implemented corresponding structures and processes in order to lay the foundations for continued profitable growth even in unfavourable conditions. Net sales and cost planning for 2016 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 implementing additional risk mitigation measures in regions that could be affected by potential setbacks. The Executive Board of the Wilo Group is confident that the company will enjoy successful further development in line with its corporate strategy in spite of this difficult environment.

Based on the forecast business development in the regions as described above, the Executive Board is anticipating total growth in net sales of up to 5 percent in the 2016 financial year. This assessment is based on the assumption that the world economy will develop as forecast in 2016 and that there will be no major upheaval on the currency markets.

The EBIT margin is expected to amount to around 9 percent, thereby falling within the strategic target corridor of between 9 and 11 percent. In particular, the continued and streamlined management of working capital and the targeted implementation of strategic measures will help to safeguard the Wilo Group's high earnings power. Systematic cost management will also be continued and adjusted flexibly and in a timely manner as required.

To ensure that the Wilo Group's orientation remains successful in future, investments and activities in research and development are systematically geared towards the medium-term and long-term corporate strategy. The Wilo Group intends to remain independent and generate profitable growth. This requires a modern, effective corporate infrastructure that promotes growth, as well as a consistently high degree of innovative strength – irrespective of short-term market uncertainty. Accordingly, the Group is pressing ahead with its ambitious plans in terms of investment, research and development.

The high levels of investment in recent years provided the foundations for the Wilo Group's growth. This approach will continue to be pursued. Indeed, the investment level will see another significant increase in the 2016 financial year. Firstly, the strategic location development project at the headquarters in Dortmund will continue as planned. Secondly, the Group will increase expenditure on capacity expansion, new manufacturing technologies and the expansion of the existing sales and production locations as part of the digital transformation and the further development of the production system in line with Industry 4.0. The Wilo Group stands for future-oriented, innovative products and system solutions. Research and development play a central role at Wilo. Accordingly, investment in research and development will remain at a high level in 2016.

The long-term financing structure, the extremely high equity ratio of almost 50 percent, cash of over EUR 165 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 2015, WILO SE is required to comply with certain standard financial ratios. WILO SE fully complied with these covenants in the 2014 and 2015 financial years and there are currently no indications that it will be unable to comply with them in future.

Overall, the risks and the impact of any possible forecasting inaccuracies regarding the development of the sales and procurement markets, and the currency markets in particular, are considered to be high. This means the net sales and EBIT forecasts of the Wilo Group are subject to greater uncertainty. The global orientation of the Wilo Group means that regional economic fluctuations can be partially offset. However, a slowdown in global economic momentum 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 2016 are embedded in the corporate strategy with "Ambition 2020". They are based on a professional and detailed planning process and take into account information on and knowledge of internal and external factors that were available at the time of this management report being prepared. Future unforeseeable developments and events may lead to changes in expectations and deviations from forecasts. All estimates compared with the previous year are based on an unchanged basis of consolidation and unchanged exchange rates.

# CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated income statement

for the period 1 January to 31 December 2015

| EUR thousand | Note | 2015 | 2014 (restated)* |
|---|---|---|---|
| Net sales | (8.1) | 1,317,126 | 1,234,700 |
| Cost of sales | (8.2) | –815,104 | –750,814 |
| **Gross profit** | | **502,022** | **483,886** |
| Selling expenses | (8.3) | –251,959 | –240,930 |
| Administrative expenses | (8.4) | –89,044 | –88,084 |
| Research and non-capitalised development costs | (8.5) | –43,147 | –44,051 |
| Other operating income | (8.6) | 21,683 | 20,278 |
| Other operating expenses | (8.7) | –18,368 | –19,902 |
| **Earnings before interest and taxes (EBIT)** | (8.10) | **121,187** | **111,197** |
| Net income from investments carried at equity | (9.4) | –154 | –147 |
| Net finance costs | (8.8) | –7,992 | –11,065 |
| **Consolidated net income before taxes** | (8.10) | **113,041** | **99,985** |
| Income taxes | (8.9) | –32,560 | –30,169 |
| **Consolidated net income** | (8.10) | **80,481** | **69,816** |
| of which: attributable to non-controlling interests | | 4 | 425 |
| of which: attributable to shareholders of WILO SE | | 80,477 | 69,391 |
| Basic and diluted earnings per share amount to EUR 8.35 (previous year: EUR 7.11) per ordinary share. EUR 8.36 (previous year: EUR 7.12) per preferred share. | (8.11) | | |

* Detailed information of the adjustments of the previous year can be found in the note (8.3) and note (8.4).
The notes to the consolidated financial statements are an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

for the period 1 January to 31 December 2015

| EUR thousand | 2015 | 2014 |
|---|---|---|
| **Consolidated net income** | **80,481** | **69,816** |
| **Gains/losses not reclassified to profit or loss** | | |
| Remeasurement of pension obligation and plan assets | 6,587 | –15,455 |
| Income taxes | –2,016 | 5,549 |
| | **4,571** | **–9,906** |
| **Gains/losses that may be reclassified to profit or loss** | | |
| Currency translation differences | –1,215 | 1,104 |
| Cash flow hedges – reclassification to profit or loss | 0 | 152 |
| Income taxes | 0 | –47 |
| | **–1,215** | **1,209** |
| **Other comprehensive income** | **3,356** | **–8,697** |
| **Total comprehensive income** | **83,837** | **61,119** |
| of which: attributable to non-controlling interests | 7 | 207 |
| of which: attributable to shareholders of WILO SE | 83,830 | 60,912 |

# Consolidated statement of financial position

as at 31 December 2015

## Assets

| EUR thousand | Note | 2015 | 2014 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | (9.1) | 102,380 | 82,063 |
| Property, plant and equipment | (9.2) | 306,808 | 269,527 |
| Investments carried at equity | (9.4) | 5,471 | 5,625 |
| Trade receivables | (9.6) | 9,505 | 7,805 |
| Other financial assets | (9.7) | 4,618 | 6,026 |
| Other receivables and assets | (9.8) | 18,737 | 16,489 |
| Deferred tax assets | (8.9) | 28,743 | 29,766 |
| | | **476,262** | **417,301** |
| **Current assets** | | | |
| Inventories | (9.5) | 200,082 | 190,906 |
| Trade receivables | (9.6) | 254,685 | 227,493 |
| Other financial assets | (9.7) | 8,527 | 5,257 |
| Other receivables and assets | (9.8) | 30,223 | 36,605 |
| Cash | (9.9) | 165,797 | 149,073 |
| Assets held for sale | (9.10) | 1,127 | 1,055 |
| | | **660,441** | **610,389** |
| **Total assets** | | **1,136,703** | **1,027,690** |

## Equity and liabilities

| EUR thousand | Note | 2015 | 2014 |
|---|---|---|---|
| **Equity** | (9.11) | | |
| Issued capital | | 26,980 | 26,980 |
| ./. Nominal amount of treasury shares | | -1,916 | -1,916 |
| Subscribed capital | | 25,064 | 25,064 |
| Capital reserves | | 14,527 | 14,527 |
| Other reserves | | 560,228 | 476,414 |
| Treasury share reserve | | -38,933 | -38,933 |
| Equity attributable to the shareholders of WILO SE | | 560,886 | 477,072 |
| Non-controlling interests | | 56 | 49 |
| | | **560,942** | **477,121** |
| **Non-current liabilities** | | | |
| Financial liabilities | (9.12) | 121,514 | 156,729 |
| Trade payables | (9.13) | 1,251 | 1,076 |
| Other financial liabilities | (9.14) | 6,556 | 6,538 |
| Other liabilities | (9.15) | 882 | 1,096 |
| Provisions for pensions and similar obligations | (9.16) | 76,069 | 80,906 |
| Other provisions | (9.17) | 3,422 | 3,909 |
| Deferred tax liabilities | (8.9) | 26,767 | 19,546 |
| | | **236,461** | **269,800** |
| **Current liabilities** | | | |
| Financial liabilities | (9.12) | 45,753 | 9,735 |
| Trade payables | (9.13) | 139,783 | 106,931 |
| Other financial liabilities | (9.14) | 36,322 | 40,124 |
| Other liabilities | (9.15) | 75,936 | 85,529 |
| Other provisions | (9.17) | 41,506 | 38,450 |
| | | **339,300** | **280,769** |
| **Total equity and liabilities** | | **1,136,703** | **1,027,690** |

# Consolidated statement of cash flows

for the period 1 January to 31 December 2015

| EUR thousand | 2015 | 2014 | Change |
|---|---|---|---|
| **Earnings before interest and taxes (EBIT)** | **121,187** | **111,197** | **9,990** |
| Depreciation and amortisation of intangible assets and property, plant and equipment | 50,302 | 47,880 | 2,422 |
| Increase in provisions | 2,542 | 992 | 1,550 |
| Loss/gain on the derecognition of property, plant and equipment | 46 | –711 | 757 |
| Increase in inventories | –9,430 | –2,823 | –6,607 |
| Increase/decrease in trade receivables | –25,903 | –14,370 | –11,533 |
| Decrease/increase in trade payables | 29,597 | –2,403 | 32,000 |
| Increase/decrease in other assets/liabilities not attributable to investing or financing activities | –14,189 | 8,736 | –22,925 |
| Other non-cash income | –1,488 | –3,263 | 1,775 |
| **Operating cash flow before income taxes** | **152,664** | **145,235** | **7,429** |
| Income taxes paid | –20,339 | –35,463 | 15,124 |
| **Cash flow from operating activities** | **132,325** | **109,772** | **22,553** |
| Purchases of intangible assets | –24,667 | –14,207 | –10,460 |
| Disposals of property, plant and equipment | 924 | 5,968 | –5,044 |
| Purchases of property, plant and equipment | –81,012 | –51,890 | –29,122 |
| Purchases of consolidated companies | 0 | –253 | 253 |
| Other purchases attributable to investing activities | –224 | –3,361 | 3,137 |
| **Cash flow from investing activities** | **–104,979** | **–63,743** | **–41,236** |
| Dividend payment | 0 | –33,120 | 33,120 |
| Proceeds from borrowings of financial liabilities | 1,564 | –7,367 | 8,931 |
| Repayment of financial liabilities | –4,576 | 0 | –4,576 |
| Purchases of treasury shares | 0 | –27,763 | 27,763 |
| Interest payments received | 1,256 | 1,561 | –305 |
| Interest payments made | –8,658 | –9,569 | 911 |
| **Cash flow from financing activities** | **–10,414** | **–76,258** | **65,844** |
| Change in cash | 16,932 | –30,229 | 47,161 |
| Effects of exchange rate changes on cash | –208 | 1,834 | –2,042 |
| Cash at beginning of period | 149,073 | 177,468 | –28,395 |
| **Cash at end of period** | **165,797** | **149,073** | **16,724** |

Detailed information can be found in note (10.).

# Consolidated statement of changes in equity

for the period 1 January 2014 to 31 December 2015

| | Subscribed capital | | | Other reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR thousand | Issued capital | Nominal amount of treasury shares | Capital reserves | Retained earnings | Currency translation reserve | Hedging reserve | Reserve for remeasure-ment of pensions | Treasury share reserve | Equity attributable to share-holders of WILO SE | Non-controlling interests | **Equity** |
| **1 Jan. 2014** | **26,980** | **0** | **14,527** | **490,507** | **–27,978** | **–105** | **–13,738** | **–13,086** | **477,107** | **–158** | **476,949** |
| Consolidated net income 2014 | 0 | 0 | 0 | 69,391 | 0 | 0 | 0 | 0 | 69,391 | 425 | 69,816 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 1,322 | 105 | –9,906 | 0 | –8,479 | –218 | –8,697 |
| Dividend payments | 0 | 0 | 0 | –33,120 | 0 | 0 | 0 | 0 | –33,120 | 0 | –33,120 |
| Purchases of treasury shares | 0 | –1,916 | 0 | 0 | 0 | 0 | 0 | –25,847 | –27,763 | 0 | –27,763 |
| Other changes | 0 | 0 | 0 | –64 | 0 | 0 | 0 | 0 | –64 | 0 | –64 |
| **31 Dec. 2014** | **26,980** | **–1,916** | **14,527** | **526,714** | **–26,656** | **0** | **–23,644** | **–38,933** | **477,072** | **49** | **477,121** |
| **1 Jan. 2015** | **26,980** | **–1,916** | **14,527** | **526,714** | **–26,656** | **0** | **–23,644** | **–38,933** | **477,072** | **49** | **477,121** |
| Consolidated net income 2015 | 0 | 0 | 0 | 80,477 | 0 | 0 | 0 | 0 | 80,477 | 4 | 80,481 |
| Other comprehensive income | 0 | 0 | 0 | 0 | –1,218 | 0 | 4,571 | 0 | 3,353 | 3 | 3,356 |
| Dividend payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Purchases of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | –16 | 0 | 0 | 0 | 0 | –16 | 0 | –16 |
| **31 Dec. 2015** | **26,980** | **–1,916** | **14,527** | **607,175** | **–27,874** | **0** | **–19,073** | **–38,933** | **560,886** | **56** | **560,942** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (1.) General information

WILO SE ("the company") 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 2015 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 2015 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 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 2015 financial year, but had no material effect on the consolidated financial statements of WILO SE:

- Amendment to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions
- IFRIC 21 "Levies"
- Various amendments as part of the "Improvements to International Financial Reporting Standards 2010–2012 and 2011–2013"

The following standards, amendments to existing standards and interpretations issued by the IASB and the IFRS Interpretations Committee are not yet effective in the 2015 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 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”
- Various amendments as part of the “Improvements to International Financial Reporting Standards 2012–2014”

The effects of the first 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 2015 include seven (previous year: six) German entities and 55 (previous year: 54) foreign subsidiaries. In addition, one associate (previous year: one) and one joint venture (previous year: one) are included in the consolidated financial statements using the equity method.

One German and one foreign subsidiary, which were immaterial in the previous year, were consolidated for the first time.

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

## (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 = | **2015** | 2014 | **2015** | 2014 |
| Pound sterling | GBP | 0.7236 | 0.8028 | 0.7350 | 0.7818 |
| Chinese renminbi (yuan) | CNY | 6.9434 | 8.1575 | 7.0724 | 7.5550 |
| Indian rupee | INR | 70.9623 | 80.7777 | 72.3087 | 77.4729 |
| Polish zloty | PLN | 4.1810 | 4.1955 | 4.2636 | 4.2902 |
| Russian rouble | RUB | 68.6566 | 51.5000 | 80.4168 | 67.5895 |
| Swedish krona | SEK | 9.3339 | 9.1184 | 9.1831 | 9.4275 |
| Swiss franc | CHF | 1.0631 | 1.2124 | 1.0822 | 1.2024 |
| South Korean won | KRW | 1,250.6113 | 1,391.4131 | 1,277.0284 | 1,337.3534 |
| Turkish lira | TRY | 3.0361 | 2.8937 | 3.1815 | 2.8327 |
| US dollar | USD | 1.1039 | 1.3219 | 1.0892 | 1.2166 |

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

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

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

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

The most important assumptions on which the calculation of value in use is based include discounted cash flows, estimated growth rates, the weighted average cost of capital and tax rates. These estimates and the underlying method can have a significant influence on the respective values and ultimately on the amount of possible goodwill impairment. The Wilo Group reported goodwill of EUR 62,962 thousand as at the end of the reporting period (previous year: EUR 62,662 thousand). Further information can be found in "Intangible assets" and "Impairment of assets" (note (7)) and note (9.1).

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

Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. The discounted future cash flow of the asset in question must be determined to calculate its value in use. The estimate of discounted future cash flows includes significant assumptions, e.g. the discount rate. Although the management presumes that its assumptions of general economic conditions, estimates of discounted future cash flow and of relevant expected useful lives are appropriate, a change in assumptions or circumstances could require a change in analysis. This could result in additional impairment losses in the future if the trends identified by the management reverse or if its assumptions or estimates prove to be incorrect. The Wilo Group reported property, plant and equipment of EUR 306,808 thousand as at the end of the reporting period (previous year: EUR 269,527 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 17,018 thousand (previous year: EUR 14,192 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 44,928 thousand (previous year: EUR 42,359 thousand) were reported as at the end of the reporting period. Further information can be found in “Other provisions” (note (7)) and note (9.17).

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

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

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

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

- The cash-generating units for goodwill impairment testing are formed and defined by products and applications and are subject to management judgement. In 2015, the previous *Circulators, Pumps & Systems* and *Submersible & High Flow* divisions were reorganised into the *Heating, Ventilation, Air-Conditioning* and *Clean and Waste Water* product divisions.

- 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. In the year under review, development costs were capitalised in the amount of EUR 19,970 thousand (previous year: EUR 7,342 thousand), including EUR 675 thousand in capitalised borrowing costs (previous year: EUR 196 thousand).

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

If this is the case, these direct borrowing costs are capitalised as incidental costs of acquisition of the qualified asset. Qualifying assets are assets which require a substantial period of time to bring them to a condition suitable for use or sale. In the 2015 financial year, borrowing costs were capitalised in the amount of EUR 675 thousand (previous year: 196). This figure related solely to capitalised development costs. The borrowing cost rate, which forms the basis for determining the capitalisable borrowing costs, was 3.77 percent in the year under review (previous year: 3.75 percent).

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

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

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

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

The estimated useful life of a building is between 10 and 60 years; leasehold improvements and buildings on third-party land are depreciated over the shorter of the lease term or their useful life.

The useful lives for technical equipment and machinery are up to 14 years. Operating and office equipment subject to normal use are depreciated over 3 to 13 years. Significant parts of an asset that meet the criteria set out in IAS 16 are accounted for using the component approach. The depreciation for the financial year is allocated to the corresponding functional areas.

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

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

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

**IMPAIRMENT OF ASSETS** 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 are broken down by product groups and applications to form the cash-generating units. In 2015, the previous *Circulators, Pumps & Systems* and *Submersible & High Flow* divisions were reorganised into the *Heating, Ventilation, Air-Conditioning* and *Clean and Waste Water* product divisions.

The goodwill impairment test performed in the 2015 financial year did not result in any impairment requirements for the cash-generating units in either the old or the new structure. In impairment testing, goodwill and all other assets are allocated to cash-generating units and compared to the value in use of the respective cash-generating unit. If the value in use of a cash-generating unit is lower than the total carrying amount of the goodwill and all other assets allocated to it, an impairment loss must be recognised in profit or loss. An impairment loss is deducted from the goodwill allocated to the cash-generating unit and then pro rata from the other assets in the unit. Impairment losses are reported in other operating expenses in profit and loss.

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

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

The discount rate used in annual impairment testing of cash-generating units is determined on the basis of market data. A rate of between 11.4 percent and 12.1 percent before income taxes was used in the 2015 financial year for the cash-generating units in the current organisational structure (previous year: between 11.9 percent and 12.6 percent before income taxes). The long-term growth factor for the cash-generating units in the new structure is between 0.1 and 0.7 percent.

**2015 financial year**

| Current divisional structure | Goodwill in EUR thousand | Long-term growth factor in % | Discount rate before income taxes in % |
|---|---|---|---|
| Heating, Ventilation, Air-Conditioning | 7,640 | 0.1 | 12.1 |
| Clean and Waste Water | 55,322 | 0.7 | 11.4 |

The discount rate in the organisational structure of the previous divisions is between 11.3 percent and 12.1 percent before income taxes (previous year: between 11.9 percent and 12.6 percent before income taxes). The long-term growth factor for the cash-generating units is between 0.1 percent and 1.1 percent (previous year: between 0.1 percent and 0.9 percent).

**2015 financial year**

| Previous divisional structure | Goodwill in EUR thousand | Long-term growth factor in % | Discount rate before income taxes in % |
|---|---|---|---|
| Submersible & High Flow | 30,246 | 1.1 | 11.3 |
| Pumps & Systems | 25,447 | 0.7 | 11.5 |
| Circulators | 7,269 | 0.1 | 12.1 |

**2014 financial year**

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

The impairment test for capitalised development costs performed in the 2015 financial year did not result in any impairment requirements.

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

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

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

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

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

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

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

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

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

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

- *Held-to-maturity investments* are non-derivative financial assets that are quoted on an active market with fixed or determinable payments and a fixed maturity to which they are held. These are measured at amortised cost using the effective interest method. No financial assets of this category were reported by the Wilo Group as at 31 December 2015 or 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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 2016.

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 2015 is provided in note (8.9).

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

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

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

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

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

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

Financial assets and financial liabilities are generally reported without offsetting.

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

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

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

The expense relating to pension obligations, with the exception of the interest portion reported in net finance costs, is allocated to the relevant functional areas. The amount of 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. 2015** | 31 Dec. 2014 |
|---|---|---|
| Discount rate | 2.32 | 1.86 |
| Pension adjustment | 2.00 | 2.00 |
| Salary increase | 3.15 | 3.30 |

The net interest expense is calculated by multiplying the net pension liability by the discount rate of 2.32 percent (previous year: 1.86 percent).

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

**OTHER PROVISIONS** Provisions for taxes include current income tax liabilities. Other provisions are recognised in accordance with IAS 37 when there is a present obligation to a third party resulting from a past event, settling the obligation will probably require an outflow of resources and the amount of the obligation can be reliably estimated. Non-current provisions for obligations not expected to result in an outflow of resources in the next year are recognised at the net present value of the expected outflow of resources. The discount rate is based on market interest rates.

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

## (8.) Notes to the consolidated income statement

### (8.1) Net sales

Net sales break down according to the following regions:

**Net sales**

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **EUR thousand** | **%** | EUR thousand | % |
| Europe | 744,672 | 56.5 | 700,922 | 56.8 |
| Asia Pacific | 344,557 | 26.2 | 298,427 | 24.2 |
| EMEA | 190,165 | 14.4 | 201,889 | 16.3 |
| Others | 37,732 | 2.9 | 33,462 | 2.7 |
| **Total** | **1,317,126** | **100.0** | **1,234,700** | **100.0** |

Net sales include service income of EUR 83,693 thousand (previous year: EUR 68,020 thousand).

## (8.2) Cost of sales

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

**Cost of sales**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Cost of materials | -574,196 | -520,295 |
| Staff costs | -135,430 | -131,161 |
| Depreciation and amortisation of intangible assets and property, plant and equipment | -33,422 | -31,381 |
| Third-party maintenance | -9,243 | -8,562 |
| Rental payments | -4,253 | -4,028 |
| Other staff costs | -3,964 | -3,485 |
| Travel and entertainment expenses | -2,716 | -2,785 |
| Other | -51,880 | -49,117 |
| **Total** | **-815,104** | **-750,814** |

## (8.3) Selling expenses

**Selling expenses**

| EUR thousand | 2015 | 2014 (restated) |
|---|---|---|
| Staff costs | -130,958 | -125,627 |
| Outgoing freight | -24,664 | -23,884 |
| Advertising costs | -21,706 | -22,936 |
| Sales force | -19,140 | -17,937 |
| Rental payments | -10,475 | -10,222 |
| Depreciation and amortisation of intangible assets and property, plant and equipment | -6,380 | -5,950 |
| Legal and consulting costs | -2,651 | -2,440 |
| Write-downs on trade receivables (net) | -2,826 | -1,904 |
| Defaults | -2,255 | -806 |
| Other | -30,904 | -29,224 |
| **Total** | **-251,959** | **-240,930** |

Cost allocations in the Wilo Group's reporting were adjusted in the 2015 financial year. To ensure comparability, the prior-year figures have been restated using the new allocation.

## (8.4) Administrative expenses

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

Cost allocations in the Wilo Group's reporting were adjusted in the 2015 financial year. To ensure comparability, the prior-year figures have been restated using the new allocation.

**Administrative expenses**

| EUR thousand | 2015 | 2014 (restated) |
|---|---|---|
| Staff costs | -51,568 | -49,138 |
| Depreciation and amortisation of intangible assets and property, plant and equipment | -7,623 | -8,008 |
| Legal and consulting costs | -8,194 | -8,227 |
| Rental payments | -5,185 | -3,368 |
| Travel and entertainment expenses | -2,932 | -2,934 |
| Other staff costs | -2,511 | -2,759 |
| Communication costs | -2,120 | -1,732 |
| Other | -8,911 | -11,918 |
| **Total** | **-89,044** | **-88,084** |

## (8.5) Research and non-capitalised development costs

**Research and non-capitalised development costs**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Staff costs | -37,222 | -33,495 |
| External services | -5,228 | -5,237 |
| Depreciation and amortisation of intangible assets and property, plant and equipment | -2,876 | -2,541 |
| Legal and consulting costs | -896 | -1,113 |
| Other | -16,220 | -8,811 |
| | **-62,442** | **-51,197** |
| Capitalised development costs | 19,295 | 7,146 |
| **Total** | **-43,147** | **-44,051** |

## (8.6) Other operating income

**Other operating income**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Foreign-currency gains from operating activities | 12,544 | 10,412 |
| Income from disposals of intangible assets and property, plant and equipment | 630 | 2,609 |
| Government grants | 2,372 | 2,093 |
| Insurance compensation | 152 | 502 |
| Rental income | 155 | 495 |
| Gain from deconsolidation | 0 | 313 |
| Other | 5,830 | 3,854 |
| **Total** | **21,683** | **20,278** |

The foreign-currency gains from operating activities of EUR 12,544 thousand (previous year: EUR 10,412 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 16,250 thousand (previous year: EUR 12,066 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 | 2015 | 2014 |
|---|---|---|
| Foreign-currency losses from operating activities | -16,250 | -12,066 |
| Losses on disposals of intangible assets and property, plant and equipment | -676 | -1,898 |
| Other | -1,442 | -5,938 |
| **Total** | **-18,368** | **-19,902** |

## (8.8) Net finance costs

Net finance costs break down as follows:

**Net finance costs**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Net interest costs | -6,726 | -8,008 |
| Other net finance costs | -1,266 | -3,057 |
| **Total** | **-7,992** | **-11,065** |

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

**Net interest costs**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Interest income on cash and on loans granted | 1,028 | 1,299 |
| Settlement of derivative financial instruments | 229 | 262 |
| **Interest income** | **1,257** | **1,561** |
| Interest expenses on financial liabilities | -8,396 | -9,472 |
| Interest on finance leases | -262 | -293 |
| Capitalised borrowing costs | 675 | 196 |
| **Interest expenses** | **-7,983** | **-9,569** |
| **Total** | **-6,726** | **-8,008** |

Other net finance costs break down as follows:

**Other net finance**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Gains on derivative financial instruments | 5,585 | 3,747 |
| Foreign-currency gains from financing activities | 603 | 711 |
| **Other financial income** | **6,188** | **4,458** |
| Losses on derivative financial instruments | -1,302 | -1,437 |
| Foreign-currency losses from financing activities | -4,806 | -4,120 |
| Interest rate effects from pensions, non-current liabilities and receivables | -1,345 | -1,955 |
| Other | -1 | -3 |
| **Other financial expenses** | **-7,454** | **-7,515** |
| **Total** | **-1,266** | **-3,057** |

Gains and losses on derivative financial instruments in the financial years 2015 and 2014 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 2015 financial year, the net utilisation and measurement of commodity derivatives increased net other financial income by EUR 22 thousand. In the previous year, this effect reduced net financial income by EUR 1,144 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 positive fair value of EUR 3,017 thousand (previous year: EUR -749 thousand) as at the end of the reporting period. The gain on the remeasurement of this cross-currency interest rate swap of EUR 3,766 thousand (previous year: EUR 3,409 thousand) is reported under gains on derivative financial instruments.

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 3,815 thousand (previous year: EUR 3,855 thousand), which is shown under foreign-currency losses from financing activities in the amount of EUR 4,806 thousand (previous year: EUR 4,120 thousand).

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 | 2015 | 2014 |
|---|---|---|
| Current tax expenses/income | | |
| – reporting year | -25,707 | -26,454 |
| – adjustments for prior periods | -625 | -1,241 |
| **Current income taxes** | **-26,332** | **-27,695** |
| Deferred tax income/expense | | |
| – from unutilised loss carryforwards | -809 | -1,055 |
| – from changes in tax rates | 19 | 405 |
| – from the creation and reversal of temporary differences | -5,419 | -1,796 |
| – from write-downs and reversals of write-downs on deferred tax assets | -19 | -28 |
| **Deferred tax income/expense** | **-6,228** | **-2,474** |
| **Income taxes** | **-32,560** | **-30,169** |

The calculation of current income taxes in Germany for 2015 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 | **2015** | 2014 | **2015** | 2014 |
| Intangible assets | 122 | 105 | 9,846 | 3,420 |
| Property, plant and equipment | 1,486 | 1,761 | 6,300 | 6,105 |
| Inventories | 4,498 | 4,268 | 276 | 154 |
| Receivables and other assets | 3,197 | 2,548 | 1,525 | 694 |
| | **9,303** | **8,682** | **17,947** | **10,373** |
| Financial liabilities | 1,220 | 0 | 508 | 554 |
| Trade payables | 576 | 443 | 6 | 3 |
| Pensions and similar obligations | 12,842 | 14,867 | 0 | 0 |
| Other provisions and liabilities | 4,938 | 5,060 | 8,956 | 9,225 |
| Tax loss carryforwards | 514 | 1,323 | 0 | 0 |
| | **20,090** | **21,693** | **9,470** | **9,782** |
| Offsetting of deferred tax assets and liabilities | –650 | –609 | –650 | –609 |
| **Carrying amount** | **28,743** | **29,766** | **26,767** | **19,546** |

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

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. 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** |

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 10,887 thousand (previous year: EUR 13,094 thousand).

Unutilised tax loss carryforwards amounted to EUR 68,479 thousand (previous year: EUR 63,653 thousand) as at the end of the reporting period, EUR 7,428 thousand of which (previous year: EUR 7,289 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 61,051 thousand (previous year: EUR 56,364 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 24,195 thousand (previous year: EUR 21,546 thousand). EUR 23,681 thousand (previous year: EUR 20,223 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 3,174 thousand (previous year: EUR 3,109 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 115,899 thousand at subsidiaries as at 31 December 2015 (previous year: EUR 118,937 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 2015 financial year. The Wilo Group reported tax expenses of EUR 32,560 thousand (previous year: EUR 30,169 thousand) in its consolidated income statement for 2015. This is EUR 2,257 thousand lower (previous year: EUR 627 thousand lower) than the expected tax expense of EUR 34,817 thousand (previous year: EUR 30,796 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:

**Consolidated net income before taxes**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Consolidated net income before taxes | 113,041 | 99,985 |
| **Expected tax expense** | **-34,817** | **-30,796** |
| Tax rate changes | 19 | 405 |
| Difference from foreign tax rates | 5,019 | 6,377 |
| Temporary differences arising on consolidation | -172 | -81 |
| Other permanent differences | -3,508 | -9,433 |
| Tax-free income | 4,781 | 9,688 |
| Unrecognised deferred tax assets on tax loss carryforwards | -1,164 | -1,606 |
| Withholding tax | -1,556 | -3,001 |
| Prior-period taxes | -625 | -1,241 |
| Other | -537 | -481 |
| **Current tax expense** | **-32,560** | **-30,169** |

## (8.10) Consolidated net income

**Consolidated net income**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| **Earnings before interest and taxes (EBIT)** | **121,187** | **111,197** |
| Net income from investments carried at equity | -154 | -147 |
| Net finance costs | -7,992 | -11,065 |
| **Consolidated net income before taxes** | **113,041** | **99,985** |
| Income taxes | -32,560 | -30,169 |
| **Consolidated net income** | **80,481** | **69,816** |

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

## (8.11) Earnings per share

Earnings per share are determined by dividing consolidated net income attributable to WILO SE shareholders by the weighted average number of shares outstanding in the financial year. Both basic and diluted earnings per ordinary share amount to EUR 8.35 (previous year: EUR 7.11). Both basic and diluted earnings per preferred share amount to EUR 8.36 (previous year: EUR 7.12). Both figures were calculated after deducting income attributable to non-controlling interests.

**Earnings per share**

| | 2015 | 2014 |
|---|---|---|
| Consolidated net income in EUR thousand | 80,481 | 69,816 |
| of which: attributable to non-controlling interests | 4 | 425 |
| of which: attributable to shareholders of WILO SE | 80,477 | 69,391 |
| Number of ordinary shares as at 31 Dec. | 9,640,000 | 9,640,000 |
| Weighted average number of ordinary shares outstanding | 9,640,000 | 9,698,975 |
| Number of preferred shares as at 31 Dec. | 0 | 0 |
| Weighted average number of preferred shares outstanding | 0 | 67,016 |
| **Earnings per ordinary share (EUR)** | **8.35** | **7.11** |
| **Earnings per preferred share (EUR)** | **8.36** | **7.12** |

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

## (9.1) Intangible assets

Intangible assets developed as follows in the financial years 2015 and 2014:

**Intangible assets**

| EUR thousand | Patents and property rights | Goodwill | Capitalised development costs | Advance payments | Total |
|---|---|---|---|---|---|
| **Cumulative cost** | | | | | |
| 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** |
| As at 1 January 2015 | 41,981 | 68,431 | 7,342 | 1,185 | 118,939 |
| Currency translation | 273 | 292 | 0 | –31 | 534 |
| Additions | 4,240 | 0 | 19,970 | 1,132 | 25,342 |
| Disposals | –377 | –91 | 0 | 0 | –468 |
| Reclassifications | 1,170 | 0 | 0 | –1,170 | 0 |
| **As at 31 December 2015** | **47,287** | **68,632** | **27,312** | **1,116** | **144,347** |
| **Cumulative amortisation** | | | | | |
| 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** |
| As at 1 January 2015 | 31,107 | 5,769 | 0 | 0 | 36,876 |
| Currency translation | 163 | –8 | 0 | 0 | 155 |
| Amortisation in the financial year | 5,398 | 0 | 0 | 0 | 5,398 |
| Disposals | –371 | –91 | 0 | 0 | –462 |
| **As at 31 December 2015** | **36,297** | **5,670** | **0** | **0** | **41,967** |
| **Residual carrying amounts** | | | | | |
| 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** |
| As at 1 January 2015 | 10,874 | 62,662 | 7,342 | 1,185 | 82,063 |
| **As at 31 December 2015** | **10,990** | **62,962** | **27,312** | **1,116** | **102,380** |

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

Goodwill is tested for impairment at least annually. In 2015, the previous *Circulators, Pumps & Systems* and *Submersible & High Flow* divisions were reorganised into the *Heating, Ventilation, Air-Conditioning* and *Clean and Waste Water* product divisions. Detailed information on impairment testing is provided in note (7).

Goodwill allocated to the previous product divisions developed as follows in the 2015 financial year:

**Development of goodwill by division (previous divisional structure)**

| EUR thousand | 1 Jan. 2015 | Currency translation | 31 Dec. 2015 |
|---|---|---|---|
| **Division** | | | |
| Submersible & High Flow | 30,201 | 45 | 30,246 |
| Pumps & Systems | 25,238 | 209 | 25,447 |
| Circulators | 7,223 | 46 | 7,269 |
| **Total** | **62,662** | **300** | **62,962** |

The following goodwill is allocated to the product divisions following the restructuring during the 2015 financial year:

**Goodwill by division (current divisional structure)**

| EUR thousand | 31 Dec. 2015 |
|---|---|
| **Division** | |
| Heating, Ventilation, Air-Conditioning | 7,640 |
| Clean and Waste Water | 55,322 |
| **Total** | **62,962** |

## (9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2015 and 2014 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 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** |
| As at 1 January 2015 | 169,505 | 189,090 | 249,669 | 18,328 | 626,592 |
| Currency translation | 2,127 | 2,586 | 1,068 | –763 | 5,018 |
| Additions | 17,653 | 8,853 | 20,697 | 33,809 | 81,012 |
| Reclassifications | 3,268 | 4,344 | 8,059 | –15,671 | 0 |
| Disposals | –1,228 | –2,665 | –8,438 | –370 | –12,701 |
| **As at 31 December 2015** | **191,325** | **202,208** | **271,055** | **35,333** | **699,921** |
| **Cumulative depreciation** | | | | | |
| 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** |
| As at 1 January 2015 | 52,049 | 124,661 | 180,355 | 0 | 357,065 |
| Currency translation | 831 | 1,368 | 610 | 0 | 2,809 |
| Depreciation in the financial year | 5,519 | 13,384 | 26,001 | 0 | 44,904 |
| Reclassifications | 40 | 121 | –161 | 0 | 0 |
| Disposals | –1,070 | –2,507 | –8,088 | 0 | –11,665 |
| **As at 31 December 2015** | **57,369** | **137,027** | **198,717** | **0** | **393,113** |
| **Residual carrying amounts** | | | | | |
| 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** |
| As at 1 January 2015 | 117,456 | 64,429 | 69,314 | 18,328 | 269,527 |
| **As at 31 December 2015** | **133,956** | **65,181** | **72,338** | **35,333** | **306,808** |

Property, plant and equipment includes leased assets in the amount of EUR 5,292 thousand (previous year: EUR 4,839 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. 2015 | 31 Dec. 2014 |
|---|---|---|
| Buildings | 812 | 579 |
| Operating and office equipment | 4,480 | 4,260 |
| **Total** | **5,292** | **4,839** |

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 4,946 thousand (previous year: EUR 4,462 thousand).

**Minimum lease payments**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| Total minimum lease payments | 5,326 | 4,945 |
| Interest portion | -380 | -483 |
| **Present value** | **4,946** | **4,462** |
| Due within one year | 2,016 | 1,800 |
| Due in one to five years | 2,930 | 2,662 |

## (9.3) Operating leases

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

**Operating leases**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| **Total minimum lease payments** | **49,138** | **43,077** |
| Due within one year | 14,816 | 12,568 |
| Due in one to five years | 28,155 | 27,160 |
| Due after five years | 6,167 | 3,349 |

The operating leases mainly relate to rent for properties and operating and office equipment. Lease payments of EUR 20,248 thousand (previous year: EUR 17,726 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 2016.

WILO SE holds a minority interest of less than 20 percent of the voting rights in iEXERGY GmbH. 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 | 2015 | 2014 |
|---|---|---|
| Carrying amount of shares in investments carried at equity | 5,471 | 5,625 |
| Interest in net loss for the year | -154 | -147 |

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. 2015 | 31 Dec. 2014 |
|---|---|---|
| Raw materials and supplies | 73,450 | 69,718 |
| Work in progress | 17,031 | 17,562 |
| Finished goods and goods for resale | 109,028 | 103,454 |
| Advance payments | 573 | 172 |
| **Total** | **200,082** | **190,906** |

The write-down on inventories results from the difference between the lower of cost and the net realisable value. As at 31 December 2015, the write-down on inventories amounted to EUR 23,489 thousand (previous year: EUR 20,414 thousand) with a gross carrying amount of EUR 223,571 thousand (previous year: EUR 211,320 thousand). Inventories are not subject to any restrictions on title beyond the suppliers' customary retention of title.

## (9.6) Trade receivables

The trade receivables result from normal goods and services transactions in the Wilo Group. Current trade receivables of EUR 254,685 thousand (previous year: EUR 227,493 thousand) are due in the 2016 financial year. Non-current trade receivables of EUR 9,505 thousand (previous year: EUR 7,805 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 2015 and 2014 financial years:

**Specific valuation allowances**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| As at 1 January | 11,163 | 10,571 |
| Additions | 3,784 | 1,557 |
| Utilisation | –585 | –664 |
| Reversals | –603 | –301 |
| **As at 31 December** | **13,759** | **11,163** |

**General valuation allowances**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| As at 1 January | 3,029 | 2,397 |
| Additions | 2,685 | 962 |
| Utilisation | –1,669 | –16 |
| Reversals | –786 | –314 |
| **As at 31 December** | **3,259** | **3,029** |

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

## (9.7) Other financial assets

Other financial assets break down as follows as at 31 December 2015 and 2014:

**Other financial assets**

| | 31 Dec. 2015 of which with a remaining term | | | 31 Dec. 2014 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 | 187 | 187 | 0 | 303 | 303 | 0 |
| Receivables from derivative financial instruments | 3,630 | 3,630 | 0 | 426 | 324 | 102 |
| Loans | 487 | 0 | 487 | 1,041 | 0 | 1,041 |
| Available-for-sale financial assets | 266 | 0 | 266 | 1,286 | 0 | 1,286 |
| Other financial receivables | 8,575 | 4,710 | 3,865 | 8,227 | 4,630 | 3,597 |
| **Total** | **13,145** | **8,527** | **4,618** | **11,283** | **5,257** | **6,026** |

Available-for-sale financial assets include equity securities of EUR 259 thousand (previous year: EUR 1,279 thousand) whose fair value could not be derived from stock exchange or market prices, or from discounting reliably determined future cash flows. These equity securities were measured at amortised cost.

The carrying amounts of other financial assets are approximately equal to their fair values. There are no restrictions on other financial assets.

## (9.8) Other receivables and assets

Other receivables and assets are composed as follows as at 31 December 2015 and 2014:

**Other receivables and assets**

| | 31 Dec. 2015 of which with a remaining term | | | 31 Dec. 2014 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 | 35,513 | 19,944 | 15,569 | 41,339 | 27,196 | 14,143 |
| Advance payments | 8,194 | 8,179 | 15 | 7,116 | 7,100 | 16 |
| Employer pension liability assets | 3,147 | 0 | 3,147 | 2,299 | 0 | 2,299 |
| Deferred expenses | 1,447 | 1,441 | 6 | 1,652 | 1,634 | 18 |
| Claims for damages | 7 | 7 | 0 | 0 | 0 | 0 |
| Employee receivables | 652 | 652 | 0 | 688 | 675 | 13 |
| **Total** | **48,960** | **30,223** | **18,737** | **53,094** | **36,605** | **16,489** |

## (9.9) Cash

The cash of EUR 165,797 thousand (previous year: EUR 149,073 thousand) mainly comprises cash and sight deposits at banks. There are restrictions on title of EUR 274 thousand (previous year: EUR 684 thousand).

## (9.10) Assets held for sale

The assets held for sale in the amount of EUR 1,127 thousand (previous year: EUR 1,055 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. As in the previous year, there were 9,640,000 ordinary shares and no preferred shares in circulation as at 31 December 2015.

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

**CAPITAL RESERVES** The capital reserves result exclusively from the capital increase implemented in the 2011 financial year of EUR 15,507 thousand, EUR 14,527 thousand of which was appropriated to the capital reserves of WILO SE.

**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 2015 and 2014:

**Other reserves**

| EUR thousand | **2015** | 2014 |
|---|---|---|
| As at 1 January | 476,414 | 448,686 |
| WILO SE shareholders' interest in: | | |
| Consolidated net income | 80,477 | 69,391 |
| Other comprehensive income | 3,353 | -8,479 |
| Dividend payment | 0 | -33,120 |
| Other changes | -16 | -64 |
| **As at 31 December** | **560,228** | **476,414** |

**TREASURY SHARES** As in the previous year, the company held 477,331 ordinary treasury shares and 259,418 preferred treasury shares as at 31 December 2015.

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

**DIVIDENDS** The Annual General Meeting on 13 April 2015 resolved to carry forward the unappropriated surplus as at 31 December 2014 to new account. Dividends of EUR 33,120 thousand were distributed to the shareholders of WILO SE in the previous year. This corresponded to a dividend per ordinary share of EUR 3.27 and a dividend per preferred share of EUR 3.28.

**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 2015 was EUR 560,942 thousand (previous year: EUR 477,121 thousand). This is mostly accounted for by EUR 604,477 thousand (previous year: EUR 524,016 thousand) in freely disposable retained earnings. The freely disposable retained earnings do not include the legal reserve of WILO SE of EUR 2,698 thousand (previous year: EUR 2,698 thousand). Taken together, the freely disposable retained earnings and the legal reserve make up the Group's retained earnings of EUR 607,175 thousand (previous year: EUR 526,714 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 2015 and 2014 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 2015 and 2014:

**Financial liabilities**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| **Non-current financial liabilities** | | |
| with a remaining term | | |
| of between one and five years | 9,550 | 42,330 |
| of more than five years | 111,964 | 114,399 |
| **Total** | **121,514** | **156,729** |
| **Current financial liabilities** | | |
| with a remaining term | | |
| of less than one year | **45,753** | **9,735** |

WILO SE reported the following material financing agreements as at 31 December 2015:

- **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 36.7 million as at the end of the reporting period (previous year: EUR 32.9 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 12.5 million (previous year: EUR 15.0 million) as at the end of the reporting period and is not secured against real property or financial assets of the company.

The promissory note loan issued in the 2008 financial year in the amount of EUR 25.0 million ("promissory note loan 2015") was repaid in full in the year under review as planned. The promissory note loan was repayable in semi-annual instalments of around EUR 2.08 million with a fixed interest rate of 5.54 percent p.a. and was not secured against real property or financial assets of the company. The promissory note loan had a carrying amount of EUR 2.1 million as at 31 December 2014.

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 2015 and 2014 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 690 thousand (previous year: EUR 897 thousand).

The fair value of the financial liabilities calculated using net present value models was EUR 186,125 thousand as at 31 December 2015 (previous year: EUR 197,021 thousand).

Current financial liabilities mainly consist of overdrafts and the current portion of non-current financial liabilities to be repaid in the 2016 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 2015 and 2014:

**Maturity structure of financial liabilities**

As at 31 Dec. 2015

| EUR million | Nominal amount | Carrying amount | Maturity structure 2016 | 2017 | 2018 | 2019 | 2020–21 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| USPP 2023 | EUR 37.0 million | 37.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 37.0 | 37.0 |
| USPP 2021 | EUR 75.0 million | 75.0 | 0.0 | 0.0 | 0.0 | 0.0 | 75.0 | 0.0 | 0.0 | 75.0 |
| USPP 2016 | USD 40.0 million | 36.7 | 36.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 36.7 |
| Promissory note loan 2020 | EUR 25.0 million | 12.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 0.0 | 0.0 | 12.5 |
| | | **161.2** | **39.2** | **2.5** | **2.5** | **2.5** | **77.5** | **0.0** | **37.0** | **161.2** |
| Overdraft | | 6.1 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.1 |
| **Financial liabilities** | | **167.3** | **45.3** | **2.5** | **2.5** | **2.5** | **77.5** | **0.0** | **37.0** | **167.3** |

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** |

## (9.13) Trade payables

Trade payables break down as follows as at 31 December 2015 and 2014:

**Trade payables**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| **Trade payables** | | |
| with a remaining term | | |
| of between one and five years | 1,251 | 1,076 |
| of less than one year | 139,783 | 106,931 |
| **Total** | **141,034** | **108,007** |

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 2015 and 2014:

**Other financial liabilities**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| **Non-current other financial liabilities** | | |
| Liabilities from derivative financial instruments | | |
| with a remaining term of between one and five years | 0 | 749 |
| Finance lease liabilities | | |
| with a remaining term of between one and five years | 2,930 | 2,662 |
| Miscellaneous financial liabilities | | |
| with a remaining term of between one and five years | 3,626 | 2,366 |
| with a remaining term of more than five years | 0 | 761 |
| **Total** | **6,556** | **6,538** |
| **Current other financial liabilities** | | |
| Bills payable | 11,987 | 11,093 |
| Liabilities to unconsolidated subsidiaries, jointly controlled entities and associates | 2,691 | 3,697 |
| Finance lease liabilities | 2,016 | 1,800 |
| Liabilities from derivative financial instruments | 1,314 | 1,565 |
| Miscellaneous financial liabilities | 18,314 | 21,969 |
| **Total** | **36,322** | **40,124** |

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

## (9.15) Other liabilities

Other liabilities as at 31 December 2015 and 2014 break down as follows:

**Other liabilities**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| **Non-current other liabilities** | | |
| Deferred income | 882 | 1,096 |
| **Total** | **882** | **1,096** |
| **Current other liabilities** | | |
| Tax liabilities | 29,616 | 29,267 |
| Staff liabilities | 27,604 | 27,559 |
| Advance payments received | 8,850 | 15,013 |
| Social security liabilities | 5,890 | 6,049 |
| Deferred income | 13 | 20 |
| Miscellaneous other liabilities | 3,963 | 7,621 |
| **Total** | **75,936** | **85,529** |

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

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

## (9.16) Provisions for pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2015 and 2014:

**Provisions for pensions and similar obligations**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| Provisions for pensions | 72,289 | 78,349 |
| Similar obligations | 3,780 | 2,557 |
| **Total** | **76,069** | **80,906** |

Provisions for pensions are composed as follows:

**Provisions for pensions**

| EUR thousand | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|
| Present value of defined benefit obligation | 82,464 | 87,895 |
| Fair value of plan assets | –10,175 | –9,546 |
| **Provisions for pensions** | **72,289** | **78,349** |

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 2,781 thousand (previous year: EUR 2,442 thousand) was recognised in the reporting year for defined contribution plans in the Wilo Group.

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

The present value of the defined benefit obligation developed as follows:

**Present value of the defined benefit obligation**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| **As at 1 January** | **87,895** | **69,713** |
| Current service cost | 3,141 | 2,771 |
| Past service cost | –80 | 91 |
| Interest expense | 1,703 | 2,168 |
| Remeasurement | | |
| Actuarial gains/losses from the change in demographic assumptions | –555 | 3,184 |
| Actuarial gains/losses from the change in financial assumptions | –6,269 | 12,857 |
| Actuarial gains/losses from experience adjustments | 41 | –274 |
| Pension payments | –3,402 | –3,498 |
| Currency effects and other changes | –10 | 883 |
| **As at 31 December** | **82,464** | **87,895** |

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 44,714 thousand (previous year: EUR 47,212 thousand)
- Deferred members: EUR 6,711 thousand (previous year: EUR 7,168 thousand)
- Pensioners: EUR 31,039 thousand (previous year: EUR 33,515 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 % | |
|---|---|---|---|
| | | **2015** | 2014 |
| Discount rate | +0.5% | -7.3 | -7.9 |
| | -0.5% | 8.3 | 9.0 |
| Pension factor | +0.25% | 2.4 | 2.6 |
| | -0.25% | -2.3 | -2.5 |
| Salary factor | +0.25% | 0.7 | 0.6 |
| | -0.25% | -0.6 | -0.6 |
| Life expectancy | +10% | 5.9 | 6.5 |

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 2015 was 16.7 years (previous year: 15.4 years).

73.7 percent of pension obligations of EUR 82,464 thousand (previous year: EUR 87,895 thousand) relate to Germany (previous year: 76.8 percent).

The fair value of plan assets changed as follows:

**Fair value of plan assets**

| EUR thousand | **2015** | 2014 |
|---|---|---|
| **As at 1 January** | **9,546** | **9,217** |
| Interest income | 288 | 348 |
| Remeasurement | | |
| Return on plan assets (excluding interest income) | -126 | 312 |
| Payments | -632 | -1,272 |
| Amounts paid in by employer | 892 | 641 |
| Currency effects and other changes | 207 | 300 |
| **As at 31 December** | **10,175** | **9,546** |

Plan assets comprise the following:

**Plan assets break down**

| EUR thousand | **2015** | 2014 |
|---|---|---|
| Cash | 7,884 | 7,383 |
| Qualifying insurance policies | 1,924 | 1,808 |
| Investment funds | 367 | 355 |
| **As at 31 December** | **10,175** | **9,546** |

Furthermore, there are employee pension liability policies to cover provision-funded pension obligations in the amount of EUR 2,337 thousand (previous year: EUR 1,302 thousand) though these do not satisfy the requirements for classification as plan assets under IAS 19.

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

**SIMILAR OBLIGATIONS** Similar obligations for post-employment benefits amount to EUR 3,780 thousand for 2015 (previous year: EUR 2,557 thousand). They include gross obligations for WILO SE of EUR 2,843 thousand (previous year: EUR 2,897 thousand). The EUR 1,962 thousand (previous year: EUR 2,012 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 810 thousand (previous year: EUR 997 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 2015 was determined using a discount rate of 2.30 percent (previous year: 2.20 percent). Furthermore, an annual wage and salary increase of 1.50 percent was assumed (previous year: 1.60 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 2015 financial year. The Wilo Group expects that the corresponding repayments of EUR 18,869 thousand (previous year: EUR 18,103 thousand) will be almost fully paid to customers by the middle of 2016.

**Other provisions**

| EUR thousand | 1 Jan. 2015 | Currency translation | Utilisation | Reversal | Additions | 31 Dec. 2015 |
|---|---|---|---|---|---|---|
| **Non-current** | | | | | | |
| Guarantees | **3,909** | **16** | **239** | **617** | **353** | **3,422** |
| **Current** | | | | | | |
| Guarantees | 14,109 | 204 | 2,368 | 952 | 4,268 | 15,261 |
| Bonuses and rebates | 18,103 | 310 | 18,136 | 1,134 | 19,726 | 18,869 |
| Other | 6,238 | 102 | 2,077 | 285 | 3,398 | 7,376 |
| **Total** | **38,450** | **616** | **22,581** | **2,371** | **27,392** | **41,506** |

## (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 2015 consisted of EUR 165,797 thousand (previous year: EUR 149,073 thousand) in cash and sight deposits with banks, EUR 274 thousand (previous year: EUR 684 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 -208 thousand (previous year: EUR 1,834 thousand) relate to the effect of translating foreign-currency items of cash into the reporting currency. Detailed information on the consolidated statement of cash flows can be found under "Financial position" in the Group management report. Purchases of intangible assets include payments in connection with capitalised development costs of EUR 19,970 thousand (previous year: EUR 7,342 thousand).

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

## (11.) Segment reporting

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

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

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

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

Net sales by segment show transactions with third parties and with companies not included in the consolidated financial statements in which the Wilo Group has an interest, and are allocated by customer domicile. In Germany, net sales of EUR 233,004 thousand (previous year: EUR 232,250 thousand) were generated with external customers in the 2015 financial year.

Segment EBIT shows earnings before interest and taxes including any amounts attributable to non-controlling interests. Cost allocation to the reportable segments (countries and groups of countries) within the Wilo Group's internal monthly reporting was adjusted in the 2015 financial year. For comparability, the prior-year figures have been restated in line with the new cost allocation.

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 2015 and 2014 financial years is as follows:

**Segment information**

**2015**

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

**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** | **79,071** | **13,779** | **23,273** | **-4,926** | **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 |

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

**Earnings before interest and taxes (EBIT)**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| **Earnings before interest and taxes (EBIT)** | **121,187** | **111,197** |
| Net income from investments carried at equity | -154 | -147 |
| Net finance costs | -7,992 | -11,065 |
| **Consolidated net income before taxes** | **113,041** | **99,985** |
| Income taxes | -32,560 | -30,169 |
| **Consolidated net income** | **80,481** | **69,816** |

The allocation of net sales to market segments within the Wilo Group's internal monthly reporting was adjusted in the 2015 financial year. For comparability, the prior-year figures have been restated in line with the new allocation.

Net sales break down as follows among the market segments:

**Net sales by market segment**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Building Services | 1,014,594 | 948,879 |
| Water Management & Industry | 302,532 | 285,821 |
| **Total** | **1,317,126** | **1,234,700** |

## (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 2015 and the changes as against the previous year:

**Derivative financial instruments**

| | Fair value | | | Nominal amount | |
|---|---|---|---|---|---|
| EUR thousand | Maturity from 31 Dec. 2015 Less than 1 year | Previous year | Total change | 31 Dec. 2015 | 31 Dec. 2014 |
| Forward exchange contracts | 580 | -55 | 635 | 17,398 | 17,562 |
| Cross-currency interest rate swaps | 3,017 | -530 | 3,547 | 33,750 | 34,750 |
| Commodity derivatives | -1,281 | -1,303 | 22 | 9,463 | 14,165 |

Net finance costs include gains due to fair value changes of EUR 5,585 thousand (previous year: EUR 3,747 thousand) and losses due to fair value changes of EUR 1,302 thousand (previous year: EUR 1,437 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 2015 and 2014 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 2015**

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

**Financial assets and liabilities as at 31 December 2014**

| EUR thousand | Measurement category under IAS 39 | Carrying amount under IAS 39: Amortised cost | Carrying amount under IAS 39: Fair value | Carrying amount under IAS 17 | **Carrying amount as at 31 Dec. 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 |

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 167,297 thousand (previous year: EUR 166,464 thousand) and a fair value of EUR 186,125 thousand (previous year: EUR 197,021 thousand).

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

The financial assets in the available-for-sale category of EUR 259 thousand as at 31 December 2015 (previous year: EUR 1,279 thousand) are measured at amortised cost and essentially relate to companies in which WILO SE directly or indirectly holds 100 percent of the shares and which have not been consolidated for reasons of materiality. The fair values of these other financial assets, which are carried at amortised cost, cannot be reliably determined as they are shares in companies for which there are no quoted or other market prices. It would only be possible to reliably determine their fair value as part of concrete negotiations on their disposal. There are currently no plans to dispose of these companies.

The fair values of assets in the available-for-sale category of EUR 7 thousand (previous year: EUR 7 thousand) are derived directly or indirectly from market and quoted prices as at the end of the reporting period.

The calculation of the fair values of the receivables and liabilities from derivative financial instruments, which are assigned to the financial assets held for trading and the financial liabilities held for trading categories, of EUR 3,630 thousand (previous year: EUR 426 thousand) and EUR 1,314 thousand (previous year: EUR 2,314 thousand) respectively, is shown under note (7).

## (12.3) Net gains and losses by measurement category

The table below shows the net earnings reported under profit and loss for the 2015 and 2014 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<br>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 |
|---|---|---|---|---|---|---|---|
| **2015 financial year** | | | | | | | |
| Loans and receivables | 439,236 | 1,028 | | -6,469 | 1,389 | -2,076 | -6,128 |
| Available for sale | 266 | 0 | | | | | 0 |
| Financial assets/ liabilities held for trading | 2,316 | 229 | 4,283 | | | | 4,512 |
| Financial liabilities at amortised cost | -344,919 | -7,721 | | | | -5,833 | -13,554 |
| **Total** | | **-6,464** | **4,283** | **-6,469** | **1,389** | **-7,909** | **-15,170** |
| **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** |

## (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 2015 and 2014 that were recognised at fair value or for which the fair value was disclosed.

**Fair value hierarchy**

| EUR thousand | 31 Dec. 2015 Level 2 | 31 Dec. 2014 Level 2 |
|---|---|---|
| Available-for-sale financial assets | 7 | 7 |
| Receivables from derivative financial instruments (financial assets held for trading) | 3,630 | 426 |
| Liabilities from derivative financial instruments (financial liabilities held for trading) | 1,314 | 2,314 |
| Financial liabilities (loans and receivables) | 186,125 | 197,021 |

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 2015 and 2014.

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

## (13.) Risk management and derivative financial instruments

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

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

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

The following table shows the foreign-currency risk position of the Wilo Group as at 31 December 2015 and 2014 in the respective foreign currency. This consists of foreign-currency transactions in operating activities and foreign-currency financing activities up to 31 December 2015 and 2014, as well as expected foreign-currency transactions in operating activities in 2016 and 2015. 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 2015**

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

**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** |

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**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| EUR million | +10% | -10% | +10% | -10% |
| EUR | -4.2 | 3.5 | -4.6 | 3.8 |
| USD | -0.6 | 0.5 | 0.8 | -0.6 |
| GBP | 1.8 | -1.5 | 1.0 | -0.8 |
| PLN | 2.7 | -2.2 | 2.3 | -1.9 |
| RON | 1.6 | -1.3 | 1.7 | -1.4 |
| RUB | 4.2 | -3.5 | 5.1 | -4.2 |
| SEK | 1.2 | -1.0 | 2.4 | -2.0 |

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

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

No sensitivity analysis is performed in connection with the measurement of the interest component of the cross-currency swaps concluded to hedge the USD-denominated senior note maturing in 2016 ("USPP 2016"). The short term to maturity of the interest rate swap in 2016 means that the potential earnings effects due to fluctuations in market interest rates are insignificant.

An increase of the interest level by 100 basis points would improve net interest costs from the investment of cash by approximately EUR 250 thousand (previous year: EUR 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 2016 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 2017 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 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Price increase (10%) | | | | | | |
| Impact on earnings | -521 | -590 | -467 | -185 | -988 | -775 |
| Price decrease (10%) | | | | | | |
| Impact on earnings | 521 | 590 | 467 | 185 | 988 | 775 |

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 2015 and 2014. 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. 2015** | | | | | | | |
| Trade receivables | 264,190 | 221,638 | 23,798 | 6,053 | 1,559 | 2,096 | 2,336 |
| Other financial assets* | 9,249 | 9,249 | 0 | 0 | 0 | 0 | 0 |

| 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 |

* 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 281,208 thousand (previous year: EUR 249,444 thousand). As at 31 December 2015, EUR 13,759 thousand (previous year: EUR 11,163 thousand) in specific write-downs was recognised on past due trade receivables of EUR 23,728 thousand (previous year: EUR 21,099 thousand). A further EUR 3,259 thousand (previous year: EUR 3,029 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 266 thousand (previous year: EUR 1,286 thousand) on available-for-sale financial assets and of EUR 3,630 thousand (previous year: EUR 426 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 2015.

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. 2015** | | | |
| Receivables from derivative financial instruments | 3,630 | –33 | 3,597 |
| Liabilities from derivative financial instruments | –1,314 | 33 | –1,280 |
| **31 Dec. 2014** | | | |
| Receivables from derivative financial instruments | 426 | –207 | 219 |
| Liabilities from derivative financial instruments | –2,314 | 207 | –2,107 |

**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 6.1 million as at 31 December 2015 (previous year: EUR 4.5 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 2015 and 2014.

### Cash outflows for financial liabilities as at 31 Dec. 2015

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

### Cash outflows for financial liabilities as at 31 Dec. 2014

| 31 Dec. 2014 | Carrying amount | Agreed payments | Maturities: Less than 1 year | Maturities: Between 1 and 5 years | Maturities: 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** | **-346,207** | **-154,251** | **-69,196** | **-122,760** |

# (14.) Other disclosures

## (14.1) Waiver of disclosure

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

## (14.2) Contingent liabilities and other financial obligations

The company reported contingent liabilities from warranties of EUR 3,752 thousand as at 31 December 2015 (previous year: EUR 4,915 thousand). No provisions have been recognised for contingent liabilities carried at nominal amount as the probability of the risk is estimated as low.

The contingent liabilities from warranties essentially result from operating activities with the customers and suppliers of the Wilo Group. Warranties with a nominal obligation of EUR 891 thousand (previous year: EUR 1,284 thousand) had an agreed remaining term of less than one year as at 31 December 2015, while nominal obligations of EUR 622 thousand (previous year: EUR 1,434 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 2,239 thousand (previous year: EUR 2,197 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amounted to EUR 12,499 thousand as at 31 December 2015 (previous year: EUR 8,068 thousand). The Group still has another financial obligation of EUR 4,200 thousand relating to the acquisition of a property at the Dortmund location in 2019. It is not practicable to disclose estimates of the financial effect of contingent liabilities, the uncertainties relating to the amount or timing of any outflows or the possibility of any reimbursement.

## (14.3) Average number of employees over the year

Average employee numbers for the year were as follows:

**Employees**

| | 2015 | 2014 |
|---|---|---|
| Production | 4,182 | 4,279 |
| Sales and administration | 3,201 | 3,146 |
| **Total** | **7,383** | **7,425** |
| Germany | 2,636 | 2,634 |
| Other countries | 4,747 | 4,791 |
| **Total** | **7,383** | **7,425** |

The average number of employees fell by 0.6 percent year-on-year (previous year: increase of 3.2 percent). Staff costs amounted to EUR 355.2 million in the 2015 financial year (previous year: EUR 339.4 million).

## (14.4) Proposal for the appropriation of profits

At the proposal of the Executive Board, the Annual General Meeting of WILO SE on 14 March 2016 will resolve the payment of a dividend of EUR 0.42 (to be confirmed) per ordinary share, with the remaining unappropriated surplus of WILO SE being carried forward to new account.

## (14.5) Events after the end of the reporting period

The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 18 February 2016. 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 amounted to EUR 187 thousand (previous year: EUR 303 thousand). Liabilities to these companies amounted to EUR 2,691 thousand at the reporting date (previous year: EUR 3,697 thousand), of which EUR 2,650 thousand related to joint ventures (previous year: EUR 2,650 thousand). Sales and services passed on to these companies amounted to EUR 575 thousand (previous year: EUR 796 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 2015 (previous year: 0). The company generated revenues of EUR 343 thousand (previous year: EUR 437 thousand) with WILO SE in the 2015 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 236 thousand (previous year: EUR 85 thousand) were generated with the heating and air conditioning installation company in the 2015 financial year. As at 31 December 2015, the Wilo Group had liabilities of EUR 1 thousand to this company (previous year: 0). At the same time, the Wilo Group procured goods and services in the amount of EUR 578 thousand (previous year: EUR 1,036 thousand) from this company. There were no receivables from this company as at 31 December 2015 (previous year: EUR 5 thousand).

There are also leases relating to land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 898 thousand were made to these shareholders in 2015 (previous year: EUR 893 thousand). The rent was agreed in line with market conditions.

The Wilo Foundation (formerly 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 2015 (previous year: EUR 61 thousand). There were no liabilities to the Foundation as at 31 December 2015 (previous year: EUR 4 thousand).

## (14.7) Auditor's fees

The following fees were recognised as an expense in the 2015 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

**Auditor's fees**

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Audits of financial statements | | |
| of which for the previous year: EUR 8 thousand (2013: EUR 10 thousand) | 416 | 378 |
| Other assurance services | | |
| of which for the previous year: EUR 36 thousand (2013: EUR 5 thousand) | 106 | 42 |
| Other services | | |
| of which for the previous year: EUR 35 thousand (2013: EUR 8 thousand) | 275 | 1,044 |
| **Total** | **797** | **1,464** |

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

The total remuneration of the Executive Board for the 2015 financial year was EUR 3.2 million (previous year: EUR 3.1 million). EUR 1.7 million (previous year: EUR 1.4 million) of this total relates to fixed remuneration and EUR 1.5 million (previous year: EUR 1.7 million) to variable remuneration, EUR 0.8 million (previous year: EUR 0.7 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.

The Supervisory Board has established a virtual management participation model for the members of the Executive Board of WILO SE under which the participating members contractually receive virtual shares entitling them to participate in the company's positive performance. This does not make them shareholders of the company with corresponding shareholders' rights (e.g. rights of information, voting rights at the Annual General Meeting, right to receive dividends). A total of 228,290 virtual shares were granted in the 2014 financial year, followed by a further 103,768 in the 2015 financial year. As a matter of principle, the term of the individual virtual participation is unlimited. A participant's virtual participation ends automatically when he or she steps down from the respective management position on the Executive Board. The ordinary termination of the virtual participation ahead of schedule is excluded. The potential benefit earned by the participants of the management participation programme is calculated as the difference between the cost and the retransfer value of the virtual shares. Payment is made within a defined period after participation ends. The virtual shares granted are classified and measured as cash-settled share-based payment. The fair value (retransfer value) of the provisions recognised in connection with the virtual shares was calculated on the basis of historical averages. As at 31 December 2015, a provision of EUR 605 thousand was reported under other provisions (previous year: 0).

The total remuneration paid to former members of the Executive Board amounted to EUR 1.0 million in the 2015 financial year (previous year: EUR 0.9 million). As at the end of the reporting period, a pension provision of EUR 8.8 million (previous year: EUR 9.7 million) was recognised for former members of executive bodies, some of whom are also related parties.

The remuneration of the Supervisory Board amounted to EUR 0.5 million (previous year: EUR 0.5 million) in the 2015 financial year.

## (14.9) Executive bodies of the company

### SUPERVISORY BOARD

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

**Prof. Dr Hans-Jörg Bullinger**
– Deputy Chairman –
Former President of the Fraunhofer-Gesellschaft
Stuttgart

**Jean-Francois Germerie**
European Works Council
Laval, France

**Dr Hinrich Mählmann**
Personally liable partner and
Managing Director of Otto Fuchs KG
Wiehl

**Daniela Mohr**
European Works Council
Dortmund

**Felix Opländer**
Businessman
Verden/Aller

**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

Dortmund, 18 February 2016

The Executive Board

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

## Shareholdings

### Shareholdings of WILO SE as of 31 December 2015

| | Shareholding in % |
|---|---|
| Bombas WILO-SALMSON Portugal – Sistemas Hidráulicos, Lda., Porto/Portugal | 100.0 |
| Circulating Pumps Ltd., King's Lynn, Norfolk/Great Britain | 100.0 |
| EMU I.D.F. S.A.R.L., Ste. Geneviève-des-Bois/France** | 50.0 |
| iEXERGY GmbH, Münster/Germany**** | 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 IndustrieSysteme GmbH, Chemnitz/Germany (formerly GEP IndustrieSysteme GmbH, Zwönitz) | 100.0 |
| WILO Intec S.A.S., Aubigny/France | 100.0 |
| WILO Italia s.r.l., Peschiera Borromeo (Milan)/Italy | 100.0 |
| WILO Lebanon S.A.R.L., Beirut/Lebanon | 100.0 |

## Shareholdings of WILO SE as of 31 December 2015

| | Shareholding in % |
|---|---|
| WILO Lietuva UAB, Vilnius / Lithuania | 100.0 |
| WILO Magyarország Kft., Törökbálint / Hungary | 100.0 |
| WILO Maroc S.A.R.L., Casablanca / Morocco | 100.0 |
| WILO Mather and Platt Pumps Private Ltd., Pune / India | 99.9 |
| WILO Mexico Bombas Centrifugas, S.A. de C.V., Querétaro / Mexico | 100.0 |
| WILO Middle East FZE, Dubai / United Arab Emirates | 100.0 |
| WILO Middle East LLC i.L., Riad / Saudi Arabia*** | 50.0 |
| WILO Mitarbeiter Invest GmbH, Dortmund / Germany | 100.0 |
| WILO N.V. / S.A., Ganshoren (Brussels) / Belgium | 100.0 |
| WILO Nederland b.v., Westzaan / Netherland | 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 Nigera 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 / Argentinia | 100.0 |
| WILO Saudi Arabia Ltd., Riad / Saudi Arabia* | 100.0 |
| WILO Schweiz AG, Rheinfelden / Switzerland (formerly EMB Pumpen AG, Rheinfelden) | 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 2015 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 2015. 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, 19 February 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Beumer
Wirtschaftsprüfer

Huperz
Wirtschaftsprüfer

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board monitored the work of the Executive Board on an ongoing basis while providing intensive support and advice throughout the 2015 financial year. At regular meetings, the Supervisory Board was kept fully informed about the development of the Wilo Group's business and all factors affecting it. Members of the Supervisory Board received regular written reports from the Executive Board on the current business situation and on current and planned Group activities. Measures requiring the approval of the Supervisory Board were discussed at length and submitted to the Supervisory Board for resolution. In addition, there was a direct exchange of information between the Chairman of the Supervisory Board and the CEO on important matters arising between the meetings.

The Supervisory Board held a total of five meetings in 2015. At the extraordinary meeting of the Supervisory Board on 30 March 2015, the Supervisory Board primarily discussed the status of the Group's business activities and strategic objectives in Asia and the progress of an M&A project in Asia.

The Supervisory Board meeting on 13 April 2015 focused on the annual financial statements and the consolidated financial statements as at 31 December 2014. The situation on the global economy and the business development of the Wilo Group were discussed in detail, while the ongoing geopolitical risks were also illustrated. Another key topic was the status of the location development project in Dortmund.

At its meeting on 29 June 2015, which was held in Laval, France, the Supervisory Board mainly discussed the business situation, development and M&A strategy of the Wilo Group. This meeting also addressed the major location development project in Dortmund.

On 16 October 2015, the Supervisory Board dealt in particular 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. The meeting also intensively addressed the planned diversity management measures, including the new statutory requirements on gender quotas.

On 21 December 2015, the Supervisory Board dealt in depth with the integrated planning 2016–2020 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 2015 financial year presented with the annual report and the separate financial statements of WILO SE for the 2015 financial year, each comprising an income statement, statement of financial position and notes to the financial statements, have been audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, Germany. The auditor also ascertained that the internal control system (ICS) established by the Executive Board, the internal audit system and the compliance system are adequate and capable in their design and use of recognising developments that would jeopardise the company's continued existence in good time.

The above documents were submitted to the Supervisory Board for examination in good time and subjected to comprehensive scrutiny. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements in the meeting of the Audit Committee on 7 March 2016 in order to report on key audit findings and provide comprehensive supplementary information. The Audit Committee performed preparatory work for the Supervisory Board and, in particular, also appraised the findings of the risk management system and the internal control system. There are no other committees.

After thorough examination and discussion of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board endorsed the opinion of the auditor and approved the annual financial statements and the consolidated financial statements prepared by the Executive Board in its meeting on 14 March 2016, 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.

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, 2015 was a good 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, March 2016

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 combating product piracy.

**Asia Pacific**
The Asia Pacific segment comprises the following countries/regions: India, China, South Korea, the 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. The type of asynchronous motor used at Wilo is the squirrel-caged motor. In contrast to the slip ring motor, this design does not have any wearing parts.

**Big data**
Big data combines two aspects: data volumes, which are growing increasingly quickly, and IT solutions and systems to help companies deal with the complex flood of information. Unstructured data in particular accounts for the majority of big data. Big data generally describes large volumes of digital data as well as their analysis and evaluation.

**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.

**Cloud computing**
This term describes the provision of programmes or IT infrastructure, such as data storage or computing capacity, via a network so that they can be used on local computers.

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

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

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

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

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

**ErP directive**
The ErP Directive is entitled "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.

**Exabyte**
The exabyte is a unit of measurement for data volumes. One exabyte is equivalent to one quintillion bytes. A byte represents the data volume required to encode a single character of text.

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

**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.

**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 or liquidity risks between partners can be reduced by way of netting agreements.

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

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

**Smart data**
In contrast to big data, this term does not describe a large, unsorted mass of data, but rather selected intelligent („smart“) data. Filtering smart data from the vast amounts of big data is essential for companies who wish to make data actually usable for their business model.

**Smart building technologies**
This describes technologies that allow the individual functions of a building to be digitally controlled, managed or automated.

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

**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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